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# ANALYSIS OF CAPITAL ADEQUACY IN ASSESSING INVESTMENT ATTRACTIVENESS OF COMMERCIAL BANKS

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| A B S T R A C T | K E Y W O R D S |
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| In the world, many methods and methods are used to assess the investment attractiveness of commercial banks. The most widely used method is the CAMELS method or rating system. In this article, we will analyze the investment attractiveness of several banks in our country through capital adequacy, which is a component of the CAMELS method, and study the role of capital adequacy in increasing investment attractiveness. | Investment attractiveness, capital adequacy, regulatory capital, risk-adjusted assets. |

## Introduction

In the banking system reform strategy of the Republic of Uzbekistan for 2020-2025, creation of equal competition conditions in the financial market, lending only based on market requirements, reducing the dependence of banks on state resources, modernization of banking services, creation of efficient infrastructure and banks' activities increasing the efficiency of the banking system by automating, as well as phasing out the functions of banks that are not related to the main type of activity, improving the quality of the credit portfolio and the quality of risk management, following a moderate level of credit growth, balanced macroeconomic policies, improving corporate governance and attracting managers with practical experience at the international level, ensuring financial stability of the banking system by implementing technological solutions for assessing financial risks, comprehensive transformation of commercial banks with a state share, by introducing modern standards, information technologies and software products, selling the package of state shares in banks to investors with the necessary experience and knowledge on the basis of competitive bidding, as well as by simultaneously reforming commercial banks and enterprises with a state share directions such as reducing the share of the state in the sector have been determined[1]. This creates the need to ensure and assess the investment attractiveness of commercial banks for effective use of investments.

## Literature Review

Banks' own funds are reflected in the third section of the bank's balance sheet. Usually they are also called bank capital[2].

The structure of the bank's capital consists of the following:

- ● Authorized capital.
- ● Added capital.
- ● Reserve capital.
- ● Retained earnings.

The authorized capital of the bank consists mainly of funds received from the sale of its ordinary and preferred shares. Added capital consists of the difference between the real and nominal values of bank shares. Reserve capital consists of funds established to cover various risky assets at the expense of the bank's income, the preferential lending fund for small enterprises, the part of the price of fixed assets that has increased from the initial value, etc. Undistributed profit is made up of the undistributed part of last year's profit or incurred losses and the current year's profit or loss.

The main requirements for the adequacy of the capital of commercial banks of Uzbekistan are defined in the Regulation of the Central Bank No. 420 "On requirements for the adequacy of the capital of commercial banks". The requirements for capital adequacy of commercial banks according to the regulation correspond to the requirements stipulated in the standards of the international Basel Committee [3].

Sources of capital increase of commercial banks[4]:

- Factor of change of market price of ordinary and preferred shares of commercial banks;
- The factor of timely fulfillment of obligations of shareholders on the formation of authorized capital;
- A factor of change in the amount of bank assets exposed to risk.

**Methodology Research**

To explore the theoretical basis of the CAMELS evaluation method, many studies on this topic were studied. Data from commercial banks' financial reports were used to calculate the indicators used in this article. In writing this work, the synthesis method was used to describe the advantages of discrete evaluation and the features of its formation, and the coefficient method was used to calculate the necessary indicators.

**Analysis and Results**

The capital adequacy of commercial banks in our country is regulated by the regulation "On requirements for capital adequacy of commercial banks" approved on the basis of the decision of the Central Bank of the Republic of Uzbekistan dated June 13, 2015 No. 14/3. According to this Regulation, the minimum amount of the authorized capital of the Bank is one hundred billion soums until September 1, 2023, two hundred billion soums from September 1, 2023, three hundred billion soums from April 1, 2024. one hundred and fifty billion soums, five hundred billion soums from January 1, 2025[5].

**Table 1. Amount of authorized capital of commercial banks, ss of January 2024 [6]**

| | Commercial bank name | Amount of authorized capital (billion soums) |
|---|---|---|
| 1. | Uzsanoatkurilishbank JCB | 4 634 513,9 |
| 2. | Ipotekabank JCB | 2 987 950 |
| 3. | Hamkorbank | 107 774 830 |
| 4. | Kapitalbank | 407385173 |

The adequacy ratio of the bank's regulatory capital is an important indicator of the solvency of commercial banks.

In international practice, there are three different methods for determining the capital adequacy ratio of commercial banks. Among them, the method developed by the Basel Committee is relatively more perfect. According to the requirements of Basel III, the capital adequacy ratio is calculated by adding Tier 1 capital to Tier 2 capital and dividing by risk-weighted assets. According to Basel III, the minimum adequacy ratio of the bank's Tier 1 and Tier 2 capital (including the capital buffer) should be at least 10.5% of its risk-weighted assets (RWA). This combines an 8% capital requirement with a 2.5% capital conservation buffer. The capital buffer recommendation is designed to allow banks to accumulate capital that they can use in times of stress. The capital adequacy ratio sets standards for banks, taking into account the bank's ability to meet obligations, credit risks and operational risks. A bank with a good CAR has enough capital to cover potential losses. Thus, it has less risk of becoming insolvent and losing depositors' money. After the 2008 financial crisis, the Bank of International Settlements (BIS) began imposing stricter CAR requirements to protect depositors. Tier 1 capital is the main way to measure a bank's financial position. It includes shareholders' equity and retained earnings, which are disclosed in the financial statements. In the methodology developed by the Bank of International Settlements, capital adequacy is determined by dividing the regulatory capital by the total amount of assets. The lowest normative level of this coefficient is set at 8%.

According to the methodology developed by the US Federal Reserve System, the capital adequacy of a commercial bank is determined by dividing the capital by the total amount of deposits. The minimum standard level of this coefficient is 10% [7].

The adequacy ratio of the regulatory capital of Uzbek banks is calculated as follows:

$K1=\frac{RK}{TAUS}$

Here,

RK- Regulatory capital

TAUS-Total amount of risk-adjusted assets

The ratio of regulatory capital to the total amount of risk-adjusted assets should not be less than 13 percent.

By the end of 2023, the amount of regulatory capital in the banking system amounted to 106 trillion soums and assets at risk amounted to 604 trillion soums, the capital adequacy ratio was 17.5 percent (minimum requirement 13 percent).

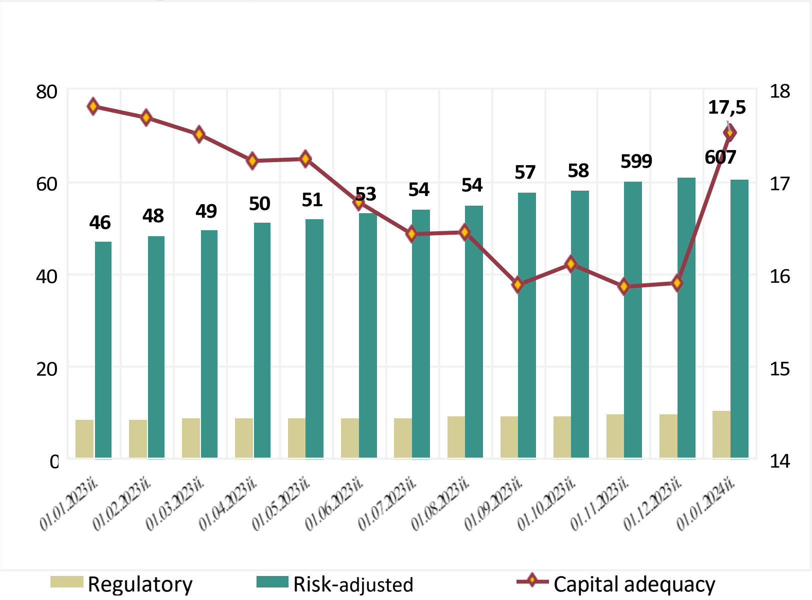


**Figure 1. Dynamics of capital adequacy indicator[8]**

The fact that the capital adequacy ratio of the banking system remains high at the end of the year compared to the indicators formed in other months is due to the change in the calculation methodology of the capital adequacy ratio.

## Conclusion

Bank capital is an important tool for ensuring the stability, solvency and reliability of the banking system, increasing investment attractiveness, and growing bank assets. Only commercial banks with a sufficient amount of stable capital will be able to freely carry out asset operations, operate efficiently while always maintaining the required level of liquidity, and freely enter the financial markets. The regulatory capital adequacy ratio is an important indicator describing the solvency of commercial banks. According to Basel-III, the indicator of regulatory capital of banks consists of the sum of the first-tier bank capital, conservation buffer capital, countercyclical buffer capital and additional requirements for the capital of system-important banks. The stability of the capital of commercial banks is of great importance in ensuring the efficiency and solvency of commercial banks.

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