



WAYS OF IMPROVING THE QUALITY OF BANKS' ASSETS

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Abstract: The solvency of the banks, which are rapidly expanding lending practices in our country, is decreasing, and the volume of problem loans is increasing. Therefore, banks should be very careful about the growth of loans, which can threaten the future banking activity. In addition, banks will have to consider maintaining the capital adequacy ratio as actively growing lending in accordance with the guidelines for fulfilling the Basel requirements of the banking system.

Keywords: business entities, commercial banks, asset quality, credit cycle.

During the pandemic, a number of benefits were introduced in our country in order to provide financial support to the population and business entities. Some of these benefits cause an increase in the volume of problem loans in commercial banks. The increase in problem loans will certainly affect the income of commercial banks. According to him, the growth of problem loans forces banks to create additional reserves, which negatively affects their income and, accordingly, reduces capital adequacy. Conversely, higher asset quality in the credit cycle usually leads to stable returns and better capitalization.

There are a number of indicators that allow assessing the quality of banks' assets, but the main indicator is the share of problem loans in the total portfolio.

An increase in the number of problem loans in banks can negatively affect the banks' liquidity indicators, and cause various problems in the banks' full and timely fulfillment of their obligations.

Over the past few years, the share of problem loans in the banking system of the Republic of Uzbekistan has been showing a steady growth trend. The share of category



3 loans by banks in our portfolio has increased significantly since 2021 and has stabilized in the range of 8-9 percent over the past 3 years (8.4 percent as of January 1, 2024). As we can see, this is roughly double the rate for regulatory NPL loans.

The growth of problem loans in commercial banks is primarily due to two factors. First, after several years of very high lending growth in 2018–2020, which was associated with increased investment demand, grace periods for them are coming to an end and some borrowers are having difficulty servicing loan payments. (including due to the negative impact of the pandemic and other external factors). In addition, in our opinion, the lending standards of many banks (especially state-owned) were quite lax at that time, and this also served to accumulate problem loans in the banks' portfolios.

We also believe that the increase in the number of problems related to credit quality recognized by banks is paradoxically related to the improvement of their risk management systems, that is, the internal policy on the classification of problematic loans. In our opinion, in the past, some banks did not allocate all problem loans to category 3, which led to an underestimation of the overall indicator for the entire sector. Since the beginning of the 2020 banking reform, the situation regarding the recognition of non-performing loans in the financial statements has improved significantly, and we believe that the information currently published by banks is, in general, a reliable reflection of the real situation in terms of asset quality .

Despite the fact that commercial banks have observed a general growth trend of problem loans in recent years, the dynamics of this indicator are different in individual banks. We note that the quality of assets has significantly deteriorated in a number of state-owned banks that provide preferential loans within the framework of state programs. Some of them had a ratio of Category 3 loans more than double the industry average, leading to significant provisioning and net losses. Large banks focused on lending to corporate borrowers demonstrated stable dynamics of asset quality, while the share of non-performing loans in private banks is lower than the average for the sector.

Based on the analysis data, the following cases should be paid attention to in the rehabilitation of existing problematic loans in the loan portfolio:

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- Credit restructuring, taking into account the urgency and large scale of the problem of non-repayable loans;
- The development of the procedure for determining and determining the internal rating of each client by banks, regardless of whether the client wants to get a loan or not, makes it possible to reduce the risks that cause problem loans;
- Making decisions based on the data of the Credit Information Analysis Center (KATM) at the stage of granting a loan, that is, not granting loans to consumers with a negative credit history.

In our opinion, in the new stage of economic development, it is appropriate to solve the current problems related to ensuring the quality of the credit portfolio of commercial banks in order to ensure the financial security of commercial banks.

1. In order to ensure a low and stable level of the weight of non-performing loans in the volume of gross loans, first of all, it is necessary to improve the quality of multi-factor financial analysis of non-performing loans; secondly, the rate of growth of the amount of problem loans should not be higher than the growth rate of gross loans; thirdly, it is necessary to ensure that the level of diversification of the loan portfolio in commercial banks is at the limit level (25%) generally accepted in international banking practice for diversification of loans according to the nature of the sector.

2. The task of fully introducing advanced foreign experience in credit risk assessment and management into the practice of the country's banks in order to ensure that the current level of the indicator of reserve allocations intended to cover losses from loans is at its normative level. It is necessary to improve the structure of loans classified by resolution.