

Article

Analysis of Indicators of the Lending Practice of A Commercial Bank (On the Example of the National Bank)

Bozorov Ruslan Khamdamovich¹

Affiliation Doctoral student at the Academy of Public Administration under the president of the Republic of Uzbekistan PhD (in Economics)), associate professor

* Correspondence: ruslanhamdamovich@mail.ru

[ORCID: 0009-0008-5022-2441](https://orcid.org/0009-0008-5022-2441)

Abstract: The article analyzes the current state of the financial indicators of the National Bank of Uzbekistan, one of the largest banks in Uzbekistan, related to credit activities, and explains the reasons for the formation of the results. In particular, the analysis was carried out in such areas as the bank's profitability indicators, the share of problem loans, the volume of loan reserves, and the structure of loans by category. Also, based on the results of the analysis, conclusions were drawn and proposals were made to improve lending mechanisms in order to prevent negative situations.

Keywords: financial stability, return on assets, return on capital, problem loans, provision for loans, loan percentage, debt burden, solvency.

1. Introduction

In order to ensure the stability of the population's incomes and achieve economic efficiency in the country, it is important that commercial banks provide sufficient quantitative and qualitative credit to economic entities, including legal entities and individuals.

In this regard, the effective functioning of existing lending mechanisms affects the results of the bank's current lending activities and the ability to conduct further activities on a large scale. Therefore, by analyzing the indicators related to the lending activities of banks, it is possible to assess the effectiveness of their existing lending mechanisms.

In this regard, there is another point that the effective functioning of lending mechanisms contributes to ensuring the financial stability of banks and increasing the real incomes of the population.

Taking into account the above, it is urgent to conduct research in this direction. In order to analyze the impact of lending mechanisms on the bank's lending activity and draw conclusions about them, we must first know the concept of a lending mechanism and what elements it consists of. Therefore, we will carry out our literature review in this direction.

Literature Analysis

Citation: Bozorov Ruslan Khamdamovich Analysis of indicators of the lending practice of a commercial bank (on the example of the National Bank), American Journal of Economics and Business Management 2024, 8(1), 367-376.

Received: 23th Dec 2024

Revised: 28th Dec 2024

Accepted: 24th Jan 2025

Published: 27th Jan 2025



Copyright: © 2025 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license

(<https://creativecommons.org/licenses/by/4.0/>)

In the interpretation of V.S. Pashkovsky, the credit mechanism is a practical specific form of organization of credit relations. According to him, it is necessary to approach the credit mechanism as a "managed" and "controlled" system. Such an approach increases the possibility of monitoring the effectiveness of the credit mechanism. At the same time, V.S. Pashkovsky considers the credit mechanism as an interconnected system of planning methods and forms, regulation, granting and repaying credit [1].

According to Academician V.I. Rybin, credit characteristics and relationships that reveal its essence, as well as the form and methods of their manifestation constitute the credit mechanism. The scientist introduced the concept of the bank credit mechanism in his work "Credit and Settlements in the Conditions of Reforms", and noted the specific aspect of credit. That is, according to it, banks have the opportunity to control the financial activities of economic entities due to the credit mechanism [2].

Professor S. B. Steinleiger explained the essence of the credit mechanism more broadly. The economist divided the structure of the credit mechanism into three groups: 1) banks; 2) elements that represent specific specific laws of the credit sector; 3) the form and methods of applying the contents of the law of the credit sector to practice [3].

Economist M.A. Passel explains the fact that the "financial-credit mechanism" is an independent category as follows: "... in many situations, the object of lending and/or financing of both credit and finance can be common, and these forms of monetary relations, which differ from each other in the economy, despite the fact that they are jointly carried out by the state, that is, together, are distinguished from each other by the characteristics (conditions) of their creation or accumulation of funds and the provision or direction of these funds." [4].

Analyzing the above-mentioned opinions on the credit mechanism, we can conclude that, although the expressed opinions are expressed in different forms, almost all of them have one thing in common: a credit mechanism is a method of using credit.

In many cases, the term "credit mechanism" is also used along with the category "credit mechanism". The reason for using this term is that the category "credit mechanism" sometimes has a broad meaning in practical studies. Often, when thinking about a credit mechanism, a set of elements is understood that express the conditions associated with lending, and at the same time are considered a certain component of the credit mechanism. Therefore, "credit mechanism" has a narrower meaning in terms of content than the category "credit mechanism".

Academician O.I. Lavrushin, in his book "Credit in the System of Economic Stimulation," argues that "expanding credit boundaries is the search for an effective mechanism for lending and repayment, thereby increasing the role of credit levers in stimulating production in the economy," and emphasizes that part of the process of implementing a credit mechanism is the lending mechanism [5].

Another economist R.G. Olkhova, distinguishing the concepts of "credit mechanism" and "lending mechanism", "the lending mechanism is considered an element of the credit mechanism, which includes the following links: principles of turnover, own and debt limits, types of loans, lending methods and objects, credit management and credit emphasizes that it is a system covering the methods and types of use control organization [6].

Professor O.K. Iminov, one of our local economists, has opinions based on his views on the credit mechanism and its structural elements. According to the economist, the system of effective use of credit resources, forms and methods of their management constitutes this credit mechanism. Also, the credit mechanism, credit relations and credit institutions together form the credit system [7].

From our theoretical studies, it became clear that the credit mechanism is a broader concept than the lending mechanism, and in turn, we can say that the lending mechanism

is a component of the credit mechanism or part of the processes in it. In the above figure, we can see the credit mechanism and its place as a component of the lending mechanism in the conditions of the principles of a market economy based on supply and demand.

In general, if the credit mechanism consists of a set of mechanisms consisting of parallel or multi-stage processes that ensure the practical operation of credit and lending systems, then in this set the lending mechanism is the main mechanism that includes the processes that represent credit and its practical application.

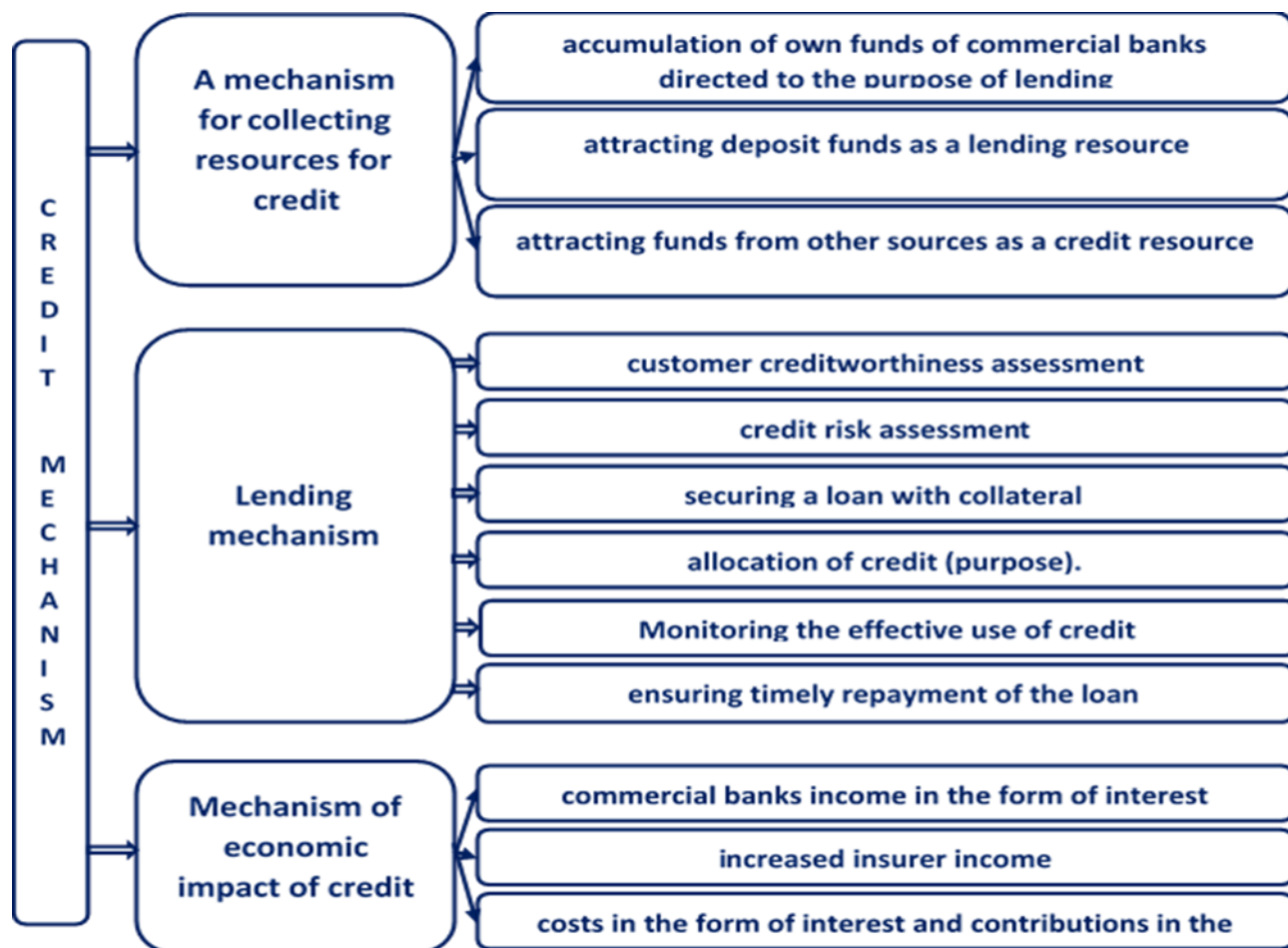


Figure 1. The credit mechanism and the role of the lending mechanism in it

Source: Independently prepared by the author based on research.

In turn, the lending mechanism consists of such stages as: assessing the client's creditworthiness, assessing credit risk, securing the loan with collateral, targeted loan allocation, monitoring the targeted use of the loan, and ensuring timely repayment.

2. Materials and Methods

The main objective of the study is to analyze the indicators of the lending practice of commercial banks and to formulate scientific conclusions and develop recommendations for improving the lending mechanism.

The article presents the financial indicators of the National Bank, one of the commercial banks in the Republic of Uzbekistan, obtained from the bank's annual report. In the research process, along with general economic methods, such methods as statistical data collection, generalization, comparison, and systematic analysis were used.

3. Results and Discussion

We begin our analysis with indicators of lending trends in the global economy.

In recent years, the credit market of individuals has grown rapidly on a global scale. This market was 774.6 billion US dollars in 2024, and it is forecasted to be 855.1 billion US dollars in 2025, with an increase of 10.4%. During the years 2026-2029, the annual growth rate is expected to be 10.6%, and the amount in 2029 will reach 1.279 trillion US dollars. Growth during this period can be attributed to economic stability, low interest rates, increased consumer confidence, marketing and advertising. Low interest loans help consumers to finance various expenses at a cheaper price [8].

Today, 36 commercial banks are operating in the Republic of Uzbekistan (as of September 1, 2024), 10 of them are state-owned banks [9].

In our research, we will analyze the indicators related to credit activity and the state of financial stability of "National Bank of the Republic of Uzbekistan for Foreign Economic Activities", which is one of the largest commercial banks in our republic, on the basis of annual reports.

As of September 1, 2024, JSC "Uzmilliybank" is in the first place in the country in terms of bank assets (135.8 trillion soums), its assets correspond to 18.6% of the total assets of commercial banks, and in terms of bank capital (18.5 trillion soums). It is in 1st place, and according to this indicator, its share corresponds to 17.4% of the total capital of commercial banks. Also, the bank's credit portfolio on this date is 104.6 trillion soums, this amount corresponds to 20.5% of the total credit portfolio of commercial banks and 67.6% of the credit portfolio of banks without a state share.

In our analysis, we study the share of problematic loans in the total loans of TIF National Bank in 2017-2023.

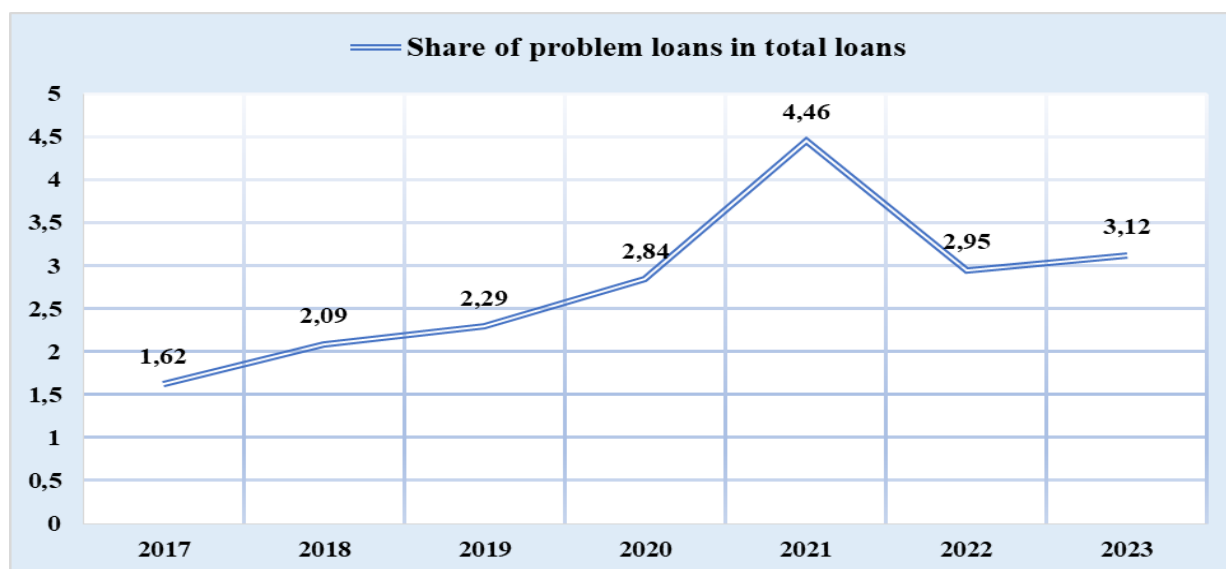


Figure 2. The situation of the share of problematic loans in the total loans of TIF National Bank in 2017-2023, in percentage

Source: It was prepared by the author on the basis of data on the National Bank of Foreign Economic Activity of the Republic of Uzbekistan for 2017-2023.

According to the chart presented in Figure 2, the share of problem loans in the total loans in the National Bank reached the highest level of the analysis period in 2021. Although its level decreased later, it remained high compared to the beginning of the analysis period. If we take into account that the total volume of loans increased by 2.83 times (99.4 trillion / 35.2 trillion) compared to the beginning of the analysis period, and the share of NPLs increased by 1.92 times, it is determined that by the end of 2023, the amount of problem loans in the bank has increased by 5.45 times compared to 2017. . This trend will certainly have a negative impact on the financial stability of the bank. Because a certain part of the reserves created by the bank corresponds to the share of

reserves for problematic loans, as well as their rate and volume depend on the categories of loans based on the quality of assets.

According to the practice and established procedure of banking activities, loans belonging to 3 categories out of 5 categories of assets with credit status, including those classified as "insufficient", "doubtful" and "hopeless", constitute problem loans. Also, in accordance with the current regulatory document: 1%, 10%, 25%, 50% and 100% of reserves are formed at the expense of bank expenses, in accordance with the assets classified as "standard", "substandard", "unsatisfactory", "doubtful" and "hopeless" [10].

Taking into account the above, during our analysis, we should study the dynamics of the compositional structure of loans according to the established classifications in order to evaluate the situation that caused the formation of reserves that led to a decrease in the bank's net profit and profitability indicators in recent years.

Table 1

The dynamics of changes in the composition of national bank loans by classification, in percent

Credit categories	2017	2018	2019	2020	2021	2022	2023
Standard	92,3%	94,3%	94,3%	88,3%	84,8%	73,4%	50,5%
Substandard	6,1%	3,6%	3,4%	8,9%	10,7%	23,7%	46,4%
Insufficient	0,6%	0,8%	0,9%	1,1%	1,6%	0,5%	0,7%
Doubtful	0,3%	0,6%	0,4%	0,5%	0,5%	0,7%	0,6%
Hopeless	0,8%	0,7%	1,0%	1,3%	2,4%	1,7%	1,8%
Total credits	100%	100%	100%	100%	100%	100%	100%
NPL	1,6%	2,1%	2,3%	2,8%	4,5%	3,0%	3,1%

Source: It was prepared by the author on the basis of data on the National Bank of Foreign Economic Activity of the Republic of Uzbekistan for 2017-2023.

From the data of the table, we can see significant structural changes in the category of loans in 2023: a decrease of 22.9% of "Standard" loans and an increase of 22.7% of "Substandard" loans. This means that the assets that can be reserved by 1% in the bank according to the classification have moved to the category of assets that require the formation of 10% reserve (compulsory transformation). Naturally, this situation increased the cost of reserves in the bank. But there was no significant change in the classification of loans in the composition of non-performing loans, in general, 0.1 percent of non-performing loans requiring a reserve of 100% were $((0.7-0.5)*25%+(0.6-0.7)*50%+(1.8-1.7)*100%)$ increased.

Next, we will analyze the dynamics of the balance of reserves created for possible losses on loans under the influence of changes in the classification of loans of the bank during the period of analysis.

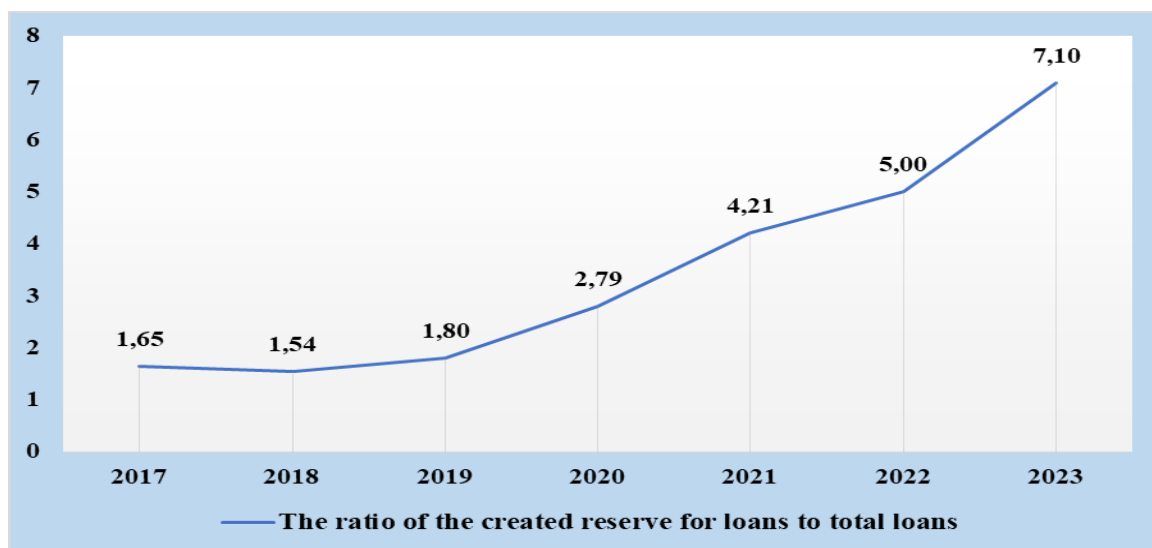


Figure 3. The ratio of the reserve created for loans to total loans at the National Bank of the Republic of Uzbekistan in 2017-2023, in percent

Source: Prepared by the author based on data from the National Bank for Foreign Economic Activity of the Republic of Uzbekistan for 2017-2023.

From the data of Figure 3, it can be seen that the ratio of the bank's loan reserve to total loans has increased sharply since 2020, and by 2023 its level has increased by 4.3 times (7.10/1.65) compared to the beginning of the analysis period. During this period, it increased by 12.2 times, increasing from 580.4 billion soums to 7058.2 billion soums. The dynamic growth of the quantitative and relative level of the bank's loan reserves in such a trend is dangerous for the stability and perspective of the bank's general activity. The increase of the indicator: by 1% in 2020, the share of loans classified as "Substandard" increased by 2.6 times (8.9%/3.4%); In 2021, the indicator will increase by 1.4 percentage points due to a sharp increase in the share of problem loans to 1.7% (in particular, the share of loans classified as "Unreliable" requiring the creation of 100% reserves to 1.1%); in 2022 and 2023, the indicator will increase by 0.8 % and 2.1 percentage points, the share of loans classified as "Substandard" increased by 2.2 (23.7%/10.7%) and 2.0 (46.4%/23.7%) times (total The main reason for this was the increase in its share by 4.3 times (46.4%/10.7%) in 2 years (as a result of negative indicators of bank lending activity). Therefore, taking measures to systematically address these emerging problems and reviewing lending mechanisms to prevent their further deterioration should be important tasks facing the bank today.

According to international practice, when analyzing the indicators of banks' credit activity, the ratio of the amount of reserves created for loans to problem loans is studied. In our opinion, the reason for this is to determine to what extent the reserves created for loans can actually cover the volume of loans that are unlikely to be returned (or forcibly collected) by the bank or are impossible.

For this purpose, in our research, we consider the ratio of the amount of reserves created on loans in TIF National Bank to problem loans.

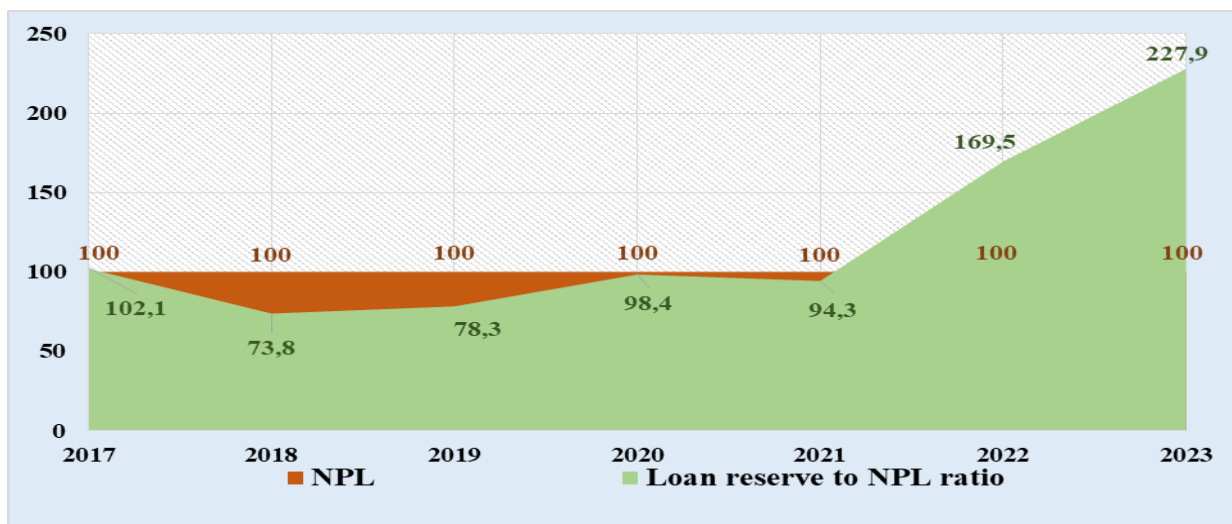


Figure 4. Ratio of the amount of reserves created for loans in to problem loans the National Bank of the Republic of Uzbekistan for 2017-2023, in percent

Source: Prepared by the author based on data from the National Bank for Foreign Economic Activity of the Republic of Uzbekistan for 2017-2023.

The figure shows that the amount of loan provisions created at the National Bank of the Republic of Uzbekistan in 2018-2021 was less than the volume of problem loans, according to banking practice. In particular, in 2018 and 2019, the coverage ratio did not even reach 0.8. In 2022 and 2023, this ratio was 1.7 and 2.3. Of the foreign banks we analyzed, the situation in China's ICBC Bank was also in the range of 1.4-2.1 coefficients during the analysis period (2014-2023), that is, the amount of loan provisions was constantly higher than the volume of problem loans.

At this point, a natural question arises: "What is the norm or objective ratio of the amount of loan reserves to problem loans (or "problem-to-reserve ratio (or problem-to-reserve ratio)")?"

According to the conducted theoretical and practical analyzes and the studied normative bases, the standard level of this coefficient is not provided. Because the degree of formation of this coefficient directly depends on the classification of loans. But based on the analysis, it became clear that there is such a classification of loans that, while its increase does not increase the volume of problem loans, it affects the increase in the amount of reserves 10 times more compared to loans of the previous classification, and 2.5 times less than loans of the next classification (problem). These are loans classified as "Substandard".

This category of loans can arise in two different situations: the first is when loans are transferred from the "Standard" classification to the "Substandard" classification, and the second is when loans are transferred from the problem loan classification to the "Substandard" classification. The probability of the first situation occurring and the loan amount may be large, while the second situation is likely to be small due to the long and difficult process. However, if the first situation occurs, it will be necessary to create a reserve 10 times (10%/1%) more than the reserve ratio (1%) in the previous classification, while in the second case, it will be possible to reduce the reserve by 2.5 times (25%/10%, since the classification has changed from 25% to 10%).

If we do our analysis differently, for example, in one reporting period, loans classified as "Substandard" increased by 2%, and 1% of its increase was transferred from loans classified as "Standard" and 1% as "Unsatisfactory". In it, the bank's reserve will decrease by -6% (+9%-15%) compared to the 1% loan amount. This was considered a positive situation. Now, if we analyze the situation of TIF National Bank in 2023 based on this analysis method, the share of "Substandard" loans in the bank has increased by 22.7%, but problem loans have not decreased in general. This means that since the share of loans classified as "Substandard" occurred only at the expense of the share of loans classified as "Standard", this situation caused an increase in reserves in the amount of 2.043% of total loans (0.227*9%).

Thus, a sharp or above-standard increase in the number of loans in the "Substandard" category in a bank, on the one hand, leads to a decrease in the bank's profitability by reducing net profit due to an increase in the amount of loan provisions at that time, thereby not ensuring its financial stability, and on the other hand, it leads to the emergence of an ineffective balance of loan provisions formed at the expense of expenses and exceeding the volume of problem loans.

Therefore, it is advisable to introduce the following procedure in banking practice, taking into account the need and purpose of the need to create a reserve for loans (reserve to cover possible losses):

- Ensuring that the ratio of the bank's loan reserve to problem loans does not exceed 1 coefficient (100%) (loan losses in the Bank occur primarily through problem loans);
- Determine the maximum amount of reserves for loans classified as "Standard" and "Substandard" based on the amount of loans classified as "Unsatisfactory" and "Doubtful": In this case, the maximum amount of reserves for loans classified as "Standard" and "Substandard" should be equal to the sum of 75 percent of loans classified as "Unsatisfactory" and 50 percent of loans classified as "Doubtful" (In this case, the equality of reserves for loans and problem loans is maintained);
- The reserve ratio for loans classified as "substandard" should be revised, as in many cases there is a high probability of their increase, and their increase in volume is leading to an inefficient increase in the cost and balance of the reserve.

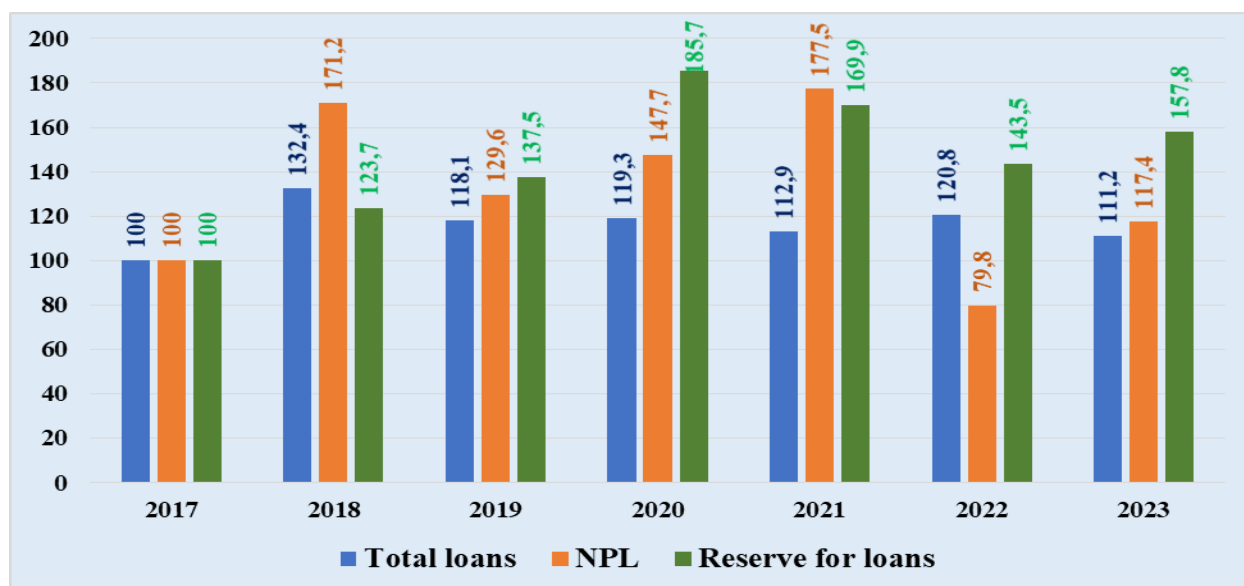


Figure 5. The dynamics of the level of changes in National Bank's total loans, NPL and loan reserves, in percent

Source: Prepared by the author based on data from the National Bank for Foreign Economic Activity of the Republic of Uzbekistan for 2017-2023.

Figure 5 shows that only in 2018 and 2021 was the growth rate of loan provisions lower than the growth rate of problem loans, which means that the growth rate of assets classified as problem loans was higher than that of loans classified as "Substandard". On the contrary, in 2019, 2020, 2022 and 2023, the growth rate of NPLs was lower than the growth rate of loan provisions. This difference was especially sharp in the last two years. Even though the volume of problem loans in 2022 decreased by 20.2% compared to the previous year, the number of principals continued to grow. In 2023, although total loans and problem loans did not increase by 20 percentage points, reserves increased by 60%. That is, we can conclude that the formation of such a disproportionate trend in 2022 and 2023, as in our previous analyses, was caused by a sharp increase in the amount and share of reserves due to the increase in loans classified as "Substandard" in the structure of loans. Therefore, it is necessary for the bank to resolve issues related to the transfer of loans in this classification to the "Standard" classification.

4. Conclusion

As a result of the research, the following conclusions were drawn:

- When analyzing the ratio of loan reserves to existing problem loans in commercial banks, it was found that this ratio is at different levels. In particular, at the National Bank, this ratio did not even reach 100 percent until 2021, but in 2023 it was on an unstable trend, reaching 227.9 percent;

- In today's era, which requires competitiveness and creative approaches, the level of application of material or immaterial attractive conditions aimed at ensuring the timely return of loans granted by commercial banks by borrowers cannot be considered sufficient. Taking into account the current economic situation and the demand and supply, it is possible to reduce the problem loans in the bank, and to find cheap financial resources in the banks, which can distinguish the benefit from the early repayment of the established obligations. But today, our lending commercial banks do not have instruments that work in such a mechanism;

- It is not a secret to anyone that the incomes of the population in our country are increasing in nominal and real terms. The reason for this is that the sources of income of the population are expanding in various cases. In particular, the share of remittances in foreign currency sent to our country by conducting labor activities abroad in the income of the population in the entire economy is significant. However, the fact that there is no lending operation by commercial banks taking into account these incomes means that lending marketing is still not working enough in banks.

As a result of the research, the following recommendations were formulated:

1. It will be necessary to change the perspective of lending operations in banks. That is, it will be necessary to reduce the share of preferential loans or find their source independently and attract them at low interest rates, based on the market and independently developed crediting mechanism protected from risks, to create cheap (only preferential in terms of interest) credit products for our economy. In parallel, it is necessary to gradually increase the share of commercial credits. This creates a real deposit rate in the economy that can attract savings. A naturally attractive rate prevents economic entities with insufficient financial literacy in society from risking their funds and ensures that the funds of this fund turn into capital for their owners.

2. In order to prevent problematic loans, it is appropriate for commercial banks to introduce the following incentives to ensure timely payment of credit schedule payments by clients and/or encourage them to pay earlier:

- if the client's income period has changed compared to the time when the credit agreement was concluded and moved to dates after the loan repayment date, and as a result of this, they incur additional costs in the form of fines, in such a case, in order to ensure the stability of the client's income and financial condition, the main part of the loan according to the date of cash receipts and change the interest payment date to a date of the month convenient for them;

- if on a certain date, the client has a certain period of time (usually up to 30 days) until the loan payment date according to the loan schedule and there is free money available to be used for loan payment, establish a procedure to encourage the client to make an early loan payment (scheduled payment) on this date by capitalizing this money until the payment schedule date.

3. By recognizing the money sent to our country by labor migrants from Uzbekistan carrying out labor activities abroad as the income of the recipients in the bank on the basis of the conditions taking into account their risks, introducing credit (microloan) operations based on the assessment of their creditworthiness, expanding the credit market

for banks and money from abroad receiving their funds, it provides an opportunity to have additional sources of financial resources.

REFERENCES

1. Pashkovsky V. S. Credit and settlement mechanism in the industry management system. Moscow: Finance, 1980. - 175 p.
2. Rybin V.I. Credit and settlement and reform conditions. - M.: Finance, 1970.
3. Steinschleiger SB, Krol IM. Methodological basis of the effectiveness of credit relations and its indicators M.: Finance.
4. Passel M.A. Loan, credit, loan // Money and Credit, 1999, No. 4.
5. Lavrushin, O.I., Afanasyeva O.N. Banking business: modern credit system: tutorial. - 7 izd., pererab. and dop. - Moscow: KNORUS, 2021. - 358 p.
6. Banking operations. Ch. 1: Textbook / Author. col.: O.I. Lavrushin, Yu.P. Savinsky, R.G. Olkhova, I.D. Mamonova et al. M.: Infra-M, 1995.
7. O.K. Iminov. Credit mechanism in modern conditions. Monograph - Tashkent, TGEU, 2000 - 102 p.
8. The Business Research Company "Personal Loans Global Market Report 2025". <https://www.thebusinessresearchcompany.com/report/personal-loans-global-market-report>.
9. [www.cbu](http://www.cbu.uz) official website of the Central Bank of the Republic of Uzbekistan.
10. The Regulation of the Central Bank of the Republic of Uzbekistan, approved by the decision No. 14/5 of June 13, 2015, "On the procedure for the classification of the quality of assets in commercial banks and the formation of reserves to cover potential losses on assets and their use."
11. Sattarov O.B. Basel III requirements in achieving stability of the banking system // Economic Bulletin of Uzbekistan. – Tashkent, 2014. – No. 3-4, p. 83-85.
12. O.Timofey. The role of banking sector for state's financial stability. Theoretical and scientific journal. ECONOMY AND SOCIOLOGY//No.1/2015. 127-133 p. JEL Classification: G20; G21; G29.
13. S.Ben Naceura, Katherin Martonb, Caroline Roulet Basel III and bank-lending: Evidence from the United States and Europe / Journal of Financial Stability 39 (2018) pp. 1–27.
14. Tukhtabaev U.A. Abstract of the dissertation for the degree of Candidate of Economic Sciences on the topic "Problem loans and ways to eliminate them". Tashkent - 2007. 5 p. p.
15. Kulliyev I.Ya. Abstract of the dissertation for the degree of Candidate of Economic Sciences on the topic "Formation of credit pricing and its improvement". Tashkent - 2010. 5-6 p.
16. Berdiyarov B.T. "Issues of ensuring liquidity and solvency of commercial banks of the Republic of Uzbekistan" Doctor of Philosophy. Dissertation for the degree of Doctor of Sciences. – Tashkent: BMA, 2020 – p. 17-19.
17. Reports of the National Bank of Foreign Economic Activity of the Republic of Uzbekistan.