

Increasing the Possibility of Management of Loan Portfolio Analysis in Commercial Banks

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Abstract

This The article examines the theoretical views on the loan portfolio of commercial banks, ways to improve the efficiency of loan portfolio management of commercial banks in Uzbekistan, the analysis of quality management methods and thus the development of the lending system.

Keywords: *commercial banks, credit, loan portfolio, valuation, credit risk, liquidity.*

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In the current context of increasing globalization and transformation of the economy of the Republic of Uzbekistan, as a leading factor in the innovative development of the national economy, loans from commercial banks are a source of funding for investment projects and play an important role in sustainable economic development.

Further expand the participation of commercial banks in financing investment projects, improve the system of project expertise and risk assessment, prevent the formation of problem loans, create a level playing field in the financial market, lending only on market terms, improve the quality of credit portfolio and risk management, lending The Decree of the President of the Republic of Uzbekistan "On the Strategy of Banking Reform of the Republic of Uzbekistan for 2020-2025" was adopted in order to ensure the moderate growth of volumes [1].

In addition, the Law of the Republic of Uzbekistan " On the Central Bank of the Republic of Uzbekistan " HYPERLINK "<https://lex.uz/docs/4590452>", " On Banks and Banking ", " On Currency Regulation " and " Payments and Payments ", which meet international standards and create a legal environment for foreign investment in the financial sector . Laws " On systems " in the new edition [2,3,4,5].

Because lending is a traditional type of banking activity, it is also the main operation that ensures the profitability and stability of most banks. How effectively a bank evaluates its loan portfolio will also depend on its position in the market, and therefore the needs of customers and the demand for banking services.

However, the effectiveness of banks' lending activities also depends on the following factors:

- external, ie not dependent on the bank itself (external conditions of the bank, availability of resources, their price, public monetary policy, specific characteristics of customers, etc.);
- internal, ie factors that the bank has the capacity to and should influence (organizational structure of the bank, credit strategy and credit policy, organization of the credit process in the bank, etc.).

According to the World Bank's analysis, internal factors play an important role in influencing the losses of commercial banks on loans. In particular, 67.0% of credit losses in European banks are due to internal factors of the bank, and external factors account for 33% of such losses [6].

According to the head of the Bank of Russia E. Nabiullina, the current reasons for the collapse of Russian banks are primarily due to economic reasons. These reasons include:

- ✓ reduction of credit risk;
- ✓ reduction of reserves for possible losses;
- ✓ overestimation of the value of the collateral ;
- ✓ capital formation scheme ;
- ✓ Entrepreneurship subjects financing [7].

Management of the loan portfolio of a commercial bank and credit risks, the balance of credit policy pursued by banks are among the priorities in the study of credit activity of banks. In this article, we will consider the role of the bank in improving credit management portfolio analysis, credit risk prevention.

In the research of a number of economists, approaches to loan portfolio management have begun

to emerge, such as V.V. Ilin and V.N. According to Zhukov, "in the modern economic literature, the concept of bank asset management portfolio is widespread" [8].

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" [9]. 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 general set of loans to borrowers, including problem loans [10]. 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 the loan portfolio as a "set of income assets" . Or, the American economist D.M. Naton describes that the loan portfolio includes the classification of loans [12].

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" [13].

I.V. If Larionova in her research considered a single criterion of credit portfolio structure, namely credit risk [14], O.I. Lavrushin, N.I.Valentsev [15], M.Z. Sobirov [16] distinguishes three main criteria: risk (credit risk), profitability and liquidity.

The essence of this is to structure the assets in different ways and manage them as a single portfolio. This will allow banks to monitor the loan portfolio, timely identify problems in the field of lending, analyze them and take appropriate measures to prevent and eliminate them. It follows from the above that the loan portfolio is a systematic set of loans formulated by the bank and given to borrowers in order to develop and achieve its goals, taking into account the specifics of the market environment. The loan portfolio is also a set of loans that are classified, generally managed and implemented by the bank's credit policy, taking into account risk and profitability.

The most important quality that should be in the loan portfolio is to be balanced, i.e., the high risk on some loans should be offset by the profitability and reliability of others.

The structure of the loan portfolio depends on a number of factors: the risk and profitability of individual loans, the demand of borrowers for certain types of loans, credit risk standards set by the Central Bank and the composition of the bank's credit resources (short-term, long-term).

Commercial bank loan portfolio quality is an important characteristic of its credit policy . Loan portfolio absolute and to assess the quality relative indicators consists of coefficient ts ientlar from the system can be used. Absolute indicators include the volume of loans issued by their type and the volume of overdue loans. Relative indicators are indicators that characterize the share of individual loans in the structure of debt.

The calculation of the quality ratio of the loan portfolio is as follows: overdue loan is divided by the amount of the loan (interest-free principal). According to the central bank's methodology, it is recommended to calculate this as the ratio of the reserve calculated for possible losses on loans to the amount of principal on the loan.

It follows from the above that the role of the loan portfolio in the prevention of credit risk is high. Accordingly, since there are no risk-free credit transactions, we will consider the state of credit risk in practice.

The volume of lending by commercial banks to legal entities and individuals in Uzbekistan in 2020-2021 can be seen in the following data (Table 1).

Table 1. Types of loans in the loan portfolio of Uzbek banks distribution on. billion soums

Name of indicators	01.12.2020y.	01.12.2021 y.	Growth,%
Total	270716	320813	18.5
Loans to individuals	54080	68125	26.0
Loans to legal entities	216636	252688	16.6

Table 1 shows that the balance of the loan portfolio of banks in Uzbekistan As of December 1, 2021, the balance of loans issued by banks to legal entities and individuals amounted to 320.8 trillion soums (\$ 29.6 billion). During the year, this figure reached 50 trillion . soums or 18.5 percent .

The bulk of loans fell to legal entities and amounted to 252.6 trillion soums . sum (78.7%). During the year, the volume of loans allocated to them increased by 16.6%.

In international practice, the share of legal entities in total loans is usually high (79.0% in Kyrgyzstan, 73.0% in Belarus, 69.0% in Russia, 64.0% in Moldova, 57.0% in Armenia and 53.0% in Kazakhstan).

In terms of maturity, about 43.0% of loans to individuals and legal entities are for a period of 1 to 5 years. There has been an increase in the share of loans for individuals over 15 years, which by the end of 2021 amounted to about 36.0%. This, in turn, is explained by the increase in the volume of mortgage loans in recent years.

Loans for a period of 5 to 10 years account for 26.0% of total loans to legal entities. The low share of loans to individuals with a term of up to 1 year, ie 8%, indicates that borrowers have high inflation expectations [17] .

The ratio of outstanding loans to individuals to GDP in Uzbekistan has been growing significantly since 2018. The expansion of the popularity of financial services and the provision of financial assistance to a wide range of people under government programs have led to the acceleration of loans to individuals. In 2021, the ratio of loans to individuals to GDP was 9.5%, and the ratio of disposable income was 14.4%.

In 2021, the volume of loans to individuals will reach 68.1 trillion . soums, which is 26.0 % more than last year. Half of these funds were directed to mortgage lending - 34.4 trillion . soums.

The ratio of loans to individuals to GDP in Uzbekistan is lower than in Russia, Kazakhstan, Armenia and Georgia. This, in turn, is explained by the fact that the retail credit market in Uzbekistan is not yet saturated [17] .

The data in the table also show that in the period from December 1, 2020 to December 1, 2021, the volume of loans to individuals increased more than the volume of loans to legal entities (26.0% for individuals, 16.6% for legal entities). This is due to the fact that at the stage of modernization of the country's economy, the volume of goods and services produced has a stable growth rate, and the lending capacity of commercial banks is growing.

It should be noted that in the practice of commercial banks, the most common criteria for the loan portfolio were identified as the risk of lending activities and the "problem loans" of the loan portfolio.

In the current era of economic transformation, the importance of the "problem" criterion of the loan portfolio often comes to the fore, as timely diagnosis of the "problem part" of the loan portfolio allows to reduce the number of overdue loans and bad loans, thereby preventing losses in the portfolio .

In 2021, the share of problem loans in total loans increased significantly and as of January 1, 2022 amounted to 5.2%. It should be noted that the decline in activity in the real sector of the economy as a result of the introduction of strict quarantine measures from March 2020 had a negative impact on the quality of bank assets.

According to the analysis of the loan portfolio, the share of problem loans in the total portfolio as of July 1, 2021 amounted to 16.8 trillion soums or 5.6% of the total loans . The analysis showed that 14.7 trillion soums of problem loans were disbursed. soums or 87.6% of the total share in the activities of state-owned banks [18] . It can be concluded that in the practice of private banks, the bank has been very careful in lending to customers, and has done so with a good study of banking risks in lending.

In terms of sectors, problem loans accounted for a high share in industry and other services. In the last quarter of 2021, the share of total non-performing loans decreased from 5.8% to 5.2% due to the decline in other services and trade and catering.

At the end of the third quarter of 2021, the share of problem loans averaged 9.0% in low-income developing countries, and an average of 6.0% in the CIS and Central Asia and the Caucasus. The increase in the dynamics of the share of problem loans under the influence of the onset of the pandemic and the application of strict quarantine restrictions continued in most countries until the end of 2020. However, delays in payments on bank loans provided by regulators and other similar opportunities have slowed the sharp increase in the share of problem loans.

In general, it should be noted that the increase in overdue debts of legal entities and individuals reflects the general crisis in the economy. The growth of overdue debts of legal entities may also be associated with a decrease in consumption by the population. As a result, entrepreneurs suffer and their solvency deteriorates.

Thus, in order to reduce credit risks, commercial banks need to use their management methods, as well as constantly monitor credit risks.

At this point, we list the following possible ways to reduce risk.

This method should include, first of all, an assessment of the borrower's creditworthiness, as well as the determination of his credit rating. The next method is to diversify loans by size and type, as well as by groups of borrowers. Another way to reduce credit risk is to consider large loans that do not exceed the standards set by the Central Bank only on a consortium basis. Credit and deposit insurance is also a way to reduce risk. The next method is to strictly adhere to the rules of the bank, which require the placement of credit resources in accordance with their size. Another important way to reduce risks is to build up the reserves needed to cover possible losses on loans that have already been issued.

The risk assessment of the bank's loan portfolio has a number of features. Thus, the overall risk depends primarily on the level of credit risk of individual segments of the portfolio, as well as on the diversification of the composition of the loan portfolio and its individual segments. Credit risk assessment methods have common features, but at the same time they are related to the specific characteristics of credit risk.

Banks need to achieve and maintain such a feature of the loan portfolio structure, which will enable them to provide the highest level of profitability with an acceptable level of credit risk and balance sheet liquidity.

Thus, the criteria for assessing the quality of the loan portfolio are the level of credit risk, the level of liquidity and the level of profitability.

Analysis of problem loans in commercial banks shows that there are significant delays in the repayment of loans by legal entities and individuals. This will affect the quality of the overall loan portfolio of commercial banks in Uzbekistan and slow down their development. In this regard, banks are advised to regularly assess the quality of the loan portfolio and constantly use methods to help improve its structure. It is recommended that the methods of assessing the quality of the loan portfolio, as well as information on the periodicity of the assessment are also set out in the regulatory documents governing the credit policy of the bank.

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