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Improving Bank Loan Portfolio Quality Management

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Abstract

This The article discusses the theoretical views and classifications of scientists in the economic literature on the loan portfolio of commercial banks, the analysis of methods and criteria for managing the quality of the loan portfolio and improving its methodology by assessing the quality of the bank loan portfolio and classifying them by indicators, forms and types. issues of credit system development were studied.

***Keywords**: banks , credit, bank loan portfolio, bank loan portfolio quality management, assessment, credit risk.*

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Today in the market economy of the Republic of Uzbekistan there is an active growth of the consumer market, which allows to increase the economic potential of the country as a whole. As the banking system is an important element and sector of the national economy, we can say with confidence that banks play an important role in ensuring the stability of the monetary system of our country and the implementation of large-scale banking activities.

Commercial banks provide services for accepting and lending deposits, maintaining customer accounts, making non-cash payments, paying interest on deposits, buying and selling securities, foreign exchange transactions and other banking services. At the current stage of development of banking services, the most popular service provided by commercial banks is credit.

As lending is in demand by both legal entities and individuals, this service is provided on a large scale by banks. The interest received by the bank from the provision of this banking service is a large part of the profit. However, when commercial banks carry out credit operations , they run high risks . Therefore, it should be noted that the management of the loan portfolio and credit risk is a key factor determining the effectiveness of banking . One way to manage credit risk is to diversify this loan portfolio . Therefore, based on the characteristics of the credit policy of commercial banks competing in the consumer market of banking services, we conclude that this article is relevant today .

Accordingly, further increasing the lending capacity of commercial banks also depends on the extent to which their loan portfolios are formed. The quality of the loan portfolio of commercial banks is determined by the effectiveness of bank management. It should be noted that in the economic literature, economists differ on the loan portfolio of commercial banks.

Some authors, interpreting this concept very broadly, include all financial assets and liabilities of the bank in these operations, based on the fact that all banking operations are both active and passive in nature. Many other authors link this concept only to the bank's credit operations and argue that the loan portfolio should be considered as a set classified according to a specific selected attribute, rather than just a set of specific elements. This view seems reasonable, as the portfolio relative approach requires the study of economic events in terms of optimizing their structure.

Considering the essence of the concept of bank loan portfolio management involves revealing the economic meaning of the term "loan portfolio". So, first of all, if we look at the concept of the word portfolio, A.B. Borisov interprets it as "the sum of economic, forms and types of financial activity, relevant documents, funds, orders, objects" [1]. At the same time, the total amount of loans issued by banks is also included in the concept of portfolio. In turn, practitioners understand the loan portfolio as a total set of loans to borrowers, including problem loans [2]. Speaking of the portfolio approach, it should be noted that this means quality management of bank assets and liabilities, striving to achieve an optimal ratio of profitability, liquidity and solvency of the credit institution [3]. In addition, assets and liabilities, in general, tell the portfolio organization about the characteristics of profitability and risk, which allows to further optimize the parameters of this risk.

As a rule, experts consider the essence of the loan portfolio in categorical (general economic) and practical terms. In the first case, the loan portfolio is the relationship between the bank and its counterparties on the movement of value return in the form of loan demand. On the other hand, the loan portfolio is a set of bank assets in the form of loans, discounted promissory notes, interbank loans, deposits and other loan requirements, grouped according to certain criteria and qualities [4].

The approach of Western European economists in determining the loan portfolio is based on international financial reporting standards, as well as the recommendations of the Basel II

Agreement, which defines a loan portfolio as a "set of income assets" [5]. Or, the American economist D.M. Naton describes that the loan portfolio includes the classification of loans [6].
In this regard, according to the Uzbek economist Sh.Z.Abdullaeva, "the loan portfolio of banks is a set of bank requirements in the scale of loans classified according to certain criteria based on various credit risks" [7].
T.M. While researching the idea of creating a loan portfolio, Kosterina uses two criteria, stating that a loan portfolio is “a set of loans that are stratified, integrated, and manageable, taking into account the level of risk and return” [8].
I.V. If Larionova in her research considered a single criterion of loan portfolio structure, namely credit risk, [9], O.I. Lavrushin, N.I.Valentsev [10], M.Z. Sobirov [11] distinguishes three main criteria: risk (credit risk), profitability and liquidity.
In general, risk, profitability and liquidity are important features of any asset portfolio formed by the bank. Therefore, their content should be determined in relation to its loan portfolio.
As can be seen from the above definitions, there is no single definition of the term ‘loan portfolio’ of a bank. As the bank builds its loan portfolio by providing loans to individuals and legal entities, we can conclude that the composition of this portfolio is different for its participants. Therefore, in our opinion, the loan portfolio of a commercial bank is the sum of loans provided to borrowers (individuals and legal entities) on the condition of maturity, payment and repayment.
Accordingly, we can describe that the loan portfolio consists of several components and should be characterized not only by size but also by structure. In accordance with our definitions, this has been reflected in the economic literature in the interpretation and discussion of the interpretation of the concept of a commercial bank's loan portfolio and its essence. In particular, O.I. Lavrushin and N.I. Valentseva distinguishes two aspects (categorical and practical), on the basis of which, in their opinion, it is necessary to study the essence of the loan portfolio [10]. The practical aspect is often used by various authors. Therefore, it is necessary to pay attention not only to the size of the bank's loan portfolio, but also to its quality structure.
From the general economic definition of a loan portfolio, the difference between a loan portfolio and other credit institution portfolios is obvious. This is reflected in the important features of credit operations, which provide the movement of value return between the participants of credit relations, speed and payment for transactions, the monetary nature of the object of the relationship. In general, loan portfolio collection can be interpreted as a set of bank loans. However , Depending on its content , it is more accurate to understand the loan portfolio as follows :
- a set of loans classified taking into account risk and profitability;
- Features of the structure and quality of loans issued according to the classification of individual criteria [3];
- Management of a set of bank loans on the basis of analysis and regulation [12] .

A.M. According to Tavasiev, if a loan portfolio is "not just a list of loans, but a set based on certain criteria, then the loan portfolio will have a specific description in terms of the quality of loans and lending activities" [13]. Here, “quality” is a tentative indicator of the practical achievement of the goals of loan portfolio formation, and this is what G.V. According to Menyaylo, “it is a set of loans that meet the bank’s requirements for lending” [14]. And this is a loan portfolio.
Thus, the concept of “loan portfolio quality” is central to the consideration of the concept of ‘loan portfolio’, but this is also not interpreted more precisely. In this regard, the quality of the

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loan portfolio can be viewed in two ways: on the one hand, it is an important feature of the loan portfolio as property, and on the other hand, as an opportunity to describe it positively in all respects. At this point, Professor O.I. We can assume that the most successful definition of loan portfolio quality has been proposed by Lavrushin. That is, in the definition of loan portfolio quality, it explains that it has the ability to provide an acceptable level of credit risk and maximum return with balance sheet liquidity. This definition is based on the assumption that credit risk, liquidity and profitability are the main characteristics of the loan portfolio, ie the criteria for assessing the quality of the loan portfolio are the level of credit risk, profitability and liquidity of the loan portfolio [4].

According to this definition, the basis of loan portfolio quality management is the continuous assessment of quality and the processes of risk, liquidity and profitability management as a single system. Such a definition eliminates the stereotypical view that the quality of a loan portfolio should be assessed only in terms of the share of problem assets, because in addition to credit risk, the quality of a loan portfolio is also assessed by liquidity and profitability levels. . Accordingly, the portfolio structure is formed under the influence of the following factors:

• profitability and risk of individual loans;
• Borrowers' demand for certain types of loans;
• Credit risk standards set by the Central Bank;
• structure of the bank's credit resources (short-term / long-term).

As part of loan portfolio quality management, banks are constantly trying to diversify their activities and develop new types of loan products. Therefore, the formation and continuous analysis of the loan portfolio will allow the bank to more accurately develop tactics and strategies, expand the demand for banking products by identifying lending opportunities to customers, and thus develop banks' business activity in the market.

In turn, it is also important to have a system in place to manage the loan portfolio, which involves the study of customers and the structures with which they are in close contact. The management entities in this system can also be called the risk management divisions of the bank and the divisions responsible for supporting credit operations. The first of these divisions mainly performs the functions of planning, control, methodology development, while the second is responsible for high-quality credit monitoring, timely formation of reserves.

As a rule, the principles of the loan portfolio management system include:

1. Systematic. The analysis of the loan portfolio should be systematic, and the study of the composition and quality of bank loans should be carried out in the context of dynamics, structural indicators, comparison with average bank indicators.
2. Formation of a system of indicators. Each credit institution forms a system of indicators to assess the quality of the loan portfolio, which corresponds to the specifics of its activities.
3. Multilevel nature of analysis. The analysis of the loan portfolio should be carried out at the level of the entire portfolio, at the level of individual groups of loans that require special attention, and even at the level of individual loan operations [12].

In accordance with the above principles, the loan portfolio management system provides for the implementation of activities within the following elements:

- Development of criteria for evaluating loans that make up the loan portfolio;
- formation of a system of indicators that allows to assess the quality of the loan portfolio in each individual period;
- identification of specific measures to improve the composition and quality of the loan portfolio;
- Determining the optimal amount of reserves required to cover losses from the rational

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distribution of loans for possible losses on loans;
- tracking changes in the composition of the loan portfolio (can be done for various reasons, depending on the purpose of the analysis) [12].

As you can see, the concept of loan portfolio quality comes to the forefront when it comes to loan portfolio management. It is assessed on the basis of a system of indicators that includes absolute indicators (volume of loans issued and the volume of overdue loans by type) and relative indicators that characterize the share of individual loans in the structure of loan debt .

In the process of assessing the quality of the loan portfolio, the indicators used by credit institutions are mainly determined by market relations. In accordance with international practice, the quality of the loan portfolio is assessed on the basis of a specially developed system of financial ratios. Typically, five groups of such indicators are used:

• general indicator of loan portfolio quality;
• profitability of the bank loan portfolio;
• quality of loan portfolio management;
• risk policy;
• Sufficiency of bank reserves to cover loan losses.

Thus, the loan portfolio is a unique indicator of negative trends in the placement of loan funds, which allows to improve the process of credit operations with timely liquidation, to determine the level of adequate quality protection of loan structures on issued funds. [12]. This applies to indicators that characterize the quality of the loan portfolio through the amount of reserves formed for possible losses on direct loans.

When talking about the role of reserves formed in the loan portfolio management system for possible losses on direct loans, it is important to highlight the block of indicators of the adequacy of bank reserves to cover losses on loans. The formation of a number of indicators of this block, which characterize the level of protection of the bank from risks, is carried out independently by the bank. And the following indicators are recommended:

1) reserves / non-income loans formed for possible losses on direct loans;
2) the size of the loan loss reserve / loan portfolio;
3) write-off of reserves to cover losses on credit risks / loan portfolio volume;
4) problem loans (categories 4 and 5) / loan portfolio size [12];
5) actual reserve / calculated reserve;
6) under-created reserves / non-income loans [4].

determining the average percentage of problem, overdue and doubtful loans , the bank establishes a risk management system aimed at reducing [3]. These approaches show a direct link between risk management and loan portfolio quality assessment.

The credit risk management system and loan portfolio management are related to the definition of the concept of “total credit risk” which is the risk of the bank’s entire loan portfolio. It is an undeniable fact today that the negative impact of risks on the banking system is significantly increasing in the context of constant diversification of lending activities, which requires the development of an integrated risk management system.

The banking risk management system identifies a set of methods (techniques) that allow to ensure a positive financial result in the event of uncertainty in the work of bank employees, predict the onset of risky situations and take measures to eliminate or reduce its negative consequences [4].

Credit risk management is a conscious activity aimed at realizing the interests of creditors and borrowers within the framework of the adopted credit policy, which includes identification of

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credit risk factors, their assessment, taking measures to minimize it and control over its management.
In the general system of credit risk management, credit risk management methods have a special place, in particular, there are six groups of methods: risk prevention, risk management, risk management, risk recovery, risk distribution, risk diversification [12].
Each of the groups may be the subject of careful study, but it should be noted that the methods of risk management within this research topic are of particular interest. They are aimed at neutralizing potential damage and the occurrence of a potential event. At the same time, the formation of reserves for possible losses on loans is the main way to prevent such a risk. This reserve, among other means, serves as a “last resort” for the bank, especially if the loans are recognized as doubtful, so it is important to form reserves in a timely manner. To minimize the overall credit risk, the real state of affairs and the risks must always be taken into account.
Thus, the overall management of credit risk should be carried out in the following areas:
- assessment of credit risk management policy;
- assessment of credit policy to limit credit risks and limits;
- management of credit process and organization of credit operations ;
- assessment of asset classification and reclassification;
- loan portfolio management;
- assessment of the policy of reserve for losses due to credit risks [4].
According to some authors, loan portfolio management is part of the credit risk management system. In our view, the loan portfolio management system and the credit risk management system are two systems that are equally interconnected. The bank's credit policy is implemented in the management of the loan portfolio. The main requirement for loan portfolio formation is that the portfolio should be balanced, i.e. the increased risk on some loans should be offset by the reliability and profitability of other loans, which is the key link between loan portfolio management and credit risk management. . A clear indication of their interdependence is that the amount of total credit risk is one of the main criteria for systematizing and analyzing the quality of the loan portfolio.

Banks are implementing a number of advanced banking management methods, such as improving the quality of their assets and loan portfolios, timely identification of credit risks to improve banking risk, including credit risk management, application of modern information technology-based integrated risk management system are required.References:

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