IJDPP
International Journal of Development and Public Policy
| e-ISSN: 2792-3991 | www.openaccessjournals.eu | Volume: 1 Issue: 5

Effective Loan Portfolio in Commercial Banks Management Issues

Norov Akmal Ruzimamatovich
Associate Professor of the Department of “Banking and Investment” Tashkent State University of Economics

Elbusinova Umida Xamidullayevna
Senior Lecturer of the Department of “Banking and Investment” Tashkent State University of Economics

Bazarova Nigora Ravshanovna
Senior Lecturer of the Department of “Banking and Investment” Tashkent State University of Economics

Yuldasheva Sevara Shuxratqizi
Assistant of the Department of “Banking and Investment” Tashkent State University of Economics

Sattorova Nasiba G‘anijonqizi
Assistant of the Department of “Banking and Investment” Tashkent State University of Economics

ABSTRACT

This article examines ways to increase the efficiency of credit portfolio management of commercial banks in Uzbekistan and thus the development of the lending system.

Keywords: commercial bank, credit, bank loan portfolio, loan portfolio management, risk, profitability, liquidity.

Introduction

In the context of further deepening economic reforms and liberalization of the banking system, credit operations play an important role. As credit operations of commercial banks are an activity that generates bank income, ensuring the stability of the quality level of the loan portfolio is one of the main tasks of banks today.

Lending is a primary activity for commercial banks, as the decline in the quality of the loan portfolio of commercial banks has a negative impact on their financial stability, ie the increase in the share of overdue loans in the volume of loans leads to a sharp decline in bank liquidity.

Therefore, effective management of the loan portfolio of commercial banks allows to meet the needs of business entities in credit.

In this regard, in his Address to the OliyMajlis, President said, “Worst of all, serious mistakes have been made in the designation and implementation of promising large-scale projects, and foreign loans have been used inefficiently, which hinders economic development. We must, first of all, create an effective system for attracting foreign loans and investments, learn to use each loan accurately. The time has come to work on this issue, to measure seven times, to cut once, and to think carefully about the consequences” President said.

The tasks of increasing the volume of bank loans aimed at economic development in the country, increasing the number of various property and business entities using them, rational placement of loans by banks, increasing their efficiency, ensuring timely collection of interest on loans are important for regular monitoring of banks' loan portfolios. argues that it is an issue.

Literature Review

The issues of improving the efficiency of loan portfolio management in commercial banks have been studied in the research of a number of foreign scientists and the concept of loan portfolio is expressed in the definitions of its essence. For example, American economists Chris J. Barlton, Diana McNaughton describes the loan portfolio - which includes the categorization of loans [13].

Also, N. Sokolinskaya describes the loan portfolio as “a combination of short-term and long-term loans” [15]. This definition focuses on the term of the loan, which does not fully disclose the nature of the loan portfolio. This is because the timing and compliance with the terms of loans issued by the bank can only be an important factor in determining the quality of the loan portfolio.

Well-known Russian economist OI Lavrushin defines the concept of "loan portfolio in banking as a sum of loans of one or another bank" [12]. At the same time, he believes that the formation and analysis of the loan portfolio in the bank will increase the chances of lending to customers, allowing to clearly develop the strategy and tactics of a commercial bank.

Abalkin L.I, Panova G.S. and another group of economists believe that the loan portfolio of commercial banks is a classification of loans in terms of quality and composition. In this definition, we consider a positive approach to disclosing the essence of the loan portfolio. On the plus side, they emphasize the need to categorize loans based on certain factors, depending on the quality of the loan[15].

Another group of foreign economists, K.J. Braltron and D. McNaughton, believe that the loan portfolio of commercial banks is the classification of loans according to certain characteristics [13]. In this definition, the loan portfolio is based on the classification of the loan according to its specific form and characteristics.

Uzbek economists have also conducted a number of studies in this area.In particular, according to 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.[14]. In his description, the economist focused on the classification of loans on the basis of certain criteria, as well as credit risks.

Analyzing the specifics of the above definitions, we believe that the loan portfolio can be defined as follows: The bank's loan portfolio is the sum required for the bank's lending operations and represents the sum of total loans issued by the bank.

Also, due to the fact that credit operations play a key role in the activities of banks, the proper organization of their loan portfolio is one of the key factors that allow banks to operate efficiently and sustainably. Defects in conducting credit operations can lead to a decrease in the income of banks, and in some cases to their bankruptcy. Therefore, monitoring the loan portfolio of banks and its quality is a guarantee of effective operation of commercial banks.

Based on the above, we believe that research on ways to improve the efficiency of loan portfolio management in commercial banks of the country is always relevant.

Methodology

Theoretical and methodological basis of this article is general economic literature and scientific articles, research of economists on effective loan portfolio management in commercial banks, interviews with scientists and industry representatives, analysis of their written and oral feedback, expert evaluation, process observation, economic events and a systematic approach to the processes, conclusions, suggestions and recommendations in relevant areas through a comparative analysis with the author’s experiences. In the process of studying the topic, in addition to general economic methods, special approaches to data structuring were used, such as comparison, aggregation of theoretical and practical materials, and systematic analysis.

Data Analysis

Among the active operations of the bank, credit plays a key role, and a significant part of the bank's income is obtained through these operations. Therefore, how the bank's loan portfolio is formed has a direct impact on banking activities.

In order for a bank to effectively manage its loan portfolio, first of all, it is necessary to properly organize the lending process of banks.

The current legislation provides for regular analysis and audit of the bank's loan portfolio, as well as assessment of the quality of credit management, including the quality of credit management, including approved credit policy and credit documentation processes, collateral registration and evaluation, distribution of lending powers, legislation. care should be taken to ensure compliance with the standards.

In order to develop the banking system of the Republic, improve the quality and variety of banking services, the Association of Commercial Banks of the Association of Banks of Uzbekistan on the implementation of the program of measures approved by the President of the Republic of Uzbekistan together with the revised tariffs for banking services [10].

In order to further improve the mechanisms of protection of the rights of consumers of banking services in the country and increase the level of financial transparency, taking into account the trends of innovative development, as well as to

ISSN 2792-3991 (online), Published under Volume: 1 Issue: 5 in October -2021

implement the tasks set out in the Action Strategy for 2017-2021. and protection of the rights of consumers of banking services is one of the main tasks of the Central Bank of the Republic of Uzbekistan[9].

The resolution clearly outlines measures to prevent the excessive centralization of powers in making decisions on the allocation of loans in commercial banks, which prevents a clear delineation of responsibilities between parent banks and their branches.At the same time, the resolution provides for more sophisticated mechanisms for reviewing loan applications, preventing customers from obtaining quick loans, increasing the availability of microloans by commercial banks, further developing the retail banking market and implementing modern approaches to bank-client cooperation.) measures have been developed to eliminate situations where the collection of fees and other charges for consideration and allocation will increase the real value of the debt.

Relevant changes have been made to the existing regulations on the creation of contingent reserves on assets in the banking system of the Republic of Uzbekistan.In particular, the Resolution of the Board of the Central Bank No. 14/5 "On the classification of asset quality, changes and additions to the procedure for the formation and use of reserves by commercial banks to cover possible losses on them" was adopted [11].

In accordance with this decision, the following changes were made to the above procedure (Table 1).

Table 1 Classification of asset quality of commercial banks

Classification categories	Expired days	Backup to be created	Calculate interest
Standard	0	1%	in balance
Substandard	0	10%	in balance
Unsatisfactory	1-89	25%	In the "Contraindications" account
Suspicious	90-179	50%	
Hopeless	180 ва кўп	100%	

There are no problems with the return of assets classified as “standard”. In this case, no part of the principal amount and interest must be past due or the terms have not been revised. The quality of overdue and revised terms of principal or interest cannot be classified as “standard”.

For assets classified as "standard" in the reserve capital, a commercial bank must form a reserve for standard assets in the amount of one percent of the amount of their outstanding principal (balance).

A commercial bank must form a special reserve for assets classified as “substandard” in the amount of ten percent of the amount of their outstanding principal (balance).

There is an overdue debt on principal and interest, which is classified as unsatisfactory if its term does not exceed 90 days.

A commercial bank must form a special reserve for assets classified as “unsatisfactory” in the amount of twenty-five percent of the amount of their outstanding principal (balance).

Asset quality is classified as “doubtful” if at least one of the following factors is present:

- If there are at least some indicators of "unsatisfactory" assets, as well as some other negative characteristics (the absence of easily marketable collateral in the market or the presence of unsecured assets or the declaration of bankruptcy of the borrower);
- if the asset is likely to be partially repaid in the near future;

If there is a debt on principal and interest overdue for more than 90 days, but not more than 180 days, then this asset is classified as doubtful and must form a special reserve for assets in the amount of fifty percent of the amount of their outstanding principal (balance).

These assets are classified as “bad” if they have overdue debt of more than 180 days on principal and interest.

A commercial bank must form a special reserve for assets classified as “bad” in the amount of one hundred percent of the amount of their outstanding principal (balance).

If a commercial bank has more than one asset transferred to a single debtor, the quality of all assets returned by the debtor to the commercial bank should be classified as the lowest class of assets.

ISSN 2792-3991 (online), Published under Volume: 1 Issue: 5 in October -2021

IJDPP International Journal of Development and Public Policy

| e-ISSN: 2792-3991 | www.openaccessjournals.eu | Volume: 1 Issue: 5

The Central Bank has set up a required reserve deposit to cover possible losses on the assets of a commercial bank. This mandatory reserve deposit requires commercial banks to transfer funds from correspondent accounts in the amount equal to the amount of special reserves formed against possible losses on their assets.

Also, according to the new amendments, the Central Bank, while analyzing the loan portfolio of commercial banks, may send binding instructions to commercial banks on the formation of reserves against possible losses on assets.

In addition, according to the new amendments and additions, payments on all loans provided by the bank will be made in installments, distributed over the entire term of the loan agreement.

This rule serves as a warning sign to prevent the emergence of problem loans in banks.

At the same time, according to the amendments, a number of innovations have been introduced in the classification of the quality of their assets by commercial banks.

In particular, according to the old rules, loans with a maturity of up to 30 days are "standard", loans with a maturity of up to 90 days are "substandard".Loans overdue for more than 180 days are classified as “bad”.Under the new arrangement, all loans that are not repaid on time and whose intermediate payments on principal and interest are scheduled for 180 days are classified as “bad”.

Today, credit investments of commercial banks in the country are sufficiently diversified, and the risks associated with the activities of economic sectors in the banking system of the republic are moderate.

In particular, as of January 1, 2021, 40.9% of commercial banks' loans were in industry, 14.7% in transport and communications.. 12.3% are individuals, 4.7% are trade and general services, 4.3% are agriculture and 3.1% are construction (Table 2).

Table 2 Distribution of credit investments of commercial banks by sectors

Indicators	01.01.2020 y		01.01.2021 y	
	sum, billion sum	**share,** percent	**sum,** billion sum	**share,** percent
Industry	18 347	34,9	45 223	40,9
Transport and communication	7 149	16	205	14,7
Trade and general service	4 072	7,7 5	246	4,7
Agriculture	3 033	5,8 4	742	4,3
Construction industry	2 218	4,2 3	3 424	3,1
Development of material and technical support	652	1,2	472	0,4
Housing and communal services	456	0,9	996	0,9
Individuals	9 379	600	12,3	12,3
Other areas	7 304	13,9	20 665	18,7
Total loans	52 611	100	110 572	100

As of January 1, 2018, the balance of non-performing loans in the loan portfolio of commercial banks amounted to 2.2 trillion soums. soums, and its share in total credit investments was 2%.

Also, in December 2020, the Central Bank, together with commercial banks, conducted a full inventory of their loan portfolios and reclassified assets on identified problem loans (Table 3).

According to the table, as of the reporting date, 90.7% of loans issued by commercial banks accounted for assets classified as "standard" and 8.2% as "substandard".We can see that the balance of loans classified as “unsatisfactory”, “doubtful” and “hopeless” was 1.2 percent.

At the same time, the total amount of reserves created on allocated loans amounted to 2.4 trillion soums. soums or 2.2% of the total loan portfolio of banks, which is 3.6 times more than at the beginning of last year.

IJDPP
International Journal of Development and Public Policy
| e-ISSN: 2792-3991 | www.openaccessjournals.eu | Volume: 1 Issue: 5

Table 3 Classification of the loan portfolio of commercial banks and the status of created reserves

Credits classification	01.01.2020y				01.01.2021y			
	total loans, billion sum	share, percent	created backup, billion sum	share, percent	total loans, billion sum	share, percent	created backup, billion sum	share, percent
Standard	47 094	89,5	15,3	100	235	90,7	290	12,1
Substandard	5 126	9,7	369	55,3	9 013	8,2	1 390	58,1
Unsatisfactory	168	0,3	45	6,7	739	0,7	207	8,6
Suspicious	119	0,2	61	9,1	254	0,2	131	5,5
Hopeless	105	0,2	91	13,6	332	0,3	377	15,8
Total	52 611	100,0	667	100,0	110 572	100,0	2 395	100,0

43.6% of loans from commercial banks were provided on the basis of government guarantees, 28.8% on real estate, 3.8% on vehicles and the remaining 23.8% on third-party guarantees and other guarantees.

Conclusion

In general, the ultimate goal of commercial bank loan portfolio management is to achieve the optimal level of risk, profitability and liquidity of this portfolio.

In our opinion, the following a number of factors should be taken into account in the effective management of the loan portfolio in commercial banks:

- constant, effective monitoring of the quality of bank assets, strengthening the mechanism for early detection and elimination of problematic situations related to bank assets;
- development of measures aimed at effective risk management through wide diversification of assets in banks, strengthening the loan portfolio and making the necessary changes to them depending on the economic situation;
- assessment, study, analysis of risks that may arise in the lending process on the basis of the organization of the implementation of decisions on the banking system and regulations governing credit relations, monitoring their implementation of the business plan;
- formation of new ways of managing problem loans;
- control over asset quality assurance, ensuring that the share of good loans in the loan portfolio is not less than 90%, minimizing the amount of overdue loans, compliance of the loan portfolio with the approved credit policy (by industry, region and term);
- control over compliance with the terms of the bank's credit policy and lending principles.

References

1. Law of the Republic of Uzbekistan "On Banks and Banking", T .: Uzbekistan, April 25, 1996.
2. Decree of the President of the Republic of Uzbekistan "On the Strategy of actions for further development of the Republic of Uzbekistan". February 7, 2017.
3. Decree PF№5296 on measures to radically improve the activities of the Central Bank of the Republic of Uzbekistan. January 9, 2018.
4. Decree PF№5296 on measures to radically improve the activities of the Central Bank of the Republic of Uzbekistan. January 9, 2018.
5. Mirziyoev Sh.M. "Critical analysis, strict discipline and personal responsibility should be the daily rule of every leader." T .: Uzbekistan. 2017.
6. Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Oliy Majlis. 2017 y. 22.12.
7. Resolution of the President of the Republic of Uzbekistan "On additional measures to increase the popularity of banking services" № 3620. March 23, 2018.
8. The Program of measures approved by the Resolution of the President of the Republic of Uzbekistan "On measures to further develop and increase the stability of the banking system of the Republic" September 12, 2017.

ISSN 2792-3991 (online), Published under Volume: 1 Issue: 5 in October -2021

IJDPP International Journal of Development and Public Policy
| e-ISSN: 2792-3991 | www.openaccessjournals.eu | Volume: 1 Issue: 5

9. Regulation No. 2696 on the classification of asset quality in commercial banks and the procedure for the formation and use of reserves to cover possible losses on assets. July 14, 2015.
10. O.I. Lavrushin. Upravleniedeyatelnostyukommercheskogo bank. Uchebnik.M.Yurist 2003.
11. Diana MakNoton. Banking institutions in developing countries.-IER MBRR.-Washington D.S., 2001.-p.75
12. АбдуллаеваШЗ. Банкрискларивакредитлаш. Т.: Молия, 2002. 304 б. Б –166.
13. Sattarov O., Beknazarov E. GEP and its management in commercial banks. Monograph. -T .: EXTREMUM PRESS. 2011 y. - 82 b.
14. Reports of the Central Bank of the Republic of Uzbekistan, 2009-2017
15. www.cbu.uz -Website of the Central Bank of the Republic of Uzbekistan.
16. www.Lex. Uz

ISSN 2792-3991 (online), Published under Volume: 1 Issue: 5 in October -2021