



THE ROLE OF PROBLEM ASSETS IN ENSURING THE FINANCIAL STABILITY OF COMMERCIAL BANKS

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ABSTRACT:

This article discusses the situation of commercial banks in Uzbekistan with problem loans, their recovery methods, and problems. Besides, indicators of problematic assets of banks operating in the country have been analyzed.

Keywords: problem assets, commercial banks, credit, creditor, debtor.

Introduction

As of late, banking activity is one of the fastest-developing systems in the economy of the Republic of Uzbekistan. However, this rapid growth is threatening the quality of assets (including loans) and banks' ability to manage credit risks, and the issue of improving the way commercial banks deal with non-performing loans has always been urgent. The purpose of the bank's risk management is to ensure the return of all its assets and to narrow the limits of possible fluctuations. Usually, when talking about risk, experts mean, first of all, credit risk, that is, the risk of non-return of the loan and the interest accrued on it. This level of risk is affected by the composition of customers and one of the factors that have a great impact on its assessment - the method of calculating the creditworthiness of the customer. In order to reduce the credit risk and the number of non-performing loans (NPL), it is necessary to carefully assess the creditworthiness of customers and choose an effective method of risk management, which creates the need to improve the practice of collecting existing non-performing loans in the credit portfolio of commercial banks and is one of the important conditions for the development of the banking system. . Therefore, we believe that commercial banks should be constantly monitored to ensure that they do not exceed problem loans.

Literature Review

Credit risks, problematic loans, their causes and their elimination had been investigated in the researchers of foreign scientists such as Walraven K., McNaughton D., Ozpus M., Polfreman D., Putnam B., Repdhill D., Rose P., Ford F., Hoggart Researched in the works of G., Sheng E., and others.

Moreover, issues related to credit risks and problem loans were studied by Russian economists such as Bukato V., Gryaznova A., Kolesnpkov V., Lavrushnn O., Olshansh A., Panova G., Peshanskaya I., Usoskin V. Issues related to credit were considered in the studies of local scientists Abdullayeva Sh., Iminov O., Mullajonov F., Pshenichnikov V., Ten V., Kodirov A.,



G'ozibekov D. and others. Among the research conducted in our country, in particular, Abdullayeva Sh. and in the scientific research of economists such as Pshenichnikov V., one can find some comments on problem loans. However, in these studies focusing on risks as the main emphasis, the causes of problem loans, the ways to prevent them, and the methods of eliminating existing problem loans have not been studied in sufficient depth.

Methods

This article analyzes existing problematic loans in commercial banks in the Republic of Uzbekistan, their origin and current status, and identifies factors affecting the stability of the bank's loan portfolio. Scientific abstraction, expert assessment, induction and deduction, comparison, systematic analysis methods were used in the analysis process.

Discussion and Result

Commercial banks play an essential role in any economy, providing financial services to individuals, businesses, and governments. They make money by lending money and collecting interest on loans. However, their profitability can be threatened by non-performing assets, such as non-performing loans (NPLs). These assets can significantly affect the financial stability of commercial banks. The occurrence of problem loans is related to the effect of credit risk, as a result of which the bank is concerned that the borrower will not be able to repay his obligations under the loan agreement on time and in full, and the bank may cause losses related to lending to such borrowers. Therefore, in banking practice, problem loans are often referred to as low-quality loans. This interpretation of non-performing loans focuses on losses resulting from the occurrence of problems. However, not every bad loan ends in losses. The task of the bank is to prevent or minimize potential losses. The analysis of foreign studies in the field of problem loan management shows that the most favorable strategy in terms of effectiveness is a problem loan management strategy aimed at the financial recovery of a debtor experiencing difficulties, which is implemented as part of a strategic partnership with the client. In the banking practice of developed foreign countries, in particular, in the bank lending practice of Western European countries, it is considered normal that the weight of overdue loans in the volume of total loan deposits does not exceed 3 %. The permissible limit of this indicator is 5 %. Each bank loan has unique features.

The economic literature of recent years and the recommendations of the Basel Committee focus on the importance of predicting the default and bankruptcy of the enterprise on the basis of the proposed models and methods. At the same time, most of the existing company default prediction models and methods were developed within the framework of corporate finance research, and their results cannot be directly applied in the practice of commercial banks[1].

The analysis of foreign studies in the field of problem loan management shows that the most favorable strategy in terms of effectiveness is a problem loan management strategy aimed at the financial recovery of a borrower experiencing difficulties, which is implemented within the framework of a strategic partnership with the client. Based on the methodological point of view of problematic credit debt, it is important to systematize indicators depending on the content of the concept of "problem" on credit. Different interpretations of the concept of "problem"



used in theory and practice allow systematization of problem loans depending on the sources of loan repayment (primary and secondary) and parameters of credit risk assessment (real and probable). Below we look at the indicators of bank loan problems.

Table 1 Indicator matrix of bank credit problems[2].

Indicators of a problematic loan	Indicators of real losses	Indicators of potential losses
Primary Source Loss Indicators	<ul style="list-style-type: none"> * Overdue principal and interest payments; * Bankruptcy of the borrower 	<ul style="list-style-type: none"> * Deterioration of the borrower's financial condition and working conditions to ensure sufficient cash flows to repay loan obligations; * Review of part of the principal and interest on the loan; * Availability of information about the failure of the borrower's obligations to other creditors; * The bank does not have up-to-date and reliable information about the financial and economic situation of the borrower and his working conditions; * Availability of information about the problems of persons closely related or related to the borrower.
Secondary Source Loss Indicators	<ul style="list-style-type: none"> * Loss of collateral due to credit and/or insolvency of the borrower's guarantor or guarantor. 	<ul style="list-style-type: none"> * Deterioration of the level of security of the loan in terms of secondary sources of securing the repayment of the loan (violation of the collateral, reduction of the available market for the sale of collateral and reduction of the conditions for turning the pledged property into monetary liquidity, deterioration of the financial situation and business conditions of the guarantors, * bankruptcy of the debtor.

In practice, the income received from the sale of products and services by the legal entity and the income of the individual are the primary sources of guaranteeing the return of the loan. The availability of sufficient primary sources means that the borrower can generate sufficient cash flows to fully satisfy his obligations to the bank for loan payments. Refinancing usually means that the borrower will not be able to repay the loan using current income. Secondary sources of loan repayment include property collateral, guarantees, sureties and credit liability insurance. When they are used to repay the loan, the cash flows are not generated during the borrower's current operations, but as a result of the sale of the collateral, at the expense of guarantors or insurance companies.

According to data, problem loans in commercial banks of Uzbekistan in 2022 totaled 2 trillion. 353.8 billion decreased by 13 trillion soums at the end of the year. 992.4 billion amounted to soum. Although the loan portfolio increased by almost 20% compared to the beginning of the year, the share of problem loans in the system decreased from 5.02% at the beginning of the year to 3.59% by the end of the year.

The percentage of non-performing loans decreased in almost all state-owned banks (from 5.38% to 3.89% for all state-owned banks). Xalq bank (-7.75 percent) and Aloqabank (-2.03 %), which significantly reduced the share of NPL compared to the beginning of the year, can

be noted separately. Also, quantitatively, problem loans in Uzmilloybank (-667.2 billion UZS) and Uz sanoatqurilishbank (-270.8 billion UZS) have significantly decreased. Problem loans at Uzagroexportbank increased from 55.48% at the beginning of the year to 96.29% by the end of the year (it should be noted that the bank's loan portfolio decreased from 30.1 billion UZS to 6.2 billion UZS). The share of problem loans in other banks decreased from 2.81 % to 2.06 %. Problem loans in Ravnaqbank (+112.4 billion UZS, +48.41 %), Trustbank (+81.3 billion UZS, +1.93 %), Tenge Bank (+59.9 billion UZS, +0, 30 %), Anorbank (+47 billion UZS, +1.55 %), Madad Invest bank (+14.5 billion UZS, +8.07 %) and Davr bank (+26.6 billion UZS, + 0.56 %), the share of problem loans increased significantly [3].

In addition, the amount of problem loans of commercial banks continues to decrease since the beginning of 2023.

Table 2 Information on problematic loans of commercial banks[4]

Tijorat banklarining muammoli kreditlari (NPL) to'g'risida 2023-yil 1-mart holatiga ma'lumot				
<i>mlrd. so'm</i>				
No	Bank	Loans	Problematic loans (NPL)	Share of problem loans in total loans
Overall		397 637	15 052	3,8%
State-owned banks		328 048	13 638	4,2%
1	O'zmilliybank	87 211	2 720	3,1%
2	O'zsanoatqurilishbank	51 689	1 700	3,3%
3	Agrobank	45 811	1 811	4,0%
4	Asaka bank	36 375	1 727	4,7%
5	Ipoteka-bank	32 382	1 007	3,1%
6	Xalq banki	21 521	2 523	11,7%
7	Qishloq qurilish bank	20 444	942	4,6%
8	Mikrokreditbank	13 337	705	5,3%
9	Turon bank	9 671	313	3,2%
10	Aloqa bank	9 536	191	2,0%
11	Poytaxt bank	70	0,6	0,9%
Other banks		69 590	1 414	2,0%
12	Kapital bank	17 117	158	0,9%
13	Hamkorbank	11 652	74	0,6%
14	Ipak yo'li bank	8 370	183	2,2%
15	Orient Finans bank	5 603	41	0,7%
16	Invest Finance bank	5 082	37	0,7%



17	Trastbank	3 552	210	5,9%
18	Davr bank	3 358	64	1,9%
19	Tenge bank	2 687	93	3,4%
20	Asia Alliance bank	2 366	33	1,4%
21	Anor bank	2 259	65	2,9%
22	KDB bank O'zbekiston	2 045	0,0	0,0%
23	Tibisi bank	1 753	35	2,0%
24	Garant bank	1 173	96	8,1%
25	Ziraat Bank Uzbekistan	1 109	55	5,0%
26	Universal bank	930	11	1,2%
27	Ravnaq-bank	316	229	72,6%
28	Madad Invest bank	196	28	14,5%
29	Eron Soderot bankining ShB	21	1,2	5,8%
30	O'zagroeksportbank	0,6	0,4	76,5%
31	Uzum bank	0,0	0,0	0,0%
32	Smart bank	0,0	0,0	0,0%

Non-performing loans are a significant problem for commercial banks, affecting their profitability, solvency and credit rating. To manage NPLs, banks set up specialized units focused on loan restructuring, collateral recovery or selling NPLs to specialized investors. While these strategies can help banks manage troubled assets, they come with costs and risks that can affect a bank's financial stability. Therefore, it is essential for banks to adopt sound lending practices such as careful loan evaluation and monitoring of borrowers' repayment behavior to reduce the risk of NPLs. In addition, regulatory frameworks such as Basel III play a crucial role in ensuring that banks maintain sufficient capital to absorb potential losses from their lending activities.

In general, problem asset management is a complex and persistent problem for commercial banks. Meanwhile, by implementing sound lending practices and effective NPL management strategies, banks can minimize the impact on financial stability and continue to provide essential financial services to individuals, businesses and governments.

Conclusion

In order to ensure that the loans given by commercial banks do not turn into problem loans, we make the following conclusions and suggestions: We believe that it is necessary to carry out a comprehensive approach to the application for a loan, that is, to carry out proper and perfect initial monitoring. Here, first of all, it is necessary to pay attention to the character of the client, his financial situation, his position among business partners, as well as his experience in this field.



- It is required to ensure the completeness of the set of documents submitted to the bank during the review of the loan application, to check their correctness;
- An employee of the credit department should thoroughly analyze his financial situation and give an objective assessment;
- Constantly monitoring the client's work according to the business plan, the flow of funds in the account, making payments with suppliers on time, and taking measures to avoid overdue receivables and payables;
- Continuously monitoring the conditions of maintenance and operation of property provided as credit security;
- If a third-party guaranty contract is allocated as credit security, it is necessary to analyze the financial statements of the guarantor once a quarter and study its solvency;

To implement all the above processes, credit department employees require perseverance and responsibility. If all the actions are completed on time, we will prevent the loans from becoming "problem loans". Effectiveness of the use of collateral objects in lending activities of banks. Providing loans based on collateral is one of the priority areas of credit policy in the activity of commercial banks of our republic. Therefore, it is important to analyze the issue of effective use of collateral objects.

Also, to eliminate the share of problem loans in the loan portfolio and to reduce their weight, attention should be paid to the following effective cases:

- involvement of additional security: additional guarantees or guarantees, pledge of property or real estate;
- sale of mortgaged property;
- repaying the loan by selling the borrower's assets, preventing investment in low-income assets;
- imposing sanctions on clients;
 - repayment of the loan by attracting additional funds and financial support from the borrower.

Thus, a scientific and methodological approach to the organization of the management system of problem loans of borrowers was proposed within the framework of the research of this article based on the formulated practical actions. Special attention is paid to the early detection of problem loans, and it is possible to apply all the recommendations made in banking practice, which makes it possible to increase the efficiency of the management process of problem loans.

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