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**IMPROVING ANALYSIS OF FINANCIAL ASSETS AND RESERVES OF  
COMMERCIAL BANKS**

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**Annotation:** This article discusses the issues of classifying the quality of financial assets in commercial banks, as well as the issues of forming reserves to cover possible losses, ways to increase the efficiency of credit portfolio management.

**Key words:** Commercial bank, reserve, bank's credit portfolio, credit, credit portfolio management, profitability, risk, liquidity.

It should be noted that economists have expressed different views on improving the quality of commercial banks' asset portfolios. However, many economists have recognized the following ways of improving the quality of credit portfolios of commercial banks:

- reducing the credit risk level by analyzing the cash flow of the borrower client;
- ensuring that the interest rates of commercial banks' loans are at a low and stable level;
- since the quality of the credit portfolio of banks is directly dependent on external factors, the state's investment and industrial policy and the levels of risks associated with the financing of investment projects play an important role in improving the quality of their credit portfolios;
- lack of long-term resources in banks is considered to be the main factor hindering the improvement of long-term lending practices of commercial banks;
- elimination of transformation risk is important in improving the quality of banks' credit portfolios. The lack of long-term resources necessary for long-term loans in the commercial banks of the Republic of Uzbekistan caused the deepening of the transformation risk in the banks. In turn, the transformation creates a strong negative impact on the liquidity of risky banks.

The issue of improving the management of asset portfolios of commercial banks - credit portfolios and securities portfolios - by improving their quality, was thoroughly researched by foreign economists on a scientific basis, and relevant scientific conclusions and practical recommendations were formed.

**Review of literature**

According to T. Mazurin's conclusion, the following conditions must be present for the development of lending to the real sectors of the economy:

- availability of effective state investment and industrial policy;
- development of investment infrastructure that allows to reduce the level of risks associated with the implementation of investment projects;
- increasing the investment attractiveness of enterprises.

According to M. Matovnikov, the lack of long-term resources in banks is the main factor hindering the improvement of long-term lending practices of commercial banks. A simple and realistic way to solve this problem is to get a loan from the Central Bank by pledging liquid assets.

### **Research methodology and empirical analysis**

Appropriate changes have been made to the current normative documents on the creation of potential reserves on assets in the banking system of the Republic of Uzbekistan. In particular, on June 13, 2015, the Central Bank Administration "On the introduction of changes and additions to the procedure for the classification of assets, the formation and use of reserves to cover potential losses by commercial banks" 14/ Decision No. 5 was adopted.

According to this decision, the following changes have been made to the above procedure (Table 1).

Table 1

### **Classification of assets of commercial banks**

<b>Classification categories</b>	<b>Expired days.</b>	<b>Backup that needs to be created.</b>	<b>Calculation of interest</b>
Standart	0	1%	in balance.
Substandart	0	10%	in balance.
Unsatisfied	1-89	25%	In the "Contingencies" account
Doubtful	90-179	50%	
Hopeless.	180 va ko'p	100%	

There are no problems with the return of assets classified as "standard". In this case, it is necessary that no part of the principal amount and interest has expired or the terms have not been revised. Assets that are overdue and renegotiated beyond principal or interest cannot be classified as "default".

For assets classified as "standard" in the reserve capital of a commercial bank, it is necessary to form a reserve created for standard assets in the amount of one percent of their outstanding principal debt (residual).

For commercial bank assets classified as "substandard", it is necessary to form a special reserve in the amount of ten percent of the amount of their unreturned principal debt (residual).

If there is an overdue arrears on the principal debt and interest, and its term does not exceed 90 days, it is classified as non-performing.

For commercial bank assets classified as "non-performing", it is necessary to form a special reserve in the amount of twenty-five percent of the amount of their unpaid principal debt (residual).

Assets are classified as "doubtful" if at least one of the following factors is present:

- if there is at least one indicator of "unsecured" assets, as well as some other negative characteristics (non-availability of collateral that can be easily sold in the market, or the presence of unsecured assets, or the borrower has been declared bankrupt);
- if there is a possibility of partial payment of the asset in the near future;

If there is arrears of principal and interest for more than 90 days, but not more than 180 days, then this asset is classified as doubtful and it is necessary to create a special reserve for the assets in the amount of fifty percent of the amount of their unpaid principal debt (residue).

If there is arrears of principal and interest for more than 180 days, these assets are classified as "non-performing".

For assets classified as "non-performing" by commercial banks, it is necessary to form a special reserve in the amount of one hundred percent of the amount of their unpaid principal debt (residual).

If the commercial bank has several assets given to one debtor, all the assets returned by the debtor to the commercial bank should be classified as assets classified in the lowest category.

A mandatory reserve deposit has been set up in the central bank to cover potential losses on commercial bank assets, and a representative account of funds equal to the amount of special reserves formed against potential losses of commercial banks in this mandatory reserve deposit g there is a requirement to go through

Also, according to the newly introduced changes, the Central Bank, analyzing the credit portfolios of commercial banks, may issue mandatory instructions to commercial banks regarding the formation of reserves against possible asset losses in an additional approach.

### **Conclusion and discussion**

In general, the main goal of credit portfolio management of commercial banks is to achieve the optimal level of risk, profitability and liquidity indicators of this portfolio.

In our opinion, in the effective management of credit portfolios in commercial banks, it is necessary to take into account the following factors:

- conducting constant, effective monitoring of the quality of bank assets, strengthening the mechanism for identifying and eliminating problematic situations related to bank assets at the initial stages;
- formation of new methods of problem credit management;
- control of compliance with the terms of the bank's credit policy and lending principles.

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