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**IMPROVING THE
MECHANISMS OF ECONOMIC
EVALUATION OF THE CAPITAL
OF COMMERCIAL BANKS**



Monograph

**MINISTRY OF HIGHER EDUCATION, SCIENCE AND
INNOVATIONS OF THE REPUBLIC OF UZBEKISTAN**

**NAMANGAN ENGINEERING - CONSTRUCTION
INSTITUTE**

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ECONOMIC EVALUATION OF THE
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In order to improve the methods used by banks in risk management, scientific research is being conducted to study the impact of the capital adequacy requirements of commercial banks on macroeconomic indicators, the impact of the implementation of Basel III requirements on financial control systems, and the analysis of the dynamics of capital resources. Scientific recommendations are given by researchers on determining the ratio of reserve allocations to gross assets, on the impact of minimum capital requirements of commercial banks on the risk levels of allocated loans, on the issues of improving the mechanisms of influencing the activities of commercial banks through financial control of the Central Bank.

The monograph can be used by students of higher and secondary special education system, masters, teachers, scientific researchers, bank employees and all businessmen-entrepreneurs in the field.

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Introduction

The sharp fluctuations observed in the world financial and stock markets require the improvement of bank capital management mechanisms. The latest changes to the Basel III requirements developed by the International Basel Committee for commercial banks were implemented from January 1, 2023, resulting in a minimum requirement for capital adequacy

It is expected to increase by 2.4% compared to December 2020, and gradually increase by 3.3% until 2028. For example, in China, after the introduction of Basel III requirements in 2013, it was noted that the possibility of granting loans to state organizations has increased to 27%. Taking into account the risks that may arise in financial transactions with large banks of other countries, the largest banks of the US state have increased the size of their assets calculated at 2.5% risk according to Basel III requirements, as a result, the opportunities for improving the domestic financial situation of the country have expanded.

In order to improve the methods used by banks in risk management, scientific research is being conducted to study the impact of the capital adequacy requirements of commercial banks on macroeconomic indicators, the impact of the implementation of Basel III requirements on financial control systems, and the analysis of the dynamics of capital resources. Scientific recommendations are given by researchers on determining the ratio of reserve allocations to gross assets, on the impact of minimum capital requirements of commercial banks on the risk levels of allocated loans, on the issues of improving the mechanisms of influencing the activities of commercial banks through financial control of the Central Bank.

Based on the international experience in the development of the banking system in Uzbekistan, a legal framework has been created and attention is paid to the measures of its development. The task of "successful implementation of the reforms planned for the financial stability and durability of the banking sector and strengthening the confidence of business and the population in the national banking system" has been set in the republic. Analyzing the capital adequacy of commercial banks to ensure the fulfillment of this task, substantiating scientific

proposals and practical recommendations related to the assessment and management of risks affecting banking activities is one of the urgent issues. As of 28 January 2022.

PD-60 "on the development strategy of the new Uzbekistan for 2022-2026", PF-5992 of May 12, 2020 "on the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025", PF-5877 of November 18, 2019 "on improving monetary policy by gradual transition to inflation targeting regime", PD-on June 16, 2017 Resolution No. 3066 "on additional measures to increase the level of financial stability and capitalization of commercial banks, The decision of the management of the central bank on July 6, 2015 "on approval of the regulation on requirements for the monandity of the capital of commercial banks" and the study of this dissertation will serve to some extent in the implementation of the tasks set out in other regulatory documents related to this area.

President of the Republic of January 28, 2022 PD-60 "on the development strategy of the new Uzbekistan for 2022-2026", PD-5992 of May 12, 2020 "on the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025", PD-5877 of November 18, 2019 "on improving monetary policy by gradual transition to inflation targeting regime", PD-on June 16, 2017 Resolution No. 3066 "on additional measures to increase the level of financial stability and capitalization of commercial banks, The decision of the management of the central bank on July 6, 2015 "on approval of the regulation on requirements for the monandity of the capital of commercial banks" and the study of this dissertation will serve to some extent in the implementation of the tasks set out in other regulatory documents related to this area.

CHAPTER I. THEORETICAL, METHODOLOGICAL AND LEGAL BASIS OF THE ECONOMIC ASSESSMENT OF THE CAPITAL OF COMMERCIAL BANKS

1.1. Capital of commercial banks and theoretical basis of their assessment

It is known from economic theory that land, capital, natural resources, human capital and entrepreneurship are important for the organization of any economic system. To implement any economic relations and business ideas, it will be necessary to provide capital. The emergence of money as the main means of payment showed the need to effectively organize its movement and distribution. As a result, banks began to appear and became an integral part of the economic system.

The scientific analysis of the development of the banking system of the Republic of Uzbekistan and the improvement of its efficiency is of urgent importance. In the conditions of globalization of the economy, it is necessary to protect the independence of the national economic system and national economic interests. It is important that the level of development and level of capitalization of countries and other financial organizations are different. Also, various economic crises, increasing risks affecting the economy and the banking system require scientific analysis of every economic activity, effective use of resources and their correct distribution.

Analyzing the banking system, first of all, it is necessary to clarify the history and concept of the emergence of modern banks. There are different views on the history of the emergence of the first banks, and the exact information is not proven. Today's financial institutions first appeared in England in the 16th century.

Banks with the name tirobank and which were engaged in almost full-fledged banking activities appeared in major cities of Europe in the XVI-XVII centuries. In 1587 in Florence and Venice, later in 1605 in Amsterdam and in 1618 in Hamburg, Milan and Genoa, girobanks were established by large merchants. These banks are specialized in carrying out mutual non-cash settlements to the

large traders who have established them and are constantly economically related to each other.

In the economic literature, there are different views on the concept of banking and its essence. Looking at the etymology of the origin of the word "bank", the word "bank" comes from the old French "banque" and the Italian "bansa", which means "exchange table".

Many scientific works have been done, books have been written and definitions have been given on the bank and its activities. According to Russian economists N.G.Antonov and M.A.Pessel: "a bank is a commercial body designed to serve all market relations." Analyzing this definition, market relationships are very complex and it is almost impossible for banks to serve all market relationships.

For example, not all regions of the country are equally developed, in some regions the participation of banks in mutual trade and other market relations is not well developed.

According to Russian economists O.I. Lavrushin, V. I. Bukato, Yu. I. Lvov: "a bank is an organization or monetary credit institution that regulates cash and non-cash payment transactions." O.I.Lavrushin, V.I.Bukato, Yu.I.Lvov defined the concept of bank based on the control and regulation functions of the state in the banking system and state administration system during the USSR.

In the conditions of the market economy, it is impossible to fully control and regulate economic relations, money circulation. This definition is mostly correct in defining the Central Bank, because the regulatory function is mainly handled by the Central Banks.

According to the Russian economist A.G. Kulikov: "a bank is a commercial enterprise that trades with monetary capital and makes settlements between enterprises and organizations." Even this definition of Kulikov does not fully cover the banking functions. The sentence that a business in this definition is a

commercial organization that performs calculations between organizations is both philosophically and economically incorrect. Because banks do not carry out calculations between enterprises and organizations, but act as intermediaries in transferring money to the second or other participants according to the consent and order of one party in the relations between them.

According to Uzbek economists A.A. Omonov and T.M. Koraliev: "a bank is an institution that collects, stores, and performs credit-account and other intermediary operations." This definition mainly consists of bank's asset operations, and the concept of bank is not fully disclosed. Because banks carry out not only active operations, but also passive operations.

According to Sh.Z.Abdullaeva's definition: "a bank is a financial institution, a commercial organization that attracts temporary free funds from the society under appropriate conditions and gives them to legal entities and individuals who need these funds on the basis of repayment, term, solvency and security". This definition is more like the definition of a loan than a bank. Sh. Z. Abdullaeva's definition of a bank does not fully reveal the concept of a bank. The principles of repayment, maturity, solvency and security listed in this definition are the basic principles of credit.

According to the legislation of the Republic of Uzbekistan: "a bank is a legal entity that is a commercial organization that performs a set of operations defined as banking activity on opening and maintaining bank accounts, making payments, attracting funds to deposits (deposits), granting loans on its own behalf." This definition is given in Article 3 of the Law of the Republic of Uzbekistan dated 25.04.1996 "On Banks and Banking Activities" No. 216-I of the Republic of Uzbekistan, which clarified the concept of a bank more broadly.

Table 1.1
Definitions given by economists to the concept of banking ¹

Authors	Definitions of the concept of bank
N.G. Antonov, M.A. Pessel	A bank is a commercial institution designed to serve all market relations.
O.I. Lavrushin, V.I. Bukato, Yu.I. Lvov	A bank is an organization or financial institution that regulates cash and non-cash payment transactions.
A.G. Kulikov	A bank is a commercial enterprise that trades with monetary capital and makes settlements between enterprises and organizations.
A.A. Omonov, T.M. Koraliev	A bank is an institution that collects, stores, and performs credit-account and other intermediary operations.
Sh.Z. Abdullaeva	A bank is a financial institution, a commercial organization that attracts temporary free funds from the society under appropriate conditions and provides them to legal entities and individuals who need these funds on the basis of repayment, maturity, solvency and security.
According to the legislation of the Republic of Uzbekistan	A bank is a legal entity that performs a set of operations defined as banking activities on opening and maintaining bank accounts, making payments, attracting funds to deposits (deposits), granting loans on its own behalf.
Author description	It is a commercial organization established for the purpose of profit through an appropriate license, which has the right to carry out financial operations related to banking activities not prohibited by law, which has the ability to attract funds from its own resources, including the funds of legal entities and individuals, and use them on its own behalf.

The banking system of the Republic of Uzbekistan consists of the Central Bank and commercial banks. The central bank is established by the government to perform certain functions. These functions include: stabilization of money circulation, regulation and control of the mass of money in circulation, coordination of the activities of commercial banks, etc. Commercial banks carry out banking operations with the help of banking resources on the basis of a license in order to make a profit.

Based on the above definitions, it should be noted that bank resources must be available to organize and conduct banking activities. In order to effectively organize the bank's activities, it is necessary to ensure maximum attraction of

¹ The table was compiled by the author.

resources to the bank and its proper use. Banks use their resources for commercial and economic activities. Issues of effective organization of bank resources are the primary goal for smooth and reliable banking activities.

Depending on the size of the resource base of commercial banks and the composition of the resource sources, it is possible to know the reliability of the bank, the attractiveness of attracting customers, the existence of a "safety cushion". In order to understand the composition of the resource base of commercial banks, it is necessary to analyze the history of the resource itself and the study of bank resources.

Resource is derived from the French word "resource" and includes the meanings of money, auxiliary funds, opportunity, reserve, source of funds and opportunities, source of income, raw material.

In economic literature, resources are divided into the following groups:

- natural resources;
- financial resources;
- human resources;
- land resource;
- and other resources.

Based on the purpose of the scientific work, bank resources, which are a component of financial resources, were also analyzed.

The author analyzed the scientific works of the following foreign and domestic scientists on bank resources, their organization, resource management by commercial banks: N.I. Valentseva, E.N. Vasilishen, E.F. Zhukov, G.A. Kozlov, V. I. Kolesnikov, O. I. Lavrushin, N. I. Kulikov, E. Gill, E. Dj. Dolan, R. Kotter, D. Polfreman, J. Rivoire, E. Reid, Dj. F. Sinki, R. .Smith, F.Ford, Yo.Abdullaev, A.A.Omonov, T.Koraliev, N.G.Karimov, Sh.Z.Abdullaeva, U.Azizov and others.

According to D.Polfreman and F.Ford, bank resources were accepted as bank liabilities and they were made up of bank shareholders' funds and depositors' funds.

Economist Peter S. Rose explained that the strategic management of commercial banks' resources is based on the strategies of liabilities and funds management, taken separately.

1. According to him, banks restructure sources of funds in accordance with two specific goals:
2. Use of resources that minimize the cost of raising funds. This allows the bank to have plenty of new funds at its disposal to increase its profits and capital.
3. Choosing the optimal ratio between deposits, loan funds and capital amounts that provide the desired level of stability of funds so that the bank can keep high-yielding assets.

4. 1. Scientists under the leadership of the Russian economist O.I. Lavrushin defined bank resources as follows: "resources of commercial banks, or bank resources, are the sum of funds available to banks and used for their asset operations."

According to N.I.Kulikov, N.P.Nazarchuk: "resources of commercial banks are their capital and funds, as well as funds attracted as a result of passive operations and used for asset operations."

U.Azizov, T.Bobakulov, Sh.Abdullaeva, Z.Kholakhmadov, O.Ortikov, D.Saidov and others under the leadership of Professor T.Karaliev. a team of authors such as defined bank resources as follows: "bank resources are a set of reserves and capabilities that can be used for the implementation of banking activities within the framework of banking policy, consisting of the bank's own funds and borrowed funds, which are the basis for the bank's income."

Regarding resource theories and bank resources, the scientific research of Uzbek researcher I. Kh. Rakhmanov is noteworthy, he discussed the following points:

"The theory of the resource base of commercial banks is to attract stable resources within the limits of the banks' competences and to deploy them effectively in order to ensure competitiveness in the conditions of the free market economy. is considered a strategic approach. In general, from the point of view of economic

theory, the resource theory of commercial banks should be focused on solving the conflicting relationship between the unlimited need for bank resources and limited resources in the economy.

Table 1.1

Definitions given by economists to the concept of bank resources

Authors	Definitions of bank resources
D. Polfreman, F. Ford	These scholars considered bank resources as bank liabilities and noted that they consist of bank shareholders' funds and depositors' funds.
Peter S. Rose	This author has covered the strategic management of commercial banks' resources based on the strategies of liabilities and fund management taken separately
O.I. Lavrushin and others	Resources of commercial banks, or bank resources, are the sum of funds available to banks and used for their asset operations.
N.I. Kulikov, N.P. Nazarchuk	The resources of commercial banks are their capital and funds, as well as funds raised as a result of passive operations and used for asset operations.
T. Karaliev, U. Azizov, T. Bobakulov, Sh. Abdullaeva, Z. Kholmakhmadov, O. Artikov, D. Saidov	Bank resources are a set of reserves and capabilities that can be used for the implementation of banking activities within the framework of the bank's policy, consisting of the bank's own funds and borrowed funds, which are the basis for the bank's income.
I. Kh. Rakhmanov	The theory of the resource base of commercial banks is a strategic approach that envisages the attraction of stable resources and their effective deployment within the limits of the banks' powers in order to ensure competitiveness in the conditions of a free market economy.
Author description	The resources of commercial banks are a set of funds and other securities, which are at the disposal of the banks and are created as a result of the authorized capital and passive operations of the bank.

Summarizing the bank's resources, we can say that the bank's resources are funds in the form of the initial charter capital attracted for the organization of the bank's activities, which are later attracted through the bank's passive operations, and are an indicator of the bank's liquidity and reliability, and the effective operation of a commercial bank depends on the size of the bank's resources. will be

In the existing economic literature, we can find different definitions of bank resources and bank capital. When analyzing the scientific literature on the subject, bank resources consist of bank capital, borrowed funds and borrowed funds..

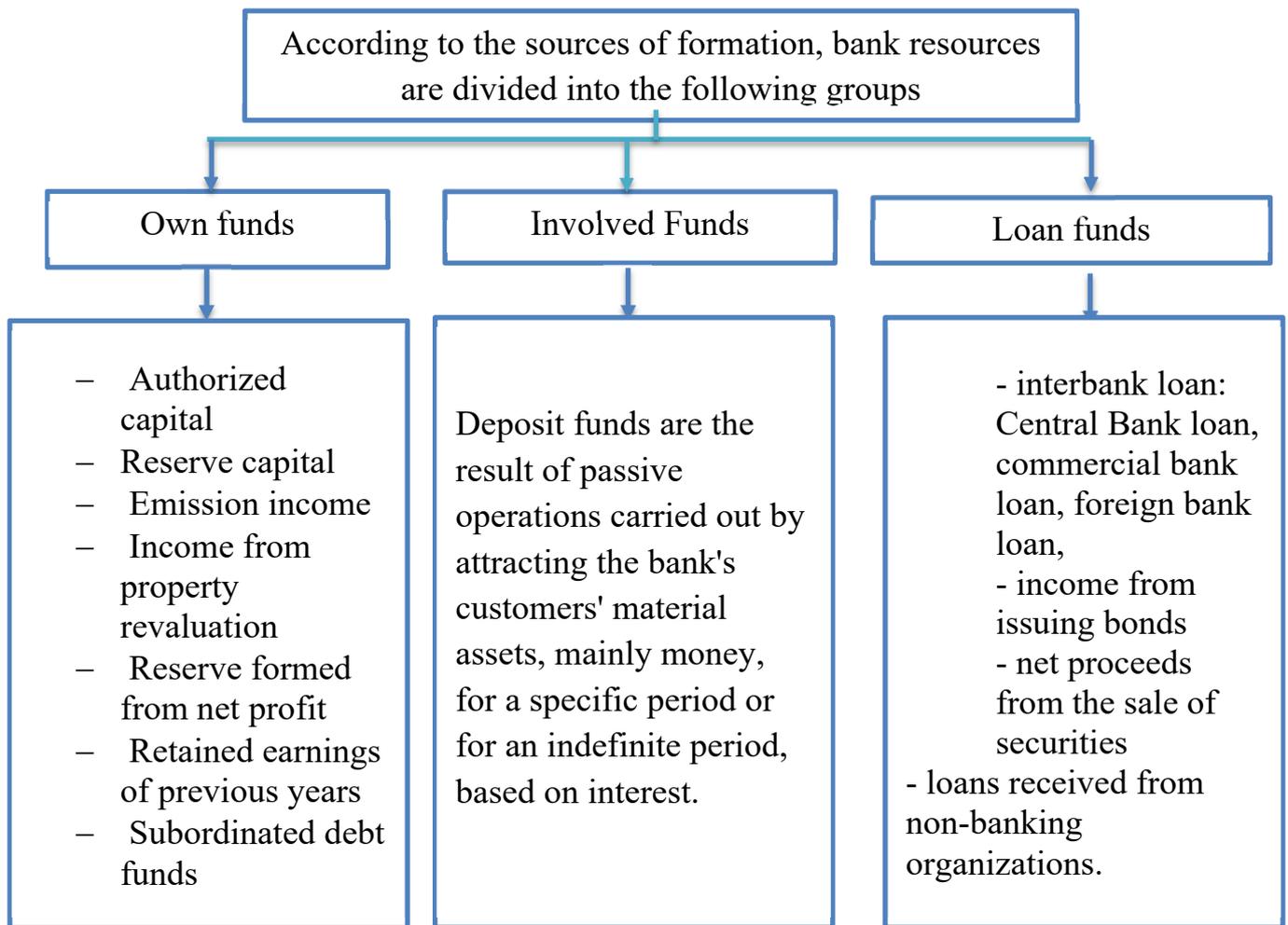


Figure 1.1. Composition of bank resources

Before analyzing the effectiveness of bank capital and ways to increase it, it is necessary to analyze capital and bank capital, its functions and structure. Capital is a combination of material, intellectual and financial resources used for profit and production of additional material goods.

In scientific literature, it is noted that the first scientific views on capital belong to Aristotle. Later, classical economists A. Smith and D. Riccardo noted that capital is created through labor and reserves. According to A. Smith, "capital is the reserves used in production processes, from which the owner of the capital expects to make a profit."

About capital, K. Marx in his work "Capital" based the initial philosophical and economic knowledge about the formation and composition of capital. Taking into account the material structure of capital, Karl Marx noted that it consists of

labor tools, raw materials, means of living, material products, a certain amount of goods, and exchange values.

According to John Bates Clark, the famous American economist, the founder of the American Marginalism school, "capital is the reserves that are in constant motion, that is, they are always in circulation."

Swedish scientist Knut Wiksell (1851-1926) carried out an effective scientific activity on the analysis of interest, capital and money theories through mathematical models. His main works are: "Value, capital and rent" (1893), "Interest and prices" (1898).

American economist Irwin Fisher (1867-1947) is a scientist who perfected the theories of capital, interest and money. In particular, his book "The Theory of Percent" (1930) made a great contribution to the development of theories of capital, money and interest. According to him, capital is a stock of all natural and valuable resources, it includes money, equipment, infrastructure, land, human labor used in production.

According to the Russian economist G.V. Savitskaya, "capital is the means used by a business entity to realize its activities in order to make a profit."

According to another Russian economist V.V. Kovalev, "capital is money. It is the sum of the subject's total funds.

The capital analysis is summarized in the table below:

Figure-1.3²

Definitions given to the concept of capital by economists

Authors	Definitions of the concept of capital
A.Smith	Capital is the reserves used in production processes, from which the owner of the capital expects to make a profit
K. Marx	Taking into account the material structure of capital, it consists of labor tools, food, means of living, material products, a certain amount of goods, exchange values
DJ B. Clark	Capital is reserves that are constantly in motion, that is, always "in circulation".
Irwin Fisher	Capital is the stock of all natural and valuable assets, including money, equipment, infrastructure, land, and human labor used in production.

² Compiled by the author on the basis of research.

G. V. Savitskaya	Capital is the means used by a business entity to carry out its activities in order to make a profit
VV Kovalev	Capital is money. It is the sum of the total funds of the entity
Author description	Capital is a means that has the characteristic of bringing profit to its owner, and is used in the creation and production of additional value, as well as in the implementation of financial relations. These assets can be in the form of funds, equipment, land, intangible assets, and securities.

Based on the purpose of the research, scientific works on bank capital are analyzed. According to the famous Russian economist O.I. Lavrushin, bank capital is a broader concept than the bank's personal capital, which includes the sum of funds organized to gain the trust of creditors and depositors and to carry out its activities. According to the author, the equity capital of the bank consists of the shares of the founders in the formation of the authorized capital.

According to Ukrainian economists, "Bank capital is a set of capitals attracted by a bank, used by them in the form of bank resources for credit, settlement and other operations. The bank's equity capital (authorized capital and reserve capital) is the smallest part of the bank's capital. Unlike commercial or industrial capital, the bank's equity capital is used in banking activities and brings the bank's profit.

American economists Chris D.J. According to Barltron and D. McNaughton, bank capital is a sufficient reserve to prevent various contingencies that occur in banking activities, and helps to eliminate the inability to make payments that occur when adapting to changing conditions.

According to T.M.Karaliev, O.B.Sattarov, I.F.Sayfiddinov, the capital of a commercial bank is a stable source of financing the bank's activity, and it is a special means of protection that allows to compensate for losses that occur unexpectedly from the bank's operational process.

The scientific literature co-authored by Yo.Abdullaev, T.Karaliev, Sh.Tashmurodov, S.Abdullaeva gives the following definition: "bank capital means funds and reserves specially organized for the purpose of ensuring stable operation of the bank and compensation for extraordinary losses".

Although the Regulation "On requirements for the capital adequacy of commercial banks" registered by the Ministry of Justice of the Republic of Uzbekistan on July 6, 2015 with the number 2693, the concept of capital reserves is not defined. "Capital reserves - reserves formed at the expense of net profit or undistributed profit of previous years after paying taxes and other mandatory payments. They can be used to cover any losses arising in the banking activity as soon as they occur without any restrictions.

Analyzes of bank capital are summarized in the following table:

Figure-1.4³

Definitions given by economists to the concept of bank capital

Authors	Definitions of bank capital
O.I. Lavrushin	Bank capital is a broader concept than the bank's own capital, which includes the sum of funds established to gain the trust of creditors and depositors and to carry out its activities. According to the author, the equity capital of the bank consists of the shares of the founders in the formation of the authorized capital
S.I. Lukash, A.A. Malyutina	Bank capital is a set of capitals attracted by the bank, used by them in the form of bank resources for credit, settlement and other operations. The bank's equity capital (authorized capital and reserve capital) is the smallest part of the bank's capital. Unlike commercial or industrial capital, a bank's equity capital is used in banking operations.
D.J. Barltron, D. McNaughton	A bank's capital is a sufficient reserve to prevent various contingencies that arise in banking operations, and helps to overcome the inability to make payments while adapting to changing conditions.
T.M.Karaliev, O.B. Sattarov, I.F. Sayfiddinov	Capital of a commercial bank is a stable source of financing the bank's activities, and is a unique protection tool that allows to compensate for unexpected losses from the bank's operational process.
Yo.Abdullaev, T.Karaliev, Sh.Tashmurodov, S.Abdullaeva	Bank capital means specially organized funds and reserves for the purpose of ensuring the stable operation of the bank and covering emergency losses.
According to the legislation of the Republic of Uzbekistan	Capital reserves are reserves formed at the expense of net profit or retained earnings of previous years after paying taxes and other mandatory payments. They can be used to cover any losses in banking as soon as they occur without any restrictions.
Author description	Bank capital is private capital in the liabilities of the bank's balance sheet, which is necessary for the implementation of commercial and financial activities by banks. Bank capital should be a guarantee of the risks taken by depositors, creditors and founders in order to profit from banking activities.

³ Compiled by the author on the basis of research.

Analyzing the scientific views of foreign and Uzbek economists on bank capital, it can be concluded that bank capital is the sum of initial material resources for the organization of banking activities, and should be a guarantee of the risks taken by depositors, creditors and founders in order to profit from banking activities.

1.2. The structure, functions and methods of economic assessment of the capital of commercial banks

Today, the use of banking services, credit relations is one of the developed areas. The bank's private capital plays an important role in organizing the bank's activities and maintaining its position in the competitive environment. Analyzing the adequacy of bank capital, its efficiency, and increasing bank capital increases the competitiveness of banks, expands financing of asset operations.

2019 by the Ministry of Justice of the Republic of Uzbekistan according to the decision of the State Tax Committee of the Republic of Uzbekistan, the Ministry of Finance of the Republic of Uzbekistan, the Board of the Central Bank of the Republic of Uzbekistan No. 3178 "On approval of the forms of financial statements submitted by commercial banks to the state tax authorities", the private capital of commercial banks consists of the following .

Figure-1.5

Composition of private capital of commercial banks

Equity structure				
String code	Account code	Indicator name	At the beginning of the reporting period	By the end of the reporting period
2000	30300	Authorized capital		
2010	30600	Additional capital		
2020	30900	Reserve capital		
2030	31200	Retained earnings		
2040	Total private capital (sum of rows 2000-2030)			

The authorized capital of a commercial bank is the starting point for the organization of banking activities. The charter capital is formed at the time of establishment of the banking activity at the expense of the share contributions of the founders of the commercial bank.

Additional capital of commercial banks is formed at the expense of the positive difference between the nominal and real values of the ordinary and preferred shares issued by the bank, as well as at the expense of the positive difference between the bank's purchase of its shares from shareholders and their resale.

The reserve capital of commercial banks is formed from the net profit left at the disposal of commercial banks after paying taxes and other mandatory payments at the end of the year to cover the costs of asset operations. Reserve capital serves as a source of payment for interest on bank bonds and preferred stock dividends when a commercial bank makes a loss at the end of the year, and to cover losses when the value of securities falls. The reserve capital of commercial banks is formed based on the decision of the bank's management board and based on the bank's accounting policy, at the expense of a certain amount of funds allocated from the net profit every year.

Retained earnings is a part of the profit that remains at the disposal of a commercial bank after the payment of dividends and allocations to reserve funds.

Bank capital and its size are of great importance in the composition of bank resources. But the composition of the bank's resources is wide, and the share of the bank's capital can be up to twenty percent. We can know the position of bank capital in bank resources through its functions.

The capital of commercial banks performs the following functions:

- financing function;
- protection function;
- operational function in ensuring the stability of the bank's activity;
- regulatory function.

The capital of commercial banks performs the function of financing when the bank is established. The capital of the bank, in the initial state where deposits are not attracted through passive operations, finances the costs of establishing banking activities, organizing work, and starting to implement activities.

The protective function of bank capital, through the capital of built-up reserves and insurance funds, performs tasks such as paying dividends to shareholders, interest due on deposits, when the bank ends the financial year with a loss or goes bankrupt.

When there is a need to finance high-risk bank operations and there are no funds in the bank's main accounts, private equity reserves can be quickly used.

The regulatory function of the capital of a commercial bank is mainly derived from the requirement imposed by the Central Bank on the amount of authorized capital. It allows to control and regulate the banking activity according to the minimum standard of the authorized capital of the bank, its liquidity coefficients and many other indicators.

The purpose of analyzing the adequacy of the private capital of the bank is to study the ability of the bank to protect the interests of the shareholders and depositors in the bank's charter, how it withstands various risks that may arise during the operation of the bank. In addition, the amount of bank capital plays a big role in protecting the banks and credit organizations of developed and rich countries from actions aimed at derailing the activity of the national banking system.

In world practice, there are many ways to analyze bank capital adequacy. The requirements of the Basel Committee on Banking Supervision are important in determining the capital adequacy of commercial banks.

The Basel Committee develops the principles of banking supervision for the countries of the world, and in the regional banking supervision, the principles of banking activities and their supervision are developed, and the countries adapt it to the standards of banking supervision based on their economic situation.

Basel III (approved in November 2010 in Seoul), these regulations were supposed to be implemented in 2013-2018. As the main changes of Basel III compared to Basel II, prudential requirements for capital and prudential requirements for liquidity were included in the capital calculation of banks. A number of changes were made to Basel III regulations in 2019.

Basel III standards consist of three main parts:

- the first part describes the interrelationship of capital requirements with risks - "Basel III general approach aimed at increasing the stability of banks and the banking system";
- the second part is dedicated to liquidity risk control in banks - "Basel III international approach to liquidity risk measurement, standards and monitoring";
- and in the third part: "Banks of international system importance: Determining the possibilities of recognition of losses and additional requirements for it".

A number of measures were implemented to increase the stability of the banking system, to strengthen the resource base of commercial banks and to create conditions for their growth, to stimulate the investment activity of banks, and the conditions of Basel III international standards were gradually introduced during 2015-2019.

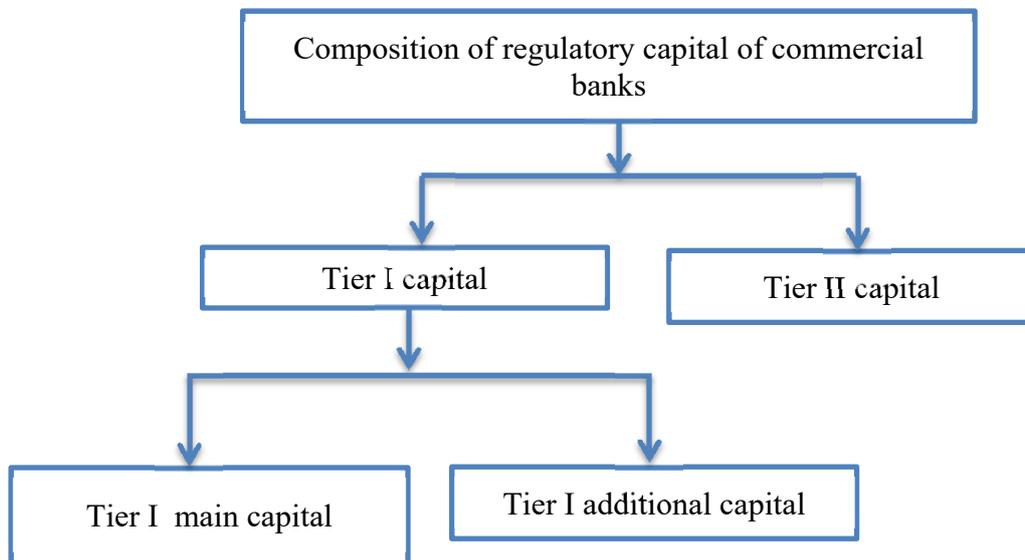


Figure 1.2. Components for determining the capital ratio of commercial banks

Regulatory capital is the bank's capital, which is determined by calculation for the purpose of regulating banking activities and calculating prudential regulations.

The purpose of analyzing the capital adequacy of commercial banks, ensuring its adequacy, increasing the confidence of customers in banks, increasing the country's investment attractiveness and increasing resources by achieving a stable rating of international credit organizations.

Regulatory capital = Tier I capital (of regulatory capital must not be less than 75 percent) + Tier II capital (1)

It should be noted that if the amount of Tier II capital exceeds one third of Tier I capital, the increased amount is not included in the regulatory capital.

I-tier capital = I-tier core capital (I-tier core capital should not be less than 60% of the bank's regulatory capital) + I-tier additional capital (2)

According to the requirements of the existing legislation, the composition of the main capital of the first level consists of the following:

– a) fully paid ordinary shares of the bank or instruments equivalent to ordinary shares when the bank is organized in a form other than a joint-stock company. Such shares or instruments must satisfy the following conditions:

- when the bank is liquidated, the demands on them are satisfied after all the demands of the bank (demands of depositors and other creditors of the bank, subordinated debt, preferential shares, etc.);
- the owners have the right to receive the part of the assets remaining at the disposal of the bank after all requirements are satisfied upon liquidation of the bank, in accordance with their share;
- non-payment for an indefinite period and in cases other than liquidation of the bank, with the exception of cases of repurchase established by law
- when it is issued, the bank does not act on its repurchase or cancellation, and legal and contractual requirements do not have the characteristics of causing such a situation;
- that it is not guaranteed and secured by the issuer or its related persons, and in case of liquidation of the bank, its order of payment (subordination) has not been changed by any contract;

b) added capital of the bank is the amount paid above the nominal price of ordinary shares at the first placement;

c) undistributed profit (loss):

- capital reserves and other reserves formed at the expense of the undistributed profits of previous years in the bank balance sheet (except for free property (30905) and the increased amount of the appraisal value compared to the initial value of fixed assets and intangible assets (30908));
- remaining undistributed profit from previous years, except for unpaid dividends;
- uncompensated losses of previous years and losses of the current year;

g) shares of minority shareholders in enterprises that merge into the bank balance sheet. This share arises when the accounts of subsidiaries are consolidated in the bank's financial statements and the bank's share is less than 100 percent of the capital of such enterprises.

d) devaluation reserve. This reserve is formed from funds set aside from retained earnings to cover the bank's liabilities in the event of a significant devaluation of the national currency.

According to the current legal requirements, the structure of additional capital of level I consists of the following:

a) fully paid non-cumulative preference shares. Such actions must satisfy the following conditions:

- not having a specific purchase date or conditions;
- cannot be purchased at the will of the owner;
- after the bank is liquidated and the demands related to them are satisfied after the demands of the bank's depositors, creditors and subordinated debts are met;
- these shares have not been placed as a guarantee and security for other assets by the issuer or related persons;

- the possibility of not paying dividends in accordance with the decision of the general meeting of bank shareholders;
- non-payment of unpaid dividends for the previous period;
- the bank can only buy shares that are not less than 10 years old and with the prior permission of the Central Bank of the Republic of Uzbekistan, and after exchanging the purchased amount for the same or a higher type of capital, or after showing that the bank's capital is higher than the minimum capital requirement;

b) added capital of the bank - the amount paid above the nominal price of preferred shares at the first placement;

v) Capital-equivalent instruments issued by subsidiaries that meet the conditions for inclusion in Tier I additional capital and held by third parties, as well as shares of minority shareholders in enterprises that merge into the bank's consolidated balance sheet.

Tier II capital includes:

- a) net profit for the current year;
- b) reserves created for standard loans (assets) in an amount not higher than 1.25% of the sum of assets taking into account risk after discounts;
- c) mixed liabilities (instruments with equity and debt capital characteristics) in an amount not exceeding one third of Tier I capital after deductions. Mixed obligations, as well as preferred shares not included in Tier I capital, are included in Tier II capital if they meet the following conditions:
 - paid in full;
 - not secured by collateral;
 - when the bank is liquidated, their claims are satisfied after the claims of bank depositors and other creditors of the bank are met;
 - cannot be paid at the initiative of the owner of the share and without the prior consent of the Central Bank of the Republic of Uzbekistan;

- covering all reserves of the bank and not giving the right to declare the bank insolvent;
- if the bank did not make a profit during the last 3 quarters, or shares that may be delayed at the issuer's discretion when making a decision not to pay dividends (interest) on ordinary or preferred shares;

g) subordinated debt is a form of debt obligations of the bank, which after calculations for the purpose of determining the bank's capital should not exceed one third of the I-level capital. Subordinated debt, which is part of capital of the second level, must meet the following requirements:

- lack of collateral security;
- when the bank is liquidated, the requirements for these obligations are fulfilled after the requirements of the depositors and other creditors of the bank are satisfied;
- the initial payment period is after 5 years;
- the debtor has not pledged other assets as a guarantee and security by the bank or its related persons, and in the event of the bank's liquidation, its order of payment (subordination) has not been changed by any contract, that is, it has not been equalized to the requirements of the bank's depositors and creditors;
 - early repayment with the permission of the Central Bank of the Republic of Uzbekistan.
- Recognition of subordinated debt as II-level capital of the bank is carried

out in the following order:

- in the period exceeding 5 years before the initial payment period - in full;

during the 5 years prior to the initial payment period:

in the 1st year - 80 percent of the subordinated debt balance;

in the 2nd year - 60 percent of the subordinated debt balance;

in the 3rd year - 40 percent of the subordinated debt balance;

in the 4th year - 20 percent of the subordinated debt balance;

0 in the 5th year

d) the amount of 45 percent of the increased amount of the appraisal value compared to the initial value of the assets.

Deductions from capital are deducted from Tier I capital before capital adequacy ratios are calculated.

The following are deducted from Tier I capital:

- intangible assets, excluding bank software;
- the sum of all investments in the capital of unincorporated business entities, including debt obligations that make up the capital of such business entities;
- investments in the capital of other banks.

The adequacy of the bank's capital, that is, the amount of capital necessary for the efficient operation of the bank, taking into account the risks, and the minimum requirements set for it are calculated:

$$\text{TAUS} = \text{Sum of balance and off-balance sheet assets} + (\text{OT}) + (\text{BT}) \quad (3)$$

In this case, TAUS is the total amount of risk-adjusted assets, OT is the sum of operational risks, BT is the sum of market risks.

$$\text{OT} = (100 / \text{the minimum level of the specified K1}) \times (\text{the average sum of the gross income of the Bank in the last three years} \times 15 \%) \quad (4)$$

$$\text{Gross income} = (\text{interest income} - \text{interest expenses}) + (\text{non-interest income} - \text{non-interest expenses}) \quad (5)$$

If gross income is zero or negative in any year, it should be excluded from the denominator and figure when calculating the average.

$$\text{BT} = (100 / \text{minimum level of specified K1}) \times (\text{Total amount of open currency positions} \times 10 \text{ percent}) \quad (6)$$

When calculating the total amount of open currency positions, the largest absolute indicator of the sum of the total long or total short indicators of foreign currencies is taken.

The ratio of regulatory capital to the total amount of risk-adjusted assets should not be less than 13 percent. The ratio of regulatory capital K1 is calculated as follows: $K1 = RK / TAUS$ (7)

The monad ratio of Tier I capital is determined as follows:

$K2 =$ defined as Tier I capital/TAUS (8)

K2 coefficient should not be less than 0.10 (10.0%), taking into account that 3.0% of all assets taking into account the risk of the capital conservation buffer will be quality I-level capital.

The monad ratio of Tier I fixed capital is determined as follows:

$K3 =$ Tier I capital/TAUS (9)

determined as, its smallest level should not be less than 0.08 (8.0 percent).

These capital adequacy requirements are defined based on the requirements and norms of the Basel Committee on International Banking Supervision. All commercial banks need to calculate capital adequacy, taking into account the risks affecting their activities.

The Basel Committee on International Banking Supervision determines capital adequacy requirements of commercial banks based on global economic changes and their impact on banking activities.

When determining the requirements for the adequacy of bank capital and the level of capital, it is necessary to take into account the risks affecting the bank's activity. It would also be appropriate to study the international experience of banking supervision and regulation. Therefore, in the next plan of Chapter I, the current legal framework and international experience related to banking activities will be analyzed.

1.3. Legal basis of capital assessment of commercial banks and foreign experience

When analyzing the activities of banks, it is important to analyze the current legislation of the country where the bank operates. Each country determines how to conduct monetary policy based on its political and economic goals. In addition, it

is necessary to acquire the necessary knowledge and experience as a result of studying foreign experience in this direction. Based on the relevance of the topic, this section analyzes the legal basis of capital assessment of commercial banks and foreign experience.

Today, the banking system and banking activities in the Republic of Uzbekistan are regulated by the new version of the Law "On Banks and Banking Activities" adopted by the Law of the Republic of Uzbekistan No. ORQ-580 on November 5, 2019.

The banking system of the Republic of Uzbekistan consists of a 2-tier system, consisting of the Central Bank of the Republic of Uzbekistan and commercial banks.

The Central Bank of the Republic of Uzbekistan is a state body that regulates the field of banking activity and exercises powers on licensing, regulation and prudential control.

- The requirements for the authorized capital of the bank are defined in the above law, according to which the minimum amount of the authorized capital of the bank must be one hundred billion soums.
- The authorized capital of the bank is formed in the national currency of the Republic of Uzbekistan and consists of funds contributed by the founders and shareholders of the bank or state securities, with the exception of the following cases:
 - placing the bank's shares among the bank's creditors and paying them by taking into account any rights (claims) of the bank in terms of monetary obligations to the creditors;
 - exchange of securities for bank shares;
 - exchange of one type of bank shares for another type of shares of this bank.

It is not allowed to use loan, pledged funds, as well as other pledged funds to form the authorized capital of the bank.

The minimum amount of the authorized capital of the bank must be entered by the founders of the bank before the application for state registration and

licensing of the bank is submitted. Funds included in the charter capital are transferred to the savings account opened in the bank.

In the event of a systemic financial crisis, bank shares can be purchased by the Ministry of Finance of the Republic of Uzbekistan at the expense of state securities.

The Central Bank is considered a state body for banking supervision, and in the interests of bank customers and economic interests, it determines mandatory regulatory norms that commercial banks must follow during their activities.

In order to ensure the financial stability of banks and protect the interests of depositors and creditors, banks and banking groups must comply with the prudential regulations, which are determined by the Central Bank.

- Prudential regulations include:
 - - monitoring coefficients of capital;
 - - the maximum amount of risk for one borrower or a group of interconnected borrowers;
 - - the largest amount of large credit risks and investments;
 - - accumulation (concentration) coefficients in sectors;
 - - liquidity coefficients;
 - the maximum amount of risk for the related persons of the bank;
 - -maximum amount of unsecured loans (credits based on trust);
 - requirements for the classification of the bank's assets and their quality assessment, the formation of reserves against possible losses on the bank's assets based on the classification of assets;
 - requirements for calculating interest on bank assets and including them in the bank's income account;
 - the maximum amount of purchased shares and shares in the authorized funds (authorized capital) of legal entities;
 - requirements for the purchase and ownership of real estate and other property;

- open currency position limits;
- other prudential regulations determined by the Central Bank in accordance with generally accepted international practice.

In order to reduce the risk of losses on assets, banks should maintain sufficient capital and liquid resources, form reserves against possible losses on assets based on asset classification, and also ensure diversification of their assets.

The Central Bank has the right to set additional increments to the liquidity and capital adequacy ratios for banks, a group of banks and systemically important banks in order to compensate for possible losses that may occur during the most significant changes in the risk factors specific to this bank, a systemically important bank and a group of banks.

Future changes to prudential regulations will be officially announced by the Central Bank at least one month before the implementation of these changes.

One of these prudential regulations is the capital requirements of commercial banks. This regulatory document is the Regulation "On the requirements for the capital adequacy of commercial banks", registered by the Ministry of Justice of the Republic of Uzbekistan on July 6, 2015 with the number 2693.

The requirements of the Regulation on the requirements for the capital adequacy of commercial banks determine the minimum levels of capital of commercial banks based on international experience.

This regulatory document defines the components and requirements related to capital formation:

- requirements for the minimum level of capital;
- capital structure;
- risk-adjusted assets;
- off-balance sheet instruments;
- derivative instruments;
- calculation of capital ratio;
- consists of final regulations and annexes.

The requirements for the capital adequacy of commercial banks are determined based on the requirements of the International Basel Committee on Banking Supervision.

Table 1.6

The main requirements of Basel III regulatory standards and the difference between Basel I and II

Elements	Basel I/II requirements	New requirements(Basel III)
Minimum capital requirements	Tier 1 core capital/risk ratio (RM) $\geq 2\%$; Tier 1 capital/ RM $\geq 4\%$ Total equity/RM $\geq 8\%$	Tier 1 core capital/ risk ratio (RM) $\geq 4.5\%$; Tier 1 capital/ RM $\geq 6\%$ Total equity/RM $\geq 8\%$
Innovative instruments	Part of Tier 1 capital (but not more than 15% of Tier 1 capital)	Step by step deduction
Tier 3 capital	It should not exceed 250% of Tier 1 capital intended to cover market risks	Cancelled
Чекловлар	Tier 2 capital \leq Tier 1 capital; Subordinated debt obligations $\leq 50\%$ of Tier 1 capital	Cancelled
Correction/discoun- ts (except goodwill)	50% from Tier 1 capital and 50% from Tier 2 capital	100% from Tier 1 capital
Conservation buffer	Not available	Additional 2.5% on Tier 1 capital/RM of 4.5%
Countercyclical buffer	Not available	in the amount of 0-2.5% of RM

The regulatory norms of the international Basel committee on banking supervision are determined based on the trend of economic changes around the world. As the main changes of Basel III compared to Basel II, prudential requirements for capital and prudential requirements for liquidity were included in the capital calculation of banks.

The main directions offered by "Basel III" are as follows:

- introduction of new requirements for the minimum level of the first-tier capital and its component core capital, gradual reduction of the recognition of hybrid instruments in the capital, the list of regulatory deductions from the capital is being clarified;

- tightening of requirements for banks' capital and introduction of new liquidity standards into practice - short-term (see Liquidity Coverage Ratio - LCR) and long-term (see Net Stable Funding Ratio - NSFR), use of the "Leverage" indicator.

- as well as the introduction of additional capital buffers: conservation buffer (incl. Capital Conservation Buffer) and countercyclical buffer (engl. Sountercyclical Buffer).

Therefore, Basel III envisaged the formation of two buffer capital: conservation buffer and countercyclical buffer. The main purpose of the formation of the conservation buffer is a "simple" increase to the minimum requirements for maintaining the level of capital adequacy to cover bank losses during a systemic economic depression. In order to provide a conservation buffer, banks will have to limit profit sharing.

The commercial banks of the Republic of Uzbekistan are also fulfilling the regulatory requirements of the International Basel Committee and the Central Bank of the Republic of Uzbekistan. Capital adequacy, liquidity ratios and many other ratios of commercial banks are calculated and reported to the Central Bank. The following table shows the dynamics of the minimum amount of commercial banks' capital and relevant ratios according to the rules and requirements of Basel III over the years.

Table 1.7

Capital requirements of commercial banks of the Republic of Uzbekistan based on the basic requirements of Basel III regulatory standards

Indicators	Effective date				
	01.09.2015	2016	2017	2018	2019
Regulatory capital, (K1)*	10%	11,5%	12,5%	13,5%	14,5%
Tier I capital, (K2)*	7,5%	8,5%	9,5%	10,5%	11%
Tier I capital	6%	7%	7,5%	8,5%	9,5%
Leverage ratio, (K3)	6%	6%	6%	6%	6%
Current liquidity ratio, (CLR)	30%	30%	30%	30%	30%
Liquidity coverage ratio (Lcr)	-	80%	90%	100%	100%
Net stable funding rate ratio, (NSFRR)	-	-	-	100%	100%

The regulatory requirements and minimum standards listed in the table above are mandatory for all commercial banks in our republic. It should be noted that there is a state share in the shareholding of a number of commercial banks in the Republic of Uzbekistan. This increases their financial opportunities compared to private commercial banks and may cause a violation of the principle of fair competition. The analysis of this situation in the next sections of the scientific work will confirm how correct or incorrect this theoretical view is. According to the regulatory standards of the International Basel Committee, the adequacy of bank capital is determined based on the ratio of bank capital to total asset operations and risky assets.

Another system for assessing bank capital adequacy and requirements is the CAMELS system for assessing bank capital adequacy used in the United States.

CAMELS is a banking analysis methodology introduced in 1978 by US regulatory authorities after the decision to standardize systems for analyzing the financial condition of commercial banks and other credit organizations.

CAMELS is an abbreviation of the initial letters of the analyzed components.

C – capital adequacy. It is a set of standardized requirements that determine the minimum values of the capital of banks and other credit organizations and how much it should be.

These requirements are designed to protect banks themselves, their customers and the country's economy by establishing rules and principles that should ensure the safety and efficiency of banking activities that can withstand any possible difficulties.

The following two important coefficients should be calculated:

- 1) the ratio of total capital to the sum of assets and off-balance sheet items weighted by risk level;
- 2) the ratio of the main capital to the sum of assets and off-balance sheet items weighted by the level of risk.

A – asset quality. Asset quality is linked to the left side of the bank's balance sheet. Bank management should control the quality of bank loans, because the income of commercial banks depends on the loans granted. Credit and asset quality are two terms that basically mean the same thing. In the analysis of the quality of assets, the increase in credit risk, the impact of problem loans on banking activity is analyzed.

At this stage of the analysis, assets are divided into the following three groups: non-standard assets, doubtful assets and losses. In addition, an overall weighted classification is made, including assets classified as 20% non-performing, 50% doubtful and 100% impaired.

The ratio of the total weighted classification to the total capital is the main indicator that determines the quality of assets.'

M - management, quality of management. The quality of bank management is determined based on the evaluation of whether it works in accordance with the laws and the instructions adopted by the control system.

When assessing the quality of management, the following are analyzed:

- effectiveness of bank management;
- the influence of objective and subjective factors, for example, capital adequacy, asset quality and profitability;
- professional skills of management staff;
- existence of the internal procedures of the bank and the level of compliance with them;

- level of preparation for future changes in banking activity, their planning and reduction of existing risks.

E - earnings, profitability (profitability). In evaluating the efficiency of the bank's activity, the sources of the bank's profit are analyzed and the future development of the bank is forecasted by increasing the profit. In assessing the bank's income, the structure and composition of the income is analyzed based on the profitability of the bank's assets in the last three years. $\text{Return on Bank Assets} = \text{Net Income} / \text{Average Total Assets}$ (10)

L – liquidity. In the CAMELS system, banks' liquidity is analyzed in terms of timely fulfillment of bank obligations. Bank liquidity is the ability to meet obligations without incurring excessive losses. Liquidity management is a day-to-day process that requires bankers to monitor cash flow. It is important to maintain a balance between short-term assets and short-term liabilities.

The liquidity of banks is evaluated on a scale from 1 to 5, and at this stage the following are analyzed: volatility of deposits, degree of dependence on credit resources, sensitivity to changes in interest rates, availability of liquid assets, availability of access to money markets, efficiency of asset and liability management, etc.

S – sensitivity to risk. At this stage, the dependence of the bank's financial condition on changes in interest rates is analyzed. As a result of these analyses, the effectiveness and flexibility of the CAMELS system of banking system evaluation has been proven.

FIMS system of analysis of banking activity. After the CAMELS system justified itself, the mechanisms of analysis of the banks' activities became more and more sophisticated. The FIMS method of monitoring the financial stability of banks was created and put into practice. The purpose of this system is to continuously monitor the bank's activities based on its reports. As a result, deficiencies identified as a result of various inspections are eliminated in advance.

This system involves the calculation of two complementary ratings: the FIMS rating and the FIMS risk category.

The FIMS rating is an assessment of the current state of the bank based on the changes in a number of financial indicators in the last quarter and the analysis of the results of on-site inspections. The CAMELS methodology is used in this rating and the bank's condition is evaluated using a rating score from 1 to 5.

In the FIMS rating, the following coefficients are calculated in relation to bank assets: equity capital adequacy, net income, reserves, liquid assets, main deposits, by type of loans, etc. In the FIMS risk analysis, the possibility of

realization of forecasts of the bank's activity for the next period, the impact of risks affecting the bank's activity are analyzed.

RATE system of analysis of banking activity. The RATE system has been used by the Bank of England since 1997 to assess the financial stability of banks. This system includes three interrelated blocks: Risk Assessment - risk assessment (risk assessment), Tools - control tools, Evaluation - evaluation of the effectiveness of the use of control tools.

In the RATE analysis system used in the banking business, analyzes are carried out in 9 areas. During the analysis, it is important to study the importance of the following factors: capital, assets, market risk, profitability, liabilities and business.

The analysis of these factors is carried out on the basis of the financial statements of banks.

There are many other methods of effective analysis of banks' activities, which are determined based on the requirements of the country's banking system. It can be said that in today's era of developed international economic relations, the economic status and assets of banks are in the main attention of not only domestic market entities, but also foreign economic entities. This, in turn, requires effective organization of banking activities, reduction of risks affecting its activities, increase of bank's capital and profit, production and implementation of a reliable and effective system of bank activity control.

Summary and suggestions for the first chapter.

The importance of capital in the development of the country's economy is higher than other economic resources. Effective use of available economic resources, achieving economic well-being through proper distribution of capital has been important in all eras. The role of banks in the proper distribution of capital and the provision of funds to developing sectors and sectors of the economy is incomparable.

It is known that an increase in cash in circulation leads to inflation and a decrease in the purchasing power of the population. Therefore, analysis of banking system activity is of urgent importance.

Based on the relevance of the topic, in the first chapter of this scientific work, the capital of commercial banks and the theoretical basis of their evaluation, the composition and functions of the capital of commercial banks and the methods of its economic evaluation, the legal basis of the evaluation of the capital of commercial banks and foreign experience were studied and analyzed.

As a result of scientific research in the first chapter, the following scientific results and news were obtained:

1) The concept of a bank was given an author's definition based on its functions today, according to which a bank is a for-profit organization established through an appropriate license, having the right to carry out financial transactions related to banking activities not prohibited by law, using its own resources, including legal and is a commercial organization that has the ability to attract funds of individuals and use them on its own behalf;

2) Based on the confusion in the definition of the concepts of resources and capital of commercial banks today, the resources of commercial banks were defined as follows, i.e. the resources of commercial banks are the funds at the disposal of the banks, which are the authorized capital and funds generated as a result of passive operations of the bank and other valuable assets. is a complex of papers.

3) Also, the scientific works and conclusions of local and foreign scientists about capital were studied and analyzed, as a result, the following author's definition of the concept of capital was given. Capital is a means that has the characteristic of bringing profit to its owner, and is used in the creation and production of additional value, as well as in the implementation of financial relations. These assets can be in the form of funds, equipment, land, intangible assets, and securities.

4) According to the results of the analysis, taking into account the existing shortcomings in the scientific conclusions on bank capital, the following author's definition was given: bank capital is the private capital in the liabilities of the bank balance, which is necessary for the implementation of commercial and financial activities by banks. Bank capital should be a guarantee of the risks taken by depositors, creditors and founders in order to profit from banking activities.

5) In addition to these scientific achievements, the national legal framework and foreign experience of bank risk management, monitoring of bank capital adequacy, liquidity, asset and liability operations, and foreign experience were studied and analyzed.

Based on the existing experience and the results of scientific research, the second chapter of this scientific work aims to analyze the banking system of the Republic of Uzbekistan, the economic situation and opportunities of commercial banks, the influence of bank capital on regional economic development, and the methods of monitoring bank activity.

CHAPTER II. EVALUATION OF CAPITAL EFFICIENCY OF COMMERCIAL BANKS

2.1. Analysis of the banking system of the Republic of Uzbekistan and the importance of commercial banks in the country's economy

In the development of the economic system of the Republic of Uzbekistan, it is necessary to establish the activity of the national banking system effectively and conduct continuous analysis. The purpose of regulating and controlling banking activities is to develop the national economic system, maintain the stability of the banking system, and protect the interests of bank shareholders, as well as bank depositors and creditors.

Table 2.1
The role of the banking system in the economy (billion soums)

№	Indicator name	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.01.2023
	1	3	4	5	6	7
1	GDP	406 648,50	510 117,20	580 203,20	738 425,2	888 341,7
2	Bank assets	214 419,60	272 726,90	366 121,10	444 922,5	556 746,3
3	Ratio of assets to GDP, in percent	52,7	53,5	63,1	60,3	62,7
4	Loan deposits	167 390,60	211 580,50	276 974,80	326 385,6	390 048,9
5	Ratio of credit deposits to GDP, in percent	41,2	41,5	47,7	44,2	43,9
6	Deposits	70 001,40	91 009,00	114 746,90	156 189,8	216 737,5
7	Ratio of deposits to GDP, in percent	17,2	17,8	19,8	21,2	24,4
8	Capital	26 678,90	51 030,70	58 351,30	70 917,6	79 565,4
9	Ratio of capital to GDP, in percent	6,6	10	10,1	9,6	9,0

From the statistical data presented in Table 2.1, we can see that in recent years, the assets and capital of banks have been growing along with the gross

domestic product of our country. In particular, the volume of GDP increased by 481,693.2 billion soums or 2 times compared to 2019 at the beginning of 2023, while bank assets increased by 342,326.7 billion soums or 2.6 times at the beginning of 2023 compared to the beginning of 2019. The fact that bank assets make up 55-63% of the country's gross domestic product also confirms the high importance of banks in providing the economy with funds, in the movement of money, which is a universal commodity, and in bringing economic benefits. In addition, we can see in this table that the capital of the bank increased by almost 3 times, or by 52,886.5 billion soums at the beginning of 2023 compared to the beginning of 2019, and by 298% as a percentage. By further analyzing such a high growth of bank assets and capital and analyzing its structural changes, the dynamics of interregional distribution, it is possible to develop proposals for measures to identify and eliminate existing shortcomings.

Table 2.2

Credit organizations operating in the Republic of Uzbekistan and their structural structure

№	Credit organizations	01.01.2017	01.01.2020	01.01.2022	01.01.2023
1	1. Total number of credit organizations registered by MB	103	147	177	199
2	including:				
3	1.1. Commercial banks, of which:	27	30	33	32
4	State-owned banks	10	13	12	12
5	Private commercial banks	17	17	21	20
6	1.2. Non-bank credit organizations, of which:	76	117	144	167
7	Microcredit organizations	29	56	70	85
8	Pawn shops	47	61	73	81
9	Mortgage refinancing organizations	0	0	1	1
10	2. Branches of commercial banks, total	855	850	860	832
11	3. Banking services office (including ATMs)	999	1050	1244	1543

Table 2.2 shows the statistics of credit organizations registered in the Republic of Uzbekistan. Today, the economic reforms carried out in our country have a positive effect on the banking system.

Facilitation created for the organization of the activities of credit organizations, including the entry of credit organizations resident in foreign countries into the market of Uzbekistan, will have an impact on the country's economy. As a result of the open economic policy carried out in the last 5 years, the number of commercial banks registered by the Central Bank of the Republic of Uzbekistan increased from 27 in 2017 to 32 by the beginning of 2023. This in turn means new investment in the economy, new jobs and competition.

According to the information of the Central Bank, we see that the number of commercial banks operating in our republic has increased from 27 to 32, or by 18.5% compared to 5 years ago. Of these, the number of banks with a state share in their capital is 12, and the number of private banks without a state share in their capital is 20. In addition, 96 credit organizations were established from 2017 to the beginning of 2023, and a total of 199 credit organizations were registered by the Central Bank as of January 1, 2023. To conclude, the activity of credit organizations in our country is changing in a positive direction as a result of the ongoing economic reforms.

Also, the fact that their assets and capital are increasing provides an opportunity to allocate additional financial resources to the real economic sector.

It should be noted that the growth of microcredit organizations among credit organizations creates an additional competitive environment for commercial banks. For example, at the beginning of 2017, there were 76 non-bank credit organizations, and by the beginning of 2023, their number has increased to 167.

According to the classical theory of the economy, the "invisible hand" i.e. demand and supply controls the market. Compliance with this rule is also important in the banking system. In this case, it is enough if the Central Bank controls the compliance of the activities of private commercial banks with legal norms.

Table 2.3

Amount of assets of commercial banks (billion soums)

№	Years	Total assets	From this:			
			State-owned banks		State share in capital non-banks	
			amount	share, in %	amount	share, in %
1	01.01.2017	84 075,0	64 981,7	77,3	19 093,3	22,7
2	01.01.2018	166 631,8	136 505,0	81,9	30 126,8	18,1
3	01.01.2019	214 419,6	180 155,0	84,0	34 264,6	16,0
4	01.01.2020	272 726,9	230 126,4	84,4	42 600,5	15,6
5	01.01.2021	366 121,1	310 729,5	84,9	55 391,6	15,1
6	01.01.2022	444 922,5	362 421,9	81,5	82 500,6	18,5
7	01.01.2023	556 746,3	435 135,6	78,2	121 610,7	21,8

As shown in Table 2.3, the assets of commercial banks in the national currency, the soum, have grown dramatically in recent years. At the beginning of 2023, the volume of assets of commercial banks will be almost 6.6 times higher than in 2017, or 472,671.3 billion. increased to soum. According to the state of bank assets at the beginning of 2023, the total assets of banks with a state share make up 78.2 percent of total bank assets or about 435,135.6 billion soums.

The assets of private banks amounted to 121,610.7 billion soums or 21.8 percent. Since 2017, the increase in assets of commercial banks has recorded an average increase of 21% compared to the previous year. We can conclude that the state's share of the assets of commercial banks continues to be high, there is a need to increase the assets of private banks to adapt them to the principles of the free economic market or to make the industry more competitive by reducing the state's intervention in the banks' activities

Table 2.4

Volume of loans from commercial banks (billion soums)

№	years	Total amount of loans	From this :			
			State-owned banks		State share in capital non-banks	
			amount	Share in%	сумма	Share in%
1	01.01.2017	52 610,5	44 281,6	84,2	8 328,9	15,8
2	01.01.2018	110 572,1	97 778,4	88,4	12 793,7	11,6
3	01.01.2019	167 390,6	148 796,0	88,9	18 594,6	11,1
4	01.01.2020	211 580,5	186 630,3	88,2	24 950,2	11,8
5	01.01.2021	276 974,8	244 483,9	88,3	32 490,9	11,7
6	01.01.2022	326 385,6	280 073,6	85,8	46 311,9	14,2
7	01.01.2023	390 048,9	324 680,8	83,2	65 368,2	16,8

Table 2.4 presents statistical data on the volume of loans of commercial banks, and the volume of loans has also achieved a sharp increase. At the beginning of 2023, the volume of loans of commercial banks increased by almost 7.4 times compared to the volume at the beginning of 2017, or 337,438.3 billion. increased to soums. Since 2017, the volume of loans provided by commercial banks has recorded an average increase of 20% compared to the previous year.

An increase in the allocation of loans by commercial banks should serve to meet the capital requirements necessary for economic development. Target allocation of loan funds, constant monitoring of whether they bring economic benefit or work as a bad loan to the detriment of the bank is required. For this purpose, it is proposed to develop and put into practice a methodology that shows the return of loans allocated in commercial banks, for what purpose they are used, and methods of analyzing the work of employees working in credit departments.

Detailed information on this proposal will be given in detail in the third chapter of the research paper.

share, in %

№	years	The total amount of deposits	шундан:			
			State-owned banks		State share in capital non-banks	
			amount	share, in %	amount	share, in %
1	01.01.2017	37 183,2	24 812,0	66,7	12 371,2	33,3
2	01.01.2018	59 578,7	39 270,1	65,9	20 308,6	34,1
3	01.01.2019	70 001,4	47 659,4	68,1	22 342,0	31,9
4	01.01.2020	91 009,0	65 739,5	72,2	25 269,5	27,8
5	01.01.2021	114 746,9	82 460,8	71,9	32 286,0	28,1
6	01.01.2022	156 189,8	104 248,0	66,7	51 941,8	33,3
7	01.01.2023	216 737,5	135 534,4	62,5	81 203,1	37,5

The dynamics of deposits of commercial banks is presented in Table 2.5, and an increase in this indicator means that confidence in the banking system is increasing. An increase in the volume of deposits made by legal entities and individuals leads to an increase in the working capital of the bank.

If commercial banks make good use of these additional resources, they will be able to increase their profits and capital. At the beginning of 2023, the volume

of deposits of commercial banks increased by almost 5.8 times compared to the volume at the beginning of 2017, or 179,554.3 billion. increased to soums. As of the beginning of 2023, 62.5% of the volume of loans allocated belongs to commercial banks with a state share in their capital, and 37.5% to private commercial banks.

It should be noted that the increase in assets, capital and attracted deposits of commercial banks is increasing the volume of allocated loans. This will serve to expand the possibility of providing real sectors of the economy with loans on time.

Table 2.6

Amount of capital of commercial banks (billion soums)

№	Years	Amount of total bank capital	шундан:			
			State-owned banks		State share in capital non-banks	
			amount	share,in %	amount	share,in %
1	01.01.2017	8 981,3	6 572,9	73,2	2 408,4	26,8
2	01.01.2018	20 676,1	16 671,6	80,6	4 004,6	19,4
3	01.01.2019	26 678,9	21 743,1	81,5	4 935,8	18,5
4	01.01.2020	51 030,7	44 266,8	86,7	6 763,9	13,3
5	01.01.2021	58 351,3	48 995,3	84,0	9 356,0	16,0
6	01.01.2022	70 917,6	57 695,2	81,4	13 222,4	18,6
7	01.01.2023	79 565,4	61 919,2	77,8	17 646,3	22,2

The amount of capital of commercial banks is important in the development of the country's economic system. Just as initial capital is the driving force behind the economic machine, the capital of commercial banks is essential for the establishment and expansion of banks. Analyzing the statistical data presented in Table 2.6, the capital of commercial banks at the beginning of 2023 compared to the beginning of 2017 was 70,584.1 billion. we can see that it has increased to soums or 8.9 times. It will be possible to increase the volume of private funds by diverting undistributed profits to reserve capital in order to fulfill the minimum requirements for capital adequacy of commercial banks and to increase the volume of capital. It is proposed to direct not less than 15% of undistributed profit of commercial banks to the reserve capital. As a result of the increase in the market

value of reserve capital and securities, there is an opportunity to increase the bank's capital by up to 25%. At the beginning of 2023, the total capital of commercial banks is 79,565.4 billion. amounted to soums, of which 77.8% is the share of state-owned commercial banks, and 22.2% is the share of private commercial banks.

As a result of the analysis, it is shown that in recent years, the assets of the commercial capital, the volume of loans, the volume of deposits and the bank's capital have been growing in terms of national currency. It should be noted that such economic growth was directly influenced by economic policy results such as the liberalization of the foreign exchange market and the devaluation of the Uzbek soum in September 2017. In order to analyze the real volume of economic growth in the banking system, it is necessary to deeply analyze the changes in the capital structure of commercial banks, the structure and condition of loans, the structure of profits and expenses of commercial banks.

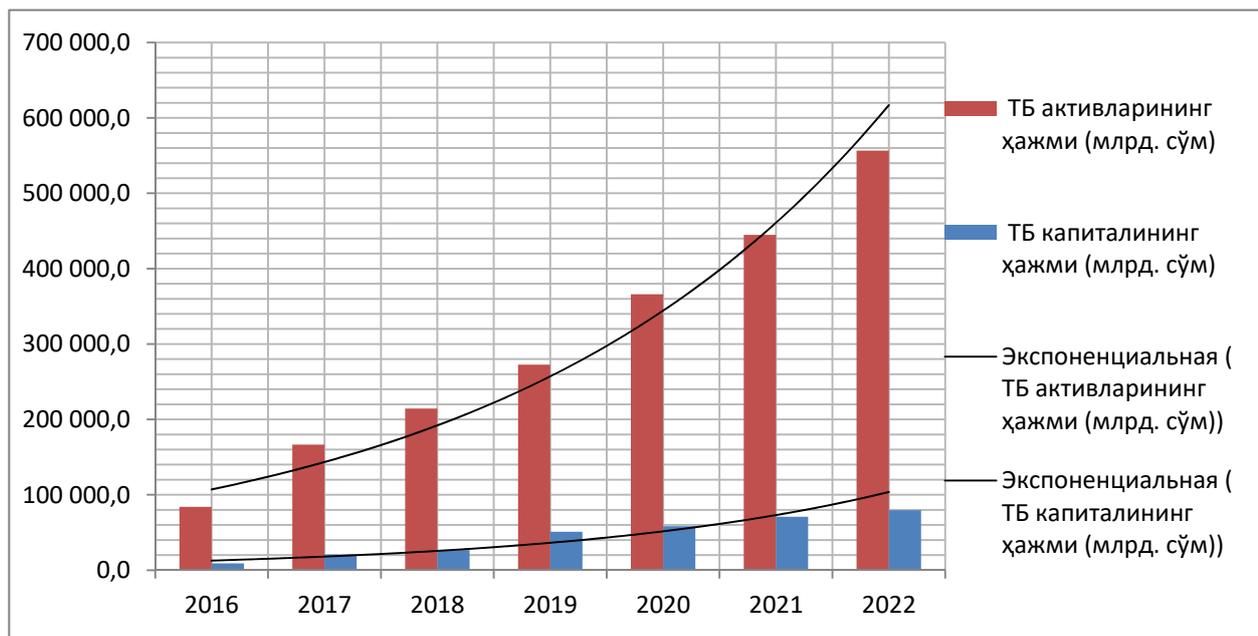


Figure 2.1. Growth dynamics of total assets and capital of commercial banks of the Republic of Uzbekistan

Figure 2.1 graphically depicts the information received by the Central Bank from commercial banks. We can see that the volume of total assets of commercial banks is higher than the volume of capital of commercial banks.

We can analyze it in the table below:

Years	2017	2018	2019	2020	2021	2022
Volume of CB assets (billion soums)	166 631,8	214 419,6	272 726,9	366 121,1	444 922,5	556 746,3
CB capital volume (billion soums)	20 676,1	26 678,9	51 030,7	58 351,3	70 917,6	79 565,4

In 2017, the volume of total assets of commercial banks was 8 times more than the capital of commercial banks, and by the end of 2022 it was 7 times more. That is, by the end of 2022, the ratio of the capital of commercial banks to the volume of assets of commercial banks decreased due to the increase in the capital of banks. This, in turn, shows that it is being achieved by commercial banks by fulfilling the capital adequacy requirements of the International Basel Committee.

Table 2.7

National ranking of commercial banks based on some indicators

№	Commercial bank name	Financial intermediation	Financial publicity	Capital adequacy	Asset quality	Management efficiency	Earning potential	Liquidity	Overall rating
1	Capital Bank	3	4	30	9	17	5	14	1
2	Universal Bank	4	10	26	1	19	6	17	2
3	Agricultural Bank	9	19	7	17	6	3	6	3
4	OFB Bank	13	14	17	4	5	13	5	4
5	Contact bank	11	7	13	18	20	8	22	5
6	Partner bank	18	5	29	28	14	1	7	6
7	Invest Finance Bank	8	18	28	3	16	19	20	7
8	Ravnak bank	5	6	11	16	28	28	19	8
9	Trust bank	15	16	21	21	21	7	3	9
10	Asia Alliance Bank	10	13	31	22	22	9	8	10

Table 2.7 presents the rating data of commercial banks operating in our country today on some indicators, and shows the list of banks included in the first 10. The information in this rating of commercial banks is compiled based on the analyzes of the National Research Center. Today, commercial banks without a state share in their capital, which are gaining the trust of the people, occupy the top places in the

rating. The commercial banks that recorded the last places are banks with small capital and assets, which were established for specific purposes.

Table 2.8

Composition of assets of commercial banks

Кўрсаткичлар номи	01.01.2017		01.01.2018		01.01.2019		01.01.2020		01.01.2021	
	млрд. сўм	улуши, %								
Кассадаги нақл пул ва бошқа тўлов ҳужжатлари	1 335,9	1,6	4 840,9	2,9	5 269,3	2,5	6 553,2	2,4	9 734,6	2,7
Марказий банкдаги маблағлар	11 957,8	14,2	14 909,1	8,9	11 428,8	5,3	14 769,0	5,4	18 851,4	5,1
Бошқа банклардаги маблағлар - резидентлар	4 280,5	5,1	6 713,5	4,0	6 374,3	3,0	10 089,4	3,7	13 146,0	3,6
Бошқа банклардаги маблағлар - норезидентлар	6 587,5	7,8	18 346,5	11,0	13 545,4	6,3	15 419,9	5,7	21 700,5	5,9
Инвестициялар ва бошқа қимматли қоғозлар	1 491,8	1,8	1 648,6	1,0	2 277,0	1,1	3 157,2	1,2	9 447,7	2,6
Мижозларнинг молиявий инструментлар бўйича мажбуриятлари	1 129,1	1,3	2 465,9	1,5	1 878,5	0,9	410,6	0,2	1 575,9	0,4
Кредит қўйилмалари, соф	52 045,1	61,9	108 467,2	65,1	164 670,1	76,8	207 646,3	76,1	270 212,8	73,8
Асосий воситалар, соф	1 794,4	2,1	2 335,0	1,4	3 488,2	1,6	5 723,1	2,1	8 314,2	2,3
Активлар бўйича ҳисобланган фоизлар	593,1	0,7	1 413,4	0,8	2 841,7	1,3	3 306,3	1,2	7 881,6	2,2
Банкнинг бошқа хусусий мулклари	386,0	0,5	298,3	0,2	230,2	0,1	352,8	0,1	1 131,2	0,3
Бошқа активлар	2 473,8	3,0	5 193,4	3,2	2 416,1	1,1	5 299,1	1,9	4 125,1	1,1
Жами активлар	84 075,0	100,0	166 631,8	100,0	214 419,6	100,0	272 726,9	100,0	366 121,0	100,0

Table 2.8 shows information on the assets of commercial banks operating in our country. We can see that the main part of assets is made up of net credit investments, including in 2017, net credit investments made up 62% of total assets and amounted to 52,045.1 billion. was equal to 270,212.8 billion soums by 2021. of total assets equal to soums

It was 73.8 percent.

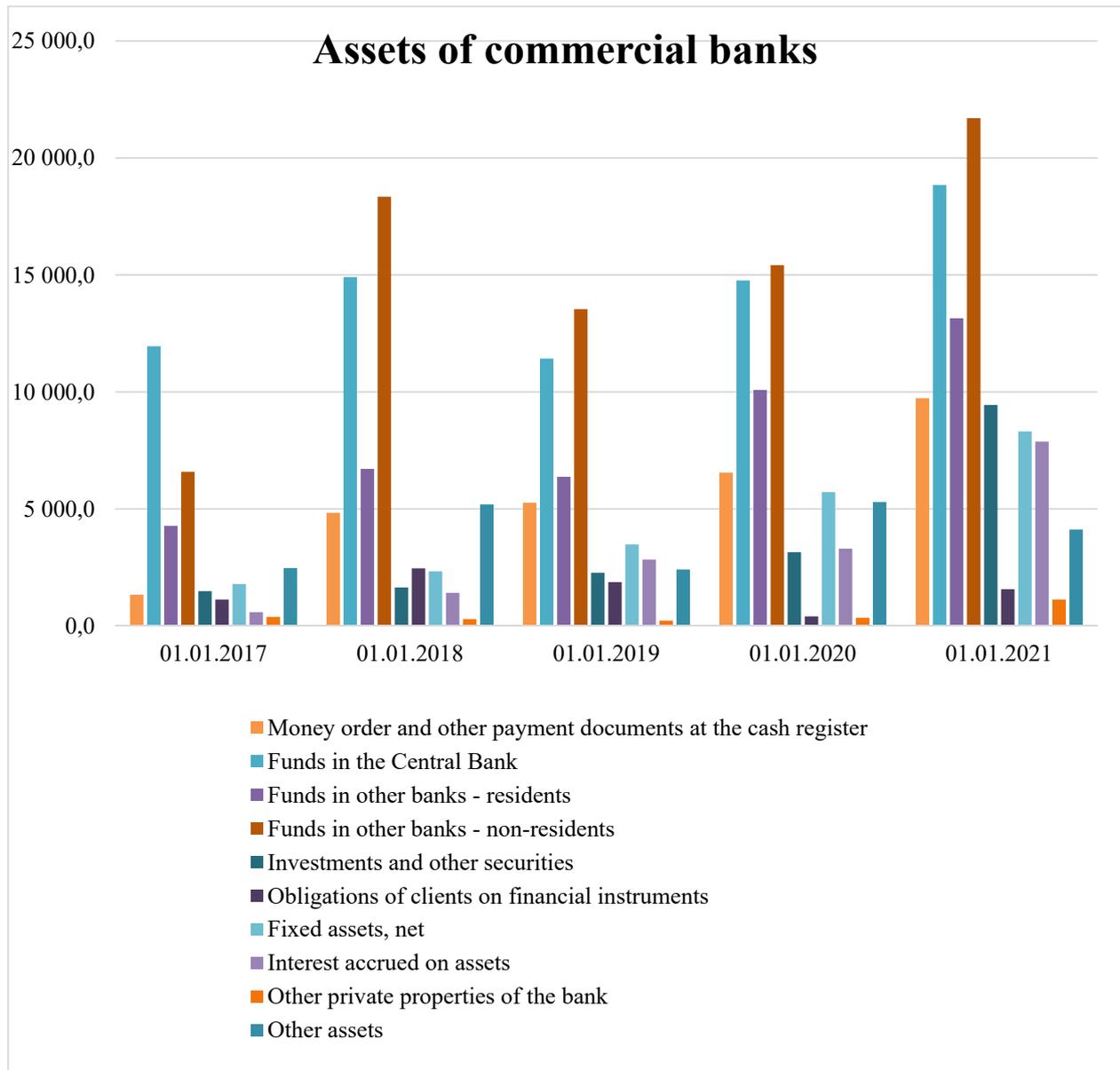


Figure 2.2. Assets of commercial banks of the Republic of Uzbekistan (billion soums).

The analysis of commercial banks' assets shows that net loan investments have the main share. At the beginning of 2017, net loan deposits made up 61.9% of the total assets of commercial banks, and at the end of 2020, this indicator made up 73.8%. It should be noted that the assets of commercial banks in the Central Bank are decreasing. At the beginning of 2017, the funds of commercial banks in the Central Bank amounted to 11,957.8 billion. soums or 14.2 percent of the total assets of commercial banks, at the end of 2020 this indicator will be 18,851.4 billion. soum or 5.1 percent of the total assets of commercial banks.

Commercial banks' net fixed assets have grown over the past 5 years. Net assets of commercial banks at the beginning of 2017 amounted to 1,794.4 billion soums or 2.1 percent of the total assets of commercial banks, at the end of 2020 this indicator will be 8314.2 billion soums or 2.3 percent of the total assets of commercial banks. That is, the net volume of fixed assets of commercial banks in the last 5 years is 6519.8 billion soums, or increased by 463 percent compared to the base year.

Analyzing the assets of commercial banks, it is necessary to recognize the reforms being carried out in our country. The volume of investments in the economy will not remain unaffected by the further activities of commercial banks. It is common in today's banking practice that commercial banks also invest in the real sector of the economy and make a profit.

If we analyze the assets of commercial banks operating in our country in terms of investments and other securities, the investments and other securities of commercial banks at the beginning of 2017 amounted to 1,491.8 billion soums, amounted to 9,447.7 billion soums at the end of 2020. That is, the volume of investments and other securities of commercial banks in the last 5 years amounted to 7,955.9 billion soums, or 633 percent compared to the base year.

The total assets of commercial banks at the beginning of 2017 amounted to 84,075.0 billion soums, amounted to 366,121.0 billion soums at the end of 2020. The total assets of commercial banks in the last 5 years amounted to 282,046.0 billion soums, increased by 435 percent compared to the base year.

Of course, the increase in the volume of assets of commercial banks is a positive thing. However, the factors that caused the increase in assets should also be taken into account. For example, in the last 5 years, how much has the value of the national currency changed in relation to international currencies, how much has the amount of the state's external debt increased, and how does this affect the loans of commercial banks. In the following sections, it is appropriate for us to analyze these questions in detail when analyzing the activities of commercial banks.

Table 2.9

Composition of liabilities of commercial banks (billion soums)

Кўрсаткичлар номи	01.01.2017		01.01.2018		01.01.2019		01.01.2020		01.01.2021	
	млрд. сўм	улуши, %								
Депозитлар	37 183,2	49,4	59 578,7	40,8	70 001,4	37,3	91 009,0	41,1	114 746,9	37,3
Марказий банкнинг ҳисобварақлари	263,4	0,4	537,0	0,4	497,6	0,3	1 686,6	0,8	1 089,2	0,4
Бошқа банкларнинг маблағлари - резидентлар	3 979,4	5,3	5 641,3	3,9	6 390,7	3,4	9 869,4	4,5	13 001,4	4,2
Бошқа банкларнинг маблағлари - норезидентлар	15,2	0,0	121,2	0,1	511,6	0,3	922,3	0,4	3 175,4	1,0
Олинган кредитлар ва лизинг	26 785,6	35,7	72 819,3	49,9	104 378,8	55,5	105 252,2	47,3	151 704,0	49,3
Чиқарилагн қимматли қоғозлар	216,3	0,3	190,3	0,1	10,0	0,0	2 872,7	1,3	9 523,0	3,1
Субординар қарзлар	0,0	0,0	0,0	0,0	277,9	0,1	3 978,3	1,8	3 999,5	1,3
Тўланиши лозим бўлган ҳисобланган фоизлар	374,7	0,5	1 049,2	0,7	2 181,4	1,2	2 331,2	1,1	3 714,8	1,2
Бошқа мажбуриятлар	6 275,9	8,4	6 018,6	4,1	3 491,0	1,9	3 774,5	1,7	6 815,6	2,2
Жами мажбуриятлар	75 093,7	100,0	145 955,6	100,0	187 740,4	100,0	221 696,2	100,0	307 769,8	100,0

The balance sheet liabilities of commercial banks consist of capital and liabilities.

Table 2.9 provides information on the obligations of commercial banks operating in our country.

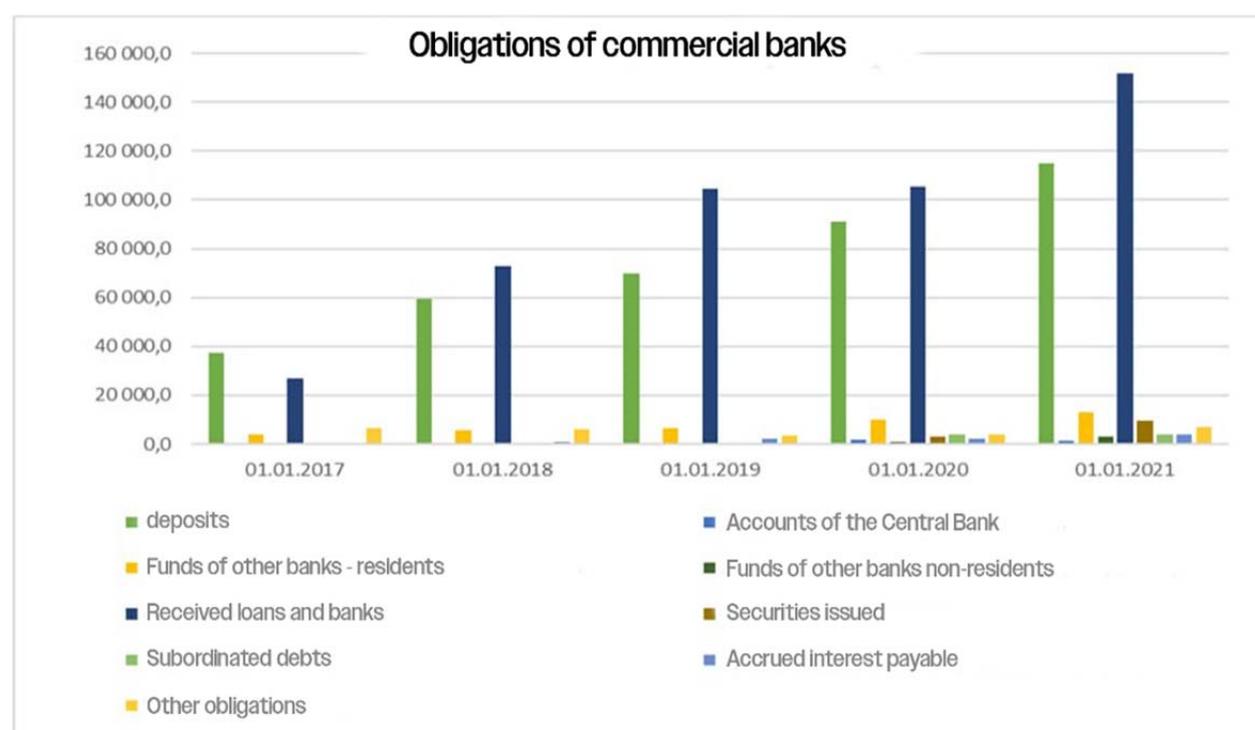


Figure 2.3. Obligations of commercial banks of the Republic of Uzbekistan (billion soums)

From the data in the above table, we can see that the liabilities of commercial banks in the last 5 years amounted to 232,676.1 billion. increased by 410 percent compared to the sum or the base year. If we analyze the composition of liabilities of commercial banks, 49.3 percent of the main part of liabilities or 151,704.0 billion soums are loans and leases, 37.3 percent or 114,746.9 billion soums. deposits amounting to soums.

The volume of loans and leases received by commercial banks at the beginning of 2017 was 26,785.6 billion. amounted to 151,704.0 billion soums at the end of 2020. amounted to soum. The volume of loans and leases received by commercial banks in the last 5 years is 124,918.4 billion. per soum, or increased by 566 percent compared to the base year.

The volume of deposits in commercial banks at the beginning of 2017 37 183.2 bln. if it amounted to soum, this indicator at the end of 2020 114,746.9 bln. amounted to soum. The volume of deposits placed in commercial banks in the last 5 years is 77,563.7 billion. increased by 308 percent compared to the soum or the base year.

Table 2.10

Capital composition of commercial banks (billion soums)

Indicators	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022	01.01.2023
Authorized capital	16 306,7	19 673,2	41 877,0	44 655,8	54 760,0	59 856,7
Additional capital	68,4	89,4	142,7	434,6	675,5	997,5
Reserve capital	1 792,8	2 937,6	3 844,5	5 205,9	8 452,2	7 320,6
Retained earnings	2 508,3	3 978,8	5 166,4	8 055,0	7 029,9	11 390,6
Total capital	20 676,2	26 679,0	51 030,6	58 351,3	70 917,6	79 565,4

Information on capital dynamics of commercial banks

It is presented in table 2.10. The total capital of commercial banks at the beginning of 2017 was 8981.4 billion. amounted to 79,565.4 billion soums at the beginning of 2023. amounted to soum. The total capital of commercial banks in the last 7 years is 70584.0 billion. per soum or increased by 8.9 times at the beginning of 2023 compared to the beginning of 2017. Based on the above analysis, it can be

said that in order to fulfill the Basel III requirements of the International Basel Committee, banks are proposed to create an additional reserve in the amount of 3.0% of the assets taking into account the risks of the capital conservation buffer in order to guarantee the provision of the capital reserve.

The authorized capital of commercial banks at the beginning of 2018 was 16306.7 billion. amounted to 59,856.7 billion soums at the beginning of 2023. amounted to soum. The authorized capital of commercial banks in the last 7 years is 54,051.6 billion. per soum or increased 10 times compared to the beginning of 2017.

Also, the undistributed profit of commercial banks at the beginning of 2018 was 2508.3 billion. amounted to 11,390.6 billion soums at the beginning of 2023. amounted to soum. It is possible to increase the level of capitalization and financial stability of commercial banks by allocating not less than 15% of their undistributed profits to reserve capital.

As we conclude on chapter 2.1, economic reforms and international economic cooperation carried out in our country have an impact on the country's banking system. Growth is noted on all indicators, in the real economic situation it is important to analyze how positively or negatively these changes affect the economic system, as well as how much they affect commercial banks themselves.

2.2. Analysis of the impact of the main macroeconomic indicators on the credit and deposit policy of commercial banks

The activity of commercial banks is directly related to all economic processes. Our analyzes in chapter 2.1 analyzed that the main indicators of the total balance of commercial banks consist of lending and receiving, deposit operations and bank capital in terms of asset and liability operations.

As a result of these analyses, we found out that the capital, profit, asset and passive operations of commercial banks operating in our country have been growing sharply in recent years compared to previous years. It would be appropriate for us to determine how much real benefit this economic growth brings and whether the real value of the new economic value created has increased or

decreased compared to the previous one. For this, we will select some of the main macroeconomic indicators and analyze their dynamics. We analyze the correlation of these macroeconomic indicators with the weighted interest rates of loans and deposits.

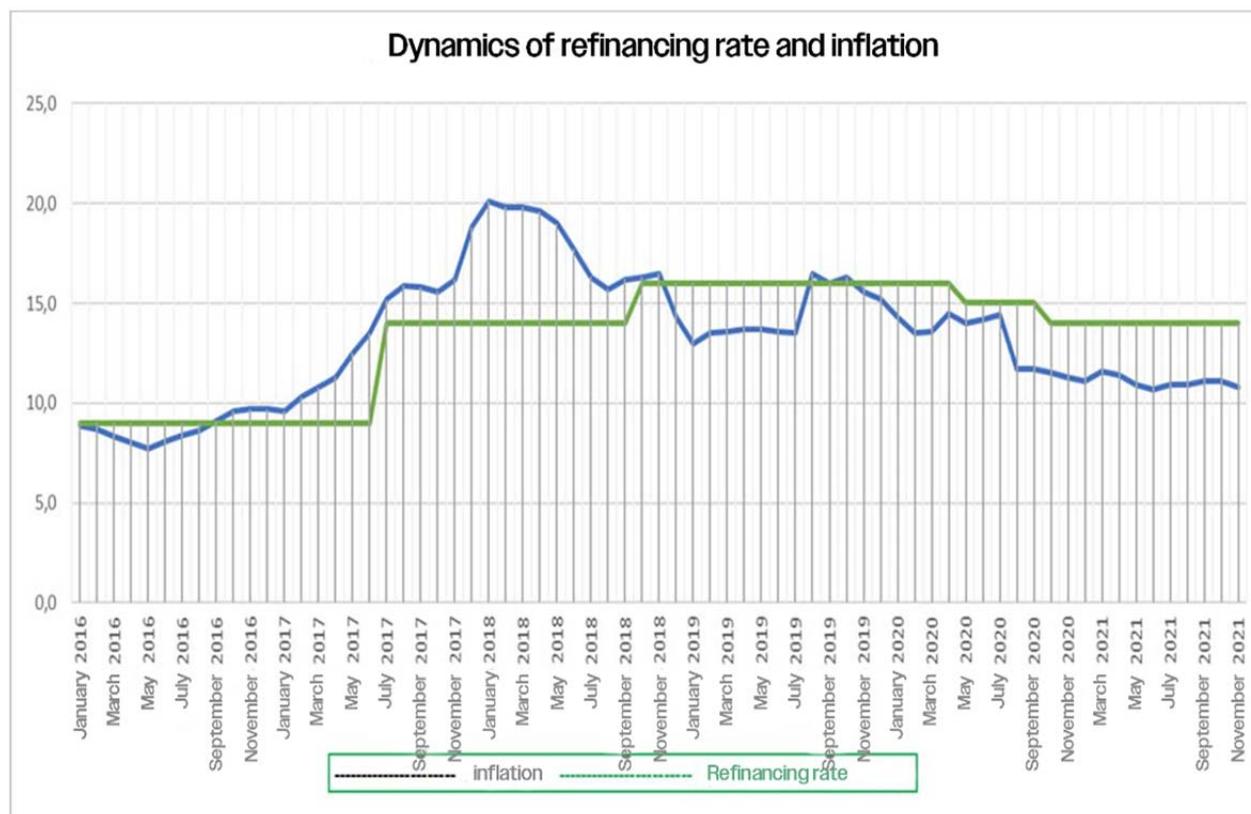


Figure 2.4. Dynamics of refinancing rate and inflation

Figure 2.4 shows the inflation recorded in our republic from January 2016 to September 2021 and the dynamics of the refinancing rate set by the Central Bank. We can see that in the first months of 2016, the rate of inflation was less than the refinancing rate, and by the middle of the year it started to grow. In 2017, a number of drastic changes were made in the monetary policy of our country. In particular, the foreign exchange market was liberalized, large-value banknotes were issued, and protectionist barriers began to be removed. And this did not leave its influence on the market. In 2017-2018, the inflation rate continued to increase, and according to official statistics, it was in the range of 10% to 20%. This, in turn, led to an increase in the rate of refinancing by the Central Bank. The refinancing rate was 9% from January 2016 to June 2017, 14% from August 2017 to September 2018, 16% from October 2018 to April 2020, 15% from May 2020 to September 2020,

and from October 2020 It was set at 14%. It can be seen that as a result of the ongoing economic reforms, the volume of entrepreneurship and production in the country began to increase. This leads to a decrease in inflation and refinancing rates.

Figure 2.5 shows the dynamics of the exchange rate of our national currency, the som, against 1 US dollar, set by the Central Bank. As we mentioned above, one of the reforms in the currency policy was the abandonment of the binary standard in setting foreign exchange rates.

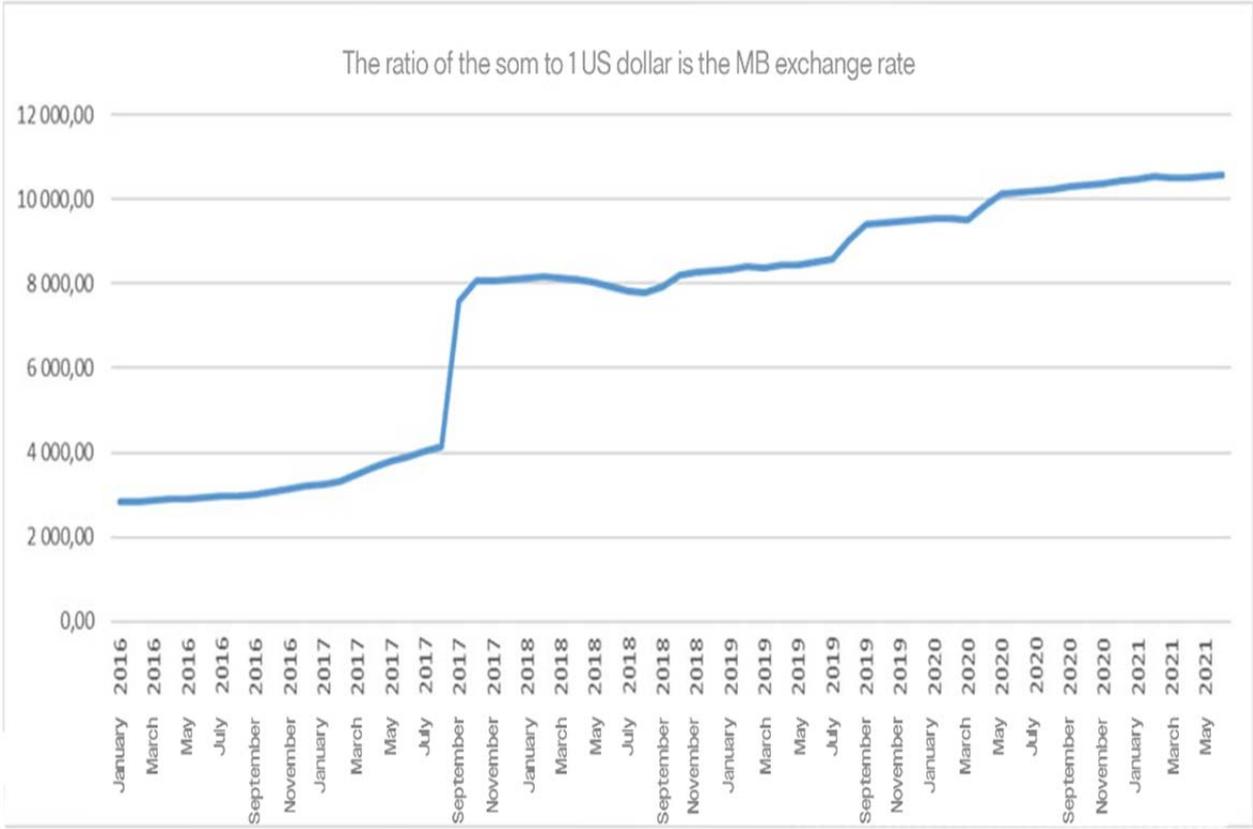


Figure 2.5. Dynamics of MB exchange rate of som against 1 US dollar

Table 2.11

The exchange rate of the soum against 1 US dollar is set by the MB⁴

Давр	Сўмнинг 1 АҚШ долларига нисбатан МБ курси	Давр	Сўмнинг 1 АҚШ долларига нисбатан МБ курси	Давр	Сўмнинг 1 АҚШ долларига нисбатан МБ курси
Январь 2016	2 823,97	Октябрь 2017	8 061,32	Июль 2019	8 594,53
Февраль 2016	2 844,19	Ноябрь 2017	8 077,02	Август 2019	9 029,80
Март 2016	2 866,71	Декабрь 2017	8 101,31	Сентябрь 2019	9 401,30
Апрель 2016	2 891,06	Январь 2018	8 145,92	Октябрь 2019	9 447,63
Май 2016	2 914,40	Февраль 2018	8 183,15	Ноябрь 2019	9 484,66
Июнь 2016	2 936,33	Март 2018	8 143,54	Декабрь 2019	9 521,87
Июль 2016	2 956,33	Апрель 2018	8 087,30	Январь 2020	9 533,50
Август 2016	2 979,41	Май 2018	8 032,43	Февраль 2020	9 537,49
Сентябрь 2016	3 002,58	Июнь 2018	7 914,98	Март 2020	9 518,28
Октябрь 2016	3 056,16	Июль 2018	7 812,69	Апрель 2020	9 860,11
Ноябрь 2016	3 139,06	Август 2018	7 796,76	Май 2020	10 133,19
Декабрь 2016	3 210,67	Сентябрь 2018	7 937,82	Июнь 2020	10 156,53
Январь 2017	3 249,54	Октябрь 2018	8 194,09	Июль 2020	10 193,60
Февраль 2017	3 314,73	Ноябрь 2018	8 265,75	Август 2020	10 234,87
Март 2017	3 490,74	Декабрь 2018	8 320,84	Сентябрь 2020	10 290,48
Апрель 2017	3 656,38	Январь 2019	8 355,12	Октябрь 2020	10 352,80
Май 2017	3 777,91	Февраль 2019	8 395,41	Ноябрь 2020	10 386,02
Июнь 2017	3 899,94	Март 2019	8 386,07	Декабрь 2020	10 454,26
Июль 2017	4 021,71	Апрель 2019	8 440,32	Январь 2021	10 485,61
Август 2017	4 147,14	Май 2019	8 457,82	Февраль 2021	10 535,62
Сентябрь 2017	7 568,78	Июнь 2019	8 526,92	Март 2021	10 504,92

Table 2.11 shows the dynamics of the exchange rate of the soum against 1 US dollar, set by the MB. This information is used in the analysis of the impact of the depreciation of the soum against currencies on the real growth of the capital of commercial banks and the total balance sheet. As a result of these analyses, it helps to analyze not only the activity of commercial banks, but also the state of our national economy.

In addition to these main indicators, in this section we will analyze the credit and deposit rates of commercial banks. Commercial banks also provide bank loans in foreign currencies. Fluctuations in exchange rates play an important role in this

This table was compiled by the author based on the statistical data of the Central Bank of the Republic of Uzbekistan.

situation.

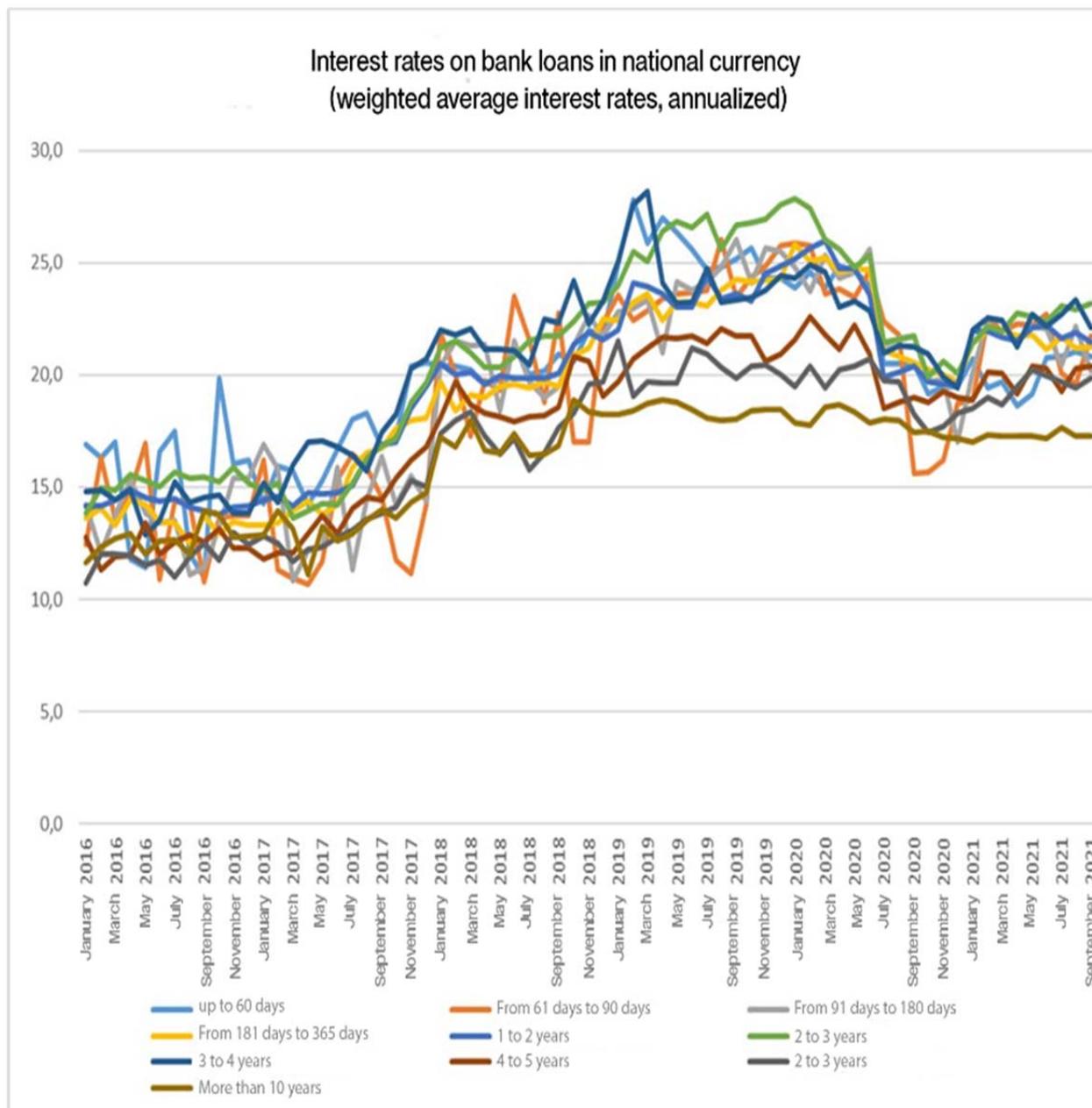


Figure 2.6. Interest rates on bank loans in national currency (weighted average interest rates, annualized)

Figure 2.6 shows the dynamics of interest rates (weighted average interest rates, annualized) on bank loans in national currency. We can see that interest rates on bank loans in national currency depend on inflation and refinancing rates, repeating the dynamics of the growth trend. Interest rates on loans have increased steadily from 2017 to 2020, and in 2020

It began to fall in the second quarter. Higher interest rates may make commercial banks more profitable in the short term, but real economy growth is

adversely affected by high interest rates.

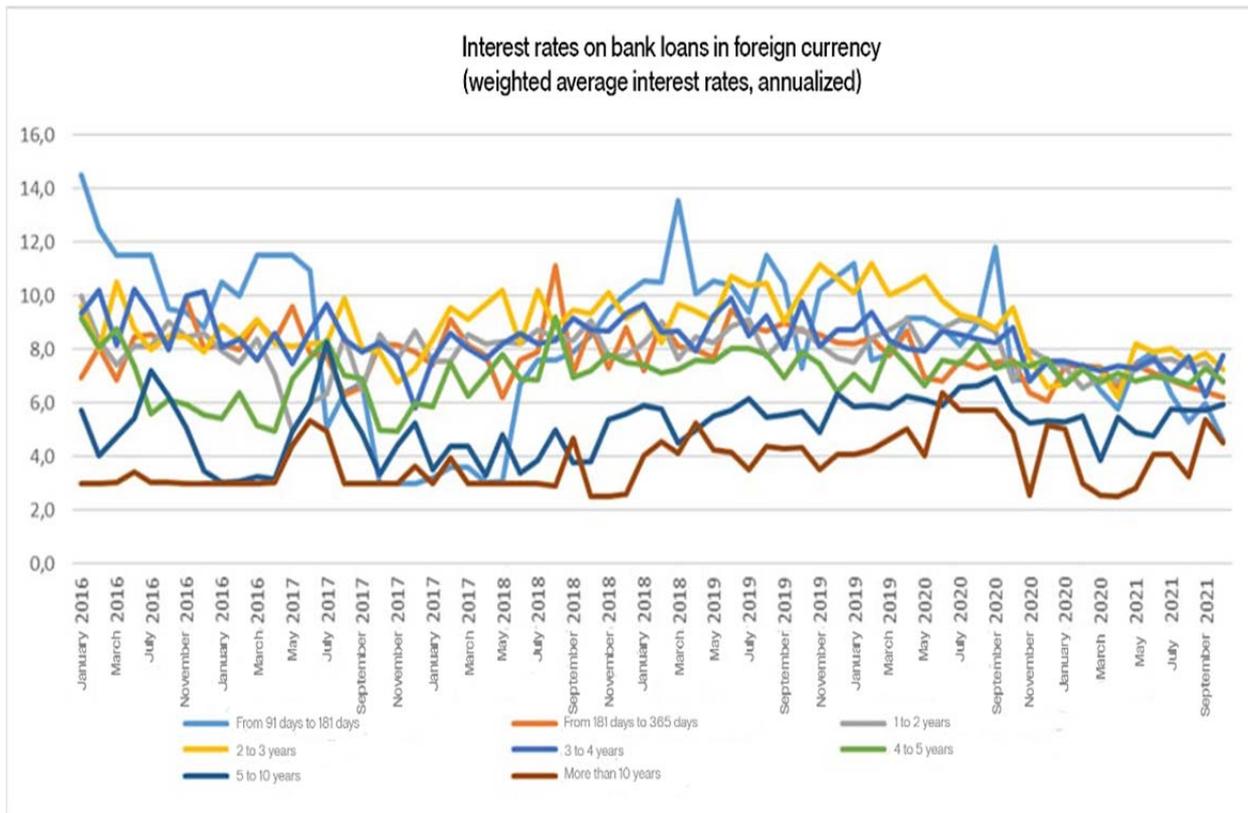


Figure 2.7. Interest rates on bank loans in foreign currency (weighted average interest rates, annualized)

Figure 2.7 shows the dynamics of interest rates (weighted average interest rates, annualized) on bank loans in foreign currency. Different interest rates are set according to credit terms, taking into account the fact that the exchange rate and purchasing power of the national currency against foreign currency are constantly changing, and its value is low. Short-term loans have a higher interest rate than long-term loans.

Issuance of loans by commercial banks and profit from them are asset operations. In return for loans, commercial banks receive income in the form of interest, which in turn leads to an increase in the profits of commercial banks. In addition, commercial banks carry out deposit operations, which are one of the passive operations. If a commercial bank pays a certain percentage of deposits to the bank, commercial banks can use the deposit funds and make a profit by converting them. Therefore, in this section we will also consider the analysis of deposit rates.

2.12-table

Average interest rates on time deposits of individuals in national currency

Давр	Жисмоний шахсларнинг миллий валютадаги муддатли депозитлари бўйича ўртача фоиз ставкалари					Давр	Жисмоний шахсларнинг миллий валютадаги муддатли депозитлари бўйича ўртача фоиз ставкалари				
	30 кунгача	31 кундан 90 кунгача	91 кундан 180 кунгача	181 кундан 365 кунгача	1 йилдан юқори		30 кунгача	31 кундан 90 кунгача	91 кундан 180 кунгача	181 кундан 365 кунгача	1 йилдан юқори
Январь 2016	17,6	17,9	17,9	18,6	19,5	Октябрь 2018	13,9	14,4	15,9	15,8	17,2
Февраль 2016	17,4	18,1	18,4	18,8	17,9	Ноябрь 2018	14,1	14,6	16,0	16,2	18,0
Март 2016	18,1	17,8	18,3	19,0	18,0	Декабрь 2018	14,2	14,5	16,0	18,3	18,5
Апрель 2016	17,8	17,9	18,1	19,0	18,3	Январь 2019	14,2	14,7	16,1	17,5	19,0
Май 2016	18,0	17,8	18,8	18,9	18,2	Февраль 2019	14,8	14,9	15,6	18,1	19,2
Июнь 2016	17,7	18,2	18,7	18,8	18,6	Март 2019	16,0	15,6	15,5	17,6	18,9
Июль 2016	15,9	18,1	18,7	19,0	19,0	Апрель 2019	15,9	15,8	15,7	18,1	19,0
Август 2016	15,8	18,2	18,6	18,6	17,9	Май 2019	16,0	15,1	15,7	18,1	19,0
Сентябрь 2016	16,2	18,3	18,5	18,6	18,1	Июнь 2019	15,8	15,9	16,4	17,9	19,1
Октябрь 2016	16,5	18,1	18,5	18,5	17,8	Июль 2019	16,1	15,8	16,1	17,4	19,0
Ноябрь 2016	14,0	17,8	18,6	18,1	17,5	Август 2019	15,1	16,8	15,8	18,2	19,5
Декабрь 2016	17,8	18,3	18,6	18,4	17,4	Сентябрь 2019	14,9	16,7	17,1	20,1	19,9
Январь 2017	18,0	18,3	18,4	18,5	16,2	Октябрь 2019	15,0	16,5	18,0	20,0	20,5
Февраль 2017	17,7	18,3	17,9	18,6	15,8	Ноябрь 2019	14,8	16,9	17,5	20,2	20,4
Март 2017	17,7	18,2	18,0	18,5	14,7	Декабрь 2019	14,9	17,1	19,9	20,5	20,4
Апрель 2017	17,6	18,2	18,2	18,5	15,7	Январь 2020	15,0	18,5	20,0	20,5	21,1
Май 2017	17,5	18,3	18,1	18,5	16,5	Февраль 2020	14,6	16,6	18,2	20,3	21,0
Июнь 2017	17,5	18,4	18,0	18,5	16,8	Март 2020	15,6	16,2	18,1	19,8	20,9
Июль 2017	17,6	18,2	17,7	18,7	17,1	Апрель 2020	15,9	16,1	18,9	20,2	20,9
Август 2017	16,8	17,5	17,8	18,8	17,2	Май 2020	16,1	16,6	19,1	20,9	21,0
Сентябрь 2017	17,7	18,1	18,2	18,8	18,5	Июнь 2020	16,2	16,2	18,5	21,0	20,8
Октябрь 2017	16,8	17,6	18,1	18,8	18,6	Июль 2020	16,3	15,7	16,0	19,0	18,8
Ноябрь 2017	16,6	17,4	17,9	18,3	18,4	Август 2020	14,9	15,0	15,8	16,6	17,1
Декабрь 2017	16,4	17,3	17,8	17,8	18,3	Сентябрь 2020	14,6	14,7	15,6	18,1	18,3
Январь 2018	16,1	16,4	17,4	18,2	18,4	Октябрь 2020	13,4	14,1	15,3	18,4	17,6
Февраль 2018	15,0	15,9	17,0	17,3	16,8	Ноябрь 2020	13,8	14,5	15,3	18,4	17,8
Март 2018	14,7	15,5	16,8	16,8	18,4	Декабрь 2020	14,8	15,2	15,3	17,9	17,7
Апрель 2018	13,9	15,3	16,0	16,3	17,4	Январь 2021	12,6	15,5	16,0	17,6	17,7
Май 2018	13,8	15,2	15,8	16,1	16,5	Февраль 2021	13,9	16,3	15,8	18,5	18,9
Июнь 2018	13,9	15,1	16,0	15,6	15,9	Март 2021	18,8	16,0	15,6	18,6	19,7
Июль 2018	14,0	14,8	16,4	15,3	15,5	Апрель 2021	13,8	16,0	16,1	19,4	20,1
Август 2018	14,2	14,9	16,3	15,2	15,4	Май 2021	14,1	16,2	16,6	19,0	20,3
Сентябрь 2018	14,1	14,8	16,0	15,2	15,7	Июнь 2021	14,5	15,9	16,6	18,9	20,2

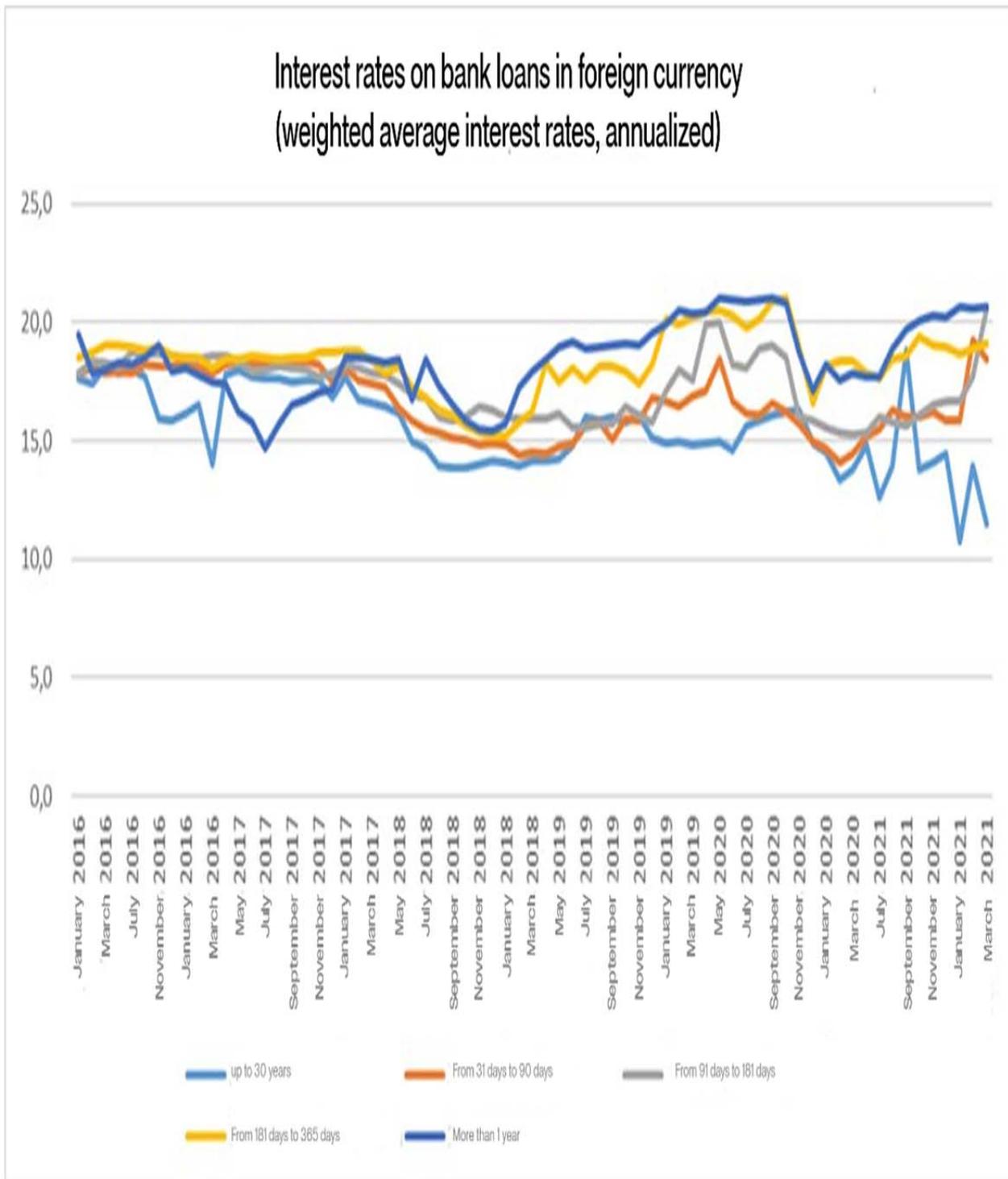


Figure 2.8. Average interest rates on time deposits of individuals in national currency

Figure 2.8 shows the dynamics of average interest rates on time deposits of individuals in national currency, that the interest rates of deposits have an almost similar trend of growth and decline. It was also noted that the deposit rates were high compared to the refinancing rate and the inflation rate. Paying a higher interest rate on deposits than the existing depreciation, and being able to return deposits at the time of demand, serves to increase the confidence of commercial

banks in front of customers.

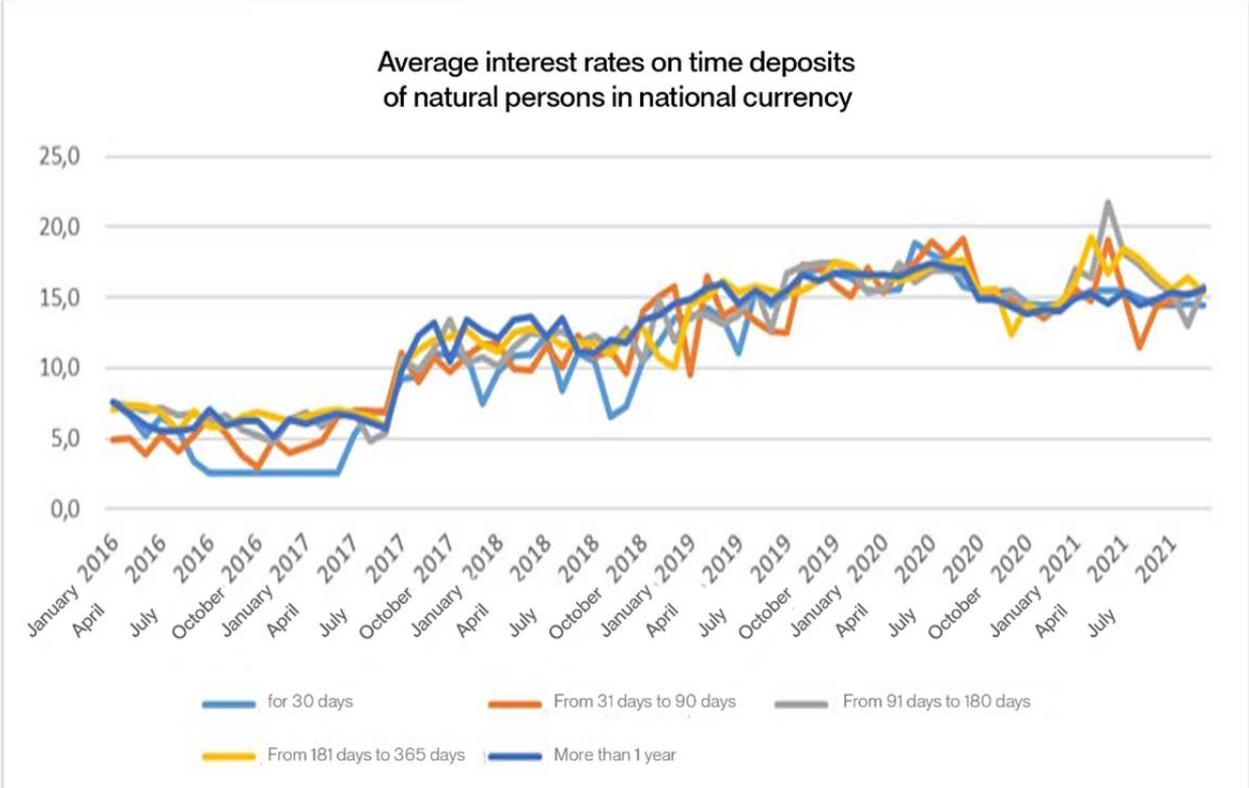


Figure 2.9. Average interest rates on time deposits of legal entities in national currency

Figure 2.9 shows the dynamics of average interest rates on term deposits of legal entities in national currency. These deposit interest rates, adjusted for inflation and the interest rate, have been below 10% from early 2016 to September 2017, but have increased since September 2017. It was noted that the dynamics of the above data affect the main macroeconomic indicators on the bank's activity, its asset and liability operations. We will analyze the extent of this relationship using correlation analysis. For this we introduce the following variables:

Period - period, InterestRate - refinancing rate, InflationRate - inflation, AverageExchangeRateUZSUSD - exchange rate of one US dollar against the soum, interest rates on bank loans in national currency (weighted average interest rates, annualized): CR60uzs - up to 60 days, CR90uzs - from 61 days to 90 days, CR180uzs - from 91 days to 180 days, CR365uzs - from 181 days to 365 days, CR2uzs - from 1 to 2 years, CR3uzs - from 2 to 3 years, CR4uzs - from 3 to 4 years, CR5uzs - from 4 from 5 to 5 years, CR10uzs - from 5 to 10 years, C10RuZs

- from 10 years, interest rates on bank loans in foreign currency (weighted average interest rates, annualized): CR180C - from 91 days to 180 days, CR365C - from 181 days to 365 days, CR2C - from 1 to 2 years, CR3C - from 2 to 3 years, CR4C - from 3 to 4 years, CR5C - from 4 to 5 years, CR10C - from 5 to 10 years, C10CR - more than 10 years, Average interest rates on time deposits of individuals in national currency: DJSH30 - up to 30 days, DJSH90 - from 31 days to 90 days, DJSH180 - from 91 days to 180 days, DJSH365 - from 181 days to 365 days, DJSH1 - over 1 year, Term deposits of legal entities in national currency average interest rates on: DYSH30 - up to 30 days, DYSH90 - from 31 days to 90 days, DYSH180 - from 91 days to 180 days, DYSH365 - from 181 days to 365 days, DYSH1 - over 1 year.

Moments			
N	69	Sum Weights	69
Mean	13.3188406	Sum Observations	919
Std Deviation	2.7088784	Variance	7.33802217
Skewness	-0.8011563	Kurtosis	-0.9623924
Uncorrected SS	12739	Corrected SS	498.985507
Coeff Variation	20.3386952	Std Error Mean	0.32611064

Basic Statistical Measures			
Location		Variability	
Mean	13.31884	Std Deviation	2.70888
Median	14.00000	Variance	7.33802
Mode	14.00000	Range	7.00000
		Interquartile Range	7.00000

Tests for Location: Mu0=0				
Test	Statistic		p Value	
Student's t	t	40.84148	Pr > t 	<.0001
Sign	M	34.5	Pr >= M 	<.0001
Signed Rank	S	1207.5	Pr >= S 	<.0001

Tests for Normality				
Test	Statistic		p Value	
Shapiro-Wilk	W	0.749354	Pr < W	<0.0001
Kolmogorov-Smirnov	D	0.338399	Pr > D	<0.0100
Cramer-von Mises	W-Sq	1.240483	Pr > W-Sq	<0.0050
Anderson-Darling	A-Sq	7.388817	Pr > A-Sq	<0.0050

Quantiles (Definition 5)

Figure 2.10. Checking the normality of indicators in the correlation test

To verify the correlation of the above indicators, it is necessary to test them for normality. Each parameter was tested for normality. In Figure 2.10, the main statistical indicators were calculated in the moments section, the normality of the indicator was checked in the tests for normality section by 4 tests, and the p Value value was less than <0.01 in 4 tests, which tells us that the indicators are correlated using Spearman, Pearson, Fisher methods. allows checking.

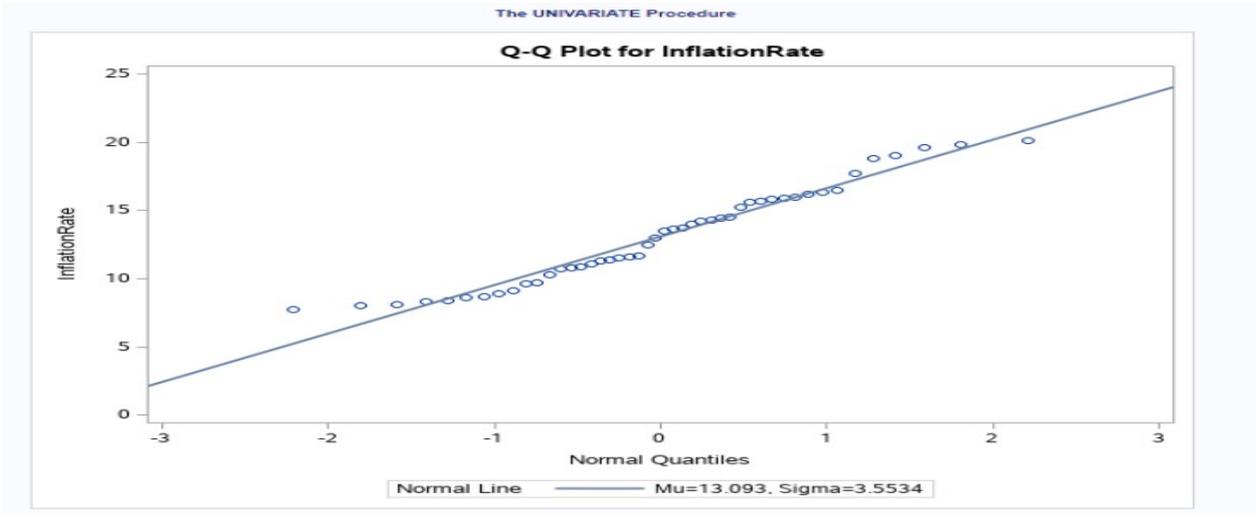


Figure 2.11. A graphical representation of the standard deviation of the inflation indicator

Figure 2.11 shows the degree of deviation of the inflation indicator from a straight line graph. We can see that the indicators did not deviate from the straight-line function, which indicates that the periodicity and accuracy of the inflation indicators can be accepted for analysis.

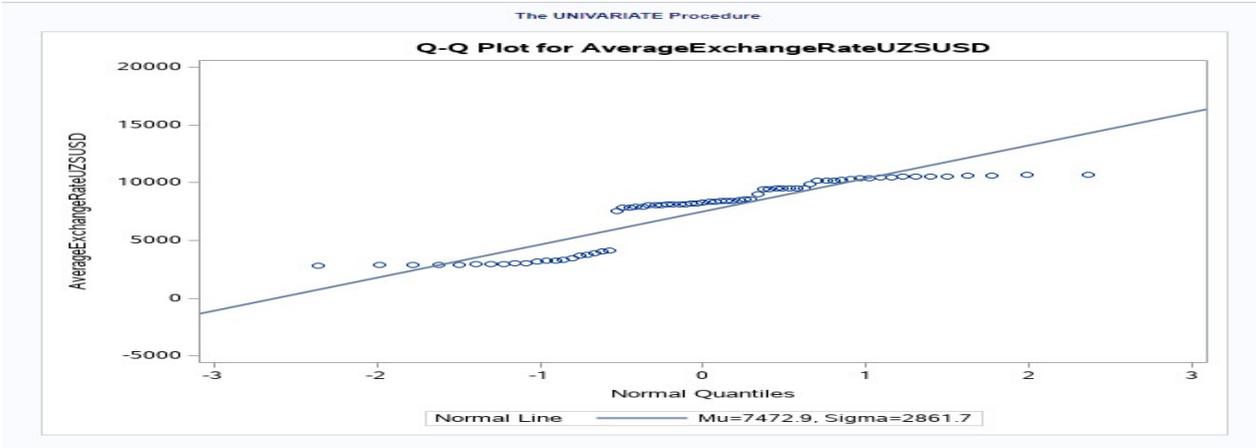


Figure 2.12. A graphical representation of the exchange rate standard deviation

Figure 2.12 shows the degree of deviation (quantile - quantile) of the exchange rate of 1 US dollar against the soum from a straight line graph.

Statistical information on the exchange rate of 1 US dollar against the soum is obtained from the fixed value of 1 US dollar against the soum of the Central Bank. We can see that as a result of the determination of the exchange rate by the Central Bank and the devaluation carried out in 2017, a break in the statistical relationship is clearly visible in the graph. In the conditions of the market economy, the exchange rate should be determined based on supply and demand, and any mandatory measures have positive and negative sides. It is desirable to reduce the harmful effects of negative aspects and increase the benefits of positive aspects.

Pearson Correlation Coefficients Prob > r under H0: Rho=0 Number of Observations													
	InterestRate	InflationRate	AverageExchangeRateUZ\$USD	CR60uzs	CR90uzs	CR180uzs	CR365uzs	CR2uzs	CR3uzs	CR4uzs	CR5uzs	CR10uzs	C10Ruzs
InterestRate	1.00000 89	0.62911 <.0001 89	0.88453 <.0001 89	0.88624 <.0001 89	0.79381 <.0001 88	0.84071 <.0001 89	0.92952 <.0001 89	0.91389 <.0001 89	0.89915 <.0001 89	0.90879 <.0001 89	0.92852 <.0001 89	0.90582 <.0001 89	0.90418 <.0001 89
InflationRate	0.62911 <.0001 89	1.00000 89	0.42384 0.0003 89	0.49389 <.0001 89	0.38648 0.0011 88	0.42691 0.0003 89	0.44989 0.0001 89	0.48123 <.0001 89	0.43805 0.0002 89	0.53459 <.0001 89	0.49860 <.0001 89	0.42788 0.0002 89	0.47843 <.0001 89
AverageExchangeRateUZ\$USD	0.88453 <.0001 89	0.42384 0.0003 89	1.00000 89	0.70111 <.0001 89	0.72342 <.0001 88	0.82184 <.0001 89	0.88822 <.0001 89	0.87286 <.0001 89	0.82227 <.0001 89	0.85184 <.0001 89	0.90373 <.0001 89	0.91227 <.0001 89	0.88152 <.0001 89
CR60uzs	0.88624 <.0001 89	0.49389 <.0001 89	0.70111 <.0001 89	1.00000 89	0.79498 <.0001 88	0.83595 <.0001 89	0.87420 <.0001 89	0.88344 <.0001 89	0.90013 <.0001 89	0.87481 <.0001 89	0.86628 <.0001 89	0.83868 <.0001 89	0.84578 <.0001 89
CR90uzs	0.79381 <.0001 88	0.38648 0.0011 88	0.72342 <.0001 88	0.79498 <.0001 88	1.00000 88	0.89498 <.0001 88	0.88579 <.0001 88	0.88487 <.0001 88	0.90185 <.0001 88	0.81761 <.0001 88	0.86531 <.0001 88	0.87829 <.0001 88	0.84275 <.0001 88
CR180uzs	0.84071 <.0001 89	0.42691 0.0003 89	0.82184 <.0001 89	0.83595 <.0001 89	0.89498 <.0001 88	1.00000 89	0.93276 <.0001 89	0.93818 <.0001 89	0.93818 <.0001 89	0.88062 <.0001 89	0.92388 <.0001 89	0.93223 <.0001 89	0.92184 <.0001 89
CR365uzs	0.92952 <.0001 89	0.44989 0.0001 89	0.88822 <.0001 89	0.87420 <.0001 89	0.88579 <.0001 88	0.93276 <.0001 89	1.00000 89	0.98733 <.0001 89	0.96901 <.0001 89	0.93822 <.0001 89	0.96949 <.0001 89	0.95688 <.0001 89	0.93197 <.0001 89
CR2uzs	0.91389 <.0001 89	0.48123 <.0001 89	0.87286 <.0001 89	0.88344 <.0001 89	0.88487 <.0001 88	0.93818 <.0001 89	0.98733 <.0001 89	1.00000 89	0.97835 <.0001 89	0.95049 <.0001 89	0.97453 <.0001 89	0.95028 <.0001 89	0.93338 <.0001 89
CR3uzs	0.89915 <.0001 89	0.43805 0.0002 89	0.82227 <.0001 89	0.90013 <.0001 89	0.90185 <.0001 88	0.93818 <.0001 89	0.96901 <.0001 89	0.97835 <.0001 89	1.00000 89	0.92297 <.0001 89	0.96088 <.0001 89	0.94304 <.0001 89	0.93069 <.0001 89
CR4uzs	0.90879 <.0001 89	0.53459 <.0001 89	0.85184 <.0001 89	0.87481 <.0001 89	0.81761 <.0001 88	0.88062 <.0001 89	0.93822 <.0001 89	0.95049 <.0001 89	0.92297 <.0001 89	1.00000 89	0.94392 <.0001 89	0.92452 <.0001 89	0.92433 <.0001 89
CR5uzs	0.92852 <.0001 89	0.49860 <.0001 89	0.90373 <.0001 89	0.88628 <.0001 89	0.86531 <.0001 88	0.92388 <.0001 89	0.98949 <.0001 89	0.97453 <.0001 89	0.96088 <.0001 89	0.94392 <.0001 89	1.00000 89	0.96415 <.0001 89	0.95337 <.0001 89
CR10uzs	0.90582 <.0001 89	0.42788 0.0002 89	0.91227 <.0001 89	0.83868 <.0001 89	0.87829 <.0001 88	0.93223 <.0001 89	0.95588 <.0001 89	0.96028 <.0001 89	0.94304 <.0001 89	0.92452 <.0001 89	0.96415 <.0001 89	1.00000 89	0.96020 <.0001 89
C10Ruzs	0.90418 <.0001 89	0.47843 <.0001 89	0.88152 <.0001 89	0.84578 <.0001 89	0.84275 <.0001 88	0.92184 <.0001 89	0.93197 <.0001 89	0.93338 <.0001 89	0.93069 <.0001 89	0.92433 <.0001 89	0.95337 <.0001 89	0.96020 <.0001 89	1.00000 89

Figure 2.13. Correlation of indicators according to the Pearson method

– With the help of the analysis, it was determined that the correct correlation of the refinancing rate with the indicators of interest rates (weighted average interest rates, annualized) on bank loans in national currency is as follows:

- CR60uzs - correlation dependence on loans up to 60 days 85.62%;
- CR90uzs - correlation dependence on loans from 61 days to 90 days is 79.38%;
- CR180uzs - correlation dependence on loans from 91 days to 180 days is 84.07%;
- CR365uzs - correlation dependence on loans from 181 days to 365 days is 92.95%;
- CR2uzs - correlation dependence on loans from 1 to 2 years is 91.39%;
- CR3uzs - correlation dependence on loans from 2 to 3 years 89.92%;
- CR4uzs - correlation dependence on loans from 3 to 4 years is 90.88%;
- CR5uzs - correlation dependence on loans from 4 to 5 years is 92.65%;
- CR10uzs - correlation dependence on loans from 5 to 10 years is 90.58% and
- C10Ruzs - correlation dependence on loans over 10 years is 90.42%.

Spearman Correlation Coefficients, N = 69 Prob > r under H0: Rho=0											
	InterestRate	InflationRate	AverageExchangeRateUZSUSD	CR180C	CR365C	CR2C	CR3C	CR4C	CR5C	CR10C	C10CR
InterestRate	1.00000	0.58358 <.0001	0.62283 <.0001	0.03128 0.7986	0.06338 0.6049	0.27938 0.0201	0.40759 0.0005	0.00986 0.9359	0.31882 0.0076	0.35385 0.0029	0.48118 <.0001
InflationRate	0.58358 <.0001	1.00000	0.20413 0.0925	-0.22712 0.0605	0.09735 0.4262	0.30351 0.0112	0.42732 0.0003	0.03562 0.7714	0.12324 0.3130	-0.09251 0.4496	0.05911 0.6295
AverageExchangeRateUZSUSD	0.62283 <.0001	0.20413 0.0925	1.00000	-0.38481 0.0011	-0.43251 0.0002	-0.25020 0.0381	-0.18973 0.1184	-0.45631 <.0001	0.14609 0.2310	0.38473 0.0011	0.28553 0.0174
CR180C	0.03128 0.7986	-0.22712 0.0605	-0.38481 0.0011	1.00000	0.40934 0.0005	0.21195 0.0804	0.39126 0.0009	0.48138 <.0001	0.17513 0.1501	0.07945 0.5164	0.15476 0.2042
CR365C	0.06338 0.6049	0.09735 0.4262	-0.43251 0.0002	0.40934 0.0005	1.00000	0.35731 0.0026	0.32547 0.0064	0.40320 0.0006	-0.11841 0.3325	-0.17147 0.1589	-0.01457 0.9054
CR2C	0.27938 0.0201	0.30351 0.0112	-0.25020 0.0381	0.21195 0.0804	0.35731 0.0026	1.00000	0.47791 <.0001	0.33431 0.0050	0.11943 0.3283	0.06456 0.5982	0.11279 0.3561
CR3C	0.40759 0.0005	0.42732 0.0003	-0.18973 0.1184	0.39126 0.0009	0.32547 0.0064	0.47791 <.0001	1.00000	0.46933 <.0001	0.32629 0.0062	0.09221 0.4511	0.15989 0.1894
CR4C	0.00986 0.9359	0.03562 0.7714	-0.45631 <.0001	0.48138 <.0001	0.40320 0.0006	0.33431 0.0050	0.46933 <.0001	1.00000	0.27776 0.0208	0.11855 0.3320	0.19071 0.1165
CR5C	0.31882 0.0076	0.12324 0.3130	0.14609 0.2310	0.17513 0.1501	-0.11841 0.3325	0.11943 0.3283	0.32629 0.0062	0.27776 0.0208	1.00000	0.34242 0.0040	0.24926 0.0389
CR10C	0.35385 0.0029	-0.09251 0.4496	0.38473 0.0011	0.07945 0.5164	-0.17147 0.1589	0.06456 0.5982	0.09221 0.4511	0.11855 0.3320	0.34242 0.0040	1.00000	0.44558 0.0001
C10CR	0.48118 <.0001	0.05911 0.6295	0.28553 0.0174	0.15476 0.2042	-0.01457 0.9054	0.11279 0.3561	0.15989 0.1894	0.19071 0.1165	0.24926 0.0389	0.44558 0.0001	1.00000

Figure 2.14. Correlation of indicators according to the Spearman method

With the help of the conducted analysis, it was found that the refinancing rate and inflation indicators have almost no correlation with the indicators of interest rates (weighted average interest rates, annualized) on foreign currency bank loans. We can note this as the factors affecting the stability of the value of foreign currencies against the soum, the depreciation of the soum against foreign currencies, as well as the low and almost no unexpected changes in foreign currency loan interest

rates.

Pearson Correlation Coefficients, N = 69 Prob > r under H0: Rho=0													
	InterestRate	InflationRate	AverageExchangeRateUZSUSD	DJSH30	DJSH90	DJSH180	DJSH365	DJSH1	DYSH30	DYSH90	DYSH180	DYSH365	DYSH1
InterestRate	1.00000	0.62911 <.0001	0.86453 <.0001	-0.52752 <.0001	-0.65843 <.0001	-0.45453 <.0001	-0.03829 0.7548	0.45935 <.0001	0.86762 <.0001	0.88012 <.0001	0.85157 <.0001	0.86477 <.0001	0.94619 <.0001
InflationRate	0.62911 <.0001	1.00000	0.42384 0.0003	-0.26062 0.0306	-0.42141 0.0003	-0.26988 0.0249	-0.33324 0.0051	-0.06003 0.6242	0.35803 0.0025	0.41575 0.0004	0.34218 0.0040	0.35759 0.0026	0.49216 <.0001
AverageExchangeRateUZSUSD	0.86453 <.0001	0.42384 0.0003	1.00000	-0.65177 <.0001	-0.62680 <.0001	-0.45612 <.0001	0.03427 0.7798	0.50775 <.0001	0.90276 <.0001	0.90635 <.0001	0.91631 <.0001	0.92796 <.0001	0.93040 <.0001
DJSH30	-0.52752 <.0001	-0.26062 0.0306	-0.65177 <.0001	1.00000	0.55862 <.0001	0.36370 0.0021	0.26242 0.0294	-0.21155 0.0810	-0.48185 <.0001	-0.50206 <.0001	-0.49769 <.0001	-0.52810 <.0001	-0.55977 <.0001
DJSH90	-0.65843 <.0001	-0.42141 0.0003	-0.62680 <.0001	0.55862 <.0001	1.00000	0.81219 <.0001	0.49588 <.0001	0.03646 0.7662	-0.52834 <.0001	-0.53889 <.0001	-0.55425 <.0001	-0.49995 <.0001	-0.57482 <.0001
DJSH180	-0.45453 <.0001	-0.26988 0.0249	-0.45612 <.0001	0.36370 0.0021	0.81219 <.0001	1.00000	0.58757 <.0001	0.21411 0.0773	-0.35736 0.0026	-0.34286 0.0039	-0.39538 0.0008	-0.35488 0.0028	-0.36989 0.0018
DJSH365	-0.03829 0.7548	-0.33324 0.0051	0.03427 0.7798	0.26242 0.0294	0.49588 <.0001	0.58757 <.0001	1.00000	0.68754 <.0001	0.24386 0.0435	0.19245 0.1131	0.16824 0.1670	0.20373 0.0931	0.14073 0.2488
DJSH1	0.45935 <.0001	-0.06003 0.6242	0.50775 <.0001	-0.21155 0.0810	0.03646 0.7662	0.21411 0.0773	0.68754 <.0001	1.00000	0.65177 <.0001	0.57795 <.0001	0.60565 <.0001	0.63451 <.0001	0.60934 <.0001
DYSH30	0.86762 <.0001	0.35803 0.0025	0.90276 <.0001	-0.48185 <.0001	-0.52834 <.0001	-0.35736 0.0026	0.24386 0.0435	0.65177 <.0001	1.00000	0.92066 <.0001	0.92295 <.0001	0.92732 <.0001	0.93430 <.0001
DYSH90	0.88012 <.0001	0.41575 0.0004	0.90635 <.0001	-0.50206 <.0001	-0.53889 <.0001	-0.34286 0.0039	0.19245 0.1131	0.57795 <.0001	0.92066 <.0001	1.00000	0.91006 <.0001	0.89405 <.0001	0.93361 <.0001
DYSH180	0.85157 <.0001	0.34218 0.0040	0.91631 <.0001	-0.49769 <.0001	-0.55425 <.0001	-0.39538 0.0008	0.16824 0.1670	0.60565 <.0001	0.92295 <.0001	0.91006 <.0001	1.00000	0.93936 <.0001	0.92221 <.0001
DYSH365	0.86477 <.0001	0.35759 0.0026	0.92796 <.0001	-0.52810 <.0001	-0.49995 <.0001	-0.35488 0.0028	0.20373 0.0931	0.63451 <.0001	0.92732 <.0001	0.89405 <.0001	0.93936 <.0001	1.00000	0.94993 <.0001
DYSH1	0.94619 <.0001	0.49216 <.0001	0.93040 <.0001	-0.55977 <.0001	-0.57482 <.0001	-0.36989 0.0018	0.14073 0.2488	0.60934 <.0001	0.93430 <.0001	0.93361 <.0001	0.92221 <.0001	0.94993 <.0001	1.00000

Figure 2.15. Correlation of indicators according to the Pearson method

Pearson Correlation Statistics (Fisher's z Transformation)									
Variable	With Variable	N	Sample Correlation	Fisher's z	Bias Adjustment	Correlation Estimate	95% Confidence Limits		p Value for H0:Rho=0
InterestRate	InflationRate	69	0.62911	0.73994	0.00463	0.62631	0.457434	0.751578	<.0001
InterestRate	AverageExchangeRateUZSUSD	69	0.86453	1.31100	0.00636	0.86291	0.786956	0.913106	<.0001
InterestRate	DJSH30	69	-0.52752	-0.58670	-0.00388	-0.52471	-0.677283	-0.328875	<.0001
InterestRate	DJSH90	69	-0.65843	-0.79004	-0.00484	-0.65568	-0.772481	-0.495966	<.0001
InterestRate	DJSH180	69	-0.45453	-0.49039	-0.00334	-0.45187	-0.622026	-0.240960	<.0001
InterestRate	DJSH365	69	-0.03829	-0.03830	-0.0002815	-0.03800	-0.272237	0.200479	0.7557
InterestRate	DJSH1	69	0.45935	0.49648	0.00338	0.45668	0.246656	0.625725	<.0001
InterestRate	DYSH30	69	0.86762	1.32337	0.00638	0.86603	0.791613	0.915136	<.0001
InterestRate	DYSH90	69	0.88012	1.37630	0.00647	0.87865	0.810531	0.923320	<.0001
InterestRate	DYSH180	69	0.85157	1.26185	0.00626	0.84984	0.767548	0.904576	<.0001
InterestRate	DYSH365	69	0.86477	1.31195	0.00636	0.86315	0.787316	0.913263	<.0001
InterestRate	DYSH1	69	0.94619	1.79410	0.00696	0.94546	0.913105	0.965980	<.0001
InflationRate	AverageExchangeRateUZSUSD	69	0.42384	0.45236	0.00312	0.42128	0.205039	0.598301	0.0002
InflationRate	DJSH30	69	-0.26062	-0.26677	-0.00192	-0.25883	-0.466910	-0.023598	0.0302
InflationRate	DJSH90	69	-0.42141	-0.44940	-0.00310	-0.41886	-0.596411	-0.202222	0.0003
InflationRate	DJSH180	69	-0.26988	-0.27674	-0.00198	-0.26804	-0.474612	-0.033485	0.0246
InflationRate	DJSH365	69	-0.33324	-0.34647	-0.00245	-0.33106	-0.526488	-0.102404	0.0049
InflationRate	DJSH1	69	-0.06003	-0.06010	-0.0004414	-0.05959	-0.292146	0.179629	0.6254
InflationRate	DYSH30	69	0.35803	0.37462	0.00263	0.35573	0.129994	0.546406	0.0023
InflationRate	DYSH90	69	0.41575	0.44254	0.00306	0.41322	0.195676	0.592001	0.0003
InflationRate	DYSH180	69	0.34218	0.35656	0.00252	0.33996	0.112315	0.533697	0.0038
InflationRate	DYSH365	69	0.35759	0.37412	0.00263	0.35530	0.129506	0.546058	0.0024
InflationRate	DYSH1	69	0.49216	0.53891	0.00362	0.48941	0.285843	0.650718	<.0001

Figure 2.16. Fisher's Z transformation of the correlation dependence according to the Pearson method

At the next stage of the research, the average interest rates of the refinancing rate and inflation indicators on term deposits of individuals in national currency: DJSH30 - up to 30 days, DJSH90 - from 31 days to 90 days, DJSH180 - from 91 days to 180 days, DJSH365 - from 181 days to 365 days, DJSH1 - from 1 year average interest rates on term deposits of legal entities in national currency:

DYSH30 - up to 30 days, DYSH90 - from 31 days to 90 days, DYSH180 - from 91 days to 180 days, DYSH365 - from 181 days to 365 days, DYSH1 - over 1 year were analyzed.

As can be seen from the data in Figures 2.15 and 2.16, the refinancing rate is inversely related to the average interest rates on time deposits of individuals in national currency, and positively depends on the average interest rates on time deposits of legal entities in national currency. Inflation level has almost no or low dependence on deposit rates.

- We can conclude the following from our analysis conducted in Chapter 2, Section 2 of the scientific study:
- - changes in the monetary and credit policy carried out at the national level have an impact on the banking system in the short term;
- - in recent years, the indicators of the aggregate balance of banks have increased dramatically due to the influence of factors such as the devaluation of the national currency, the high level of inflation;
- interest on loans allocated by commercial banks directly depends on the refinancing rate (with the exception of preferential and targeted loans), so the refinancing rate determined by the Central Bank does not fail to have a direct impact not only on interest on loans, but also on the country's economy;
- it was found that the inflation level has little effect on bank loans and deposits, which increases the possibilities of advance forecasting in banking activity. Based on the above, at the next stage, the activity of commercial banks will be analyzed more widely.

2.3. Analysis of the main indicators and capital assessment model of commercial banks

In this chapter, we select a number of commercial banks as the object of research and conduct a study on the development of a model for evaluating their indicators and capital.

Table 2.13

The main indicators of the total balance of commercial banks (in thousands of soums).

№	Банк номи	Кўрсаткичлар номи	2011 йил	2012 йил	2013 йил	2014 йил	2015 йил	2016 йил	2017 йил	2018 йил	2019 йил	2020 йил
1	Ориент Финанс банк	Активлар	107 285 495,0	198 219 972,0	272 619 884,0	490 254 553,0	927 732 318,0	1 711 275 567,0	3 997 175 622,0	3 878 203 000,0	4 408 147 000,0	5 126 175 000,0
		Мажбуриятлар	92 667 368,0	178 081 683,0	246 515 501,0	425 729 697,0	808 608 593,0	1 531 150 244,0	3 555 767 994,0	3 248 248 000,0	3 542 711 000,0	4 034 789 000,0
		Устав капитали	13 202 000,0	13 202 000,0	22 386 000,0	41 886 000,0	52 357 500,0	109 297 039,0	170 514 188,0	402 576 000,0	562 171 000,0	768 500 000,0
		Кўшилган капитал	0,0	0,0	0,0	89 290,0	89 290,0	2 105 273,0	2 105 273,0	2 105 000,0	2 105 000,0	2 105 000,0
		Бошқа маблағлар ва захиралар	0,0	0,0	0,0	0,0	4 660 540,0	0,0	0,0	4 075 000,0	6 351 000,0	7 874 000,0
		Тақсимланмаган фойда	1 416 127,0	6 936 289,0	3 718 383,0	22 549 566,0	60 044 535,0	68 723 011,0	268 788 167,0	221 199 000,0	294 809 000,0	312 907 000,0
2	Ҳамкор банк	Активлар	522 846 642,0	723 349 762,0	1 096 439 982,0	1 738 518 872,0	2 966 964 730,0	3 995 970 837,0	5 433 750 986,0	6 785 099 463,0	8 823 076 219,0	10 287 089 495,0
		Мажбуриятлар	447 618 922,0	622 011 734,0	955 078 528,0	1 528 969 830,0	2 665 502 042,0	3 587 706 127,0	4 893 325 726,0	5 984 421 318,0	7 626 586 739,0	8 708 607 237,0
		Устав капитали	31 153 971,0	40 553 971,0	50 787 379,0	68 179 720,0	79 568 326,0	79 568 326,0	79 568 326,0	104 540 699,0	109 928 801,0	109 928 801,0
		Кўшилган капитал	1 309 004,0	1 385 054,0	1 385 054,0	12 313 994,0	12 313 994,0	12 313 994,0	12 313 994,0	12 313 994,0	77 751 387,0	77 751 387,0
		Бошқа маблағлар ва захиралар	0,0	27 051,0	27 051,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
		Тақсимланмаган фойда	42 764 745,0	59 371 952,0	89 161 970,0	129 055 328,0	209 580 368,0	316 382 390,0	448 542 940,0	683 823 452,0	1 008 809 292,0	1 390 802 070,0
3	Капитал банк	Активлар	503 972 335,0	688 685 260,0	934 845 383,0	1 199 253 508,0	1 830 827 440,0	2 647 726 008,0	3 668 930 222,0	4 808 008 309,0	5 370 624 599,0	7 210 423 485,0
		Мажбуриятлар	475 630 096,0	654 238 609,0	878 955 969,0	1 112 378 721,0	1 647 721 906,0	2 411 676 977,0	2 411 676 977,0	4 410 633 619,0	4 823 008 068,0	6 467 022 957,0
		Устав капитали	31 631 797,0	33 917 190,0	41 631 797,0	41 631 797,0	80 331 797,0	80 331 797,0	80 331 797,0	104 363 852,0	154 363 859,0	172 569 856,0
		Кўшилган капитал	150 000,0	227 866,0	350 000,0	350 000,0	350 000,0	350 000,0	350 000,0	350 000,0	350 000,0	57 312 086,0
		Бошқа маблағлар ва захиралар	0,0	0,0	60,0	0,0	50 782 450,0	37 400 020,0	112 795 731,0	1 924 529,0	19 805 707,0	19 211 536,0
		Тақсимланмаган фойда	-3 439 558,0	301 595,0	13 907 557,0	44 892 990,0	51 641 287,0	117 967 214,0	137 263 015,0	290 736 309,0	373 096 965,0	494 307 050,0
4	Ипак йўли банк	Активлар	638 846 153,0	816 557 791,0	1 014 520 643,0	1 273 271 788,0	1 762 348 062,0	2 285 596 822,0	3 244 730 769,0	3 954 898 379,0	5 328 199 000,0	6 900 719 000,0
		Мажбуриятлар	582 701 385,0	740 318 597,0	911 623 031,0	1 153 163 135,0	1 613 449 480,0	2 076 563 666,0	2 907 640 489,0	3 452 862 559,0	4 598 950 000,0	5 779 938 000,0
		Устав капитали	36 931 783,0	45 371 357,0	62 460 450,0	76 973 409,0	94 173 409,0	112 653 409,0	161 873 409,0	282 773 409,0	406 413 000,0	534 194 000,0
		Кўшилган капитал	0,0	0,0	0,0	1 029 500,0	1 459 500,0	1 459 500,0	2 319 500,0	2 659 500,0	2 660 000,0	130 441 000,0
		Бошқа маблағлар ва захиралар	1 401 275,0	1 562 699,0	1 622 720,0	1 724 154,0	0,0	0,0	0,0	14 121 129,0	20 143 000,0	20 648 000,0
		Тақсимланмаган фойда	17 811 710,0	29 305 138,0	38 814 442,0	41 468 599,0	53 265 673,0	94 920 247,0	172 897 371,0	202 481 782,0	300 033 000,0	435 498 000,0
5	Микрокредит банк	Активлар	489 509 971,0	588 257 255,0	703 412 499,0	831 959 859,0	1 168 866 917,0	1 333 645 114,0	1 807 253 962,0	2 942 920 000,0	5 571 529 073,0	9 878 934 770,0
		Мажбуриятлар	326 286 449,0	420 011 857,0	494 944 666,0	623 751 495,0	932 938 312,0	1 145 764 167,0	1 204 856 909,0	2 246 798 580,0	3 911 514 399,0	8 191 582 259,0
		Устав капитали	157 030 545,0	160 480 545,0	200 446 510,0	200 446 510,0	225 446 510,0	250 446 510,0	593 032 833,0	694 465 804,0	1 642 009 001,0	1 642 352 511,0
		Кўшилган капитал	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
		Бошқа маблағлар ва захиралар	984 756,0	2 353 543,0	2 296 322,0	2 276 555,0	2 495 180,0	2 752 587,0	0,0	0,0	0,0	0,0
		Тақсимланмаган фойда	5 208 221,0	5 411 310,0	5 725 001,0	5 485 299,0	7 986 915,0	-65 318 150,0	9 364 220,0	1 655 616,0	18 005 673,0	45 343 510,0
6	Туронбанк	Активлар	452 903 094,0	649 359 229,0	618 866 075,0	590 759 629,0	702 906 740,0	874 065 081,0	1 519 158 055,0	3 049 678 032,0	5 864 635 000,0	8 439 355 000,0
		Мажбуриятлар	425 198 721,0	614 208 528,0	571 802 122,0	528 927 878,0	625 748 544,0	788 941 093,0	1 196 209 967,0	2 226 692 069,0	4 842 381 000,0	7 400 941 000,0
		Устав капитали	26 466 413,0	36 666 413,0	42 667 413,0	48 668 413,0	52 668 513,0	52 668 513,0	280 647 462,0	768 027 462,0	887 273 000,0	887 273 000,0
		Кўшилган капитал	55 458,0	88 404,0	134 262,0	193 981,0	218 675,0	218 675,0	218 675,0	218 675,0	218 675,0	218 675,0
		Бошқа маблағлар ва захиралар	365 728,0	284 155,0	45 684,0	45 684,0	5 833 794,0	2 158 436,0	2 004 136,0	8 731 968,0	16 697 325,0	22 690 325,0
		Тақсимланмаган фойда	816 774,0	-1 888 271,0	4 216 594,0	12 923 673,0	18 437 214,0	30 078 364,0	40 077 815,0	46 007 858,0	118 065 000,0	128 232 000,0

In the above table, the aggregated balance sheet data of Orient Finans Bank, Hamkor Bank, Kapital Bank, Silk Road Bank, Mikrokredit Bank and Turonbank

selected as research objects are presented. Based on these data, we will first analyze the state of economic growth in commercial banks.

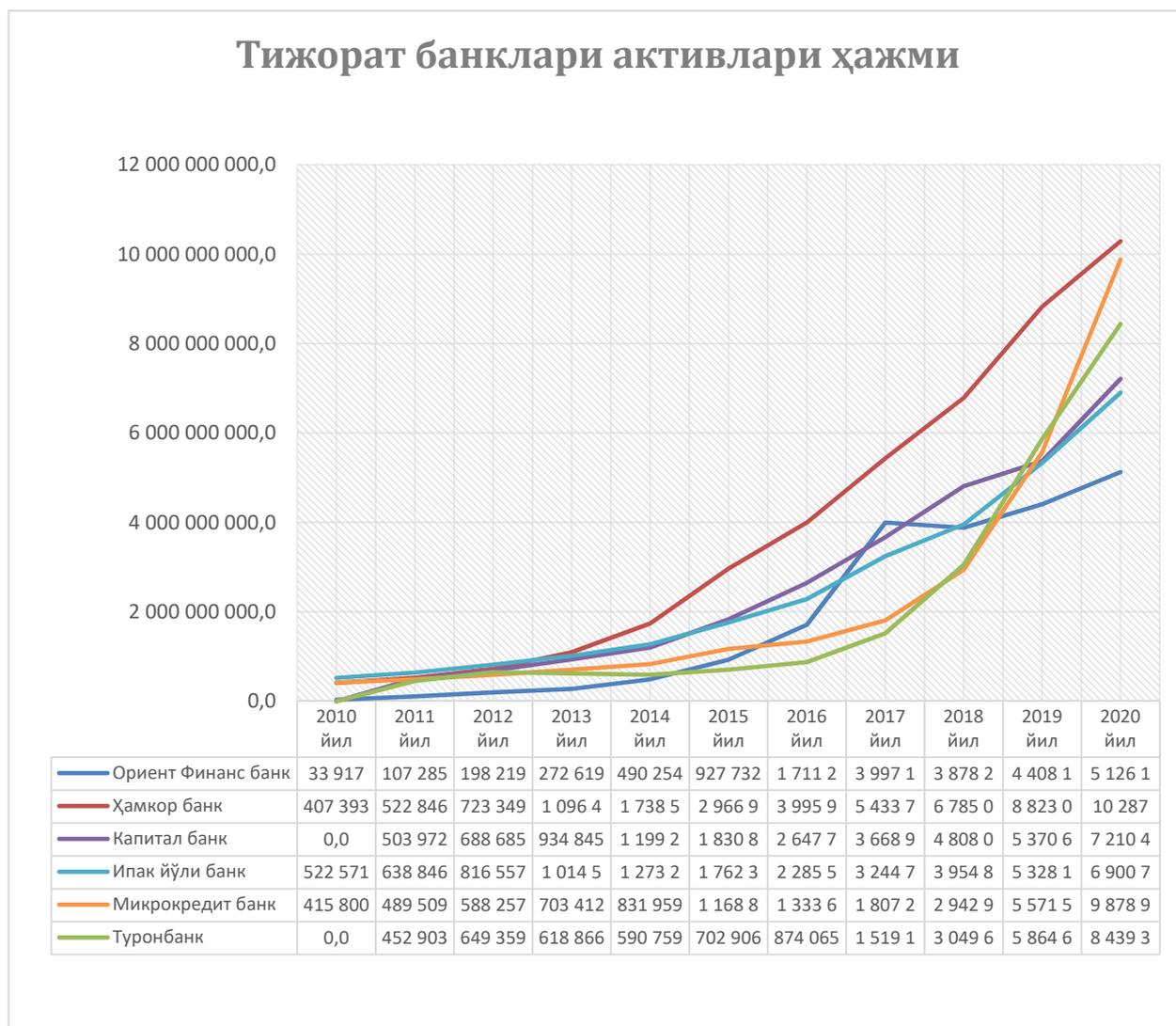


Figure 2.17. Dynamics of assets of commercial banks

Figure 2.17 was chosen based on the principle that the assets of our commercial banks analyzed as the research object should be almost close to each other. As can be seen from the above table and figure, the volume of assets of commercial banks has been growing in recent years. If we analyze the growth of the assets of commercial banks selected in this chapter as the object of research, the assets of Hamkorbank and Microcredit banks amount to 10 trillion. It is noted that the sum is within the target range, and Orient Finance's bank assets have increased by 150 times compared to 2010.



Figure 2.18. Dynamics of obligations of commercial banks

Figure 2.18 shows the dynamics of liabilities of commercial banks. It goes without saying that the increase in the liabilities of economic entities is proportional to the increase in their assets. Therefore, it is appropriate to analyze the ratio of liabilities to assets of commercial banks.

The difference between the ratio of liabilities to assets of commercial banks from 100% is their capital and profit. From the data in the table, we can see that the liabilities of Orient Finance Bank were at a high level from 2011 to 2017, and started to decrease by 2018, which is definitely a positive result. The lowest indicator according to this indicator belongs to Kapital Bank, the indicator of 90% is recorded.

A number of risks arise in the implementation of asset and liability operations of commercial banks. In order to prevent this and maintain the capital of commercial banks, justify the trust of depositors and continue commercial activities, it is important to constantly monitor bank operations and capital movement, to ensure its stability.

Based on the requirements of the International Basel Committee and the Central Bank of the Republic of Uzbekistan on minimum requirements for bank capital,

we analyze the capital adequacy of commercial banks, which are the objects of analysis.

Table 2.14

According to the Regulation of the Central Bank of the Republic of Uzbekistan No. 2693, capital adequacy indicators of ADB "Kapitalbank" (in thousands of soums)

№	Indicators	2018	2019	2020
1	Fully paid shares	105732055	155732062	172569856
2	Added capital	350000	350000	57312086
3	Retained earnings	275498646	350775662	494307050
4	Intangible assets	(8655917)	(14130929)	(75275862)
5	Investments in the capital of non-consolidated economic entities	(70220)	(70220)	(70220)
6	Tier 1 capital (adjusted)	372854564	492656575	648842910
7	Tier 2 capital (adjusted)	82253858	168929168	221918432
8	Total cost of capital (including risk)	455108422	661585743	870761342
9	On-balance sheet and off-balance sheet assets (taking risk into account)	3330209340	4380338544	5822026847
10	Operational risk	250908295	321410403	407617020
11	Market risk	5955882	16735363	35947663
12	Total value of assets (including risk)	3587073517	4718484310	6265591530
Indicators of capital adequacy				
13	Level 1 capital adequacy	10,39%	10,44%	10,36%
14	Level 2 capital adequacy	12,69%	14,02%	13,90%

Analytical data of capital adequacy of commercial banks of ATB "Kapitalbank" and capital adequacy indicators according to Regulation No. 2693 of the Central Bank of the Republic of Uzbekistan are presented in Table 2.14. According to the Regulation of the Central Bank of the Republic of Uzbekistan No. 2693, the minimum requirement for Tier 1 capital of commercial banks is set at 10.0%, Tier 1 capital of ATB "Kapitalbank" is 10.39% in 2018, 10.44% in 2019, and 10.44% in 2020 It was 10.36%, and according to Regulation No. 2693, the requirement for Tier 1 capital was fulfilled.'

According to the Regulation of the Central Bank of the Republic of Uzbekistan No. 2693, the minimum requirement for Tier 2 capital of commercial banks is set at 13.0%, Tier 2 capital of ADB "Kapitalbank" is 12.69% in 2018,

14.02% in 2019, and 2020 It was 13.90%, and the requirement for Tier 2 capital according to Regulation No. 2693 was fulfilled.

Based on the analysis above, after discounts in banks

It is recommended to increase the volume of additional capital by 15% on the basis of mixed obligations in the amount not exceeding one third of the I-level capital.'

When analyzing the capital adequacy of commercial banks, we should consider not only their financial indicators, but also their capabilities based on their organizational and legal form. From this point of view, in our research, we divided the commercial banks operating in Uzbekistan into the following groups and came to the following conclusions regarding the problems arising in increasing bank capital:

Table 2.15
Grouping of commercial banks on effective organization of capital

№	Grouping of commercial banks	Problems	Offers
1	State commercial banks	In the formation of bank capital, it is possible to ensure capital adequacy through financing from the state budget. However, during their activities, state banks can direct their capital and economic asset funds for the development of the sectors determined by the state, which can lead to a decrease in the economic profit of these types of commercial banks and a decrease in the speed of capital movement in the market economy.	<ol style="list-style-type: none"> 1. Continuous analysis of areas and regions where problem loans are increasing in the financing of social programs implemented by the state on the basis of loans from commercial banks and timely elimination of problems; 2. Continuous monitoring of the state of loans and capital movement allocated to social programs, implementation of a transparent system of evaluation of employees' performance.
2	Private commercial banks	Private commercial banks are independent in the formation of their own capital. But due to the high level of market risk, the founders of private commercial banks are less confident to benefit from capital increase.	<ol style="list-style-type: none"> 1. In order for the founders of private commercial banks to increase their bank capital, it is necessary to improve the regulatory framework for ensuring the inviolability of property; 2. To prevent shareholders of commercial banks from

			withdrawing undistributed profits in the form of dividends and to direct them to increase bank capital.
3	Abroad	Work on increasing the capital of foreign banks depends on interstate economic relations and the economic policy of foreign commercial banks. Today, foreign commercial banks operating in Uzbekistan have limited the scope of their activities, which prevents their economic development.	1. When expanding the activities of foreign commercial banks, it is suggested to monitor their economic nature and the credit policy of local commercial banks.

It is possible to reduce market risks and create a competitive banking system by developing a methodology for assessing the capital of commercial banks in the conditions of Uzbekistan. By grouping commercial banks in Table 2.15, it is possible to form new ideas in evaluating their activities.

It is no secret that commercial banks with a state share in their capital participate in the financing of many state social projects and social programs. As a result of diverting the bank's capital to social goals, avoiding market rules, the efficiency of capital use may decrease. In order to ensure the adequacy of the bank's capital and prevent risks, it is necessary to study and analyze many cases, such as the rate of return, effectiveness of the funds directed to each social program, and the influence of the human factor. For this, it is appropriate to adapt the international methods considered in our research and develop optimal solutions for reducing risks.

In order to increase the efficiency of commercial banks with a state share in their capital, it is necessary to improve their management system. In commercial banks with a state share, capital adequacy can sometimes be financed by the state, which allows to meet the requirements of the International Basel Committee on capital adequacy. But in the long term, only if every commercial bank can increase its capital through economic means, competition will begin in the market and the quality of banking services will increase.

Today, in Uzbekistan, mainly private commercial banks have problems in fulfilling the requirements of the International Basel Committee on capital adequacy. In our analysis above, we have seen that rather than constantly increasing the capital of private commercial banks, they are limited by existing regulatory requirements. This can be explained in two ways, the first one is that the founders of private commercial banks are not very confident in the future of banking business, there are risks regarding the contribution of capital that is introduced for the development of commercial banks. The second reason is that the founders of private commercial banks receive retained earnings in the form of dividends and direct their other businesses to financing purposes. In this case, a certain amount of guaranteed dividend received is currently satisfying the founders of the bank. Another noteworthy point is that the level of economic development of the administrative-territorial units of the Republic of Uzbekistan is not the same. As a result, the founders of private commercial banks are establishing their capital and banking business mainly in areas with high profit margins.

The advantage of private commercial banks over commercial banks with a state share is that these types of banks are independent in conducting their activities and have a low participation in the financing of social projects and programs of the state. This allows private commercial banks to increase profits by independently managing their own capital.

In order for private commercial banks to increase their capital, they must gain confidence by ensuring the inviolability of property rights by the state. In this case, the founders should also understand that they must conduct their business activities within the law, and the Central Bank should have sufficient financial control mechanisms.

In the present conditions, commercial banks with shares of foreign banks or organizations are not operating in Uzbekistan, their main purpose is not to expand banking activities, but to finance the tasks set by their governments or to provide banking services to their citizens. The main reason why there is no problem in fulfilling capital adequacy requirements in commercial banks with shares of

foreign banks or organizations is based on the wide range of funding opportunities from the head office of these types of banks.

In addition, it is important to increase private capital through the privatization of commercial banks and the issuance and sale of additional securities. For this purpose, in the development of the Bank's emission policy, it is considered appropriate to implement the procedure for selling shares up to 2% through public auctions, based on the principle of "one share - one lot" in the public IPO.

As a result, the Decree of the President of the Republic of Uzbekistan dated January 17, 2019 No. PF-5635 "On the State Program for the Implementation of the Strategy of Actions in Five Priority Areas of Development of the Republic of Uzbekistan in 2017-2021" No. PF-5635 In order to fulfill the tasks of reforming and introducing modern market mechanisms in the sector, there will be an opportunity to develop a long-term strategy for the development of commercial banks and to gradually reduce the state share in banks.

Timely repayment of loans allocated as the main risk plays an important role in ensuring capital adequacy of commercial banks. Therefore, it is natural to take into account the level of risk on the allocated loans when ensuring capital adequacy.

But in this situation, it would be more useful to follow the laws of the market.

Risk assessment of commercial banks' loans is always taken into account when calculating capital adequacy. In Appendix 3 of the Regulation "On Requirements for the Capital of Commercial Banks", the Central Bank's determination of the level of risk in the assessment of credit rates creates a number of difficulties in practice today. In our study, analyzing the problems in practice on this issue, we made the following comments.

Table 2.16**Risk levels of loans allocated to legal entities and individual entrepreneurs**

T/p	Annual interest rate	Risk level	Risk level for loans that are in litigation and (or) have outstanding debts
1.	the main rate of the Central Bank in national currency + 6 percent band and below,	100%	200%
2.	loans in foreign currency at interest rates of 6 percent and below	150%	
3.	in the national currency from the main rate of the Central Bank + 6 percent band to the main rate of the Central Bank + 9 percent band,	200%	

From the data of Table 2.16, we can see that firstly, the credit rate is strictly linked to the refinancing rate of the Central Bank, and secondly, the level of risk increases with the increase of the credit rate. When this mechanism works, commercial banks limit the possibility of setting the loan rate depending on the activity of business entities. As a result, the credit rate for reliable customers will be the same as the credit rate for newly established customers with uncertain performance. In this situation, commercial banks are forced to either offer a loan at a high rate to a trusted client or delay providing a loan to a newly established client. In both cases, the commercial bank loses.

In order to solve this problem, it is suggested that it is economically justified to ensure the independence of commercial banks in determining the credit rate, to create the opportunity to offer loans at different rates to customers with the same organizational, legal form, and type of activity based on the economic activity of their customers when forming the credit rate.

In the new standards of the Basel Committee, he proposed a new system of approach to the loans allocated by the bank. Today, the monitoring process carried out by commercial banks in relation to loans is in most cases a part of officialdom, and it is certainly a pity that the bank employees are informed when the debtor is

unable to fulfill his obligations under these loans, and the client is in a financial crisis. At the next stage, the bank will begin the actions aimed at the recovery of loan funds as soon as possible and will try to make the client go bankrupt and focus on the loan collection against the collateral property. However, the reality is that when the client declares bankruptcy and the foreclosure is focused on the collateral, the realization of this property, litigation processes increase the bank's costs, and in some cases, the value of the collateral does not cover the amount owed.

The proposal of the committee is that after the loan funds are allocated, the client's activities are constantly analyzed by the bank's credit inspector and other qualified staff, when certain negative situations, such as the beginning of the process of "eating" working capital by the client or investing in poorly studied areas of the economy, and other situations are detected, it is possible to know before the client that the client's activity is beginning to face a crisis.

It helps to prevent negative consequences and establish a long and effective cooperation with the client by providing timely warning and professional advice. Because a financially stable client not only repays the loan funds on time, but also constantly uses various services of the bank, which ensures the stability of the commercial bank's source of income.

Based on the recommendation of the Basel Committee, a new approach by commercial banks to their lending process is the need of the hour. Continuous analysis of each borrower's activities from the time of loan allocation to the full repayment of these funds, the possibility of knowing financial difficulties that may arise in the client's activity before the client, providing qualified consultative advice on the client's activity, that is, not interfering with the client's activity, but the client activities should be approached on a partner-partner basis, if necessary, extending the loan amount, reducing the loan percentage for short periods, etc. measures will have a positive effect not only for the client, but also for the bank.

In order to successfully implement the requirements of the Basel Committee, measures are being taken by the central banks of developed countries to expand the

scope of highly liquid yielding assets in the composition of assets so that the provision of high liquidity by commercial banks does not have a negative impact on their profitability, including by the authorized body of these countries. In addition to state treasury obligations, securities with a stable high listing are also recognized as highly liquid assets, which increases the possibility of increasing the profitability of commercial banks' liquid assets. In our opinion, the implementation of this practice in our republic will undoubtedly have a positive result.

Conclusion and suggestions for the second chapter.

Evaluating the capital of commercial banks is a complex process, as well as various economic and financial indicators, as well as the analysis of risks, risks, and the relationship of macroeconomic indicators, which are related to each other, was proven as a result of our research.

As a result of scientific research in the second chapter, the following scientific results and news were obtained:

1. It is necessary to improve the methodology in accounting for the capital of commercial banks. It should be noted that such a methodology should not be in a fixed form. That is, it is more effective to use a methodology that is able to respond quickly to market relations and macroeconomic changes.
2. In order to ensure financial stability by increasing the authorized capital of commercial banks, it is proposed to sell stock packages of up to 2% through public auctions on the basis of the principle of "one share - one lot";
3. Profit or loss of commercial banks directly depends on their credit policy. It is important to use international experience in estimating the reduction of monthly payments on unsecured loans. It is recommended to use CAMELS and FIMS methods to create a universal methodology, adapting the guidelines

for risk assessment, liquidity consideration and the influence of the human factor to the conditions of Uzbekistan;

4. It is proposed to create an additional reserve in the amount of 3.0% of the assets taking into account the risks of the capital conservation buffer in order to guarantee the provision of the capital reserve of the banks;

5. After disbursement of credit funds, the client's activity is constantly analyzed by the bank's credit inspector and other qualified staff, when certain negative situations, for example, the beginning of the process of "eating" working capital by the client or investments in poorly studied areas of the economy, and other circumstances, the client's activity is detected. It is possible to inform the client before the beginning of a crisis. It helps to prevent negative consequences and establish a long and effective cooperation with the client by providing timely warning and professional advice. Because a financially stable client not only repays the loan funds on time, but also constantly uses various services of the bank, which ensures the stability of the commercial bank's source of income.

6. Annex 3 of Regulation AV 2693-6 No. 3 "On requirements for the capital adequacy of commercial banks" defines the conditions for accounting for credit risk. In this case, firstly, the credit rate is strictly tied to the refinancing rate of the Central Bank, and secondly, as the credit rate increases, the level of risk also increases. When this mechanism works, commercial banks limit the possibility of setting the loan rate depending on the activity of business entities.

7. As a result, the credit rate for reliable customers will be the same as the credit rate for newly established customers with uncertain performance. In this situation, commercial banks are forced to either offer a loan at a high rate to a trusted client or delay providing a loan to a newly established client. In both cases, the commercial bank loses. In order to solve this problem, it is suggested that it is economically justified to ensure the independence of commercial banks in determining the credit rate, to create the opportunity to offer loans at different rates to customers with the same organizational, legal form, and type of activity based on the economic activity of their customers when forming the credit rate.

CHAPTER III. IMPROVING THE MECHANISMS OF INCREASING THE EFFICIENCY OF THE USE OF THE CAPITAL OF COMMERCIAL BANKS

3.1. Improving the reduction of the negative impact of financial operations of commercial banks on banking activity

All economic facts show that any economic process is interrelated with another. We can clearly witness this especially when analyzing the activity of commercial banks.

Commercial banks depend not only on their development strategy, but also on the country's macroeconomic situation, the level of development of international economic relations, and the socio-economic situation in society.

From our analysis in Chapter 2, we can see that most of the commercial banks operating in the banking system of Uzbekistan have a share of the state. This means that commercial banks can sometimes direct their capital to targeted programs of the state. This may cause the market to violate the rule of the invisible hand or the employees operating in the banking system to make wrong decisions in their own interests. When analyzing the activity of commercial banks, it is appropriate to study the interdependence of asset and passive transactions of banks, to evaluate their influence on each other.

Commercial banks operating in our country not only provide banking services to the population and clients, but also commercialize access to capital through lending.

When we analyzed the composition of assets, liabilities and other key performance indicators of commercial banks in the previous sections, we witnessed that the lending practice is one of the most important indicators.

The credit policy of commercial banks directly affects all its activities. In particular, it is important to increase the capital of a commercial bank, increase the prestige of the bank in front of customers, increase the value of bank shares, and form the composition of assets of commercial banks.

Summarizing the above points, we see that it is relevant to analyze how effective it is to properly organize the credit policy of commercial banks.

The fact that today the state pays a lot of attention to social protection, and insufficient analysis by commercial banks in the allocation of social loans, may affect the independence of banks and the safety of their capital in the future.

Starting from 2017, great emphasis is being placed on providing social loans to the population. Every year, 7-10 trillion soums are allocated to social credit through various channels under the motto of reducing poverty and making entrepreneurs out of the poor. Most of the preferential loans allocated have become problematic. The largest amount and share of problem loans was formed in the regions where the most preferential loans were allocated. Due to the fact that loans are allocated on preferential terms, it is impossible to use market and legal mechanisms in their collection, focusing on property and other means. In this situation, the state and its agent banks are facing problems affecting their financial stability. For every sum collected, more money is being spent than was collected.

Therefore, it is necessary to improve the loan allocation mechanisms. The relevance of this issue is that the position and financial condition of banks directly affects the economic security of the country.

In August 2021, lending activity was recorded in commercial banks of our republic. During the whole month, bank loans increased by 1.5%. Also, the total balance of problem loans decreased by 400 billion soums and amounted to 18.5 trillion soums. This means 6% of total loan deposits (-0.2%). In this month, the largest increase in problem loans was recorded among state banks in Mikrokreditbank (+200 billion soums) and among private banks in Savdogarbank (+55 billion soums). It is noteworthy that TBC Uzbekistan Bank, which actively pursues an online lending policy, has started to significantly increase the balance of problem loans (this may be within the accepted internal risk parameters). Banks' profitability stabilized for a while and began to decline again in a situation where the growth of interest expenses is accelerating due to the growth of interest income, and the process of creating provisions for losses continues.

1) Also, while analyzing the information announced by the Central Bank of the Republic of Uzbekistan in August 2021, we should pay attention to the following:

2) the difference between the rates of retail loans and retail deposits in the national currency decreased to 2%. Since November last year, the price of retail deposits has been steadily increasing, and since April, the price of retail loans has been falling. In any case, it is clear that the banking system cannot continue operating at 2% margins for long, as the retail market is exposed to and accumulating risks. Soon either the cost of loans should start to rise or the cost of deposits should start to fall. Otherwise, dangerous risks may affect the activity of commercial banks, which enter the retail market without taking into account relative advantages and future losses.

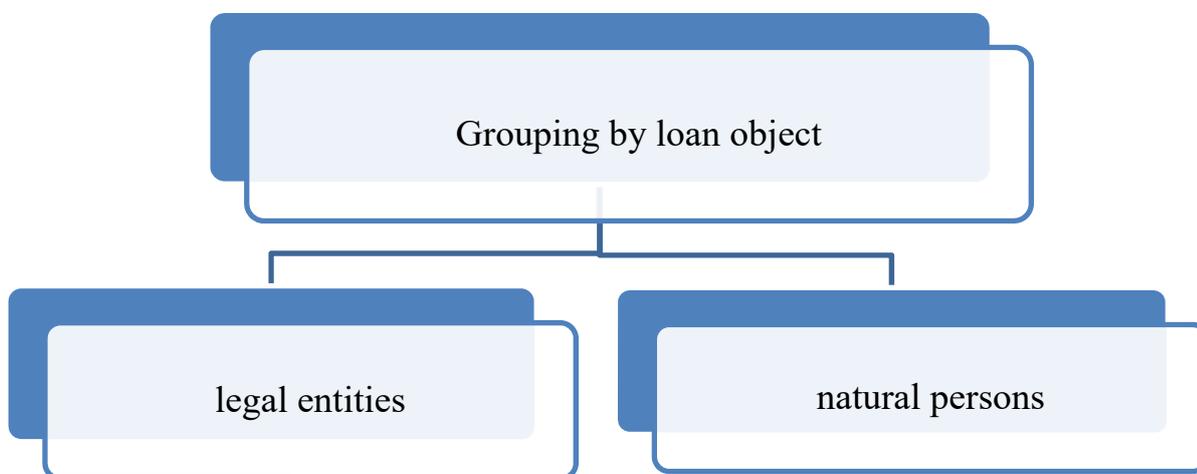
3) the difference between the interest rates of retail and corporate deposits in national currency reached 4.8%. This was last recorded in January 2018. The difference between corporate and retail deposits is difficult to explain in economic terms. Moreover, if the mandatory reserve norms for both categories are the same. Unfortunately, the only explanation goes back to corrupt reasons. That is, corporate depositors do not place their deposits with banks at market rates unlike retail deposits. Separate closed arrangements have their place, and the rates in these arrangements are only increasing, and these differences continue to be absorbed by the management of corporate depositories, which are mostly government entities. The time has come to create a single open market - a platform for placing corporate deposits in Uzbekistan.

4) excessive volatility of rates of corporate deposits in foreign currency cannot be ignored. Last month, the average rate of corporate deposits in foreign currency increased from 3.5% to 4.3%. This month, these rates decreased from 4.3% to 3.2%. This happens only when a large depositor (most likely a state-owned fund) that occupies at least half of the foreign currency deposit market places and withdraws the deposit.

5) Based on the fact that lending operations, which are the main activity indicator of commercial banks, have a great impact on the formation and increase of bank capital, we can reduce the risks that may negatively affect the future activity of commercial banks by evaluating the process of loan allocation.

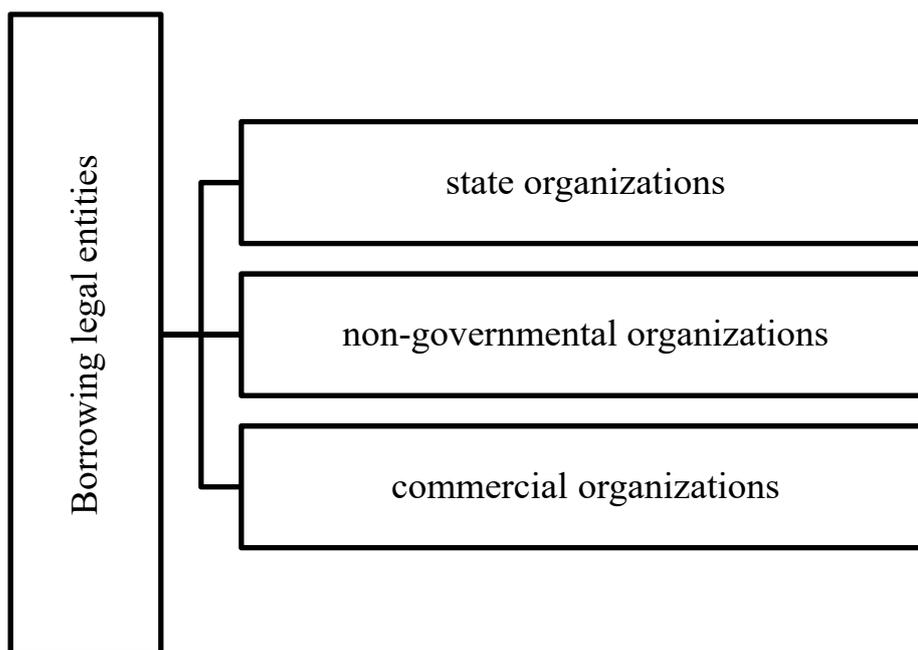
To do this, we will be able to divide the loans allocated by commercial banks into the main groups and develop a mechanism for evaluating their impact.

It is necessary to group the loans provided by commercial banks according to a number of characteristics.



3.1-picture. Credit facilities provided by commercial banks

In turn, we can achieve the set goal through a broader analysis of the above groups.



3.2-picture. Borrowing legal entities

Figure 3.2 shows the group of legal entities receiving loans, and below we will analyze their impact on banking activity by assessing the risks arising from credit obligations.

When analyzing legal entities receiving loans from commercial banks, it is necessary to analyze the purpose of the loan, guarantors for security and a number of other factors.

We can reduce credit risks by grouping individuals who use loans from commercial banks. As a result, the loss that can occur through improper use of bank capital is avoided.

The activity of commercial banks affects all economic processes. In addition to the above points, we can say that the economic relations between the participants of today's economic relations are closely related to each other. In particular, the fact that the demand for initial capital necessary for economic relations is met by commercial banks increases their importance. On the other hand, there is an urgent task of protecting the capital of commercial banks and the interests of clients. For this, it is necessary to take into account the requirements of the international Basel Committee, which develops regulatory and legal standards to regulate the activities of commercial banks.

The International Basel Committee has developed a number of measures and principles for the organization of banking supervision. In this scientific work, based on international experience, we will perform the task of developing a methodology for assessing the adequacy of bank capital to effectively organize the use of bank capital and reduce risks.

This methodology includes the recommendations of the International Basel Committee and serves to ensure effective capital management through risk management in commercial banks.

In controlling the activities of commercial banks, the International Basel Committee requires adherence to the following principles:

1. Commercial banks must have a capital adequacy assessment methodology. This methodology should assess the risks affecting the activity of commercial banks and have a strategy for ensuring capital adequacy;

2. The competent state bodies controlling the activity of commercial banks should monitor the strategy of ensuring the capital adequacy of commercial banks and its implementation. If commercial banks do not comply with the requirements for capital adequacy, the competent state body should have influence measures to regulate the activities of commercial banks.

3. The authorized state bodies controlling the activities of commercial banks may demand from commercial banks the adequacy of bank capital, which is higher than the minimum requirement for capital adequacy, taking into account market risks that are difficult to predict in advance.

4. If the capital adequacy of commercial banks is not ensured or if it falls short of the established minimum standard, the competent state bodies controlling the activity of commercial banks should have measures to apply quick action measures and ensure the fulfillment of the minimum capital requirements.

5. Regulation of the activity of commercial banks depends on the proper organization of the work of the bank management and internal control department. In order for commercial banks to be prepared for unexpected risks and to ensure the timely fulfillment of the requirements of the competent state body or the International Basel Committee, the bank's board of directors must have sufficient financial instruments and a methodology for calculating capital adequacy.

It is considered appropriate to organize the work of the bank management board as follows:

These analyzes are important for the effective organization of bank supervision and are widely used in international experience.

A capital adequacy analysis based on Figure 3.3 includes the following elements:

1. Existence of processes and procedures for identification, assessment and elimination of significant risks that may have a negative impact on the bank's activities;

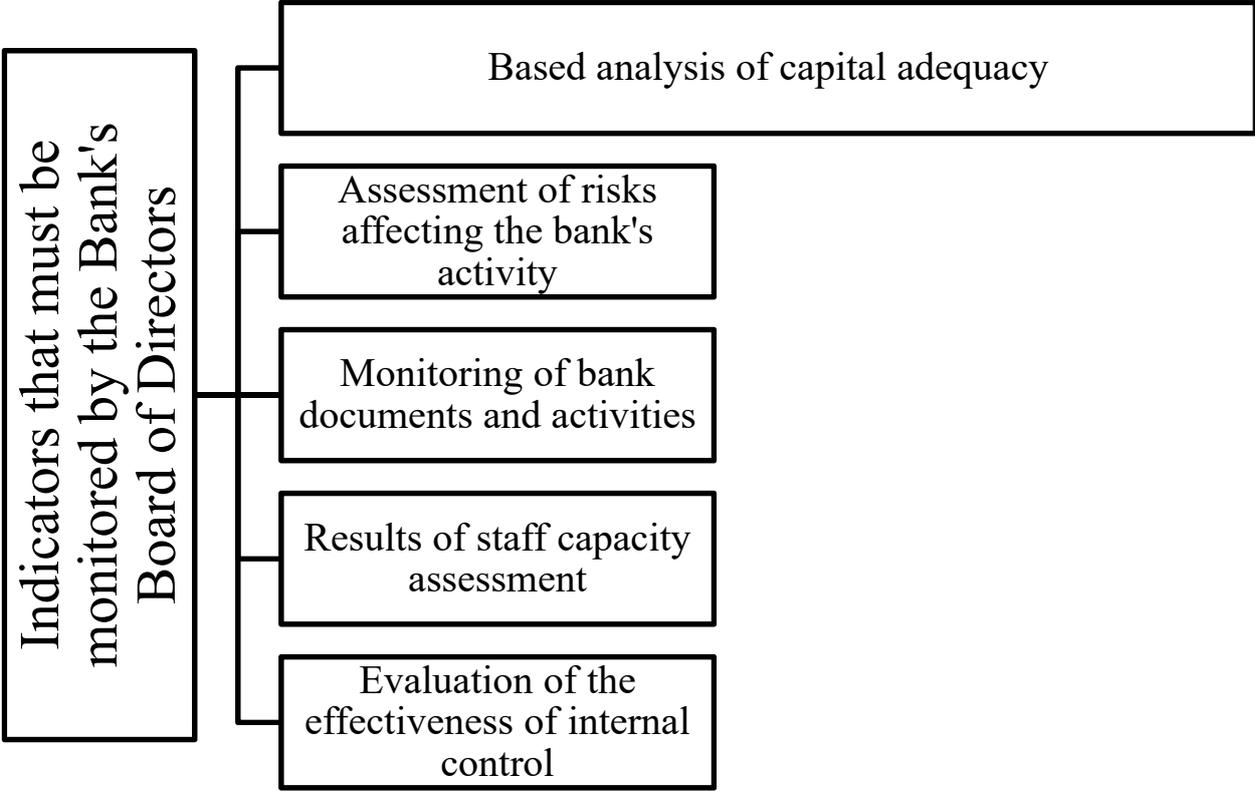


Figure 3.3. Bank control elements

- 2. Analysis of correlation of risks to bank capital;
- 3. Ensuring the adequacy of the bank's capital in determining the strategic plans and business plans of the commercial bank;
- 4. Availability and effectiveness of internal control, audit and monitoring departments in order to ensure generality in the management of the commercial bank.

Bank control elements help to ensure the adequacy of capital of commercial banks, as well as to ensure the continuity of their activities through a complex form of management.

In order to effectively introduce the new standards of the Basel Committee, in addition to the capital adequacy and liquidity requirements of commercial banks, we believe that it is an important aspect to create an internal risk assessment

system aimed at identifying, evaluating and eliminating risks. involvement serves as an advantage in the safe operation of commercial banks in the process of integration into the world financial system.

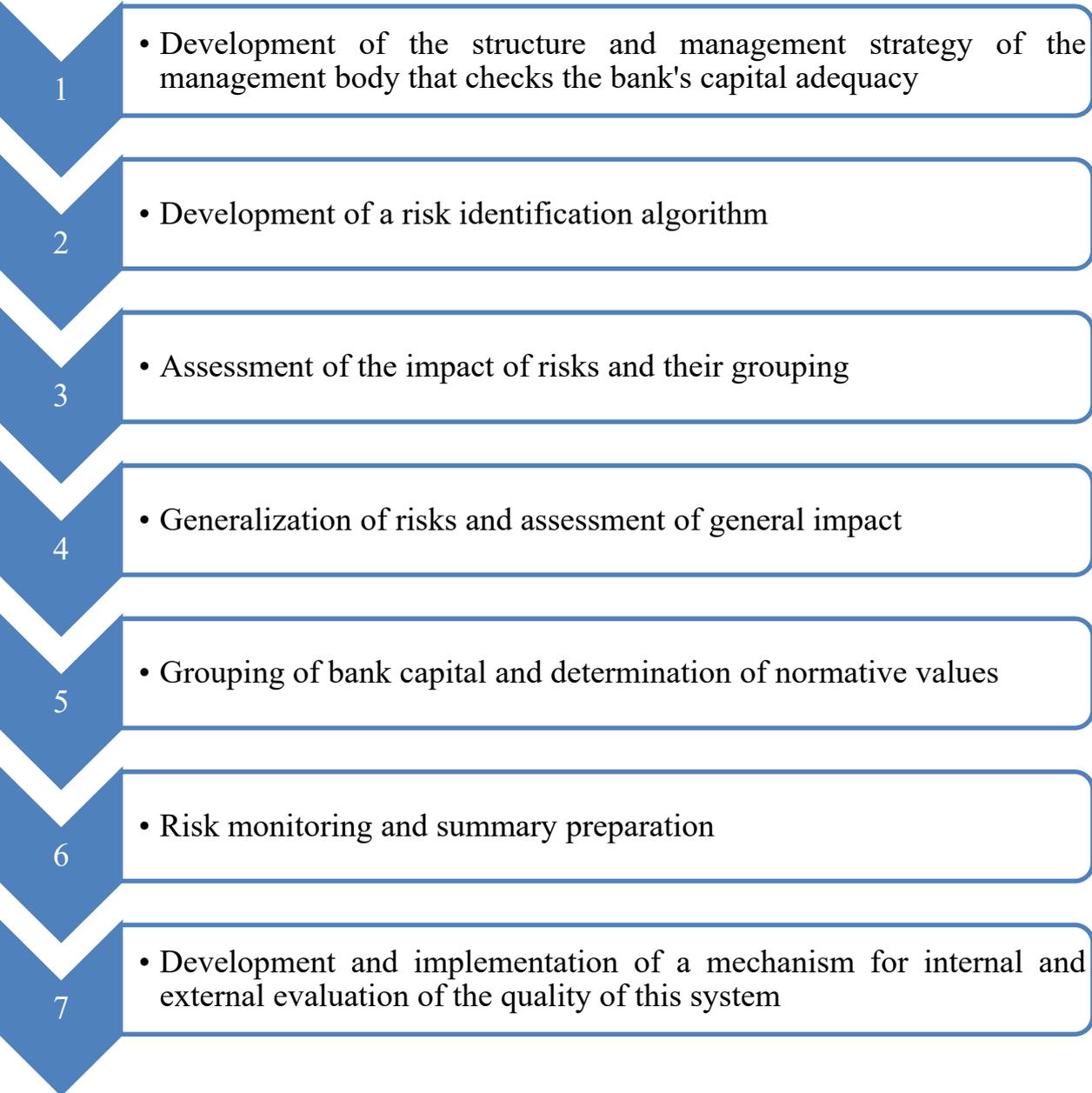
World experience shows that in the last 30 years, financial activities have been organized on the basis of high risk, as a result of which the level of intersection of interests at the global level has increased and their protection has become more complicated. This, in turn, shows that it is necessary to prepare in advance to be ready for unexpected changes, to protect commercial interests in the conditions of financial stagnation and crisis.

Commercial banks mainly organize their activities based on the capital of a large number of shareholders, as a result of which there is a need to protect the interests of not only banks, but also shareholders. It should be noted that the primary goal of this activity is to make a profit and increase the initial capital. Therefore, when organizing the management of commercial banks, it is necessary to choose such a strategy, which should increase profits, increase capital and reduce the consequences of unexpected risks under any circumstances.

When organizing the management of the bank, it is appropriate to use the analysis of the risk management and analysis, internal audit, monitoring departments of the board of shareholders, the management body in making their decisions.

It is recommended to develop the bank's development strategy for the long-term perspective rather than taking into account the short-term perspective when fulfilling the requirements for capital adequacy of commercial banks of the International Basel Committee.

Below we present the algorithm of risk management in the management of bank capital:



3.4-picture General structure of risk management affecting capital adequacy in commercial banks

3.4 represents the sequence of actions used for risk assessment based on the algorithm presented in Figure 4. International foreign experience was used to create this algorithm.

]The development of the structure and management strategy of the management body that checks the adequacy of bank capital is an organizational issue, and its organization is carried out by the Board of Directors of a commercial bank.

Development of a risk identification algorithm includes the identification and grouping of total risks that are likely to have a negative impact on the operations of commercial banks.

The issues of determining expected losses (EL) or unexpected losses (UL) by grouping risks are solved at the stage of risk assessment and grouping and risk generalization and general impact assessment.

At the stage of grouping and determining the normative values of bank capital, the correct assessment of the impact of risks is carried out by dividing the capital of commercial banks into groups such as internal bank capital, economic capital and regulatory capital.

At the stage of risk monitoring and preparation of a conclusion, it is necessary to monitor the interdependence of risks affecting the capital of commercial banks, how much they affect in which case, with the help of economic indicators, and use the obtained results in making management decisions.

In order for the above algorithm to work correctly and efficiently, it is important to establish appropriate departments in a commercial bank and create favorable conditions for qualified personnel, which will allow shareholders and the board of directors to obtain important analytical information in the management of the bank's capital.

At the next stage, we will analyze the issues of determining the risks affecting the capital adequacy and safety of commercial banks, setting their regulatory norms and reducing their impact.

3.2. Improvement of the methodology of identification and management of risks affecting the activity of commercial banks

Commercial banks develop and implement strategic development programs in the course of their activities. Today, in the conditions of economic relations based on high risk, it is important to reduce the consequences of lower risk.

Therefore, it is necessary to take risks into account in the development strategy and in ensuring the adequacy of bank capital.

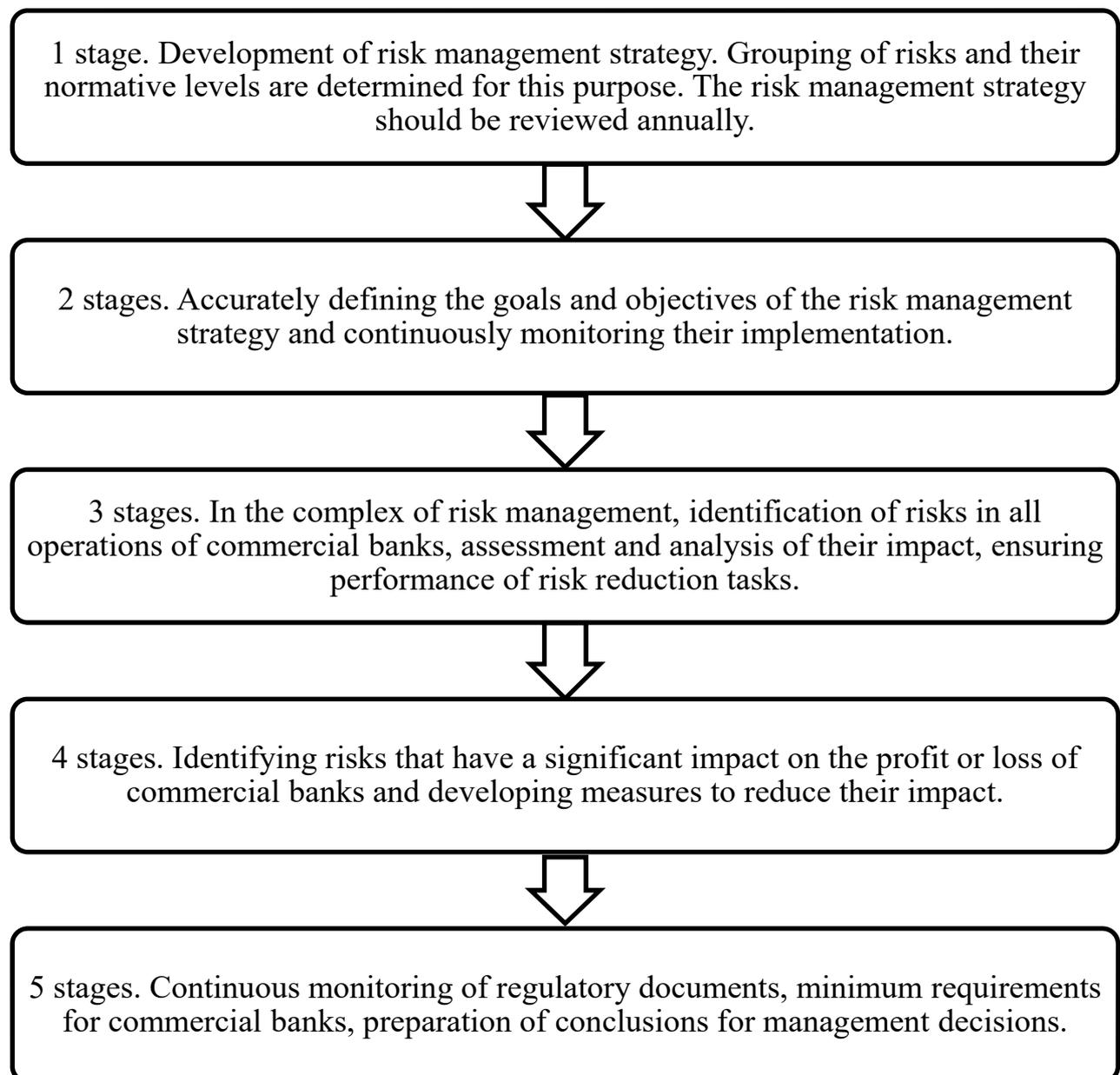


Figure 3.5. Risk management strategy

Figure 3.5 shows the risk management algorithm, which is an important element in ensuring capital adequacy of commercial banks.

Now we will group them to control the risks. In this case, we use the method of transition from general to specific. Because each risk has a specific effect, we can analyze their significance in detail through the deduction method.'

Common risks are:

- Credit risk;

- Liquidity risk;
- Shareholder risk;
- Market risk (stock exchange risk, interest rate risk, currency risk);
- Operational risk;
- Profit and loss risk;
- Counterparty risk;
- Insurance risk;
- Image and reputation risk of the commercial bank;
- Issuer risk;
- Inflation risk;
- Political risk;
- Social risk;
- Administrative risk;
- Strategic risk and other risks.

There are many factors and risks that can affect the activity of commercial banks, and the main group of risks was noted above. It would be appropriate to assess each of these risks using a deductive method and determine regulatory limits for commercial banks.

– Among the general risks, the following directly affect commercial banks, that is, if their share is higher than 2%, we group them as risks related to the activity of commercial banks:

- Credit risk;
- Liquidity risk;
- Shareholder risk;
- Market risk (stock exchange risk, interest rate risk, currency risk);
- Operational risk;
- Profit and loss risk;
- Counterparty risk;
- Insurance risk;
- Image and reputation risk of the commercial bank;

- Issuer risk;
- Strategic risk.

When evaluating the impact of non-controllable risks on commercial banks, we divide them into controllable and non-controllable risks. It is necessary to determine that the share of risks in total risks, which are not applicable to commercial banks, does not exceed 10%. Directly affecting risks, in turn, are again divided into groups and the share of each is determined.

If the total impact of the risk is higher than 3%, such risks are considered significant risks for commercial banks and we group them as follows:

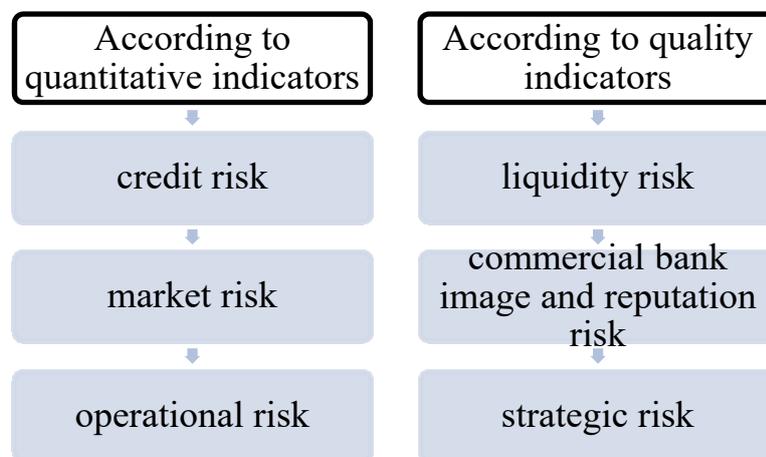


Figure 3.6. Risks that are important for commercial banks

After grouping the risks, we will identify them in the process of practical activity and analyze the impact assessment.

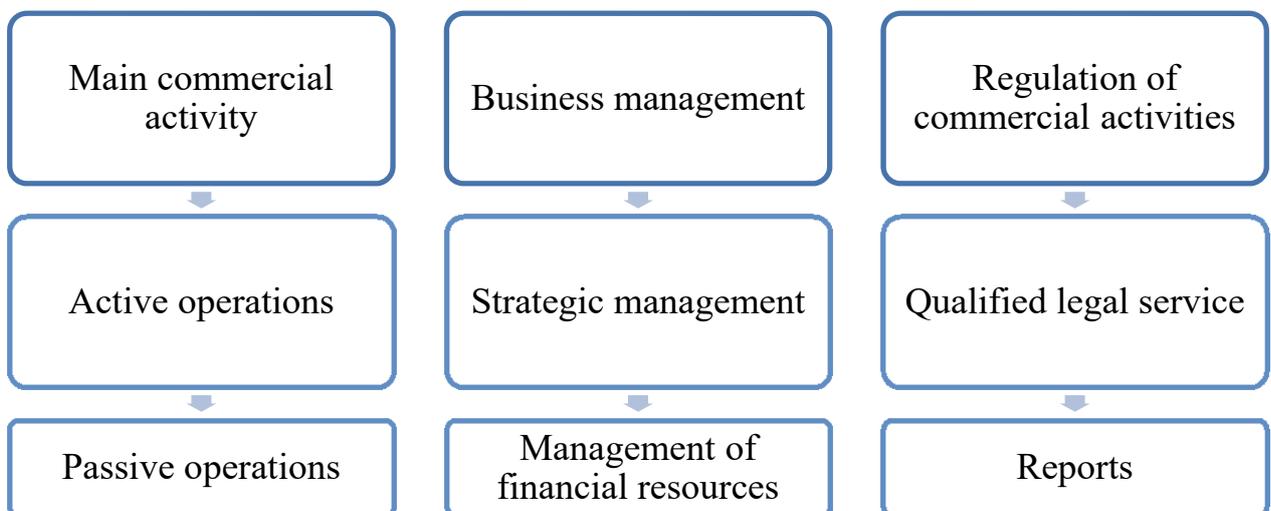


Figure 3.7. Hierarchical arrangement of business processes

In order to analyze capital in the activity of commercial banks and use it effectively, it is necessary not only to assess risks, but also to understand the essence of commercial activity. In Fig. 3.7, we hierarchically divided the activities of commercial banks into 3 main groups from the point of view of doing business. As a result of this grouping, it becomes easier to identify the stage of occurrence of the risks and the affected object.’

The risks we considered directly and indirectly affect the financial condition of commercial banks. As a result, the capital of commercial banks may suffer a certain amount of damage. In order to effectively evaluate and manage the capital of commercial banks, and to compensate for losses caused by risk-based activities, we analyze the capital by grouping it based on its economic nature.

The capital of commercial banks is divided into the following groups: internal capital consists of economic capital and regulatory capital. Through this grouping of capital, the internal control methodology for assessing the capital adequacy of commercial banks is developed.

Grouping of commercial banks in terms of capital adequacy		
Internal capital - capital intended to cover losses from expected risks and to carry out banking activities	Economic capital - capital used to cover losses from expected and unexpected risks over time	Regulatory capital is the capital set by the Central Bank and the International Basel Committee on the adequacy of commercial banks.

Figure 3.8. Grouping of bank capital

Capital adequacy requirements of commercial banks are intended to protect the interests of shareholders and bank customers, as well as to protect national economic interests by ensuring the continuity of banking activities.

To achieve the above goals, we recommend that commercial banks use the following methodology in their activities, analyzing several new methods used in global practice today:

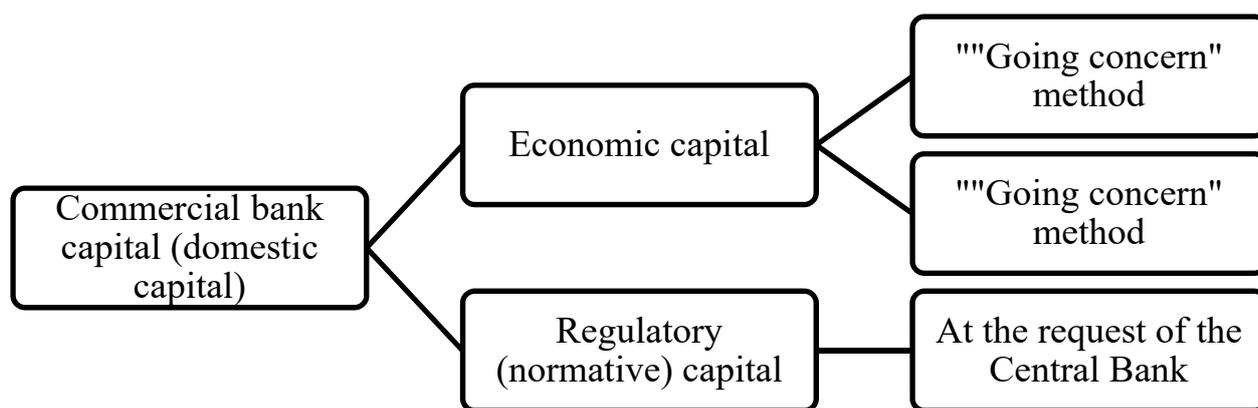


Figure 3.9. Methods of assessing risk impact on bank capital

Methods of assessing the impact of risk on bank capital

We have touched enough on regulatory capital in our analysis above. Using the "Going concern" and "Gone concern" methods used in the assessment of economic capital, it is used to assess the impact of risks on the capital of commercial banks. When applying the requirements of the International Basel Committee, it is desirable to prevent commercial banks from operating only for official requirements or statistical indicators, and to reduce the impact of real economic threats and manage them effectively. According to him:

"Going concern" method is a capital assessment criterion for the purpose of ensuring the continuity of activity, taking into account the impact of risks on the activity of credit organizations. The confidence level should be more than 90%.

"Gone concern" method is a method of assessing the capital of credit organizations to obtain reliable rating points in international ratings, which takes into account all types of risks that may affect the activities of credit organizations. The reliability (confidence level) of achieving the adequacy of bank capital and the principle of continuity of activity should not be less than 99.9%.

Identifying risks for banks and reducing their impact is of great importance for Uzbekistan today. Effective use of capital of commercial banks, support of entrepreneurship has risen to the level of state policy, the relevance of this topic increases even more.

When looking for an optimal solution for risk assessment in commercial banks, each factor that causes the emergence of risks should be considered. In turn,

we can divide the factors into such groups as economic, human factor and other unexpected factors.

Based on the standards of the International Basel Committee, it is based on the need for commercial banks to create internal systems and methods of risk assessment, as well as an individual approach to risks.

It is possible to develop effective methods of operational risk assessment as a result of grouping credit risk according to indicators such as customer category, type of activity and financial stability, as well as developing bank internal credit rating, introducing currency risk management practices by creating market risk assessment systems. This is of great importance in ensuring the stability of our national banking system, which is increasingly integrated into the world financial system.

It is also important that in the research process, the lack of information transparency in the banking system to ensure the reliability and reality of the analysis, the lack of statistics of many cases in the banking practice or the lack of reliability of the data, as well as interruptions in the periodicity of the data, interruptions in the generality of the indicators have shown that it is somewhat difficult to analyze the prospects of banking activity.

Therefore, by strengthening the requirements for ensuring the transparency of information on the activities of commercial banks, the requirement of promoting market discipline should be introduced into the banking control system of our republic. The main reason for this is that by fulfilling this requirement, the published information should allow market participants to make conclusions about the level of risk sensitivity of the bank's activity, capital adequacy and the level of risks.

In the course of our analysis, we have seen that the volume of reserve allocations intended to cover losses from loans in large commercial banks of the Republic of Uzbekistan is relatively high. In particular, according to the recommendation of the experts of the Basel Committee, the amount of reserve allocations of commercial banks intended to cover possible losses from loans

should not exceed 0.5 percent of gross assets. In many large banks of our country, this indicator is higher than 1 percent.

Due to the fact that reserves of commercial banks intended to cover possible losses from loans are made at the expense of bank expenses, the increase in the amount of reserves creates a strong negative impact on the financial stability of commercial banks.

Also, the wide range of powers and responsibilities of employees in banking activities not only reduces the productivity and quality of work as a result of increased workloads, but also leads to exceeding the level of operational risk.

A special feature of the banking system of Uzbekistan is that the country's economy has a strong degree of specialization in relation to large banks, medium and small banks. As a result of the violation of the principle of diversification of the loan portfolio in the large commercial banks of our country, the level of credit risk increases, and a negative effect on their profitability occurs. In order to solve these problems, it is important to develop and put into practice specific methodological recommendations for allocated loans.

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Table 3.1
Criteria for evaluating the performance of an employee working in the credit department

Criteria for evaluating the work of an official dealing with issues of credit allocation in commercial banks				
The employee's background in the banking industry: 1) "5" points with a higher education in the	The duration of the employee's work in the banking sector, in particular in the credit department:	The indicator that the employee received a disciplinary punishment:	According to the qualification of the employee: 1) "5" points that have been	Annual attestation of the employee on changes and innovations: 1) "5" points

<p>field of banking; 2) "4" points with higher education in other areas of economics; 3) "3" score with secondary-specialized education in the field of economics; 4) Not an expert in the field, score "2";</p>	<p>1) "5" points with work experience of 10 years or more; 2) "4" points with work experience of 5 years or more; 3) "3" points with work experience of 2 years or more; 4) "2" points with less than 2 years of work experience;</p>	<p>1) "5" points for not receiving disciplinary punishment in the last 5 years; 2) "4" points for not receiving disciplinary punishment in the last 3 years; 3) "3" score for not receiving disciplinary punishment during the last 1 year; 4) "2" points for receiving disciplinary punishment during the last 1 year;</p>	<p>improved during the last one year; 2) "4" points, who have improved their qualifications during the last two years; 3) "3" points for advanced training during the last three years; 4) "2" points, who did not improve their qualification over the last three years;</p>	<p>assigned to "excellent" grade; 2) "4" points assigned to "good" grade; 3) "3" points assigned to "satisfactory" grade; 4) "2" points assigned to the "unsatisfactory" rating;</p>
<p>Regarding the employee's service to legal entities: 1) score "5" without expecting any material benefit, without negative opinion; 2) "4" score for shortcomings, low quality of service; 3) There are kinship ties with the officials of the YuSh, score "3"; 4) "2" points for those who made gross mistakes and violated the principles of fairness</p>	<p>Regarding the employee's service to individuals: 1) did not expect any material benefit, no negative opinion score "5"; 2) "4" score for shortcomings, low quality of service; 3) there are kinship ties with clients, score "3"; 4) "2" points for those who made gross mistakes and violated the principles of fairness</p>	<p>According to the areas of credit allocation of the employee: 1) "5" points allocated to credit in various fields; 2) "4" points for a large volume of loans to individuals; 3) separate types of loans less than 10 "3" points; 4) "2" points less than 5 allocated credit types;</p>	<p>According to the elements of the administrative-territorial unit to which the loan was allocated: 1) "5" points allocated to more than 50 NCC and VCC; 2) "4" points allocated to NCC and VCC less than $40 \leq x < 50$; 3) "3" points allocated to NCC and VCC less than $30 \leq x < 40$; 4) "2" points assigned to less than 30 NCCs and VCCs;</p>	<p>Problematic level of loans allocated by the employee: 1) $30 \leq x < 50$ but less than 200 million soums "5" score; 2) $50 \leq x < 75$ but less than 300 million soums, score "4"; 3) $75 \leq x < 100$ but up to 500 million soums, score "3"; 4) More than 100 and more than 500 million "2" points.</p>

Based on the information in the above table, the work performance of the official dealing with the issues of credit allocation in commercial banks is evaluated. We present our evaluation proposals in the table below.

Table 3.2
Standards and results of employee performance evaluation

Standards and results of employee performance evaluation (x here is the score received by the employee)	$50 \geq x$ up to >43 points	$43 \geq x > 35$ points	$35 \geq x > 30$ points	Less than 30
	If the score received by the employee falls within this range, encourage this employee and create conditions for him to conduct his work in this way in the future.	If the score received by the employee falls within this range, consideration of issues of qualification improvement and promotion	If the employee's score falls within this range, qualification improvement, retraining or transfer to another position	If the employee's score falls within this range, review the employment contract concluded with him

This assessment should be conducted by commercial banks once a year, and the results should be analyzed. Regardless of the field, if we take into account that the final result is formed based on the decision made by a person, we can achieve the effectiveness of the activity through the analysis of personnel and their work. In addition, it is important to conduct a general analysis and draw a conclusion on other risks affecting the bank's capital adequacy.

Conclusion and suggestions for the third chapter

To sum up, Basel standards should be introduced to the bank control system of our republic by strengthening the requirements for ensuring the transparency of information on the activities of commercial banks, promoting market discipline and enforcing discipline. By fulfilling this requirement, the published information should allow market participants to draw conclusions about the level of risk sensitivity of the bank's activity, capital adequacy and the level of risks. In the third chapter of the scientific work, the mechanisms of increasing the efficiency of capital use of commercial banks were analyzed. As a result, the issues of reducing the negative impact of financial operations of commercial banks on

banking activities were analyzed, and a risk assessment methodology was developed for the purpose of increasing bank capital adequacy, and a proposal was sent for implementation. Also, a methodology for reducing risks by evaluating the performance of employees responsible for increasing the resource base for bank capital, preventing problem loans in commercial banks was developed and a proposal was sent for implementation.

CONCLUSION

The importance of capital in the development of the country's economy is higher than other economic resources. Effective use of available economic resources, achieving economic well-being through proper distribution of capital has been important in all eras. The role of banks in the proper distribution of capital and the provision of funds to the developing sectors and sectors of the economy is incomparable.

It is known that an increase in cash in circulation leads to inflation and a decrease in the purchasing power of the population. Therefore, analysis of banking system activity is of urgent importance.

Based on the relevance of the topic, in the first chapter of this scientific work, the capital of commercial banks and the theoretical basis of their evaluation, the composition and functions of the capital of commercial banks and the methods of its economic evaluation, the legal basis of the evaluation of the capital of commercial banks and foreign experience were studied and analyzed.

In addition to these scientific achievements, the national legal framework and foreign experience of bank risk management, monitoring of bank capital adequacy, liquidity, asset and liability operations, and foreign experience were studied and analyzed.

The following scientific and practical recommendations were developed in accordance with the conclusions formed based on the research results:

1. The concept of the bank was given an author's definition based on its functions today;

2. Today, due to the confusion in the definition of the concepts of resources and capital of commercial banks, the resources of commercial banks were defined as follows, that is, the resources of commercial banks are the funds at the disposal of the banks, the authorized capital and the funds generated as a result of passive operations of the bank and other valuable assets. is a complex of papers.

3. According to the results of the analysis, the following author's definition was given to the concept of bank capital: bank capital is private capital in the liabilities of the bank balance, which is necessary for the implementation of commercial and financial activities by banks. Bank capital should be a guarantee of the risks taken by depositors, creditors and founders in order to profit from banking activities.

4. In order to fulfill the requirements for the adequacy of the capital of commercial banks, it is necessary to analyze its composition, assess its current and future status, and increase the volume of additional capital by 15% on the basis of mixed obligations in the amount of not more than one third of the I-level capital after discounts in order to improve management efficiency. identified; It is necessary to improve the methodology in accounting for the capital of commercial banks. It should be noted that such a methodology should not be in a strict form. That is, it is more effective to use a methodology that is able to respond quickly to market relations and macroeconomic changes.

5. 5. It was determined that there is an opportunity to increase the financial stability and capitalization level of commercial banks up to 25% by allocating not less than 15% of their undistributed profits to reserve capital.

6. The conditions for accounting for credit risk in Annex 3 of Regulation AV 2693-6 No. 3 "On the requirements for capital adequacy of commercial banks" create difficulties in the activity of commercial banks. It is suggested that it is economically justified to ensure the independence of commercial banks in determining the credit rate, to create the opportunity to offer loans to customers at

different rates based on the economic activity of their customers when forming the credit rate.

7. Implementation of the requirements of the International Basel Committee as a result of the use of the "Going concern" and "Gone concern" methods in the methodology for assessing the capital adequacy of commercial banks and the need to create an additional reserve in the amount of 3.0% of the capital conservation buffer taking into account the risks recommendations on capital formation were developed;

8. Based on the results of the analysis of loans that affect the capital formation of commercial banks and their timely repayment, it is recommended to put into practice the methodology of assessing the performance of employees to prevent credit risks.

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IV. List of definitions and terms.

1. JSC - joint stock company;

2. JSCB - joint-stock commercial bank;

4. NAS - National Accounting Standard;

7NSFR - National standards of financial reporting;

9. PD - President's decision;

10. PD – Presidential decree;

11. IAS - International Accounting Standards
12. IFRS - International Financial Reporting Standards
13. GAAP - Generally accepted accounting principles

ERGASHEV AHMADJON

**IMPROVING THE MECHANISMS OF
ECONOMIC EVALUATION OF THE
CAPITAL OF COMMERCIAL BANKS**

(Monograph)

Muharir: Ilxomjon Xalilov
Musahhih: Nodira Jumabayeva

Bichimi: 60x84 1/16. Hajmi: 6,75 bosma taboq.

Ofest usulida bosildi. Buyurtma – 159

Adadi: 300 nusxa. Bahosi kelishilgan narxda.

**Fan ziyosi nashriyoti. Toshkent shahar,
Shayxontovur tumani Navoiy ko'chasi 30 uy.**

Tasdiqnoma raqami 3918.

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