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ANALYSIS OF DIVIDEND POLICY AND INTEREST RATE POLICY OF COMMERCIAL BANKS ON BONDS

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A B S T R A C T

The article examines the meaning and significance of the concept of "Analysis of the dividend policy of commercial banks and interest rate policy on bonds", the level of profitability and liquidity when attracting financial resources from the capital market through securities, the level of profitability. on preferred shares, the profitability of corporate bonds, the practice of paying dividends in the case of Ipotekabank OTP is implemented.

K E Y W O R D S

Dividend policy, capital market, securities, investments, financial resources, portfolio investments, stock market, capital market, financial resources, shares and bonds, economic growth, monetary policy, financial intermediation, liquidity level.

Introduction

Today, in world practice, it should be noted that commercial banks actively participate in the stock market both as issuers and investors. In our national practice, in most cases, banks participate in the stock market as issuers. Today, there are 33 commercial banks operating in our republic, and it should be noted that the shares of 17 of them are listed on the Tashkent Republican Stock Exchange. Also, only four bank shares are classified in the Standard category. 13 commercial bank shares are classified in the Transit category and are traded on the stock exchange.

Profitability and liquidity are the first issues of interest to investors when commercial banks raise financial resources from the capital market through securities. In this case, the requirement for profitability is expressed as follows.

Literature review

Currently, the analysis of the dividend policy of commercial banks and interest policy on bonds, the issue of increasing their activity is one of the issues in the attention of researchers and economists at the national and international level. This is to some extent caused by the multifaceted participation of commercial banks in the securities market. That is, banks are trying to increase activity in the stock market, diversify the composition of financial resources and income by attracting capital through the issuance of securities, investing in securities, placing securities of other issuers on the basis of mediation. Therefore, there are commonalities and specific differences in the views of researchers in this regard.

I.R. Baibekov conducted research on the formation of bond portfolios through the activities of commercial banks in the stock market. The main attention is paid to the methodology for qualitatively assessing bond issuers in terms of diversifying the bond portfolio from the point of view of diversifying bank income[1].

Commercial banks in the United States may raise capital by placing their stocks, bonds, and certificates of deposit on the stock market, and “invest their funds in the securities market primarily in federal, state, or local bonds.”[2] This can be explained by the fact that, due to the Great Depression of 1929-1933, commercial banks were prohibited from investing in high-risk securities. “Banks are prohibited from owning high-risk securities such as stocks or corporate bonds. There are no restrictions on the purchase of Treasury securities due to their low risk and high liquidity.”[3] In the United States, commercial banks are also not allowed to engage in financial intermediation activities related to securities. It is also clear from the above that certain limits can be set on the banks’ access to the stock market.

N.M. Giblova studied the interaction between the stock market, commercial banks and the real sector of the economy. In it, the researcher shows the real sector of the economy - the issuer of securities as a consumer of investment resources, the stock primary market - a channel that provides income for the purpose of financing investments, and banks as investors who buy securities [4]. As we can see, the researcher mainly focused on the role of commercial banks as investors.

A group of scientists led by O.I. Lavrushin has comprehensively studied the types of banking activities in the securities market within the framework of commercial banks' operations with securities, the issuance and placement of banks' own securities, commercial banks' investments in securities, banking operations in servicing government securities and REPO transactions, and the activities of banks as professional participants in the securities market[5]. In this regard, the intermediary activities of commercial banks in the stock market have been ignored.

ANALYSIS AND RESULTS

Based on the data in the figure below, we can note that the yield of government securities serves as a target for investors. Because government securities are treated as risk-free assets. In turn, the risk premium for other financial assets should be paid to investors.

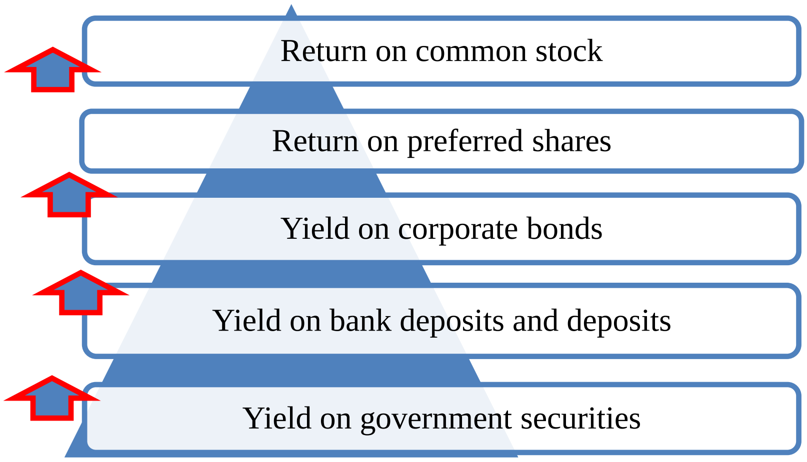

Figure 1. Investors' demand for profitability in the financial market[1]

[1] Compiled by the author.

The yield on corporate bonds, in turn, is expected to yield higher returns than government securities and bank deposits. Otherwise, the investor will not direct his investment to the corporate bond.

The yield on preferred shares is usually fixed in the charter of the issuer and tends to be higher than that of corporate bonds. And common stock is a high-risk asset in the financial market. Therefore, their yield should be higher than that of corporate bonds. Otherwise, interest in shares of commercial banks, like any issuer, will be low, and as a result, the issue of liquidity of shares will remain extremely low.

During the analyzed period, the dividend level on ordinary shares is significantly lower than even deposit and savings interest. In such conditions, it is natural that interest in Uzsanoatskrilishbank JSCB shares will drop sharply, and existing minority shareholders will also seek to get rid of their shares as soon as possible. It should also be noted that in the absence of guaranteed profitability, the loss will primarily fall on the minority investor, and their interests will not be ensured. As of the end of 2019, 50.1 percent of net profit was directed to dividends. As of the end of 2020, this amount is zero. As the share of preferred shares in the authorized capital decreases, the amount of preferred shares dividends in the distribution of net profit also has a downward trend.

The payment of partial dividends by the issuer and the allocation of part of the profit to the authorized capital by increasing capitalization does not have a positive effect on the liquidity of the shares of commercial banks, as does any issuer. On the contrary, the allocation of a large part of the profit to dividends serves as an advertisement for the issuer's shares and contributes to the increase in the share price and the success of any subsequent securities issues. Therefore, we believe that in the future, each issuer should pay attention to this aspect.

The bank also does not pay quarterly or semi-annual dividends, a problem that can be encountered in other state-owned commercial banks.

If we pay attention to the practice of dividends in the example of Ipotekabank ATIB, this bank also has aspects similar to the dividend practices of Uzsanoatkurilishbank ATB. First of all, the low level of dividend on ordinary shares attracts our attention.

An analysis of Ipotekabank JSCIB dividend payments shows that the level of dividends on ordinary shares in this bank is significantly lower than the market yield. In particular, while a relatively higher dividend was paid for the 2007-2012 fiscal years, dividends of 8, 6, and 8 kopecks were paid for 1 soum of stock for the 2016-2021 fiscal years.

The dividend on preferred shares is relatively high. For the last three fiscal years, preferred shareholders have been paid 25 percent of their earnings, which is a dividend. For the fiscal years 2007-2012, this figure was 40 percent.

Table 1 Analysis of dividend payments of Ipotekabank ATIB[2]

Year of payment	By year-end	Ordinary shares (in sums per share)		Preferential shares (in sums per share)		Nominal value (sum)
		In the form of money	Capitalization in the form of	In the form of money	Capitalization in the form of	
2007	2008	200,00	-	400,00	-	1 000,00
2008	2009	-	-	400,00	-	1 000,00
2009	2010	130,00	-	400,00	-	1 000,00
2010	2011	150,00	-	400,00	-	1 000,00
2011	2012	150,00	-	250,00	-	1 000,00

[2] https://ipotekabank.uz/investors/dividends/ - Information on the site of the mortgage bank ATIB

Year of payment	By year-end	Ordinary shares (in sums per share)		Preferential shares (in sums per share)		Nominal value (sum)
		In the form of money	Capitalization in the form of	In the form of money	Capitalization in the form of	
2012	2013	40,00	360,00	250,00	360,00	1 000,00
2013	2014	68,00	340,00	317,50	340,00	1 360,00
2014	2015	85,00	450,00	403,75	450,00	1 700,00
2015	2016	-	672,00	509,40	672,00	2 150,00
2016	2017	-	756,00	705,50	756,00	2 822,00
2017	2018	54,00	448	894,50	448	3 578,00
2018	2019	0,08	-	0,25	-	1,00
2019	2020	0,06	-	0,25	-	1,00
2020	2021	0,08	-	0,25	-	1,00
2021	2022	-	-	0,25	-	1,00
2022	2023	-	-	0,25	-	1,00

The bank also applied dividend payment practices by increasing capitalization in 2011-2016 based on the results of 2010-2015. In this case, the bank increased capitalization by increasing the nominal value of shares and issuing additional shares. Based on the results of 2019-2023, no dividends were paid on ordinary shares at all, and a dividend of 25 percent was paid on preferred shares.

CONCLUSION

- It is also necessary to pay attention to the issue of the number of shares issued by commercial banks of our country and their nominal value. That is, if we pay attention to the nominal value of shares of listed commercial banks, we can see that, in addition to shares of 1,000 soums, 1,700 soums, and 5,000 soums, commercial banks issued shares of 1 soum, 5 soums, 10 soums, and 19 soums. Such a small nominal value, in turn, led to a sharp increase in the number of shares. The high number of shares due to the low nominal value complicates the organization of general meetings of shareholders and the activities of the counting commission in any joint-stock companies, including banks. In addition, it also creates inconvenience in offering shares to foreign investors in foreign currency. The complexity of the situation is clearly demonstrated by the idea of providing information to a foreign investor about the amount of dividends paid on a share of one soum. We can see that these aspects were not taken into account when determining the nominal value of shares of commercial banks.
- In the course of their activities, commercial banks participate in the stock market through the issuance and placement of corporate bonds in order to attract financial resources. Also, in our country, while there are certain restrictions on the participation of commercial banks as investors in the stock market, there are no restrictions on their activities as investors in the bond market. In this case, it is advisable to pay serious attention to the practice of diversification only in relation to the bond portfolio.
- Profitability and liquidity are the first issues in the attention of investors when commercial banks attract financial resources from the capital market through securities. The yield on government securities serves as a benchmark for investors. Because government securities are treated as risk-free assets. In turn, the risk premium for other financial assets should be paid to investors.

- The payment of partial dividends by the issuer and the allocation of part of the profit to the authorized capital by increasing capitalization does not have a positive effect on the liquidity of the shares of commercial banks, as does any issuer. On the contrary, the allocation of a large part of the profit to dividends serves as an advertisement for the issuer's shares and contributes to the increase in the share price and the success of any subsequent securities issues. Therefore, we believe that in the future, each issuer should pay attention to this aspect.

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