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The Problems of Increasing the Income and Quality of Assets of Commercial Banks

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Abstract: This article examines the composition of the assets of commercial banks, its profitability, the quality of bank assets and the factors affecting it. In addition, the existing problems were studied through the analysis of the profitability and quality of banks' assets, and conclusions and recommendations were developed to address them.
Keywords: asset, income, efficiency, profitability, asset quality, loan portfolio, profit, investment.

I. INTRODUCTION

The global financial and economic crisis has proved the importance of effective management of banks' assets and reducing the risks associated with them.

The banking system of Uzbekistan pays special attention to the transition of the economy and the increasingly globalized international practice to the effective placement of bank assets and their development in the real sector of the economy.

It should be noted that the active operations of commercial banks are operations related to the placement of funds formed as a result of their passive operations for various purposes in order to obtain economic income (profit). Active operations of commercial banks are very important in their activities. Because they generate income through these transactions, and active transactions are always associated with a certain level of risk, i.e. default (insolvency) of the debtor.

The Decree of the President of the Republic of Uzbekistan No. PD-5992 of May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" focuses on a number of problematic issues in the banking system. Including:

1) Inefficient use of financial and human resources as a result of high level of state participation in the banking system, inadequate corporate governance and risk management systems;
2) The rapid growth of lending, which has a negative impact on the liquidity and capital adequacy indicators of banks, which reflects the level of stability;
3) Improper formation of price signals in the financial market as a result of maintaining a high share of soft loans, as well as the negative impact of monetary policy on the functioning of transmission mechanisms;
4) Weak resilience of the banking system to currency, credit and liquidity risks as a result of high dollarization, as well as the concentration of loans and deposits in large enterprises and certain sectors of the economy;

In the context of economic globalization, the issue of increasing the efficiency of assets of commercial banks of our country and their rating on the basis of international requirements is of great importance.

First, it will increase the amount of funds directed by banks to lend to the real sector, and secondly, it will have a positive impact on increasing the financial stability and profitability of commercial banks. In addition, the rating of the assets of commercial banks of the country on the basis of international requirements will further increase the opportunities for economic cooperation with a number of foreign banks.

This is due to the fact that the achievement of positive results in the rating of commercial banks of the country, introduced in international banking practice, will be a basis for building confidence in economic partners. Therefore, one of the urgent tasks today is to increase the efficiency of the assets of domestic banks and determine their rating on the basis of international standards.

II. LITERATURE REVIEW

In the economic literature, the theoretical and conceptual foundations of effective management, formation and quality improvement of bank assets are studied in depth.

Prof. According to O.I.Lavrushin, the liquid assets of commercial banks include cash on hand, the balance of the commercial bank's Nostro correspondent account with the Central Bank, the balance of the commercial bank's Nostro correspondent accounts with other banks and money in transit [1].

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O.I.Lavrushin believes that the liquid assets of commercial banks should allow to fulfill obligations on the unstable part of deposits. According to him, there is a stable share of bank deposits of all three forms, namely current deposits, savings deposits and time deposits, which should make up at least 75% of total deposits. Liquid assets, on the other hand, must be available in sufficient quantities to meet obligations in the amount of 25 percent of total deposits.

Special theoretical and practical aspects of the management of assets of commercial banks and improving their quality are reflected in the scientific research of Uzbek economists A. Omonov, B. Berdiyarov, U. Rozukulov.

In particular, A. Omonov notes that the capital adequacy of commercial banks is directly related to their risky assets [2]. For example, B. Berdiyarov believes that in his dissertation the quality of assets is reflected in ensuring a stable level of income from them [3].

In his dissertation on "Analysis of the needs of commercial banks and ways to strengthen their resilience" U. Rozukulov believes that the deterioration of asset quality is reflected in the growth of associated costs and a downward trend in return on assets [4].

At the same time, according to A. Omonov, the profitability of the assets of commercial banks depends on the maturity of their resources [5]. In fact, the long-term capital of the banks has a positive impact not only on increasing their income, but also on preventing transformational risk.

L.R. Miller said, “How a bank manages its asset and liability structure is critical to meet cash requirements. This process should be studied in terms of the timely fulfillment of the bank's obligations to customers and without additional costs, the proportionality of the volume and maturity of assets and liabilities "[6].

L.A. Drobozina “Finance. Monetary circulation, Credit.” in his book, "Banks ineed to solve the problem by using borrowed funds as a profitable asset, not only to earn income from these funds, but also to fully recover the funds from the" borrower ". This is because it has been recognized that "the owner of the loan sells the right to use the capital, not the capital, at a certain condition and at a higher interest rate" [7]. This means that commercial banks, along with the effective use of borrowed funds, must return them to their owners in full and without losses.

When it comes to borrowed funds, the importance of deposits in the resources of banks, in particular time deposits, should be noted. This is because these deposits provide an opportunity to reduce risks when placed on active operations in banks, as well as to avoid the emergence of random requirements related to liquidity [8].

III. ANALYSIS AND RESULTS

One of the main indicators characterizing the quality of assets of commercial banks is the indicator of return on assets. One of the main factors influencing the return on assets is the change in the share of non-returnable assets in the asset structure.

According to the experts of the International Bank for Reconstruction and Development, interest income should be at least 70% of the total income of commercial banks [9].

The bank's experts believe that the interest income of commercial banks should consist of the following elements:

1) Interest on loans;
2) Interest on deposits in other banks;
3) Income from securities with a fixed rate;
4) Income from the purchase and sale of securities.

Table No.1
Income structure of commercial banks of the Republic of Uzbekistan [10]
(as a percentage)

№	Income	2016y.	2017y.	2018y.	2019y.	2020y.
1.	Interest received from the placement of loans, deposits and other funds	56,87	56,17	57,46	59,76	62,10
2.	Commission income	33,18	33,91	31,97	29,91	27,65
3.	Income in foreign currency	4,55	3,43	4,05	4,25	4,12
4.	Income from investment	0,91	1,46	1,27	1,08	0,59
5.	Other income	4,49	5,03	5,25	5,00	5,54
	TOTAL	100,0	100,0	100,0	100,0	100,0

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From the data in the table above, it can be seen that the interest received from the placement of loans, deposits and other funds in the income of banks has a higher share, which in 2016 amounted to 56.87%, and in 2020 - 62.10%. In the structure of banks' income, income from commercial operations and investment income have the largest share, and in 2017, investment income increased slightly, an increase of 1.46% in total income. In 2018, compared to 2017, investment income decreased by 0.19 percentage points and in 2020 compared to 2019 decreased by 0.20 percentage points.

At the same time, in the structure of income of commercial banks, commission income also has a higher share. In 2016, the share of commission income of commercial banks in total income was 33.18%, while in 2020, this figure fell significantly to 5.53 percentage points. Experts from the International Bank for Reconstruction and Development believe that the share of interest income from loans in total interest income should not be less than 60%. To do this, the share of loans in the volume of gross loans of commercial banks should not be less than 60%[10].

Therefore, it is important to identify the causes of changes in the share of interest income in gross income, to develop measures to prevent a sharp decline in its share.

The high level of loans from other banks in the volume of commercial bank liabilities can be assessed as both a negative and a positive situation. The reason for the negative assessment is that commercial banks, which usually do not have sufficient resource base, use interbank lending as a source of resources.

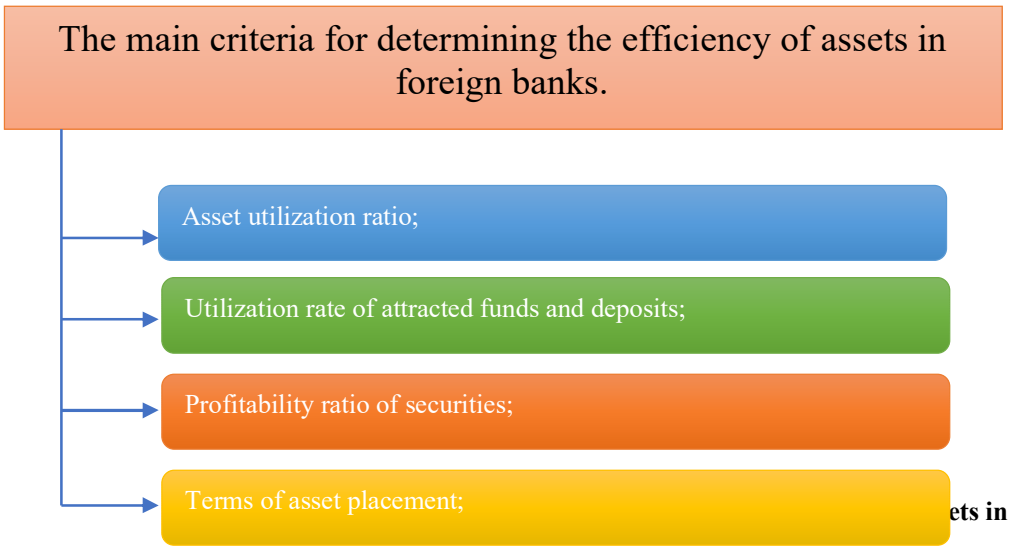
The reason for this positive assessment is that commercial banks with profitable projects receive high returns by borrowing from other banks and lending to investment projects.

One of the main factors in improving the efficiency of assets in international banking practice is to increase the share of risky assets in the structure of assets. This is because, while the banks 'risky assets are associated with different levels of loss risk for the bank, it gives banks the opportunity to earn a high amount of income.

The structure of the Bank's risk assets includes:

a) Short-term and long-term loans,
b) Investments in government and corporate securities, as well as
c) Factoring, trust, forfeiting, leasing and credit-leasing operations can be included.

In foreign banks, these assets are divided into different categories depending on the level of risk, it should be noted that the higher the level of risk of bank assets, the higher the amount of income on them. Different criteria are used to determine their effectiveness. The following figure shows the main criteria for determining the efficiency of foreign assets.



ets in foreign banks[1]

Figure 1 shows the criteria used to assess the efficiency of assets in developed foreign banks. The figure shows that the main focus in determining the efficiency of bank assets is the return on assets, and this ratio is one of the important criteria. This ratio determines the level of return on bank assets, ie what part of the bank's assets will bring income.

[1] Author's development

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It is known that the funds raised in the resources of commercial banks play an important role. It is important to know how much of the funds raised by banks invest in active operations, or more precisely, risky assets. In international banking practice, more than 75% of time deposits are placed on loans, which indicates that the bank is pursuing an aggressive credit policy, if this figure is below 65%, it means that the bank is pursuing a moderate credit policy.

One of the main asset operations of banks is investments in securities. Along with the level of profitability of securities, their level of liquidity is also taken into account. If the share of government securities in the structure of the bank's investments in securities is high, it indicates that the financial condition and profitability of the bank is stable. Also, the diversification of investments in securities over time will provide an opportunity to assess the current financial condition of the bank, which will be able to assess the changes in the financial stability of issuers of securities made by the bank.

In international banking practice, the classification of assets by industry is also an important indicator, and in determining the efficiency of assets, special attention is paid to this indicator. To do this, attention will be paid to what sectors account for the share of total loans. These indicators assess not only the efficiency of the bank's assets, but also the credit policy on the level of risk, as well as the liquidity and profitability of the borrower in terms of solvency.

The placement of risk assets of banks over time is also a factor that directly affects the efficiency of assets. In this regard, it is important to know what share of risky assets in foreign banks is placed in long-term assets, and what part is placed in short-term assets.

In international banking practice, in determining the efficiency of the assets of commercial banks, special attention is paid not only to the amount of income per share of risky assets, but also to the amount of income per share of bank capital and borrowed funds.

Table No.2

Classification of assets of commercial banks by quality [10]

Years	total credit investments	standard loans	substandard loans	unsatisfactory loans	doubtful loans	bad loans
2016	100	92,94	5,6	0,65	0,81	0,32
2017	100	89,51	9,75	0,32	0,42	0,20
2018	100	90,65	8,15	0,67	0,53	0,30
2019	100	92,11	6,61	0,7	0,58	0,35
2020	100	87,38	10,85	0,92	0,85	0,91

Analyzing the qualitative classification of assets of domestic banks, in 2016, 92.94% of total assets fell into the category of standard loans, and by 2020 this figure decreased to 87.16%. As of October 1, 2021, the balance of non-performing loans in the loan portfolio of commercial banks amounted to 18.1 trillion soums. The share to loans in total loans amounted to 5.8% [10]. Recently, in order to improve the quality of banks' loan portfolios, the Central Bank, together with commercial banks, regularly conducts a complete inventory of their loan portfolios and, as a result, reclassifies assets on identified problem loans.

IV. CONCLUSIONS AND SUGGESTIONS

The main directions of reforming the activities of commercial banks in our country are to further increase the efficiency of banks 'assets, ensure a steady growth of the share of profitable assets in their assets, prevent the growth of problem loans by improving the quality of banks' loan portfolio. As a result of our research, we have formed a number of conclusions in order to further improve the profitability and quality of assets of commercial banks of the country, and based on them we have developed the following proposals.

1) It is necessary to introduce micro and macro indicators to determine the efficiency of banks' assets. In particular, at the macro level, it is necessary to take into account such indicators as the ratio of bank assets and risky assets to GDP, the state of the country's balance of payments, the volume of loans per capita. At the micro level, the bank's assets should take into account issues such as the share of risky assets, the level of income or profit due to loans and investments, the amount of dividends paid to bank shareholders, the amount of interest payments to bank depositors and investors.

2) It is expedient to take measures to sell non-liquid, physically and spiritually obsolete assets in banks, as well as to reduce the volume of other non-profit assets to an optimal level.

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3) Strengthening the purchasing power of the national currency to increase the efficiency and weight of banking assets in countries with economies in transition, ensure the stability and competitiveness of the economy, increase the efficiency of the Central Bank's monetary policy, and ensure the monetization of the economy to international standards and further strengthening of market mechanisms. It is important to implement this more fully.

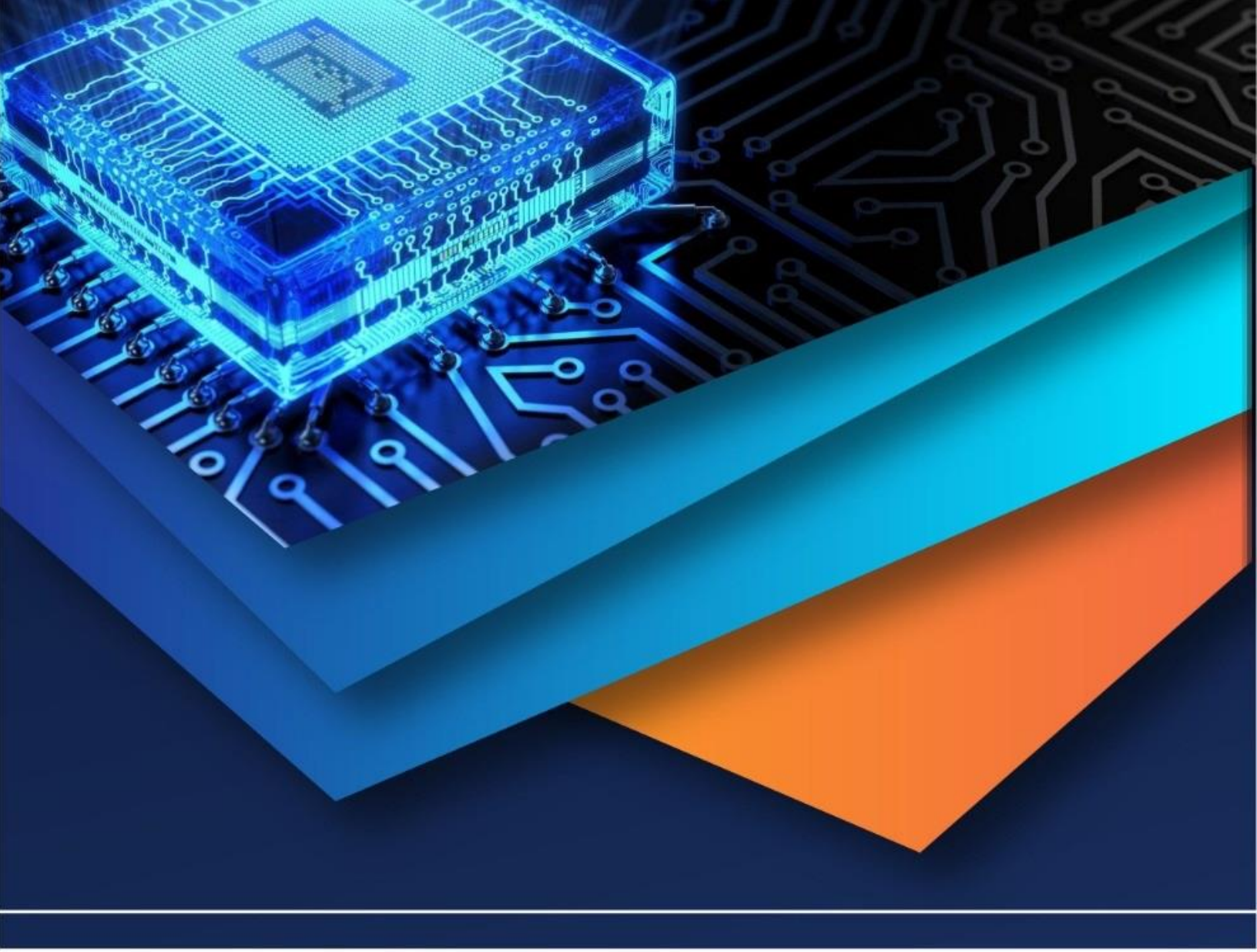
4) It is expedient to diversify the taxation of profits of commercial banks through lending to the economy. In particular, it is desirable to completely exempt from tax payments the income of banks from long-term loans to the real sector of the economy. At the same time, it should be noted that these revenues will be used to re-lend tax-exempt funds to the real sector.

5) In practice, it is necessary to create an effective lending system, that is, to ensure equal rights of business entities and individuals in obtaining credit resources at various interest rates without any objective, subjective barriers. At the same time, it is desirable to increase the transparency of the process of obtaining bank loans by setting the main interest rates on loans of commercial banks, which are formed on the basis of supply and demand.

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