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THE PRACTICE OF EFFECTIVE USE OF SECURITIES IN THE FORMATION OF FINANCIAL RESOURCES OF COMMERCIAL BANKS

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Abstract

The practice of effective use of securities in the formation of financial resources of commercial banks plays a crucial role in enhancing their financial stability, profitability, and overall market competitiveness. This paper explores the strategic management of securities portfolios by commercial banks, focusing on key practices, benefits, and risks associated with different types of securities. The analysis delves into the methods of asset allocation, diversification, and risk management that banks employ to optimize their financial resources through securities. Furthermore, it examines regulatory frameworks and compliance requirements that influence banks' investment strategies. By integrating both theoretical perspectives and empirical data, this study provides insights into the evolving trends in securities utilization and their impact on banks' financial health. The findings underscore the importance of sophisticated financial instruments and advanced risk assessment models in achieving a balanced and profitable securities portfolio. Recommendations are proposed for enhancing the strategic use of securities to support sustainable financial growth and resilience in the banking sector.

Keywords: Securities, Financial resources, Commercial banks, Investment, Capital markets, Portfolio management, Risk management, Liquidity, Asset allocation, Debt instruments, Equity instruments, Securitization, Financial instruments, Interest rate risk, Diversification, Marketable securities, Balance sheet management.

Introduction

In the Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. PF-60 "On the Development Strategy of New Uzbekistan for 2022-2026" states: in Uzbekistan, "in order to increase financial resources in the economy, to increase the turnover of the stock market from 200 million US dollars to 7 billion US dollars in the next 5 years, to complete the transformation processes in commercial banks with a state share, and to increase the share of the private sector in bank assets to 60 percent by the end of 2026."

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The modern financial landscape is characterized by rapid changes and increased competition, necessitating innovative strategies for commercial banks to secure and expand their financial resources. One such strategy is the effective use of securities, which plays a crucial role in the formation and management of financial resources. This introduction explores the significance of securities in the operations of commercial banks, outlining their impact on liquidity, profitability, and risk management.

The Role of Securities in Commercial Banking

Securities encompass a wide range of financial instruments, including bonds, stocks, and derivatives. For commercial banks, these instruments serve multiple purposes:

1. Liquidity Management: Securities can be easily traded in financial markets, providing banks with a ready source of liquidity to meet short-term obligations.
2. Income Generation: Interest and dividends from securities contribute to a bank's revenue streams, enhancing profitability.
3. Risk Diversification: By holding a diversified portfolio of securities, banks can mitigate various financial risks, including credit risk and interest rate risk.

Historically, the role of securities in banking has evolved alongside regulatory changes and market developments. In the aftermath of financial crises, regulatory bodies have imposed stricter capital requirements, compelling banks to hold higher quality liquid assets, often in the form of government securities. Concurrently, advancements in financial technology and market infrastructure have expanded the range of available securities, providing banks with more sophisticated tools for financial management.

The effectiveness of securities management is pivotal for the stability and growth of commercial banks. Key aspects of effective securities use include:

1. Strategic Asset Allocation: Determining the optimal mix of securities to balance risk and return.
2. Market Timing and Analysis: Assessing market conditions to make informed investment decisions.
3. Regulatory Compliance: Ensuring adherence to regulatory standards and capital requirements.

This study aims to explore the practice of effective use of securities in the formation of financial resources of commercial banks. Specific objectives include:

1. Analyzing the types and characteristics of securities commonly used by commercial banks.

2. Investigating the strategies employed by banks to optimize their securities portfolios.
3. Evaluating the impact of securities on the financial performance and risk profile of banks.
4. Assessing the regulatory environment and its influence on securities management practices.

Understanding the effective use of securities is critical for commercial banks to navigate the complexities of the financial markets. This study not only contributes to academic knowledge but also provides practical insights for banking professionals, policymakers, and regulators aiming to enhance the stability and performance of the banking sector.

In conclusion, the effective use of securities is a multifaceted practice that significantly influences the financial health and operational efficiency of commercial banks. This study seeks to illuminate best practices and emerging trends in securities management, fostering a deeper understanding of its critical role in the financial ecosystem.

The main participants of the stock market are commercial banks. The main reason for this is that banks operate as issuers, investors, and intermediaries in the securities market. In this respect, banks' capabilities are superior to those of other organizations. In addition, banks have the ability to structure large transactions, that is, they have an advantage in terms of resources.

Below we will consider the dynamics of shares of JSCB Sanoatkurilishbank, which is considered one of the largest commercial banks of our country.

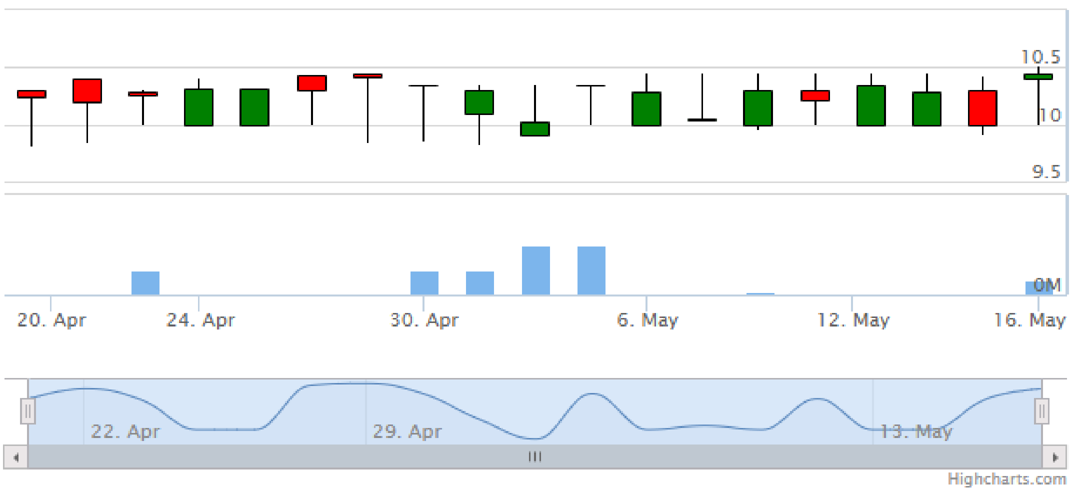

Figure 1. Quotation of shares of Sanoatkurilishbank for 2024 year[1].

[1] *https://www.uzse.uz*

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The shares of JSCB Sanoatkurilishbank have not changed in a large range during 2024. This bank is the main and largest participant of the securities market. The bank has made several issues during its activity. It should be noted here that these issues and the operations of the state's participation in Uzsanoatqurilishbank were carried out based on the decisions of the President of the Republic of Uzbekistan No. PQ-4487 dated October 9, 2019, and the relevant Order of the President of the Republic of Uzbekistan dated September 10, 2018.

Table 1. Sanoatkurilishbank shares trading results for 2024[2].

Date	Closing price	Change	Amount of securities	Trade offers (UZS)
16.05.2024	10.45	▲ 0.45	1 175 008	12 332 571.72
15.05.2024	10	▼ 0.28	25 722	257 089.93
14.05.2024	10.28	▼ 0.06	83 491	837 255.33
13.05.2024	10.34	▲ 0.12	15 032	153 283.94
10.05.2024	10.22	▼ 0.08	35 378	354 911.74
08.05.2024	10.3	▲ 0.25	267 509	2 755 476.42
07.05.2024	10.05	▼ 0.24	13 105	134 789.24
06.05.2024	10.29	▼ 0.06	4 033	41 104.64
03.05.2024	10.35	▲ 0.33	4 026 461	41 470 565.53
02.05.2024	10.02	▼ 0.28	3 998 282	41 181 013.9
01.05.2024	10.3	▼ 0.04	2 018 159	20 785 804.4
30.04.2024	10.34	▼ 0.08	2 031 937	20 921 156.58
29.04.2024	10.42	▲ 0.12	51 257	527 317.12
26.04.2024	10.3	▼ 0.02	13 783	143 327.01
25.04.2024	10.32	0	2 479	25 509.87
24.04.2024	10.32	▲ 0.06	2 625	26 899.16
23.04.2024	10.26	▲ 0.06	2 025 517	20 862 260.87
22.04.2024	10.2	▼ 0.04	3 799	38 318.66
19.04.2024	10.24	▼ 0.06	65 422	652 952.91

If we look at the dynamic activity of the bank's shares, the price of its shares has not undergone drastic changes. It oscillates in a small range compared to its nominal value.

Profitability and liquidity are the first issues in the attention of investors when commercial banks attract financial resources from the capital market through securities. In this case, the demand for profitability is shown as follows.

The advantage of issuing corporate bonds for the purpose of attracting debt capital for commercial banks is that interest on deposits and savings is paid by the bank every month, while interest on bonds is paid mostly quarterly. In addition, there is a

[2] *https://www.uzse.uz*

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high probability of premature withdrawal of deposits and deposits (especially on demand deposits). The certainty of the term on bonds does not allow this. These cases show that corporate bonds have a relative advantage in ensuring the liquidity and solvency of commercial banks. We are far from the opinion that it is necessary to attract debt capital only through corporate bonds, we suggest that commercial banks should effectively use the opportunity to diversify debt capital through corporate bonds.

The development of the national capital market, ensuring the activity of issuers, especially commercial banks in the securities market, will be important in attracting direct investments and debt capital from the international financial market through securities. In this case, issuing shares for the purpose of forming the authorized capital, then issuing additional shares for the purpose of increasing the authorized capital, issuing corporate bonds as the next step and raising capital, holding an IPO at the national level are the specific stages of the activities of the issuers in the national market. It is after passing these stages that the issuers' desire to enter the corporate Eurobond market, and then to hold an IPO at the international level, is of particular importance in today's highly competitive environment, which is also clearly visible in the international financial market.

It can be seen that there is a positive difference between the interest expenses on the funds received from the placement of the first sovereign international bonds of the Republic of Uzbekistan and the interest income from their transfer to the economy. That is, it is possible to witness that the income from international bonds is higher than the interest paid to foreign investors due to the deposits placed in commercial banks and the loan funds allocated to the Navoi Mining and Metallurgical Combine.

In the current national economy, almost all enterprises widely use the opportunity to attract capital for production and investment activities. However, at the time of the globalization of world finance and the integration of the world economy, new forms and methods should be applied to the method of attracting debt capital to enterprises as a form of financial resources. In corporate finance, the method and process of project financing is widely used for the implementation of large projects, despite the wide range of capital attraction. Project financing refers to sources of debt provided by the project itself. Project financing also plays an important role in the economy of developing countries. In order to have a broad understanding of this concept, it is appropriate to make a theoretical comparison with another method of raising capital.

In conclusion, the effective use of securities in the formation of financial resources of commercial banks is a multifaceted strategy that plays a crucial role in enhancing

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the bank's financial stability, profitability, and overall operational efficiency. By strategically managing a diverse portfolio of securities, banks can achieve several key objectives:

1. Liquidity Management: Securities, especially government bonds and high-quality corporate bonds, provide a reliable source of liquidity. They can be quickly converted into cash with minimal loss of value, which is essential for meeting short-term obligations and managing daily operations.
2. Profitability and Income Generation: Investing in a well-balanced portfolio of securities can generate significant interest income and capital gains. This contributes to the overall profitability of the bank, helping it achieve its financial goals and improve shareholder value.
3. Risk Management: Diversifying investments across various types of securities helps mitigate risks. By spreading investments, banks can protect themselves against sector-specific downturns and credit risks. This is essential for maintaining financial stability in volatile market conditions.
4. Capital Adequacy: Securities can be used to meet regulatory capital requirements. High-quality securities are often considered as part of Tier 1 or Tier 2 capital, enhancing the bank's capital adequacy ratio and ensuring compliance with regulatory standards.
5. Market Positioning and Competitiveness: A well-managed securities portfolio can enhance a bank's market positioning by demonstrating financial strength and stability. This, in turn, attracts more customers and investors, fostering growth and competitiveness in the financial market.
6. Strategic Flexibility: The ability to trade securities provides banks with strategic flexibility to respond to changing market conditions. By adjusting their securities portfolio, banks can take advantage of new investment opportunities and manage exposure to various risks effectively.
7. Support for Lending Activities: Securities can serve as collateral for borrowing and lending activities, facilitating better credit terms and expanding the bank's lending capabilities. This supports the bank's core business of providing loans to customers.

To maximize the benefits of securities in forming financial resources, banks need to adopt a comprehensive approach that includes:

- Robust Risk Management Framework: Implementing a strong risk management framework to monitor and control the risks associated with securities investments.

- Regular Portfolio Review and Adjustment: Continuously reviewing and adjusting the securities portfolio to align with market conditions and the bank's financial strategy.
- Regulatory Compliance: Ensuring all securities transactions and holdings comply with local and international regulatory requirements to avoid legal and financial penalties.
- Advanced Analytical Tools: Utilizing advanced analytical tools and technologies to assess market trends, forecast risks, and identify profitable investment opportunities.

By adhering to these principles and strategies, commercial banks can effectively leverage securities to enhance their financial resource base, achieve greater financial resilience, and secure a competitive edge in the banking industry.

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