



## Minimizing Risks Associated With Active Operations Of Commercial Banks

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**Abstract:** It is shown that there are actual problems of commercial banks in minimizing the risks associated with asset operations based on the relevant factors, and the ways to achieve the minimization of risks associated with asset operations are indicated based on the concluding suggestions and recommendations aimed at eliminating them.

**Key words:** asset operation, commercial bank, banking system, central bank, interest income, interest expense. extended loan, overdue loan, government guarantee, national currency, risk, gross asset, minimization, highly liquid asset.

### THE MAIN PART

Analyzes of the practical data of the banking system of our republic have shown that there are a number of actual problems in minimizing the risks associated with asset operations of commercial banks. The existence of these urgent problems is based on the following directions:

1. One of the current problems is the relatively low rate of return on the assets of commercial banks.

On the other hand, the low rate of profitability of commercial bank assets is explained by a number of reasons, and in our opinion, the following can be pointed out as the main ones:

- high level of overdue loans compared to gross loans;
- failure to ensure the ratio between interest income and interest expenses;
- lack of proportionality between the growth rate of net interest income and the growth rate of gross assets.

According to the official statistics of the Central Bank of the Republic of Uzbekistan, "the balance of extended loans by commercial banks of the country as of January 1, 2022 is 88.4 trillion. amounting to soums, of which 73.9 trillion. soums (84 percent) of legal entities and 14.5 trillion. soums (16 percent) corresponds to the contribution of individuals. 12.8 percent of the balance of these loans or 11 trillion. 13.1 percent or 12 trillion soums became problem loans. soums became potentially problematic (substandard) loans delayed for more than 30 days. By the end of 2021, the total balance of loans with an extended payment period made up 27% of the banking system's loan portfolio (88 trillion soums), and in some banks this indicator was significantly higher than the average. In particular, it is 42 percent in Xalq bank, 41 percent in Turonbank and Uzsanoatkurilishbank, 38 percent in Kyshloq kurilish bank and Asakabank. In 2021, within the framework of measures to reduce the weight of problem loans on the bank's balance sheet, 3.3 trillion that have not been repaid for more than a year. 251 billion soums, of which 251 billion were allocated for family business development programs. Soum "bad" loans were removed from banks' balance sheets.

Appropriate measures taken by banks and the government to prevent the negative impact of non-performing loans on the financial stability of banks led to the formation of the share of non-performing loans at 5.2 percent (16.9 trillion soums) at the end of 2021. As of January 1, 2022, commercial banks 4.7 trillion of loans allocated to the population. soums or 6.8 percent became problem loans. 2.4 trillion of problem credit debtors of the population. soums or 51 percent of loans allocated for business development, 1.4 trillion. soums or 30 percent mortgage loans, 409 billion. soums or 9 percent of consumer loans, 346 bln. soums or 7 percent of microloans and 135 bln. soums or 3 percent will be contributed to car loans.

The majority of overdue loans are overdue debt arising from loans granted under government programs that are well known to us. These loans are provided on the basis of the guarantee of the Government of the Republic of Uzbekistan. According to the Resolution of the President of the Republic of Uzbekistan No. 3270 dated September 12, 2017, it is envisaged that the payment of these overdue loans to commercial banks will be ensured by the Ministry of Finance. However, the ability of the Ministry of Finance to pay overdue debts to commercial banks for loans granted on the basis of the Government guarantee depends on the state of the State budget.

The following are the main factors preventing the balance between interest income and interest expenses in commercial banks of our republic:

- due to the lack of development of commercial banks' investment operations with securities, interest income from investments in securities has a small weight in the interest income of banks;
- lack of development of commercial banks' emission operations with securities.
- Due to the large amount of bad loans, the level of reserve allocations intended to cover losses from loans is high.

2. One of the urgent problems related to the minimization of the risks associated with asset operations of the commercial banks of the republic is the lack of proportionality between the weight of highly liquid assets in the form of money in the volume of gross assets and the weight of the resources attracted from customers and banks in the volume of liabilities.

Commercial banks have a high share of non-profitable monetary assets in gross assets, while the share of loans from other banks, which are considered a relatively expensive resource, in liabilities is significantly higher.

On the other hand, in the context of the fact that the weight of non-earning cash assets in the gross assets of commercial banks is high, in the conditions of the high weight of deposits in the volume of gross deposits, in order to fulfill the prudential control requirements set by commercial banks on the current liquidity ratio and the current liquidity ratio, a large amount of highly liquid cash assets is required. is explained by the fact that they are forced to maintain assets.

Unlike the commercial banks of the developed countries, the commercial banks of our republic cannot fully use the possibility of investing in highly liquid securities to ensure their liquidity. Because, in the structure of assets of commercial banks, investments made in highly liquid securities occupy a small weight. In such conditions, commercial banks are forced to provide their current liquidity at the expense of non-earning monetary assets.

In the current conditions, commercial banks of our republic are forced to use the following three types of non-monetary income-generating assets to ensure their current liquidity:

- cash in cash registers;
- funds of commercial banks in the representative account "Nostro" opened in the Central Bank in national currency;
- funds in "Nostro" representative accounts of commercial banks opened in other commercial banks.

The assets mentioned above do not bring income to commercial banks. Because, firstly, the Central Bank does not pay interest on the money in the national currency "Nostro" representative account of commercial banks; secondly, foreign commercial banks do not pay interest on the working balance of "Nostro" representative accounts opened in foreign currencies on their balance sheets of Uzbek banks; thirdly, commercial banks of our republic do not charge for receiving cash from customers or for issuing cash.

A significantly larger amount of investments in highly liquid securities on the balance sheet of commercial banks frees banks from the need to provide current liquidity at the expense of non-earning monetary assets.

3. Inadequate resource base of commercial banks causes them to attract a large amount of foreign loans.

International loans from foreign banks and international financial institutions are a relatively expensive resource. This is due to the following reasons:

- deposits attracted from clients of foreign banks are given to our banks as a resource, setting their own spread;

- the reduction of the consequences of the coronavirus pandemic will lead to an increase in the demand for international loans, and interest payments on loans obtained at a floating rate will increase;

- in the conditions of high rate of depreciation of the national currency, the amount of payments on loans received in foreign currency constantly increases.

When the resource base of a commercial bank is sufficient, they do not attract large amounts of interbank loans. However, in many developing countries, including the Republic of Uzbekistan, due to the insufficient resource base of commercial banks, banks are forced to attract large amounts of loans from foreign banks and international financial institutions.

### Summary

We consider it appropriate to present the following concluding scientific proposals and practical recommendations aimed at solving the problems of minimizing risks associated with asset operations of commercial banks:

1. In order to increase the ability of commercial banks to cover losses from active operations, it is necessary to increase the weight of interest income in the volume of gross income and ensure the proportionality between the growth rate of gross income and the growth rate of gross assets.

2. In commercial banks, it is necessary to ensure the balance between the weight of highly liquid assets in the form of money in the volume of gross assets and the weight of the resources attracted from customers and banks in the volume of liabilities.

3. As an important element of the complex system of credit risk management, it is necessary to create an effective system of managing the composition of the credit portfolio.

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