

Ways To Reduce Problem Assets Of Commercial Banks

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ABSTRACT

The article examines the nature of troubled assets of commercial banks, working with problem loans, monitoring and reducing them. The main mechanisms used to repay existing problem loans in the bank's portfolio are described in the article, which describes the main mechanisms used to repay existing problem loans, such as "problem assets", "problem loans", "classification of problem assets", "fixed assets".

Keywords: commercial bank, asset, problem asset, loan, idle loan, overdue debt.

Introduction

The high quality of the assets of commercial banks not only indicates that the bank's activities are properly and efficiently organized, but also has a positive impact on its future activities. This is because the current and future investors, customers and partners of the bank pay special attention to the quality of its assets, and the quality of the bank's assets plays an important role in their decision-making.

Improving the efficiency of commercial banks in Uzbekistan is due to their active participation in lending to the real sector of the economy. However, commercial banks of the country face a number of difficulties and problems in conducting lending activities. In particular, today there is a tendency to increase the problem assets in the structure of assets of commercial banks. In particular, this situation shows high growth rates in commercial banks with a state share. In particular, the share of non-performing loans in the loan portfolio of the People's Bank in 2021 was 19.7%, indicating a decline in the quality of assets of this commercial bank.

It should be noted that the quality of bank assets and related issues have been extensively studied by foreign and domestic economists, who have formed relevant scientific conclusions and practical recommendations based on the study of the formation, composition and management of bank assets. In addition, the quality of the assets of commercial banks, the level of risk, etc. are widely covered in the economic literature and scientific publications. At the same time, this

process is controlled by the relevant regulations of the Central Bank, which is a mega-regulator, however, issues related to the quality of assets of commercial banks never lose their relevance, as appropriate time and timeliness increase the urgency of these issues.

Despite efforts to reduce the volume of problem assets in commercial banks, the share of problem assets remains significantly higher. These situations require scientific research on ways to reduce them, taking into account fast, reliable information about problem assets.

Literature review

The Bank's assets are formed at the expense of its capital and funds raised from customers, investors and other persons and invested in the relevant assets for future income. A number of factors contribute to the deterioration of the quality of assets of commercial banks. High or low level of problem assets serves as a basis for assessing the performance of a commercial bank. What is a problematic asset and how does it arise? Let us clarify such questions.

Despite the fact that the debate on problem assets in the scientific community has been going on for some time, a single approach to the term "problem credit" in foreign and domestic practice has not yet been formed.

When banks use borrowed funds mainly as lending, it is necessary to determine in advance not only the issue of income, but also the full recovery of funds from the "borrower". This is

because “the bank, as the owner of the capital, sells the right to use the capital, not the capital, at certain conditions and at high interest rates” [1]. Relevant normative documents of the International Basel Committee define troubled assets of banks as follows: “Credit product with significantly deteriorated terms of fulfillment of obligations to the Bank, significantly deteriorated financial condition or quality of the borrower or loss of collateral” [2].

The International Basel Committee's Recommendation on Bank Liquidity recognizes that “liquidity is the ability of credit institutions to cover asset growth and meet its obligations at maturity.” [3]

In our view, the conversion of commercial bank assets into problem assets increases the likelihood that banks will become illiquid and fail to meet their obligations to customers in a timely manner. In the local and foreign literature, the concepts of “problem asset” and “problem credit” are usually indistinguishable.

In some literatures, credit investments that are risky in the activities of commercial banks are defined as investments in the form of problem loans, while in other literature, problem loans are defined as loans in which the bank has doubts about the object, subject and collateral. Also, if the loan has a problem collateral and the value of this collateral is less than the amount of non-performing loan, then the loan is a problem loan, substandard and lower classified loans fall into the category of problem loans.

In particular, according to the approach of local scientists, Professor Sh.Z.Abdullaeva, substandard loans can also be analyzed as problematic loans due to late repayment. □4□

In particular, A. Omonov, a local scientist, notes that the capital adequacy of commercial banks is directly related to their risky assets. □5□

Another local scientist, UA Tukhtaboev, describes problem loans as follows: as a result of the obvious manifestation of credit risks in practice, due to objective and subjective violations of the terms of the loan agreement fell into the category of “substandard”, “doubtful” and “bad” loans. loans are called problem loans. □6□

According to the description of economists in some Western countries, a delay of more than 90 days on the loan payments on schedule or a violation of the terms of the loan agreement indicates that the loan is problematic. In particular, Dudinets views troubled bank assets as bank assets □7□ that cast doubt on their return or

are unlikely to receive economic benefits from their placement or use. This definition can be viewed as a definition of problem assets, taking into account the types of bank assets. We can see that such concepts as “problem asset”, “problem loan”, “non-performing loan”, “inactive loan” have been considered in different perspectives in scholars and normative documents.

In our opinion, it would be appropriate for the bank to adopt the following approach to problem assets: Problem assets are losses (losses) that may occur as a result of non-return or disposal of part of the bank's investments in assets for profit.

This definition also takes into account the off-balance sheet liabilities of the bank, as they can be considered as one of the forms of distribution of bank funds. In addition, this definition is based on the risk of not returning or disposing of bank resources, as this is associated with bank losses. At the same time, it can be said that the types of problem assets and their reflection in accounting are also taken into account.

It should also be noted that a problem asset is not just a problem or non-performing loan, they are a broader concept than a problem loan. The reasons can also be classified as problem assets: problem loans; problem leasing; problematic factoring; problem receivables; problem investments; troubled purchased securities; problem funds in other banks; off-balance sheet assets; uncollected problem income; other troubled assets.

Research methodology

The article used scientific observation, grouping, evaluation, generalization, comparison, comparative analysis, induction and deduction, economic-statistical, systematic approach and other methods.

Analysis and results

The rapid growth of assets of the banking system of the country, in turn, allows to ensure lending and investment activity of banks.

In addition, the bank's assets as of January 1, 2021 amounted to 366 121 billion soums, which in turn increased by 93 394 billion soums compared to 2020.

The share of bank assets in GDP is also growing. The following table provides information on the amount and dynamics of assets of commercial banks.

Asset analysis of commercial banks [8]

Indexing names	01.01.2020 й.		01.01.2021 й.		Change, in percent
	Mlrd sum	Contrib ution , percenta ge	Mlrd sum	Contrib ution , percenta ge	
Assets					
Cash on hand and other payment documents	6 553	2,4%	9 735	2,7%	48,5%
Funds in the Central Bank	14 769	5,4%	18 851	5,1%	27,6%
Funds in other banks are resident	10 089	3,7%	13 146	3,6%	30,3%
Funds in other banks are non-resident	15 420	5,7%	21 701	5,9%	40,7%
Investments and other securities	3 157	1,2%	9 448	2,6%	199,2%
Obligations of clients on financial instruments	411	0,2%	1 576	0,4%	283,8%
Credit facilities, (net)	207 646	76,1%	270 213	73,8%	30,1%
Fixed assets, (net)	5 723	2,1%	8 314	2,3%	45,3%
Interest accrued on assets	3 306	1,2%	7 882	2,2%	138,4%
Other private property of the bank	353	0,1%	1 131	0,3%	220,6%
Other assets	5 299	1,9%	4 125	1,1%	-22,2%
Total assets	272 727	100%	366 121	100%	34,2%

From the table we can see that the main share of assets of commercial banks falls on the share of loans. In 2020, the share of loans in the assets of commercial banks was 76.1%, investments and other securities - 1.2%, cash on hand - 2.4%. In 2021, these figures were 73.8 percent, 2.6 percent, and 2.7 percent, respectively.

The decrease in the share of credit investments in the assets of the banking system is mainly explained by the COVID-19 pandemic and its negative impact on the economy, as well as credit vacations provided to the population and

businesses. In addition, the growing volume of investments in securities by commercial banks of the country will increase the level of asset diversification in banks, the formation of bank revenues and improve the quality of management of problem assets.

In the structure of assets of commercial banks, non-resident funds in other banks amounted to 5.7% in 2020, while in 2021 this figure reached 5.9%, ie the share of these assets remained almost unchanged.

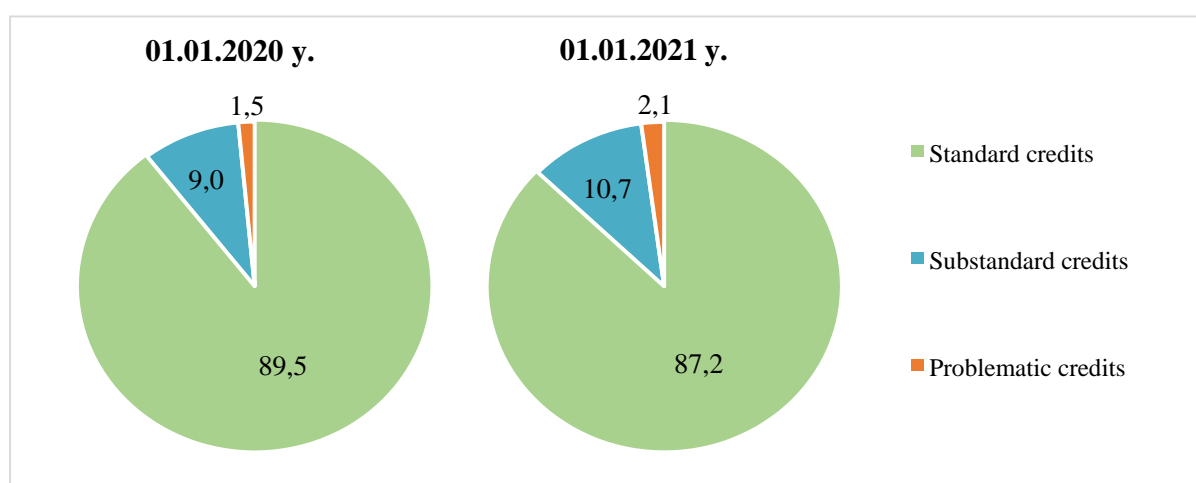


Figure 1. Classification of loan portfolio of commercial banks, in percent,[9]

The central bank assessed the financial condition of the banking system, changes in asset quality through regular stress tests, took

the necessary prudential measures to mitigate the negative impact of potential risks and achieved an acceptable level of asset quality.

Based on the above figures, as of January 1, 2021, 87% of the loan portfolio of commercial banks are classified as "standard", 11% as "substandard" and 2.1% as "unsatisfactory" assets, and only 2.1% are non-performing assets. It is known that problem assets include assets classified as "doubtful" and "bad". In our view, the country as an asset of the banking system, based on official data, is in a normal state.

Also, as a result of the extension of loans to the population and businesses facing financial difficulties during the pandemic, the share of problem loans in the banking system (overdue for more than 90 days) increased by 0.6 percentage points to 2.1% (5.8 trillion) by 2020. soums).

As a result of the analysis and research, the stress test on non-performing assets showed that in June 2021, potential assets that could become non-performing assets in the loan portfolio of commercial banks in terms of customer cash flows increased by 8.1%, and in August - 7.4% percent.

It should be noted that 73% of them are business entities, 17% are individuals, and 10% are state and budget organizations.

It should be noted that the share of mortgage loans in the structure of problem loans of individuals was 42%, consumer loans - 20%, microloans - 14%, car loans - 7%.

Conclusions and suggestions

In conclusion, we have witnessed that a single approach of economic theorists and experts on troubled assets of commercial banks has not yet been formed, which, of course, in our view, is a natural state. Because in international and domestic practice, the appearance, composition and formation of problem assets of banks are strongly influenced by various factors, it is these processes that lead to a change in the definition of their economic content and other aspects. However, in any method and period of economic management, reducing the volume of banks' troubled assets and improving their quality is one of the most pressing issues, although otherwise the volume of troubled bank assets and deterioration of quality will remain

one of the factors negatively affecting commercial banks.

The legal framework plays an important role in assessing the quality of assets of commercial banks, because if they are not unanimously assessed, the income of commercial banks may decrease and their liabilities may increase, resulting in the bank becoming insolvent.

Based on the data, we can say that the banking system in commercial banks has problems with the value, risk and return of troubled assets, loans, leasing, factoring, receivables, investments, purchased securities, funds in other banks, off-balance sheet assets, uncollected income and other assets leads to a sharp decline in commercial bank revenues.

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