

INCOME OF COMMERCIAL BANKS

¹Shakhzod Khujamurotov, ²Salim Togayev

¹2nd grade, Faculty of Accounting and Finance

Samarkand branch of Tashkent State University of Economics

Email: br.shahkzod@gmail.com, ORCID ID: 0009-0009-1610-6508

²Research advisor, PhD, Acting associate professor, Department of

“Accounting, taxation and finance” of the SB TSUE

Email: sts-bank@bk.ru, ORCID ID: 0000-0002-3170-9181

<https://doi.org/10.5281/zenodo.11030849>

Abstract. *The purpose of every commercial bank's activity is to make a high profit. Commercial banks independently determine the ways and sources of increasing these revenues. The article tries to highlight some aspects related to the income and profitability indicators of the banking system of the Republic of Uzbekistan. Also, a number of indicators reflecting the dynamics and structure of income, the basis of banking activity are presented. The discussion is focused on the comparative analysis of the indicators of the banking system of our country for the last five years, i.e. 2019-2024. Profitability indicators are a useful source of important information value in bank management, and the main point of the article is to shed more light on the sources of bank income using indicators such as return on assets (ROA), return on equity (ROE), net interest margin ratio, equity multiplier.*

Keywords: *interest income, non-interest income, gross profit, net profit, profitability indicators of the banking system, return on assets (ROA), return on equity (ROE).*

INTRODUCTION

The income of commercial banks of the Republic of Uzbekistan is based on the laws of the Republic of Uzbekistan "About the Central Bank" and "About banking and banking activities" and a number of other regulations on the calculation of income and their income tax on commercial banks adopted by the Central Bank. Commercial banks get their main income from their operations. In this case, asset operations of commercial banks bring more income than passive operations. In particular, the source of income with the highest share in the structure of income is credit operations of commercial banks. Banks lend money from their own and individuals and legal entities as a loan at the interest specified in the contract. In addition, commercial banks form their income, providing trust operations, securities related operations, leasing operations, factoring and forfeiting, guarantees, currency transactions and a number of other services.

MATERIALS AND METHODS

Since the banking system's income and profitability indicators are the indicators that express the bank's activity, a number of studies have been conducted and widely studied by experts and scientists of Uzbekistan, the CIS and foreign countries on the analysis of these indicators. Research methods such as statistical, economic-mathematical, forecasting, economic analysis were used in the analysis process.

According to the newly adopted charts of account of commercial banks, the income of banks is divided into two types: net interest and non-interest income. Net interest income, as it is known by its name, refers to the income received on the basis of a predetermined interest in exchange for the provided services, and their account is kept in the accounts from 40200 to 45200 of the chart of accounts. Among the interest incomes, the above-mentioned loan operations have

the largest weight. In this case, the difference between the percentage of attracted deposits and the percentage of loans given is the margin of the bank. Bank loans are divided into short-term and long-term types according to their term. Commercial banks are more interested in providing short-term loans. Because borrowed funds will be returned with a certain amount of interest in a short period of time. Also, the level of risk of short-term loans is low, and this does not cause the bank to allocate high reserves like long-term loans. The lower the reserve funds and the faster the loan funds return to the bank for a short period of time, the higher the profitability and stability of commercial banks. Also, the interest income of commercial banks includes operations related to securities. Commercial banks earn income by issuing, buying, selling, keeping accounts and managing them on the basis of contracts. A number of banking services, such as factoring and forfaiting, which are recognized as modern banking operations, generate interest income. Factoring operations consist of the collection of debts and the purchase of a certain percentage of the debtor's ownership.

Non-interest income is a fee paid in return for operations and services rendered in fixed amounts. Their accounts are kept in the chart of accounts of commercial banks under numbers 45200-45994. The sources of non-interest income of commercial banks are different, the main ones include:

1. Incassation services;
2. Brokerage operations;
3. Lease of property (leasing);
4. Management services;
5. Guarantees;
6. Different fines;
7. Currency operations and etc.

Leasing operations of commercial banks are a particularly important source of income. Leasing operations, which are considered financial leases, are common in the territory of the republic today and continue to benefit banks in the face of large amounts of non-interest income. It also receives income from all transactions conducted in foreign currency, its purchase and sale. That is, banks buy foreign currency at a certain rate and sell it at a higher price. And the difference in the middle is the bank margin. Broadly, whether it or this income is non-interest will depend on the contract between the bank and the client.

RESULTS AND DISCUSSION

The financial performance of banks is determined through the statement of financial results, which represents income and expenses, and also explains the results. A report reflecting the financial situation of the Bank is also a report on the financial results to be submitted for the same periods.

From the table above, we can see that the bank's net profit is expressed in the form of tax and reserves deduction from the sum of its interest margin and non-interest income. As of January 2024, banks' interest income increased by 40% to 86 679 billion UZS during the base period, and their non-interest income increased by 23% at the beginning of 2023 to 28 996 billion UZS as of January 1, 2023. From the data on both years in the table, we can see that although the banks' income (interest income and non-interest income sum) is higher, the cash allocated to assess potential losses under the NPL and liquidation will significantly affect overall net profit.

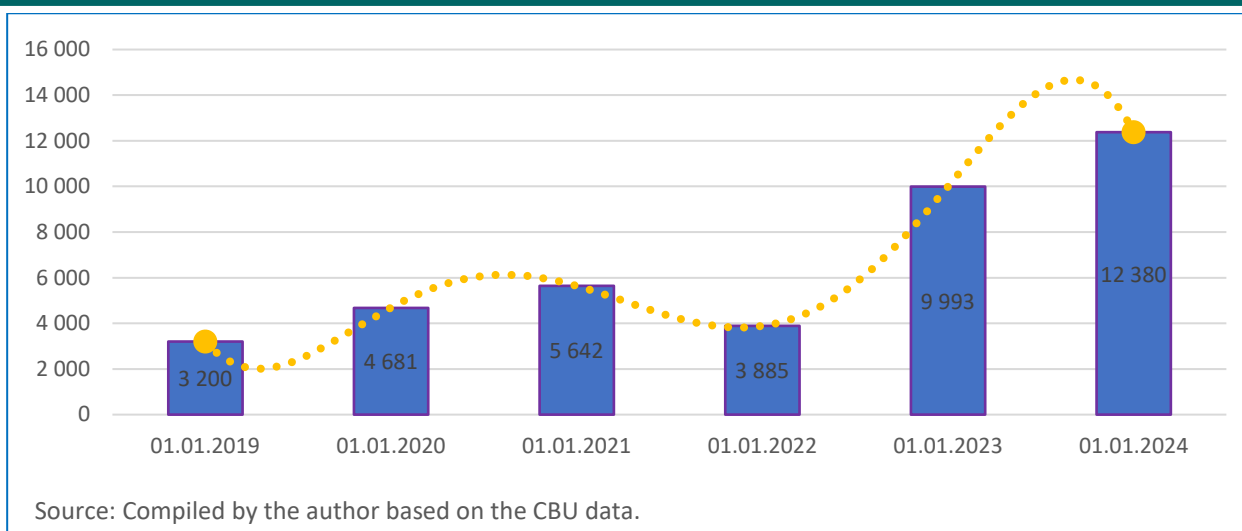


Figure 1. Total net profit of commercial banks (billion UZS)

The chart shows that the net profit of the banking system was 3 200 billion sums at the beginning of 2019, 4 681 billion UZS in 2020 and 5 642 billion UZS in 2021. However, as of January 2022, the net profit of commercial banks decreased by 31% compared with the same period last year to 3885 billion UZS. The reason for the decrease in net profit in late 2021 and early 2022 is the indicator of the evaluation of possible losses on credit and leasing, i.e. simply put, the problematic (NPL) are special reserves formed to cover possible losses on loans. As you know, the pandemic, which began in March 2020, did not affect the banking system. But due to the measures taken and the softening of quarantine requirements, the banking system began to develop again. In 2023, the net profit of commercial banks grew by 157% compared with the same period last year, compared with 12 380 billion UZS by the beginning of 2024. This can be seen in the table below:

Income and expense of banking sector	January 1, 2023	January 1, 2024
Interest income	61 728	86 679
Interest expense	37 566	57 683
Interest margin	24 162	28 996
Non-interest income	33 182	42 054
Non-interest expense	11 812	13 273
Operating expense	14 877	19 563
Non-interest income (loss)	6 494	9 218
Allowance for probable loan and leases losses	13 863	18 413
Evaluation of non-credit losses	4 213	4 645
Net profit (Loss) before Tax	12 579	15 155
Expense regarding income tax	2 587	2 775
Adjustments to net profit	1,2	0,0
Net profit (loss)	9 993	12 380

Figure 2. Interest and non-interest income of banking sector (billion UZS)

Profit is an important factor for each commercial organization to continue its activities. Profitability and profitability are regarded as indicators of efficiency in the placement of banks' resources. Profitability also indicates the ability of banks to earn income. This represents the management qualifications of banks. Profitability is the most important and reliable indicator since it reflects the bank's ability to increase its revenue level. Profitability indicators are also used to determine the global risk position of a commercial bank. Analysis of profitability in banks is based on a set of coefficients: return on assets, return on equity, net interest margin coefficient, cost ratio to income, own capital multiplier. Profitability allows the bank to increase capital to support the growth of assets, absorb loan losses and provide income to investors.

Return on assets (ROA) - the ratio between net profit and total assets. Measures asset management efficiency.

$$ROA = \frac{\text{Net profit until tax is paid}}{\text{Average sum of assets}} \times 100\%$$

Return on equity (ROE) is the ratio between net profit and total capital, which measures the profitability of the shareholders' investments.

$$ROE = \frac{\text{Net profit}}{\text{Average sum of capital}} \times 100\%$$

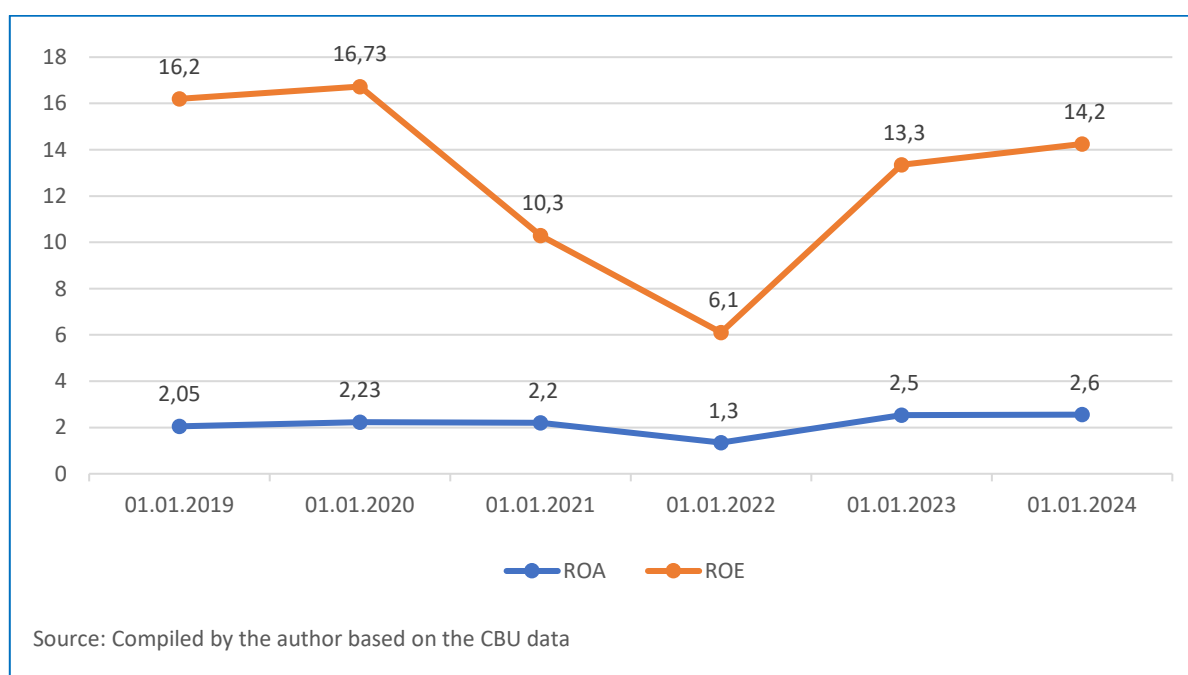


Figure 3. Indicators of return on assets (ROA) and return on equity (ROE) of the banking system (%)

According to Figure 3, the ROA indicator averaged 2.16% between January 2019-2021, while capital profitability was on a sharp decline from 2020 to January 1, 2021 (down from 16.73% to 10.3%). By the beginning of 2022, there was a noticeable decrease in asset profitability, down 0.9% from the base period. ROE also declined by up to 6.1%, continuing the trend of decline during this period. However, for the next 2 years, there has been an increase in both indicators compared to previous years. By the end of the period, we can see that ROA increased by 2.6%, while ROE was up 14.2%. According to experts, the regulatory level of ROA is 1%, and ROE is 10%. We can see that both indicators of income of banking system are forming at a higher level than the minimum requirement.

CONCLUSION

Sources of income of commercial banks are its performing operations, including active operations. Revenues include a higher share of credit transactions. Depending on the form in which they are taken, incomes are divided into interest-free and non-interest types.

To evaluate the quality and effectiveness of the Bank's activities, it is important to analyze the indicators of profitability, and their characteristics depend on income and expenses. Analysis of banking activities is useful for shareholders, creditors, clients, as well as bank officials, executives and employees. Analyzing the profitability of the banking system from 2019 to 2021, it can be said that between 2019 and 2020, these indicators were at the regulatory level, but by 2021 the decrease was observed. The pandemic, which began in March 2020, negatively affected the indicators of the banking system in 2021. At the same time, the share of problem loans in the banks' loan portfolio has increased. According to the Central Bank, as of January 1, 2024, commercial banks' share of troubled loans (NPL) in total loans was 3.5% (\$16,621 billion). This figure grew by 187% to almost 2.9 times during the corresponding period in 2021. This, in turn, leads to a decrease in net profit, a decrease in profitability indicators and a decrease in investment flow. Therefore, loans should not become the main source of income for banks. Commercial banks must diversify their sources of income, that is, improve other services. In conclusion, effective management and regular analysis of the income of commercial banks will allow you to maintain the bank's profitability indicators at the regulatory level and increase the level of profitability.

REFERENCES

1. O'RQ-582-son. "O'zbekiston Respublikasi Markaziy Banki to'g'risida". - 11.11.2019
2. O'RQ-580-son. "Banklar va bank faoliyati to'g'risida". - 05.11.2019
3. Abdullayeva Sh. Bank ishi –Toshkent: Iqtisod-moliya, 2017, 555-570.
4. Saidov D. Tijorat banklari aktiv va boshqarish –Toshkent: TFI, 2020, 145-150.
5. Steven M. Bragg, Business Ratios and Formulas: A Comprehensive Guide 3rd edition –USA: John Wiley & Sons Inc, april 2012, 384.
6. Rahimov Muhammadnosir Rustam o'g'li (2022) "BANK TIZIMI DAROMADLARI, XARAJATLARI VA DAROMADLILIK KO'RSATKICHLARI TAHLILI", *RESEARCH AND EDUCATION*, 1(1), pp. 254–262.
7. Togayev, S. and Xujamurotov, S. (2023) "THE ROLE OF BANK MANAGEMENT IN THE ASSESSMENT OF EFFICIENCY OF COMMERCIAL BANK'S ACTIVITY", *RESEARCH AND EDUCATION*, 2(1), pp. 12–16.
8. Xujamurotov, S. and Ravshanova, O. (2023) "THE BASIS OF MONETARY POLICY IMPROVEMENT OF THE CENTRAL BANK OF THE REPUBLIC OF UZBEKISTAN", *RESEARCH AND EDUCATION*, 2(12), pp. 166–174.
9. Xujamurotov, S. и Togayev, S. (2023) «THE IMPROVEMENT OF THE MACROPRUDENTIAL POLICY FRAMEWORK OF THE CENTRAL BANK OF THE REPUBLIC OF UZBEKISTAN», *Interpretation and researches*, 1(20).