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Article

Issues of Improving the Efficiency of the Credit Portfolio in the Transformation Process

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Abstract: This article examines the issues of improving the efficiency of credit portfolio management in commercial banks during the transformation process. Institutional reforms being implemented in the banking system, the introduction of digital technologies, the improvement of credit risk assessment methods, and the reduction of the share of non-performing loans are analyzed as important factors in ensuring the stability of the credit portfolio. In addition, the article substantiates ways to improve the financial stability of commercial banks through diversification of the credit portfolio structure, in-depth assessment of customers' solvency, effective use of scoring systems, and development of monitoring mechanisms. As a result of the study, it was determined that, under transformation conditions, it is necessary to ensure the integration of a risk-oriented approach, modern analytical tools, and prudential requirements in credit portfolio management.

Keywords: commercial banks, credit portfolio, transformation process, credit risk, non-performing loans, portfolio diversification, scoring system, financial stability, bank assets, credit monitoring.

1. Introduction

Today, the transformation processes being implemented in the banking system of Uzbekistan are making the organization of commercial banks' activities in accordance with modern requirements, the improvement of bank asset quality, and the effective management of credit portfolios among the most pressing issues. In particular, the credit portfolio of commercial banks plays an important role in financially supporting sectors of the economy and meeting the demand of business entities and the population for credit resources. Therefore, continuous analysis of the structure, quality, profitability, and risk level of the credit portfolio is of particular importance in ensuring the financial stability of banks.[1]

Under transformation conditions, credit portfolio management is not limited only to the process of loan issuance, but also includes assessing customers' solvency, identifying credit risks in advance, reducing the share of non-performing loans, diversifying the portfolio by sectors and regions, and introducing modern monitoring mechanisms. The use of digital technologies, scoring models, remote banking services, and automated analytical tools in the banking system contributes to increasing the speed and accuracy of credit decisions.[2]

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At the same time, certain problems remain in improving the efficiency of credit portfolios in commercial banks. In particular, in some cases, the insufficient development of credit risk assessment mechanisms, the quality of collateral, the risk of loan default, the financial condition of real sector enterprises, and external macroeconomic factors directly affect the quality of the credit portfolio. This creates the need to develop a scientifically grounded, risk-oriented credit portfolio management system based on modern approaches in the transformation process.[3]

2. Research Methodology

In the course of the study, the methods of scientific abstraction, comparison, economic and statistical analysis, dynamic analysis, grouping, and logical generalization were used. Through the method of scientific abstraction, the theoretical aspects of credit portfolio management in commercial banks during the transformation process were examined.p4[Based on the comparison method, the main financial indicators of JSC "Poytaxt Bank" for 2022-2024 were compared with each other. Using economic and statistical analysis as well as dynamic analysis methods, changes in the volume of the credit portfolio, its share in total assets, customer funds, capital, net interest income, and net profit were assessed. Through the grouping method, the main financial indicators affecting the bank's activities were systematized. Based on the method of logical generalization, scientific and practical conclusions were formed regarding the improvement of credit portfolio efficiency.[5]

3. Analysis and Results

In the transformation process, effective management of the credit portfolio of commercial banks is of great importance in improving the quality of bank assets, maintaining risks at an acceptable level, and ensuring profitability. In particular, in banks with a relatively small market share, the formation of the credit portfolio and its role in the structure of assets directly affect the overall financial stability of the bank. Therefore, this study analyzes the main financial indicators of JSC "Poytaxt Bank" for 2022-2024.[6]

By analyzing the activities of JSC "Poytaxt Bank", it is possible to draw conclusions about the growth rate of the credit portfolio, its share in the asset structure, the level of provision with customer funds, and the stability of the capital base in small-sized commercial banks under transformation conditions. In the case of this bank, changes in the credit portfolio reflect not only the expansion of lending volumes, but also the bank's ability to manage risks, allocate resources, and generate income.[7]

The period of 2022-2024 was selected as the analysis period. The year 2022 is considered the stage of forming the credit portfolio and developing active operations in the bank's activities. Although some financial indicators declined in 2023, the significant increase in the bank's assets and credit portfolio in 2024 indicates the activation of lending operations during the transformation process. This situation shows that the bank's credit policy focused on expanding the customer base, increasing the range of credit products, and improving the efficiency of asset utilization.[8]

In assessing the Table 1. efficiency of the credit portfolio, total assets, loans and advances to customers, the share of loans in total assets, customer funds, total liabilities, capital, net interest income, and net profit were taken as the main criteria. These indicators make it possible to assess the bank's lending capacity, the level of use of financial resources, and the results obtained from credit operations.

The following table presents the dynamics of the credit portfolio and main financial indicators of JSC "Poytaxt Bank" for 2022-2024.[9]

Table 1. Dynamics of the credit portfolio and main financial indicators of JSC "Poytaxt Bank", billion UZS

Indicators	Year 2022	Year 2023	Year 2024
Total assets	225,0	219,1	475,6
Loans and advances to customers	71,6	78,0	303,6
Share of loans in total assets, %	31,8	35,6	63,8
Customer funds	72,8	52,9	208,6
Total liabilities	82,4	61,2	305,6
Total capital	142,6	157,8	170,0
Net interest income	40,7	31,6	40,6
Net profit	19,3	15,2	12,2

As can be seen from the data in Table 1, the total assets of JSC "Poytaxt Bank" amounted to UZS 225.0 billion in 2022, while in 2023 they decreased to UZS 219.1 billion. However, by 2024, this indicator had reached UZS 475.6 billion. This shows that the bank's active operations significantly intensified in 2024. In particular, the growth of the credit portfolio indicates that important changes occurred in the structure of the bank's assets.[10]

The volume of loans and advances to customers amounted to UZS 71.6 billion in 2022 and increased to UZS 78.0 billion in 2023. In 2024, this indicator rose sharply and reached UZS 303.6 billion. This situation indicates that the bank's lending activities expanded considerably in 2024. Although such growth in the credit portfolio shows an increase in income-generating assets, it also increases the need for effective credit risk management, assessment of customers' solvency, and proper organization of credit monitoring.[11]

The share of loans in total assets was 31.8 percent in 2022 and increased to 35.6 percent in 2023. In 2024, this indicator rose to 63.8 percent. This means that the main part of the bank's assets was directed to lending operations. On the one hand, this creates an opportunity to increase the bank's interest income. On the other hand, it requires regular monitoring of the quality of the credit portfolio, overdue debt, collateral, and provisions.

Changes can also be observed in the dynamics of customer funds. In 2022, customer funds amounted to UZS 72.8 billion, while in 2023 they decreased to UZS 52.9 billion. In 2024, this indicator reached UZS 208.6 billion. This indicates a positive change in the bank's resource base. The increase in customer funds may have expanded the opportunities for financing the credit portfolio. At the same time, ensuring liquidity and maturity matching is important when using customer funds.[12]

The bank's capital amounted to UZS 142.6 billion in 2022, UZS 157.8 billion in 2023, and UZS 170.0 billion in 2024. The gradual increase in capital is a positive factor in ensuring the bank's financial stability. The availability of a capital base is important for covering potential losses and meeting prudential requirements in the context of an expanding credit portfolio.

Net interest income amounted to UZS 40.7 billion in 2022, while in 2023 it decreased to UZS 31.6 billion. In 2024, this indicator reached UZS 40.6 billion. Although the credit portfolio increased sharply in 2024, the fact that net interest income remained close to the 2022 level indicates that income from lending operations had not yet fully produced the expected effect. This may be related to interest rates on loans, the cost of resources, portfolio quality, and loan repayment periods.[13]

A decline was also observed in net profit. In 2022, the bank's net profit amounted to UZS 19.3 billion, while in 2023 it decreased to UZS 15.2 billion and in 2024 to UZS 12.2 billion. This situation may be explained by an increase in expenses, the formation of provisions for the credit portfolio, or the growth of operating costs. Therefore, an increase in the size of the credit portfolio does not always immediately result in higher profit. For this reason, when assessing the efficiency of the credit portfolio, it is necessary to consider not only the volume of loans, but also their profitability, recoverability, and risk level.

Based on the above, in the Figure 1. case of JSC "Poytaxt Bank", it can be observed that during 2022-2024 the volume of the credit portfolio increased significantly, the share of loans in assets reached a high level, and customer funds increased. However, the decline in net profit shows that in managing the credit portfolio, attention should be paid not only to quantitative growth, but also to portfolio quality, risk assessment, interest margin, and cost efficiency. In the transformation process, the further improvement of credit policy, early identification of credit risks, and reduction of the share of non-performing loans remain among the main tasks for such banks.[14]

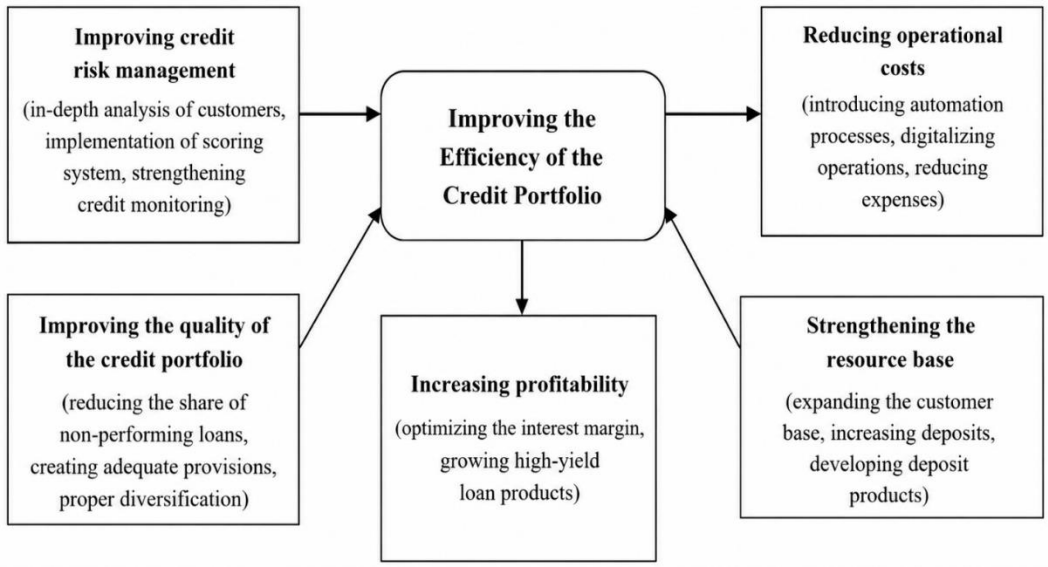


Figure 1. Ways to Improve the Efficiency of the Credit Portfolio

Figure 1 illustrates the main problems affecting the efficiency of the credit portfolio in commercial banks and the directions for addressing them. Deficiencies in credit risk management, an increase in the share of non-performing loans, a decline in net profit, high operating costs, and an insufficiently developed resource base negatively affect the quality of the credit portfolio. To solve these problems, it is necessary to conduct an in-depth analysis of borrowers, introduce a scoring system, improve credit monitoring, reduce the share of non-performing loans, optimize the interest margin, and develop mechanisms for attracting customer funds. As a result, the quality of the bank's credit portfolio improves, risks decrease, and opportunities to ensure financial stability increase.[15]

4. Conclusion

In the transformation process, effective management of the credit portfolio in commercial banks is an important condition for improving the quality of bank assets, reducing credit risks, and ensuring financial stability. The results of the study show that although the quantitative growth of the credit portfolio reflects the expansion of the bank's activities, this process does not always immediately lead to higher profitability and an increase in net profit. Therefore, when assessing the efficiency of the credit portfolio, attention should be paid not only to the volume of loans, but also to their quality, recoverability, risk level, interest margin, and the impact of operating costs.

The analysis conducted on the example of JSC "Poytaxt Bank" showed that the bank's credit portfolio increased significantly during 2022–2024. In particular, the volume of loans and advances to customers increased from UZS 71.6 billion in 2022 to UZS 303.6 billion in 2024. The share of loans in total assets also rose from 31.8 percent to 63.8 percent. This indicates that a large part of the bank's assets was directed to lending operations. However, the decline in net profit from UZS 19.3 billion to UZS 12.2 billion during this period shows that, along with the growth of the credit portfolio, it is also necessary to improve portfolio quality, cost efficiency, and risk management.

According to the results of the study, under transformation conditions, improving the efficiency of the credit portfolio in commercial banks requires an in-depth analysis of borrowers' financial condition, wider use of scoring systems, digitalization of credit monitoring, reduction of the share of non-performing loans, and diversification of the credit portfolio by sectors, maturities, and customer segments. In addition, aligning the growth of the credit portfolio with a stable resource base, sufficient capital, and an effective interest rate policy contributes to ensuring the bank's long-term financial stability.

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