

## THE ROLE OF THE BANK'S INITIAL PUBLIC OFFERING IN INCREASING THE CAPITALIZATION OF COMMERCIAL BANKS

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### ABSTRACT

*This article presents the theoretical and legal foundations of modern ways to increase the capitalization of commercial banks. In addition, data on the initial public offering (IPO) of bank shares, which will be held by commercial banks in the coming years, are analyzed and the relevant conclusions are given.*

**KEYWORDS:** *Commercial Banks, Level Of Capitalization, IPO, SPO, Financial Stability.*

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### INTRODUCTION

Increasing the capitalization of commercial banks is, first of all, one of the most important factors for the sustainable functioning of banks, as well as for the economic development of the country. Therefore, increasing the capital of banks has become one of the urgent tasks of today [1].

Increasing the level of capitalization and strengthening the financial stability of commercial banks is a necessary conditions for ensuring the stability of the country's banking system. In this regard, in the "Strategy of actions for the further development of the Republic of Uzbekistan", approved by the Decree of the President of the Republic of Uzbekistan dated February 7, 2017, No. UP-4947, deepening and ensuring the sustainability of the banking system reform, increasing the level of capitalization and, strengthening the financial stability of banks are identified as priority areas for the development of the banking system of the country. Financial market protection also includes measures to prepare for the initial public offering (IPO) of individual national enterprises on prestigious foreign stock exchanges [2].

Primary (IPO) and secondary (SPO) public offering of shares despite the fact that it has already begun to be used in the world practice and mass placement is widely used in developed countries, we believe that this process is a relatively new financial mechanism in our republic, therefore it should be studied and studied even more deeply. Because if joint-stock companies (JSC) want or need to increase the level of capitalization by attracting additional resources at the expense of new shareholders, this can be done using the above mechanisms. The effective use of these mechanisms in international practice has yielded results.

For the first time, the public offer of primary (IPO) and secondary (SPO) shares in our republic is presented in the Decree of the President of the Republic of Uzbekistan dated January 17, 2017, No. UP-4933 "On measures to accelerate the sale of state-owned objects for business purposes and, further simplify the procedures for its implementation"[3]. In order to ensure the

implementation of this Decree, as well as the introduction of forms of disposal of state property objects widely used in international practice and attracting broad segments of the population to the stock market, the relevant resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 268 dated 10.05.2017 "On the organization of a public offering of shares on the stock exchange" was adopted. In accordance with this resolution, from December 5, 2017, the first step was taken in this market by placing shares of Quartz JSC by IPO.

The development of the securities market in Uzbekistan is associated with an increased role of financing the activities of commercial banks [4]. At the same time, one of the most popular and dynamically developing forms of investment financing is the initial public offering of shares. In addition, the initial public offering of shares (IPO) is increasingly becoming one of the most promising tools for attracting financial resources [5]

## Literature review

In the existing economic literature, the concept of "capitalization level" is studied by foreign scientists and specialists and an appropriate definition is given. At first, A.B. In Borisov's "big Economic dictionary", "capitalization" refers to that part of the bank's capital that was received from the issuance and sale of the bank's securities, and from its profit –the part that grew due to funds allocated for the creation of certain reserves " [6].

Many foreign economists paid attention to the problems of the IPO market in their works. N. Liang [7] M. Dikl [8], V. Mehmud [9], K. Song and a number of other economists [10-14]. However, despite the weak importance of the banking sector for the economy, the issue of IPO in this sector is given little attention in the scientific community.

S.A.Ross, R.V.Westerfield, and B.D.Jordan, however, considers the stages of the IPO process, the IPO price, and changes in the share price after the IPO, explaining this as an important and high way of raising capital [15]. A.A.Turchenko in his scientific research studied the information of the company 91 about the purposes of the IPO and the directions of using the raised funds [16]. Ph.D A.Shomirov studied the content of IPO, its importance and stages of attracting investments in joint-stock companies operating in the country, as well as its advantages and disadvantages. [17]. S.E.Elmirzaev analyzed the current state of capital raising through mass placement of shares in the republic and pointed out the shortcomings in this process [18].

Namely, In his scientific work, I.B.Tursunov substantiated the directions for the formation of effective corporate governance through internal IPOs to increase the activity of commercial banks in the securities market. [19]. Russian economist V.A.Belyaev analyzed the dynamics of IPO operations in the banking sector for the years 2000-2020 [20].

## Research methodology

Methods of grouping, comparison, system approach and structural analysis were used in the article.

## Result

An initial public offering (IPO) is an initial public offering of shares on the stock market with an advertising campaign among investors, the number of which is not limited, by means of an additional issue of shares. Also in practice, there is a sale of shares based on SPO (secondary public offering). Secondary public offering (SPO) is a secondary public offering of shares on the securities stock market among investors, the number of which is not limited, by issuing shares owned by them for sale by existing shareholders.

Primary (IPO) and secondary (SPO) public offering of shares of commercial banks to increase the level of capitalization for the first time in our practice, the relevant resolution of the Cabinet of

Ministers of the Republic of Uzbekistan No. 358 dated April 26, 2019, "On the organization of primary and secondary public placement of shares on the Stock Exchange" was adopted [21]. This resolution defines the following list of commercial banks in which the initial (IPO) and secondary (SPO) public offering of shares is carried out.

**TABLE 1 THE LIST OF COMMERCIAL BANKS IN WHICH THE PRIMARY AND SECONDARY PUBLIC OFFERING OF SHARES IS CARRIED OUT**

№	Name of the joint-stock company	The organizer of the public offer of the action	Sale type
1.	Joint-Stock Commercial Bank "Uzpromstroybank"	Joint-Stock Commercial Bank "Uzpromstroybank"	IPO
2.	Joint-Stock Commercial Bank "Asia Alliance Bank"	Joint-Stock Commercial Bank "Asia Alliance Bank"	IPO
3.	Joint-Stock Commercial Bank "Aloqabank"	Fund for reconstruction and development of the Republic of Uzbekistan and JSC "Uzbektelecom"	SPO

In addition to the above resolution, the Decree of the President of the Republic of Uzbekistan dated April 13, 2021, No. UP-6207 "On measures for the further development of the capital market" was adopted. In accordance with it, the list of companies whose shares will be publicly listed on the stock exchange in 2021-2023 has been approved. There are 15 large companies on this list, five of which are commercial banks. We can see this in the table below.

**TABLE 2 LIST OF COMMERCIAL BANKS WHOSE SHARES ARE DETERMINED TO BE PLACED PUBLICLY THROUGH THE STOCK EXCHANGE IN 2021-2023**

№	Name of the Joint-Stock Company
1.	National Bank for Foreign Economic Activity of the Republic of Uzbekistan
2.	Joint-Stock Commercial Xalq bank of the Republic of Uzbekistan
3.	Joint-Stock Commercial Bank "Agrobank"
4.	Joint-Stock Commercial Microcreditbank
5.	Joint-Stock Commercial Bank "Qishloq Qurilish Bank"

The next legal act related to the increase in the level of capitalization of banks is the Decree of the President of the Republic of Uzbekistan dated March 18, 2022, No. PP - 168 "On additional measures to further reduce state participation in the economy and accelerate privatization". This resolution sets deadlines for the privatization and public placement of shares of banks in Uzbekistan. The resolution specifies "Qishloq Qurilish Bank", "Uzpromstroybank", "Asakabank", "Xalq bank", "Microcreditbank" and other banks.

**TABLE 3 LIST OF COMMERCIAL BANKS OF PUBLIC OFFERING THE SHARES IS CARRIED OUT THROUGH THE STOCK EXCHANGE**

№	Name of Commercial Banking training	Aksiyalarni ommaviy taklif etish muddati	Type of sale
1.	JSCB"Qishloq Qurilish Bank"	2022 year until 1 October	IPO
2.	JSC"Aloqabank"	Until 1 July 2023 year	IPO
3.	JSC"Xalq bank"	Until 1 July 2023 year	IPO
4.	JSC"Microcreditbank"	Until 1 July 2023 year	IPO

5.	JSCB“Agrobank”	Until 1 July 2023 year	IPO
6.	“National Bank” JSC	Until 1 July 2023 year	IPO

These public offers provide that the shares of the above-mentioned commercial banks will be put up for sale in the amount of 10% of their authorized capital. But so far, the above-mentioned commercial banks have not made public offers. In fact, in banking practice, it is necessary to conduct primary (IPO) and secondary (SPO) public offerings of shares. Because by placing the bank's shares through IPO and SPO mechanisms, a commercial bank can attract the necessary resource and significantly increase the level of capitalization. And the population can become a shareholder of successfully functioning leading commercial banks.

Although many experts have spoken about the IPO, the history of its origin and the advantages of using this method, as a note, we will briefly focus on it.

Through IPOs, companies mainly pursue the following goals: long-term capital raising from a wide range of investors; modernization of production facilities; expansion of working capital; reduction of debt burden; increasing the prestige of the company; financing of promising projects, etc. IPOs began to be massively carried out in the late 90s of the last century. Then, in just one year, more than 200 companies conducted an IPO worth 200.0 billion US dollars. First, the United States was in the lead, then European countries and Chinese companies. IPOs are still successfully conducted by the world's leading companies.

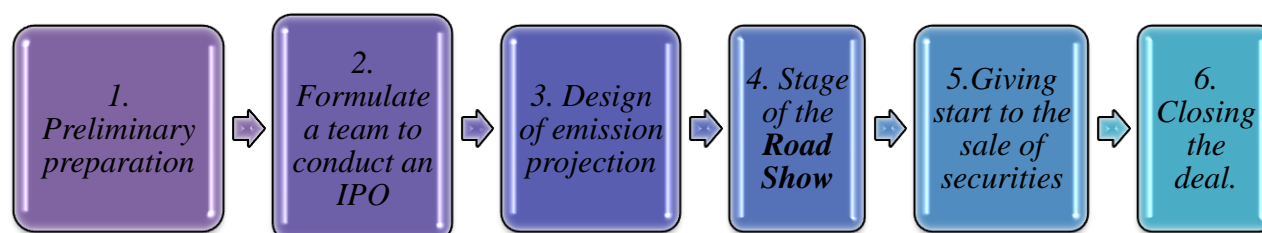
IPO on our national stock market some argue that the mass sale of shares on the stock market as a result of privatization, which began in the first years of independence, although this process is not officially called an IPO, it is very similar. However, it should not be forgotten that during the initial privatization, shares were sold, which were mainly state assets. In an IPO, a company acts as the initiator.

Due to the fact that the method of an initial public offering of shares (IPO) is being implemented for the first time in the history of the domestic stock market, special attention was paid to the qualitative organization of this process, attracting broad segments of the population to it. According to the results of the IPO, Quartz JSC received an additional 7523.81 million of working capital. Part of these funds will be used to cover the costs of the IPO. The rest goes to the modernization of production facilities at the enterprise, the installation of new modern equipment. In addition, since April 9, transactions for the purchase and sale of shares of Quartz JSC have been concluded on the secondary market of the stock exchange. Every day this activity is gaining momentum, the average cost of each share is 5000 soums. Thus, the company's shares led to a further revival of the stock market, awakening interest among citizens in shares, which in practice proved that securities are a source of income. It is not surprising that at the end of the year JSC Quartz ranks first in terms of the number of transactions on the stock exchange. We believe that the IPO, conducted for the first time in the history of the stock market of our country, was successful. The experience gained in this process will undoubtedly be useful to ensure the effectiveness of the upcoming IPO. A group of our citizens expresses satisfaction that they are shareholders of a financially stable joint-stock company [22].

The basis for an IPO may be a public offering of shares by open subscription with an advertising campaign among investors, the number of which is not limited, which is practiced in international practice. Conducting an IPO requires compliance with a certain procedure, that is, conducting an advertising campaign called Road Show in international practice.

Of course, the placement of the bank's shares on the stock exchange can bring him considerable profit. However, before proceeding with the preparation of an initial public offering of shares, a commercial bank needs to define its strategic goals. To do this, any joint-stock company

conducting an IPO procedure must develop an investment project and present it to potential investors. Because investors, including the population and business entities wishing to purchase shares through an IPO in the future, should have an idea of the purposes for which their invested funds will be spent. We believe that the preliminary public offering of bank shares should take place in several stages. We can see this in the picture below.



**Figure 1 The initial public offering of shares of commercial banks is carried out in the following stages**

The above stages of the initial public offering of the bank's shares are very important for banks. For example, at the first launch, banks must meet certain requirements several years (usually 1-2 years) before the initial public offering of their shares. In particular, in order to conduct an IPO, commercial banks need to constantly prepare a clear and carefully drawn up business plan and financial statements. Then a team is formed to conduct an IPO. This community may include audit firms, investment banking, as well as law firms. Then a prospectus for the issue of securities is drawn up. This process is the main tool for attracting investors to the bank. It should be noted that the issue prospectus should contain the most complete and transparent information about the bank issuing shares. As a rule, the issue prospectus contains financial statements for the last five years, information about the target audience, prospects and development plans, as well as characteristics of management personnel. The most basic stage is the stage of the Road Show. Investors, as well as large depositors, such as banks, various funds, insurance corporations, participate in Road Show events and meetings that are held in different places. The road show usually lasts about a month. Every day at the Road Show, the bank's management will have to hold at least two meetings with potential buyers of securities. This is considered a very important stage in the preparation of an IPO, and also during this period the underwriter begins to compile an order book. After the completion of the Road Show, the founders of the bank will hold a meeting with representatives of the investment bank, at which they will confirm the size of the issued shares, as well as at what price they will be offered to investors. The number of securities and their value are formed on the basis of a preliminary assessment of demand for them. After that, the sale of securities is launched. After the stock price is clearly determined and confirmed, an announcement will be made about the start of the IPO (as a rule, the public announcement takes place after the closing of all trading on the stock exchange). The securities begin to be distributed between the underwriters and their partners. The process of selling shares begins the next day at the same time as the working time of the exchange. At this stage, the leading investment bank should control the implementation process, ensuring a stable value of securities. At the last stage, the transaction stage takes place. The transaction is considered completed if the bank has transferred the stake to its underwriter, and the underwriter, in turn, has fully transferred the funds to the bank account (the process usually takes three days). Exactly one week after the completion of the transaction, the public

offering will be officially announced as successful, and twenty-five days after the IPO begins, the period of silence will end. Only after this period, team members get the right to make a public statement about the forecast price of the bank, as well as recommend the purchase of securities to potential investors.

## CONCLUSION

Raising funds through IPO operations is one of the most attractive sources of financing for commercial banks in the face of increasingly stringent capital adequacy requirements and the need for additional funds to increase the loan portfolio. It follows from this that the most modern way of attracting resources by commercial banks is the public offering of primary (IPO) and secondary (SPO) shares. This method is considered to be sufficiently developed in foreign banking practice. To apply this method in the banking practice of the republic, it is necessary to effectively use the stages of the initial public offering of bank shares. Through the steps listed above, commercial banks can increase their capitalization as a result of the initial public offering of their shares. As a result, the commercial bank receives additional financial resources.

Thus, as can be seen from the above information, we consider it appropriate that commercial banks of the republic also use the initial (IPO) and secondary (SPO) public offering of their shares, which are modern methods of increasing the level of capitalization of the bank.

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