ISSN (E): 2181-4570 ResearchBib Impact Factor: 6,4 / 2023 SJIF 2024 = 5.073/Volume-2, Issue-8

# DESCRIPTIVE INDICATORS OF THE LEVEL OF INCOME OF BANKS' ASSETS

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**Annotation:** Economists have proposed a number of indicators describing the income base of commercial banks' assets. However, in our opinion, the system of indicators proposed by the IMF for the purpose of assessing the financial stability of commercial banks, which includes 24 financial indicators, has a unique and important value.

**Key words:** Commercial banks, spread indicator, financial stability, capital, assets, loans, deposits, risk, bank profit, non-interest expenses, interest expenses.

The system for evaluating the financial stability of commercial banks by the IMF includes the following indicators:

- the ratio of regulatory capital to the amount of assets at risk;
- the ratio of first-tier capital to the amount of assets at risk;
- ratio of regulatory capital to gross assets;
- ratio of non-performing loans to regulatory capital;
- the ratio of net profit to the average amount of regulatory capital;
- ratio of large loans to capital;
- the ratio of the total amount of the open currency position to the capital;
- the ratio of the bank's open currency positions on derivatives to capital;
- ratio of net open position on capital instruments to regulatory capital;
- ratio of liquid assets to gross assets;
- the ratio of liquid assets to short-term liabilities;
- the ratio of attracted deposits to gross loans;
- the ratio of net profit to the average amount of assets;
- ratio of non-performing loans to gross loans;
- share of granted loans by sector;
- ratio of housing mortgage loans to gross loans;
- ratio of commercial mortgage loans to gross loans;
- distribution of granted loans by regions;
- ratio of loans in foreign currencies to gross loans;
- ratio of liabilities in foreign currencies to total liabilities;

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- ratio of interest income to gross income;
- the ratio of income from currency trading to gross income;
- ratio of non-interest expenses to gross income;
- the share of employee expenses in the volume of non-interest expenses [ 1].

In our opinion, this system of indicators contains important indicators that directly and indirectly describe the income base of commercial banks, which are as follows:

- ratio of non-performing loans to regulatory capital;
- the ratio of net profit to the average amount of regulatory capital;
- the ratio of the total amount of the open currency position to the capital;
- the ratio of the bank's open currency positions on derivatives to capital;
- ratio of liquid assets to gross assets;
- the ratio of net profit to the average amount of assets;
- ratio of non-performing loans to gross loans;
- share of granted loans by sector;
- ratio of interest income to gross income;
- the ratio of income from currency trading to gross income;
- the ratio of non-interest expenses to gross income.

Admittedly, in the international banking practice, including in the banking practice of developed countries, the following indicators developed by the experts of the International Bank for Reconstruction and Development are widely used in assessing the income base of commercial banks [2 2:

1. Pure interest spread indicator. Experts have proposed the following method of calculating this indicator:

**(SOFD : SO'Q) x 100 % - (DTF : FTD) x 100 %**

Here:

SOFD - interest income from loans;

SO'Q - average balance of loans;

DTF – interest paid on deposits;

FTD – interest bearing deposits.

The standard level of this indicator: 1.25%.

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2 . The ratio of interest income to the average balance of income-generating assets. According to the normative levels of this indicator, it is recommended to divide commercial banks into the following classes:

first class - 4.6%;

second class - 4.0%;

third grade – 3.7%;

fourth grade – 3.4%;

fifth grade – 3.2%.

3. Ratio of non-interest income to interest margin. According to the normative levels of this indicator, it is recommended to divide commercial banks into the following classes:

first grade - 48%;

second grade – 52%;

third grade – 57%;

fourth grade – 61%;

fifth grade – 64%.

It can be seen from the indicators recommended by the experts of the International Bank for Reconstruction and Development that interest income and interest income from loans play an important role in forming the income base of commercial banks and ensuring its stability. From the scales presented above, it can be seen that an increase in the level of interest income relative to assets is evaluated as a positive result, while an increase in the level of non-interest income relative to the interest margin is evaluated as a negative result.

In our opinion, the above approach to interest and non-interest income is of great practical importance from the point of view of ensuring the stability of the income base of commercial banks. This is due to the fact that commercial banks receive the main part of interest income from the main activity. There are two main types of activities for banks: lending and investing in securities.

Commercial banks receive interest income from loans and securities with a fixed interest rate (bonds, certificates of deposit and savings, preferred shares). Therefore, the level of interest income can indicate the change in the position of the commercial bank in the loan capital market and the stock market.

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J. Sinki's research showed that the net interest margin indicator and the return on assets indicator differ depending on whether the banks are large or small, and this situation is explained by the following reasons:

- due to strong competition in the credit and deposit markets, the value of the funds attracted in the domestic and international money markets is high and the profitability of loans is low;
- that in the resources of large banks, the weight of attracted resources is high and the weight of main deposits is low, in the resources of small banks, the weight of main deposits is high and the weight of attracted resources is low;
- that large banks have more floating rate loans than small banks and, therefore, make large banks more vulnerable to cyclical fluctuations in interest rates [ 3].

Return on assets and return on capital are important indicators used in assessing the stability of the commercial banks' income base.

The return on assets indicator is determined by dividing the commercial bank's net profit by its gross assets and multiplying the result by 100 percent.

There is no standard rate of return on assets. Therefore, the comparative analysis method of financial analysis is used to evaluate it. In this case, the method of comparative analysis is used in two different forms:

- the indicator of return on assets of a commercial bank is compared with this indicator of other banks;
- the level of the commercial bank's return on assets ratio in the current period is compared with the levels of the previous periods.

The capital profitability indicator is determined by dividing the commercial bank's net profit by its regulatory capital and multiplying the result by 100 percent.

Unlike return on assets, return on equity has a benchmark rate of 15 percent.

The stability of the income base of commercial banks directly depends on the level and dynamics of the bank's expenses. Therefore, we will consider the indicators describing the level of expenses of commercial banks.

The experts of the International Bank for Reconstruction and Development developed the following indicators describing the level of expenses of commercial banks [ 2]:

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1. The level of dividends paid by a commercial bank. According to the normative levels of this indicator, it is recommended to divide commercial banks into the following classes:

first grade – 32%;

second grade – 42%;

third grade – 48%;

fourth grade – 55%;

fifth grade - 60%.

2. The ratio of labor costs to the average amount of gross assets. The standard level of this indicator is 2 percent.

3. The ratio of operating expenses to the average amount of gross assets. The standard level of this indicator is 3.5 percent.

Also, the experts of the International Bank for Reconstruction and Development proposed an assessment methodology for reserve allocations intended to cover losses from loans. According to this methodology, the level of reserve allocations intended to cover losses from loans should not exceed 1.0 percent of the average amount of bank assets [ 4].

Due to the high weight of loans in the total volume of assets of commercial banks, the level of reserve allocations intended to cover losses from loans plays an important role in ensuring the stability of the income base of commercial banks. A deterioration in the quality of the loan portfolio leads to an increase in the amount of loan loss provisions. The reason for this is that the deterioration of the quality of the loan portfolio leads to the deterioration of the composition of classified loans.

One of the important indicators describing the profitability of commercial banks' loans is the level of income per 1 soum loan. To calculate this indicator, the sum of income from loans (debit balance of account number 16309) is divided by the sum of gross loans and the obtained result is multiplied by 100 percent.

It is characteristic that there is no standard level of the income level indicator corresponding to 1 soum loan. Therefore, the comparative analysis method of financial analysis is used to evaluate it.

At this point, it should be noted that the prudential requirements set by the Central Bank of the Republic of Uzbekistan for commercial banks indirectly affect the level and dynamics of indicators describing the banks' income base.

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The following prudential requirements imposed by the Central Bank on the investment operations of commercial banks with securities and lending activities have an indirect effect on the level and dynamics of income from loans:

- the commercial bank's investment in the securities of one issuer should not exceed 15% of its Tier 1 capital;
- the commercial bank's investment in marketable securities should not exceed 25% of its Tier 1 capital;
- the commercial bank's investment in securities of all issuers should not exceed 50% of its Tier 1 capital.
- the amount of unsecured loans granted by a commercial bank to one client or a group of interconnected clients should not exceed 5% of the bank's Tier 1 capital;
- the amount of secured loans granted by a commercial bank to one customer or a group of related customers should not exceed 25% of the bank's first-tier capital;
- the amount of all large loans issued by a commercial bank should not exceed 8 times the bank's Tier 1 capital [ 5].

It is important to note that one indicator describing the income base of a commercial bank cannot replace another. For example, the indicator of the level of loan loss provisions indicates changes in the composition of classified loans of a commercial bank. None of the remaining indicators can show changes in the composition of classified loans. Or any indicator other than return on assets of a commercial bank cannot show the level of net profit relative to gross assets. Therefore, the comprehensive use of indicators describing the commercial bank's income base is considered appropriate.

Admittedly, in countries with inflation problems, there is always a need to adjust the level of some indicators describing the activity of banks depending on the inflation level. For example, we saw the net percentage spread indicator above. The standard level of this indicator is set at 1.25%. However, there is a legitimate question that this indicator is much lower than the inflation rate in some countries. The annual rate of inflation in the Republic of Uzbekistan in 2020 was 11.1 percent [ 6]. Here it is clear that the 1.25 percent standard rate set for this indicator is not a monad to the inflation rate.

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In the practice of international banking, there are cases of adjusting the level of some indicators related to the activity of banks in accordance with the level of inflation. For example, the level of the nominal interest rate of loans given by banks is changed depending on the increased part of the inflation rate in some cases. For example, if the annual nominal interest rate of the loan is 6%, the inflation rate increased by 2 percentage points during the year, then the loan will be repaid at the rate of 8%.

At this point, it should be noted that the use of gross loans and net loans is important in calculating the indicators describing the profitability of loans. Net loans show the amount of loans that are generating income, that is, the amount of loans that are actually working. Gross loans include all loans, including non-performing loans. Therefore, it is necessary to be careful when using gross loans and net loans when evaluating the profitability of loans.

In our opinion, it is appropriate to use net loans in the net interest spread indicator. Because this indicator describes the relationship between the actual income received from loans and the interest actually paid on deposits. In the indicator of income level corresponding to 1 soum loan, it is correct to use gross loans. Because this indicator describes the total profitability of all loans given by the bank.

It should be noted that in describing the profitability of loans, the analysis of the dynamics of loans issued from the bank's balance sheet and the interest accrued on them is of great practical importance. The reason for this is that, firstly, the amount of the bank's loans is reduced by the amount of loans removed from the balance sheet. As a result, the source of interest income is reduced; secondly, the removal of overdue interest from the bank's balance sheet leads to a decrease in the amount of interest income received from loans. Because overdue interest is deducted from the balance due to interest income received from loans.

The use of the expert evaluation method in the use of indicators describing the stability of the income base of commercial banks is of great practical importance. Experienced experts have formulated a number of important conclusions based on their empirical research. The use of these conclusions in the analysis of indicators describing the stability of the income base of commercial banks serves to enrich the conclusions formed as a result of the analysis, and to increase their scientific and practical significance.

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It should be noted that the monetary policy implemented by the Central Bank has an indirect and strong influence on the influence of indicators describing the income base of commercial banks. This effect is manifested in the following directions:

1. An increase in the refinancing rate of the Central Bank may lead to an increase in the interest rates of commercial bank loans, and, conversely, a decrease in the refinancing rate may lead to a decrease in the interest rates of bank loans.

Generally, an increase in interest rates on commercial bank loans should lead to an increase in the amount of interest income that banks receive from loans. However, the increase in loan interest rates may lead to a decrease in the number of loan users. This leads to a decrease in the total amount of interest income from loans.

2. The increase in the mandatory reserve rates of the Central Bank will have a negative impact on the liquidity of commercial banks and the stability of the resource base. As a result, the ability of commercial banks to increase the volume of financing of active operations will be limited. This, in turn, prevents banks from increasing their income from asset operations.

On the contrary, the reduction of mandatory reserve rates by the Central Bank allows to increase the volume of asset operations of commercial banks. This leads to an increase in the amount of income of commercial banks from asset operations.

3. A significant decrease in the nominal exchange rate of the national currency, that is, a high rate of depreciation of the national currency.

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