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CURRENT BASIS OF MANAGEMENT OF THE BANK CREDIT PORTFOLIO IN UZBEKISTAN

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Abstract

The role of the banking system in the economy is remarkable. The country's stable banking system does not suffer more from the financial crisis. This is because the banking sector is the main link in the financial system, and the crisis in it will affect the other sectors immediately. A clear example of this is the 2008 global financial and economic downturn in the United States. The reason for this crisis was the inability to properly distribute bank loans. Not only did the US, but almost all the countries underwent some loss by that crisis. Therefore, banks have to form their credit portfolio considering different factors, especially those in relation to risks. This paper studies current basis of credit portfolio management in Uzbekistan and makes some proposals about formation of appropriate credit portfolio in commercial banks in Uzbekistan.

Keywords: Credit, portfolio, credit portfolio, banking system, Uzbekistan

INTRODUCTION

As a result of the measures taken to expand the sustainable resource base in banks, regularly introduction of new types of deposits, as well as further improvement of the system of accepting and managing savings and term deposits, the growth of the credit portfolio of banks can be achieved. This, in turn, will enable banks to fund more investment projects that promise higher rate of returns.

Banks are financial institutions that collect temporarily free funds and provide credit to individuals, firms and the government to finance consumption, investment and capital expenditures, thereby helping to boost economic growth. Loans of commercial banks are one of the sources of financing current and investment expenditures of economic entities and play an important role in ensuring sustainable economic growth. It should be noted that commercial banks' loans play an important role in ensuring sustainable economic growth in the country.

Table 1 Quantity and level of nominal gross domestic product (GDP), commercial banks loans in the Republic of Uzbekistan

Indicators	**2013**	**2014**	**2015**	**2016**	**2017**	**In 2017 compared to 2013 change**
GDP (trillion UZS)	119	144.9	176.5	199.3	249.2	+130.2
Credit investments (trillion UZS)	26.5	34.5	42.7	53.4	110.6	+84.1
Credit investments to GDP (in%)	22.27	24.02	24.19	26.79	44.38	+22.11

Source: Data of Central Bank of Uzbekistan

Table 1 shows that from 2013 to 2017, the volume of loans by commercial banks of the Republic of Uzbekistan in nominal gross domestic product had a tendency to grow. The volume of credit investments, directed to the real sector of the economy, increased to 107.1% in 2017 and reached to 110.6 trillion soums as of January 1, 2018. The ratio of loans to GDP amounted to 44.38%. This is explained by the steady growth of the volume of goods and services rendered at the stage of modernization of the country's economy and the growing crediting opportunities of commercial banks.

Also, during the analyzed period, there was a tendency for growth of commercial banks loans to GDP. This is important from the point of view of increasing the level of financial support of the economy of the country.

In turn, the further increase of commercial banks' crediting capacity depends on the quality of their loan portfolio. This requires banks to improve their credit portfolio management efficiency.

LITERATURE REVIEW

In previous researches carried out in this field, the commercial banks' loan portfolio is defined by many economists. Let's look at some of them. For example, K.J.Braltron and D.Mak note that the commercial banks' loan portfolio is a classification of these loans by certain criteria. In this definition, the loan portfolio is classified according to certain criteria.

T.Kaminsky and Y.Ivanchenko claimed that before setting credit limits, we have to find out the major risk factors. Credit limits are determined by the circumstances that may arise: "Special Borrowers"; "Group of mutual debtors"; "Networks and subnetworks"; "Business segments"; "Products and Services". According to the authors, another component of credit portfolio management is to define the priorities of portfolio formation.

Some authors who describe the Bank's loan portfolio claim that this concept is focused on credit management, based on specific analysis and regulation.

STATE OF CREDIT PORTFOLIO FORMATION IN UZBEKISTAN

Banks' loan portfolio is a set of bank loan repayment requirements based on specific credit risk-based criteria. This definition emphasizes the diversification of loans based on specific criteria, credit risk. Credit portfolio is actively lending operations for a total principal balance of the debt at the right time. The Bank's loan portfolio is loans extended by commercial banks to various categories of borrowers. Considering some aspects of the description, the credit portfolio can be described as follows: the bank's loan portfolio is a complex of loans that meet the requirements of the Bank's profitability, risk and liquidity in the directions of lending as a specific management object, having a specific structure.

The objectives of the loan portfolio may vary depending on the bank's risky relationships, but the main objective is to generate income and to maintain capital. The purpose of the Bank's credit portfolio is primarily to ensure profitability, secondly to control the risk level, and thirdly to meet the requirements of the Central Bank's regulations.

One of the main factors that affects the formation of the bank's loan portfolio is the banking services market. At the same time, the bank needs to pay attention to the needs of its clients. In addition, the volume and structure of the loan portfolio will be directly linked to the Bank's resource base. In other words, large commercial banks will have a large loan and smaller banks will be able to lend small loans.

It should be understood that the bank's credit portfolio is classified by its risk and income ratios. We believe that the loan portfolio can be divided into income portfolio, risk portfolio and balanced portfolio.

Table 2 Bank credit portfolio classification

Portfolio shape	***Portfolio description***
Income portfolio	The portfolio is intended for loans with a minimum risk and continuously payable interest rate that ensures sustainability.
Risk portfolio	Portfolio consists of high risk loans.
Balanced portfolio	The "risk-profitability" dilemma in the portfolio is comprised of loans that are consistent with the structure and financial characteristics of bank loans in terms of effective resolution.

Source: Author's compilation

The main characteristic of the profitability of the loan portfolio is the annual percentage rate, which is a tool for comparing the profitability of other types of assets and analyzing the validity of interest rates on loans. As a rule, there are real returns for analysis - a cash-generating unit that is credited for a certain period of time. The risk of credit portfolio is likely to arise from potential losses on the part of the bank's portfolio.

The credit portfolio means the liquidity of a financial asset to be converted into money, and the liquidity level is determined by the length of the period in which it can be realized, and therefore describes the timely repayment of the liquidity for the loan portfolio.

In our opinion, the structure of the loan portfolio is the composition of certain types of loans in the loan portfolio. In addition, the structure of the loan portfolio should be considered as a set of options that can be changed by the bank-managed loan portfolio and the size of its portfolio. The Bank may change and modify the composition of the portfolio in order to achieve the optimal level of profitability, risk and liquidity.

It is desirable to study the loan portfolio of the banking system and the Central Bank loan portfolio by types of credit portfolio.

In terms of managing the Bank's loan portfolio, there are many other types, including external and internal factors. The Bank's loan portfolio should be divided into the following types depending on external factors.

1) Non-governed loan portfolio. This loan portfolio can be credited by commercial banks to provide government loans and regulatory documents. The ability to effectively manage the bank's profitability on loans decreases.

2) Regulated loan portfolio - includes loans to individuals and legal entities, including its employees and management, on certain concessions.

3) Fully managed loan portfolio - all loans granted in the general order.

Depending on the internal factors, depending on the management of the loan portfolio, the parent bank loan portfolio and the bank branch can be allocated to the loan portfolio. The Bank's loan portfolio is freely governed by the regulatory and monetary policy principles of the bank. The Bank's branch loan portfolio is managed in accordance with the procedures set by the parent bank, including the parent bank set limits for the branch, profitability of the loan portfolio, and sets other conditions for credit operations.

The Bank's loan portfolio can also be classified by client structure - loans to individuals, loans to legal entities, loans to banks. Loans provided by the bank can be divided into the loan portfolio in UZS and loan portfolio depending on the currency in which the loans are issued. This allows you to take into account currency risk. This type of bank loan portfolio allows the bank management to manage assets at risk, profitability and liquidity.

The division of loans into groups is based on the principle of unity of loans. Thus, division of loans can be done in the following areas: subjects and credit subjects, terms and volumes of credit, as well as other types of crediting classification. Accordingly, the types of credit portfolio can be varied depending on the type of component loans (Table 3).

The classification of the following bank loan portfolio is not the end, but all this determines the management of the loan portfolio, the development of optimal credit policies and the effectiveness of credit management.

Table 3 Types of bank credit portfolio

Descriptor	credit portfolio
Subject of crediting	corporate clients loan portfolio, loan portfolio of individuals, interbank credit portfolio
Object of crediting	Loans to working capital (turnout), portfolio of investment loans, mortgage loan portfolio, consumer loan portfolio
Loan portfolio size	bank loan portfolio, banking system loan portfolio, central bank loan portfolio
Credit portfolio management, taking into account internal factors	bank loan portfolio, bank branch loan portfolio
Loan portfolio feature	continuous loan portfolio, variable loan portfolio
Purpose of loan portfolio	a specialized loan portfolio , a comprehensive loan portfolio
Technique of crediting	credit portfolio by simple credit account, open-end credit line, loan portfolio, contocorrent and overdraft loan portfolio
Time of crediting	short - term portfolio, long - term portfolio
Credit currency	loan portfolio in national currency, loan portfolio in foreign currency
Size of crediting	portfolio of microcredits, small loan portfolio, medium loan portfolio, large loan portfolio
Type of supply	portfolio of loans granted under collateral of ownership and property rights, loan portfolio with guaranteed security, loan portfolio with guarantor, reliable loan portfolio
The field of credit usage	credit portfolio of the industrial sector, loan portfolio of services, credit portfolio of the business sector, credit portfolio of the manufacturing sector, credit portfolio of the financial sector, credit portfolio of the agricultural sector
Loan portfolio management	an unmanaged credit portfolio, an adjustable credit portfolio, and an accessible credit portfolio

Source: Author's compilation

Classification by type of loan portfolio is related to the allocation of the portfolio to the same group, which can be presented as small portfolios, which is characterized by classification of credit types. This not only allows us to assess the structure of a loan portfolio and determine its type, but also to evaluate the quality of each small portfolio. Each sub-portfolio is individually assessed and has an integral characteristic of the overall composition of the assessment. Given the fact that the sub-portfolios are characterized by a certain proportion of risks and returns, the analysis of the quality of small portfolios will help the bank to choose the required loan portfolio.

Small portfolios that combine the loans with a principle of unity, simplifies the order of portfolio formation and, accordingly, classifies the portfolio by type; the opportunity to assess the risk and income levels for each sub-portfolio and the impact of each sub-portfolio on its loan portfolio. The current status of the loan portfolio not only provides the quality of the credit policy of the bank, but also predicts future credit outcomes.

In our opinion, the credit portfolio is itself a control object because it treats itself as a separate object. The Bank's credit portfolio management is a process directly linked to the management of the bank's assets.

Credit portfolio management is the creation of a bank in the process of lending, which is aimed at preventing or reducing credit risk. It should be noted that the credit operations are the priority areas of the banking activity and are the main part of interest income. The main purpose of the bank's credit portfolio management is primarily to make profits from operations, and, secondly, to implement sustainable and safe banking.

The management of the credit portfolio allows keeping the level of risk and liquidity of the commercial bank relatively high. Today, along with the growing problem loans of borrowers of commercial banks, credit portfolio management is of particular importance.

In the structure of credit portfolio of commercial banks, as of January 1, 2018, the balance of bad loans amounted to 2.2 trillion UZS. The share of total credit investments made up 2%.

"Loan portfolio management" concept almost local in sources not found. One cost basic approaches available. The management of the loan portfolio addresses the bank's activities related to the implementation of the lending process and is aimed at preventing or minimizing credit risk.

It should be noted that the bank's lending operations are the main activity of the bank and constitute the highest percentage of interest income.

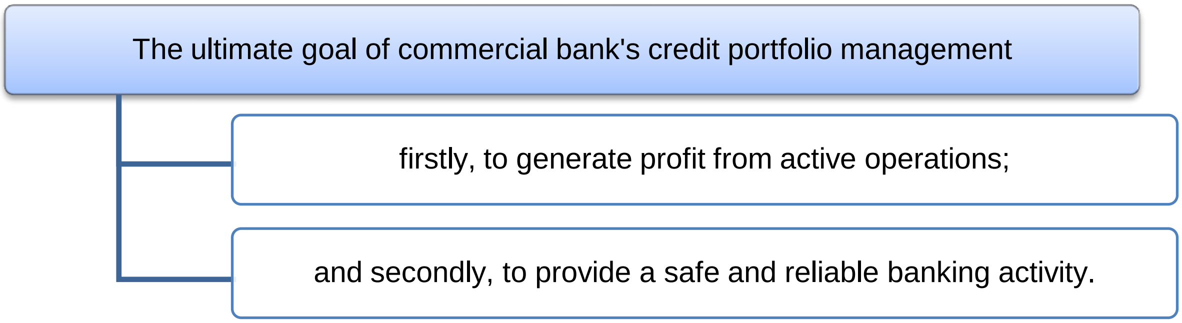

Figure 1 The ultimate goal of commercial bank's credit portfolio management

Source: Author's compilation

As you can see from the figure 1, the ultimate goal of the commercial bank's credit portfolio management is to firstly benefit from the active operations and, secondly, to secure a safe and credible banking activity.

The purpose of the Bank's loan portfolio is to achieve the optimal level of risk, profitability and liquidity of this portfolio. At the same time, it is the responsibility of predefined losses that may arise as a result of non-return of a particular part of the debt, maximizing the profitability of the portfolio, and maintaining liquidity at the required level.

Also, in our opinion, intelligent management of the loan portfolio should help to improve the financial stability and reliability of the bank and improve its business. At the same time, the bank has to: 1) direct the structure of the loan portfolio to the most attractive segments of the credit market; 2) Reduction of placement of funds in low-effective segments of credit portfolio. The main objectives of commercial bank's credit portfolio management are:

- Identify and assess the factors affecting the level of credit risk;
- classification of loans by risk groups;
- Optimization of the credit portfolio by the structure of credit risk, customer structure and credit structure;
- Determining the degree of creditworthiness of a borrower and the likelihood of his / her financial position and credit risk change for forecasting purposes;
- Predefined problem loans;
- Evaluating the adequacy of the available resources and timely correction;
- Diversification of loans, ensuring their liquidity and profitability;
- Development of the credit policy of the bank and its correction based on the quality of loan portfolio and others.

The task of the commercial banks in the management of their credit portfolio will increase the efficiency of the bank's credit activity, which, in turn, will increase the Bank's benefits. In a strong competitive environment, it is important to pay special attention to credit management in the bank lending policy, which is necessary to enable the Bank to function effectively in market conditions. It is well-known that most of the profit from commercial banks' operations is that of credit operations. Therefore, any bank has to have a clear and focused credit policy, an effective credit portfolio management mechanism. This is a timely repayment of bank loans and guarantees of the Bank's profit. Thus, as a result of the management, the formation of an optimal loan portfolio that meets the requirements and goals of the banking management, as well as positive changes in the financial performance of the bank.

It should be noted that the regulatory approach limits the number of criteria for evaluating the quality of loans. At the same time, there is no single approach to credit portfolio structure analysis and credit risk assessment based on coefficients. The risk-based approach focuses on the risks that may affect the credit portfolio:

1) Risk of contraceptives (credit risk and risks associated with business of clients or their group);
2) Position risk (currency and interest rate risk, liquidity risk, diversification of assets (liabilities));
3) Operational risks.

In our opinion, such model allows to create an optimal loan portfolio, taking into account the risk factors and provides information at each point of the credit portfolio status. In fact, this approach fills each other and expands the Central Bank regulatory approach.

The perfect approach to determining the nature of a loan portfolio management is a process that involves management approach and a separate process that involves interrelated controls. This approach was supported by Tavasiev. In his view, the credit portfolio management system, in turn, includes a variety of management subsystems and management structures. At the same time, he underlines the concept of "credit portfolio management" and "portfolio policy" to describe step-by-step management of a credit portfolio management and relationships with the elements of the credit portfolio management system. Conservative approach to credit portfolio management developed by the team of authors from the USA and Russia is also interesting. The authors point out the following key components of the bank's credit portfolio management: risk acceptance rules; credit limits; portfolio development priorities. In our opinion, setting credit limits is designed to control the formation of a credit portfolio.

In order to view credit portfolio management as a system it is necessary to identify its key elements as a management system (management entities), managed system (management objects), as well as their interaction, principles, rules, objectives and as a result of this interaction. In economic literature, the system is called a complete set of interconnected parts, each of which contributes to the description of each one. However, it should be noted that some parts of the system are interconnected to achieve a single goal.

The credit portfolio management system is the subjects of management. The Bank's departments, branches, and affiliates may be referred to as managing subjects, which can be used for crediting, monitoring, returning, and managing credit risk. Strategic management of the loan portfolio is carried out by the Board of the Bank, the Banking Regulation and Supervision Committee. Managed system, i.e. the loan portfolio of a commercial facility.

In our opinion, besides the credit portfolio of the management structures, it is also necessary to include the credit resources of the bank and borrower and credit relations. The scheme describing the credit portfolio management mechanism is shown below.

Table 4 Bank's loan portfolio management mechanism

Credit portfolio strategic management		
Board of Directors	Bank management	Credit Committee

↓

Credit portfolio management system						
Organizational structure of crediting process	Employees who are involved in the lending process	Credit Operations Analysis	Organization of lending activity	Credit Operations Control	Technical means of information support of crediting process	Management of crediting process

↓

Managed System		
Bank's sources of credit	Loan portfolio	Credit relations with the borrower

↓ ↓ ↓

The main criteria for auditing		
Volume of own funds	Volume of loan portfolio, its dynamics	Client creditworthiness analysis
The volume of attracted funds, their structure and dynamics	Structure of credit portfolio by type, duration of loan, debtors, spheres, supply types, projects scope	Credit contracts, content and content of packages
Cost of attracted funds	The profitability of the loan portfolio, both in the industry and in the industry	Credit monitoring, working with troubled loans
Terms of attracting funds	Credit Operations Limits	Evaluation of Credit Operations Effectiveness
Cost of loan resources	Credit portfolio quality	Formation of the value of the loan

Source: Author's compilation

It should be noted that there are close relationships and interrelations between the elements of the bank's credit portfolio management mechanism: they must be indivisible and strengthen each other.

CONCLUSION

Economic literature notes that there are several functions for managing credit portfolio: analysis and credit risk diversification function. At the same time, the content of the first function is to analyze the movement of credit, and to further develop them based on criteria and indicators. The second function is also important because the bank will improve its financial stability and efficiency. Regarding the principles of credit portfolio management, they are as follows:

1. Mutual relationship. Credit portfolio management is not only about lending, but also depends on the management of other banking activities. Bank liquidity, profitability and the financial stability of the credit portfolio of state directly.
2. Portfolio content. Credit portfolio management, both at the level of the loan portfolio, as well as its structure, even if the flow of credit to be done.
3. Systematic Analysis. Regular monitoring and study of credit portfolio allows to evaluate its quality dynamically and to compare indicators with average bank indices.
4. Formation of analysis and management. The management is based on the criteria and indicators that the bank has set and describes the credit portfolio status.
5. Multi-level management. The loan portfolio should be managed at the bank level and at the level of its separate and structural subdivisions

The methods of credit portfolio management depend on the quality of the loan portfolio, the efficiency of credit activity and the risk assessment methods. At the same time, each bank has its own credit portfolio management strategies and may vary considerably from each other. O. Lavrushin focuses on the following points:

1. Identification of criteria for crediting the loan portfolio;
2. Definition of loan portfolio structure;
3. Defining the quality of loans, including risk per group and all loans;
4. To alter the content of changes in the structure of the loan portfolio;
5. Optimization of the optimal remuneration reserve for possible damages.

Thus, the credit portfolio management system is a holistic system of business entity, management object, principles, features, normative principles, and so forth.

It should be noted that today there is no single way of managing a credit portfolio not only in Uzbekistan, but also in the whole world. Each bank develops its own mechanism for optimizing this process, the most successful development becomes a competitive advantage in the market of banking services, but compliance with the above measures is a key requirement for managing a loan portfolio.

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