

American Journal of Economics and Business Management

Vol. 9 Issue 4 | **pp.** 984-992 | **ISSN:** 2576-5973
Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

Practical Analysis of the Asset Quality of Commercial Banks (Based on the Example of JSCB "Uzsanoatqurilishbank")

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Abstract: This article examines the theoretical foundations of the nature of commercial bank asset quality, the necessity of improving it, the factors influencing it, and the impact of changes in asset quality on the operational efficiency and financial performance of banks. Furthermore, the study analyzes the state of asset quality at JSCB "Uzsanoatqurilishbank" — one of the largest commercial banks in Uzbekistan with state ownership in its capital — over the period from 2021 to 2025. Based on the findings, the article formulates relevant conclusions and proposes recommendations aimed at enhancing the bank's operational efficiency through improvements in asset quality.

Keywords: commercial bank, assets, specific provisions, general provisions, income-generating assets, accounts receivable, non-performing assets, overdue loans, expenses, net profit, financial stability.

Citation: Safaraliyev B. N. Practical Analysis of the Asset Quality of Commercial Banks (Based on the Example of JSCB "Uzsanoatqurilishbank"). American Journal of Economics and Business Management 2026, 9(4), 984-992.

Received: 19th Jan 2026
Revised: 20th Feb 2026
Accepted: 20th Mar 2026
Published: 30th Apr 2026

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1. Introduction

The quality of assets in commercial banks is directly linked to the efficiency of banking operations. In other words, the effectiveness of asset management—from the mobilization of financial resources and their utilization to their timely repayment, as well as the organization of the continuous repetition and expansion of this cycle—determines the extent to which asset quality is maintained. Asset quality assessment, together with an evaluation of capital adequacy, serves as a key indicator used by stakeholders to determine a commercial bank's operational efficiency and financial soundness.

The quality of assets in commercial banks is characterized by a range of factors, including the maturity alignment between assets and liabilities, asset profitability, asset liquidity, the volume and proportion of risky and non-performing assets, and the allocation of assets across active banking operations.

In view of the above, conducting research in this area is both relevant and of significant practical importance.

To develop a broader theoretical understanding of asset quality in commercial banks, its importance, and its impact on banking performance, this study examines the contributions of both international and domestic researchers in this field.

Among international scholars, H.A. Barakat, Sh.A. Elwahab, and their colleagues emphasize that "there is a strong positive relationship between asset quality management and bank profitability. Effective asset quality management is fundamental to banking operations and has a significant impact on a bank's profitability" [1]. Their study

investigated the effect of asset quality management on the profitability of ten banks over the period 2017–2021. Return on Equity (ROE) and Return on Assets (ROA) were used as dependent variables, while independent variables representing asset quality management included non-performing loans (NPLs), the ratio of total impairment expenses to total operating income, and the ratio of impairment expenses to the total volume of loans.

Indonesian researchers Dwinisa Nur Hamdillah and her colleagues, in their study on the impact of asset quality and financial performance indicators on non-performing loans, also present important perspectives on asset quality [2]. They argue that asset quality reflects the competence of bank management in controlling risks associated with bank assets. Furthermore, they define asset quality as an assessment of the various categories of assets owned by a bank. Accordingly, evaluating asset quality involves determining the condition of bank assets and assessing the adequacy of risk management practices.

Turkish economists E. Kadioglu, N. Telceken, and N. Ocal, in their research on the impact of asset quality on bank profitability, argue that asset quality is closely associated with the quality of loans extended by banks, which can, in turn, be measured by the volume and quality of non-performing loans (NPLs) [3]. According to these experts, non-performing loans require substantial managerial time and effort, representing indirect costs that arise from poor asset quality.

In our view, non-performing loans not only prevent banks from generating net interest income but also adversely affect the volume of future net profits. Consequently, they may limit a bank's ability to undertake profitable investment activities in the future. Moreover, non-performing loans pose reputational risks that may undermine a bank's standing within society. Overall, the presence and significant growth of non-performing loans constrain banking opportunities and serve as an important indicator of deteriorating asset quality.

Armenian researcher Martin Tonikyan, in his study on the determinants of asset quality within the banking system, identifies several factors affecting the volume of non-performing loans and, consequently, asset quality. These include lending interest rates, exchange rates, credit extended to the private sector, bank interest rate spreads, public debt, GDP per capita, GDP growth, the GDP deflator, the capital-to-assets ratio, and banking system liquidity reserves [4].

According to Bernanke, Lown, and Friedman, in economies with bank-based financial systems, inefficient lending or poor asset quality is often referred to as a "credit crunch" [5]. Such conditions may reduce operating profit margins or delay economic recovery by eroding the capital base available for new lending. Consequently, poor asset quality and a substantial volume of low-quality loans can ultimately lead to bank failures and economic downturns.

According to the research of T.T. Tran and V. Le, expanding bank lending to support businesses and stimulate economic development is one of the primary priorities of governments and the banking sector in developing economies. However, in our opinion, excessive growth in lending beyond sustainable levels may weaken the qualitative monitoring and control of loan portfolios.

It is also well recognized that high asset quality enables large commercial banks to operate more efficiently, acquire high-quality resources, transform them into productive capital, and generate higher profits. Therefore, asset quality is generally considered to have a positive effect on bank profitability.

T.T. Tran and his co-authors further argue that bank asset quality is measured by the ratio of non-performing loans to total loans. The higher this ratio, the more negative its impact on bank profitability [6]. Poor asset quality indicates the existence of a large volume of non-performing loans, increasing the risk of default in commercial banks. At the same

time, rising operating costs reduce income and profits, thereby diminishing bank profitability.

Professor T.M. Barnhill of The George Washington University School of Business, together with P. Papapanagiotou and L. Schumacher, examined asset quality in relation to financial leverage. They argue that, from a business perspective, financial leverage refers simply to the use of borrowed funds (debt) to generate profits [7]. Similarly, commercial banks utilize borrowed funds to earn profits. To achieve high operational efficiency, banks must employ leverage effectively. Conversely, if commercial banks fail to manage financial leverage appropriately, they may face unforeseen adverse consequences. For this reason, financial leverage is often described by experts as a "double-edged sword."

According to the theoretical framework proposed by Barnhill and his co-authors, maximizing the positive effects of financial leverage in ensuring asset quality through the mitigation of liquidity risk, while simultaneously maintaining profitability, requires commercial banks to regulate the composition of liabilities by maintaining optimal proportions of capital and obligations [8].

Professor Mostak Ahamed of the University of Sussex Business School investigated the relationship between asset quality, income diversification, and bank profitability [9]. His findings indicate that income diversification provides greater benefits to banks with relatively lower asset quality than to those with higher asset quality. In developing economies, diversifying income sources—from traditional lending toward non-interest income such as fees, commissions, and securities-related revenues—has become a fundamental strategic principle and a key competitive business model for commercial banks.

Based on his empirical findings, Mostak Ahamed concludes that banks experiencing declining asset quality due to deterioration in their loan portfolios can improve profitability through greater income diversification, thereby maintaining operational efficiency while reducing the risk of financial instability [10].

Russian economists Kudryavseva and Arkadeva have conducted research on the impact of the structure and quality of commercial bank assets on bank profitability [11]. According to their findings, analyzing asset quality and structure is an essential tool for assessing a bank's financial condition and reliability. Such analysis examines the principal areas of banking activity and evaluates the effectiveness with which assets are allocated across these activities.

Consequently, a comprehensive analysis of the quality and structure of bank assets not only facilitates the assessment of a bank's capital position but also enables the identification of the sources of financial results generated through banking operations, as well as the factors that contribute to maintaining the sustainability of those financial outcomes.

2. Materials and Methods

The primary objective of this study is to analyze the condition of asset quality in the selected commercial bank, examine the factors contributing to the deterioration of asset quality and the adverse consequences arising from such deterioration, and, based on the findings, develop recommendations aimed at ensuring and enhancing the bank's operational efficiency.

The article presents the financial indicators reported in the annual reports of JSCB "Uzsanoatqurilishbank", one of the commercial banks operating in the Republic of Uzbekistan, in accordance with the objectives of the study. In addition to general economic research methods, the study employs statistical techniques, including data collection, data aggregation, comparative analysis, and systematic analysis.

3. Results

One of the key considerations in ensuring the operational efficiency of commercial banks and assessing asset quality is the proportion of bank assets allocated to income-generating assets. This enables an evaluation of the extent to which the bank's assets are exposed to risk while being invested in loans, securities, interbank deposits, and funds held in correspondent accounts for the purpose of generating interest income. Such an assessment provides valuable insight into the composition and quality of the bank's asset portfolio.

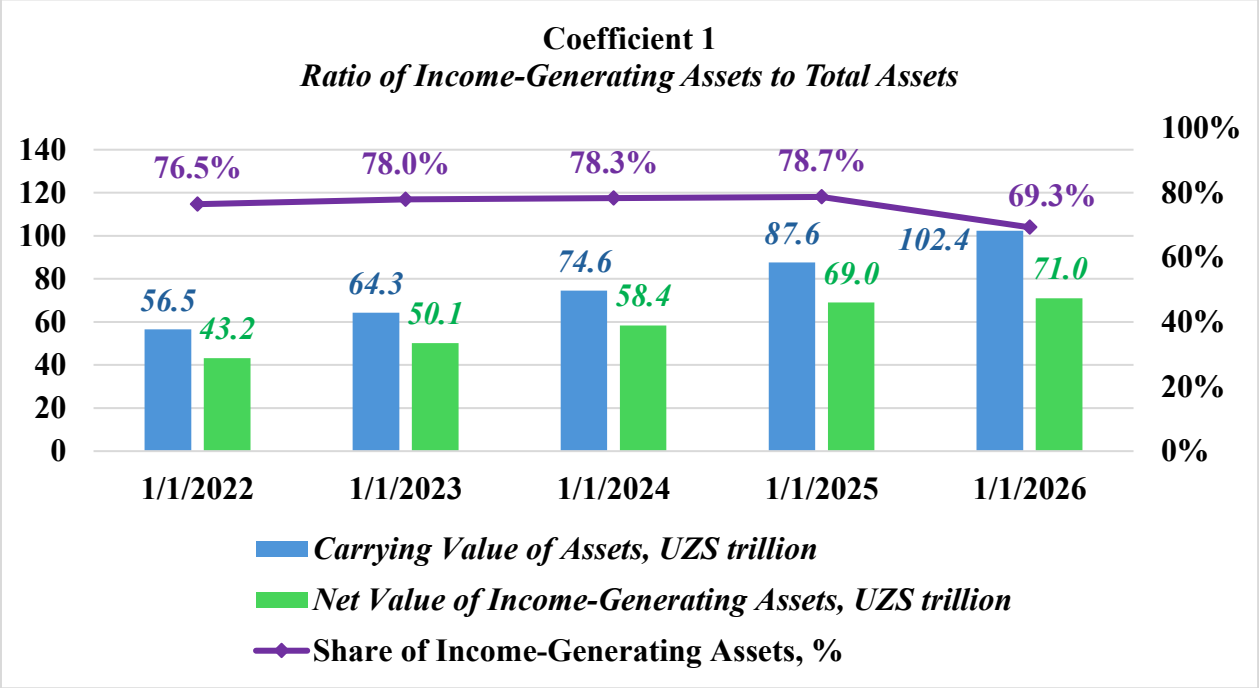


Figure 1. Dynamics of the Ratio of Income-Generating Assets to Total Assets at JSCB. "Uzsanoatqurilishbank"

Source: Prepared by the author based on the 2021-2025 annual reports of JSCB "Uzsanoatqurilishbank".

As shown in Figure 1, the share of income-generating assets in the total assets of JSCB "Uzsanoatqurilishbank" remained above 76% during the first four years of the study period, with an average ratio of 77.9%. However, in 2025, this ratio declined by 8.6 percentage points compared with the average level recorded in the preceding years. As noted in the earlier sections of this study, the optimal range for this indicator is considered to be 70%–85%. Therefore, the bank's performance remained within the recommended range throughout the study period, except in the final year, when the ratio fell below the desired level. This decline occurred despite a 16.9% increase in total assets during 2025, primarily because the bank's loan portfolio contracted by 1.9%. On the one hand, this development may lead to a reduction in the bank's income; on the other hand, it may contribute to an improvement in the bank's liquidity position.

An increase in income-generating assets inevitably implies a corresponding increase in risk-weighted assets. However, if this process is not managed effectively, it may lead to a higher frequency and volume of assets that are not repaid on time. Consequently, the quality of the bank's asset portfolio may deteriorate. Accordingly, the next stage of the analysis evaluates asset quality using the Doubtful Debt Ratio as an assessment measure.

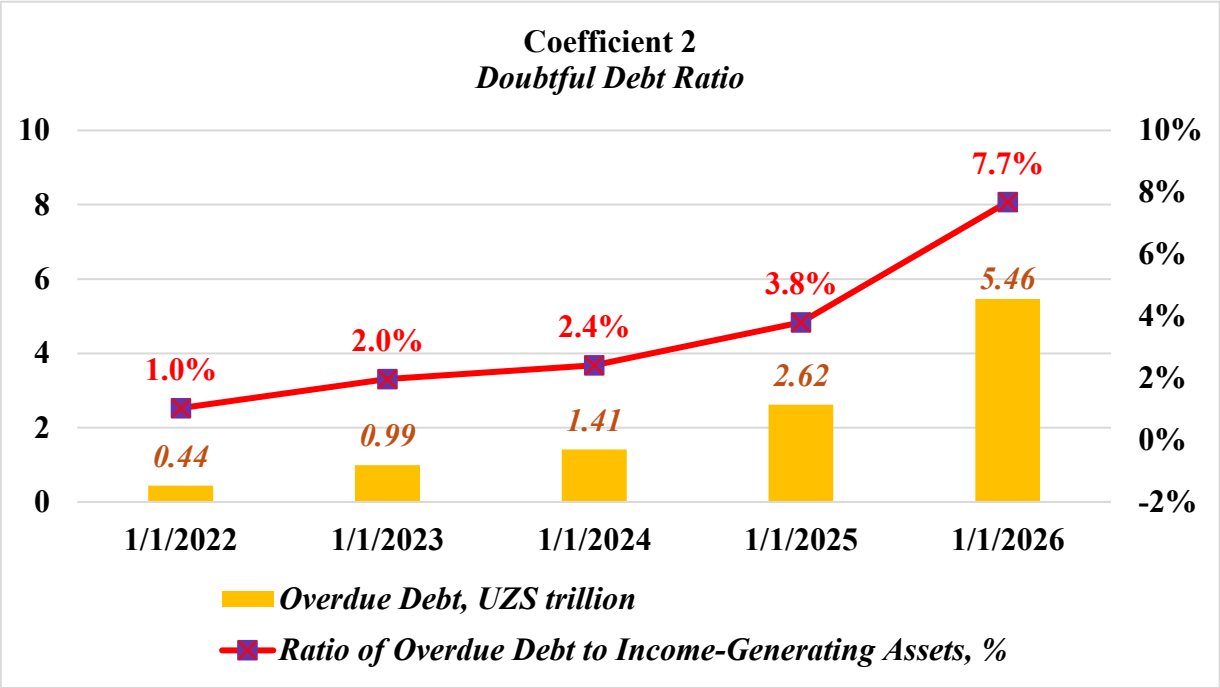


Figure 2. Dynamics of the Ratio of Overdue Loans to Income-Generating Assets at JSCB "Uzsanoatqurilishbank"

Source: Prepared by the author based on the 2021-2025 annual reports of JSCB "Uzsanoatqurilishbank".

As illustrated in Figure 2, the amount of overdue principal and interest within the bank's asset portfolio during the study period is presented. Over the five-year period, the total volume of overdue debt increased by a factor of 12.3 (5.46/0.44), reaching approximately UZS 5.5 trillion by the end of 2025. The most significant increase occurred in 2022, when overdue debt grew by 222.2% (0.99/0.44). As a result, the ratio of overdue loans to income-generating assets rose sharply from 1.03% to 1.97%. During the following two years, the amount of overdue debt increased by 142.6% and 186.1%, respectively, while its ratio to income-generating assets rose by 0.4 and 1.4 percentage points, respectively. In 2025, overdue debt increased by 208.2%, and its ratio to income-generating assets rose by 3.9 percentage points, more than doubling compared with the previous year.

The analytical results obtained using this asset quality assessment measure (Coefficient 2: Doubtful Debt Ratio) indicate a continuous deterioration in the bank's performance with respect to this indicator throughout the study period. To provide a more comprehensive qualitative assessment of this trend, it is appropriate to further examine and evaluate overdue loans according to the length of time they have remained past due.

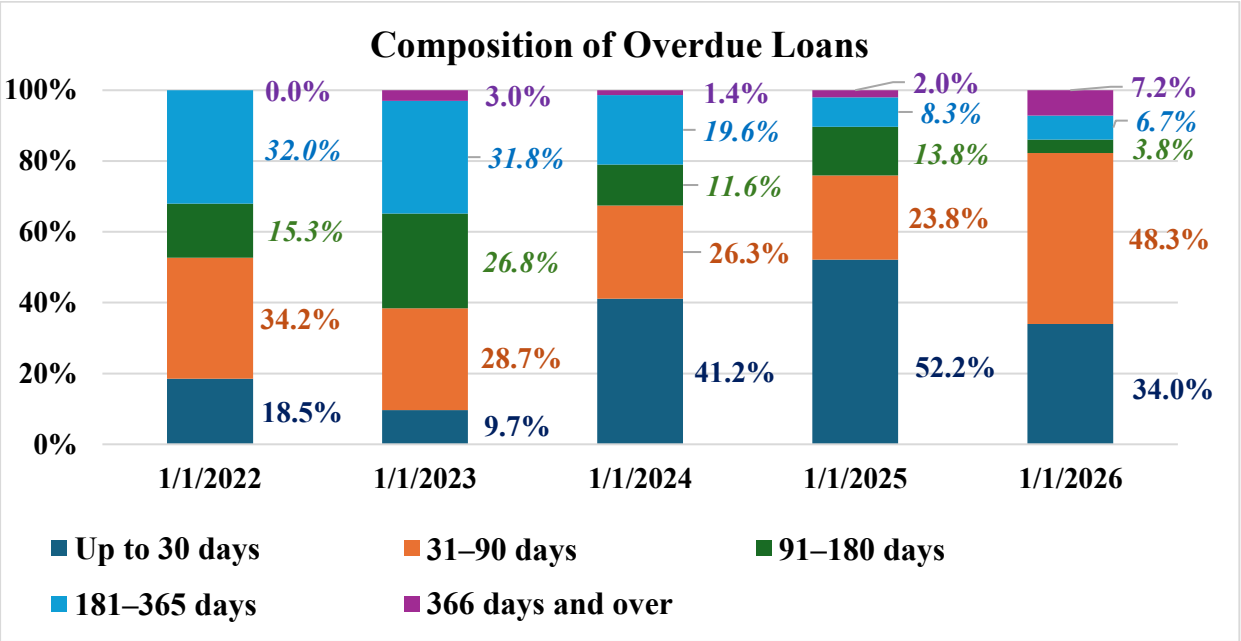


Figure 3. Dynamics of Changes in the Maturity Structure of Overdue Loans within the Asset Portfolio of JSCB "Uzsanoatqurilishbank", %

Source: Prepared by the author based on the 2021-2025 annual reports of JSCB "Uzsanoatqurilishbank".

As shown in Figure 3, the proportion of overdue loans with a maturity of up to 30 days declined during the years in which the total volume of overdue debt increased most sharply—namely 2022 and 2025—compared with the preceding years. This indicates that, during these periods, overdue debt not only increased in absolute terms but also exhibited a deterioration in its quality. In 2022, alongside the decline in the shares of overdue loans with maturities of up to 30 days and 31–90 days, the proportion of loans overdue by 91–180 days increased by 11.3 percentage points. In addition, under the revised classification system introduced during the same year, loans overdue by 366 days or more accounted for 3% of the total overdue loan portfolio.

In 2025, the increase in the total amount of overdue debt was accompanied primarily by a decline in the share of loans overdue by up to 30 days and a 5.2 percentage point increase in the proportion of loans overdue by 366 days or more, reflecting an unfavorable trend. At the same time, certain positive developments were also observed, including a decline in the share of other relatively higher-risk overdue loan categories and a redistribution of some overdue loans into the 91–180 day category. The rapid growth in the volume of overdue loans, together with the increasing instability of their maturity structure, contributes to the formation of a low-quality asset portfolio. Such developments may adversely affect the bank's liquidity position, the generation of positive financial results, and other indicators of financial stability.

In commercial banks, the ability to generate income—particularly interest income—largely depends on the characteristics of the assets they allocate, including the categories of borrowers served and the lending terms offered, such as interest rates, loan maturities, and the adequacy of collateral. These factors determine the degree of risk exposure associated with the bank's assets. Accordingly, the level of risk-weighted assets represents one of the principal indicators of asset quality. Therefore, the next stage of the analysis evaluates the bank's asset quality using this indicator.

Table 1. Dynamics of the Asset Structure by Risk-Weighted Asset Categories at JSCB "Uzsanoatqurilishbank", %.

№	Risk Weight	01.01.2022	01.01.2023	01.01.2024	01.01.2025	01.01.2026
1.	0%	*9,5%*	*20,3%*	*15,5%*	*22,4%*	*16,4%*
2.	20%	*22,0%*	*7,5%*	*7,9%*	*4,9%*	*7,7%*
3.	35%	*0,4%*	*0,5%*	*0,5%*	*0,3%*	*0,4%*
4.	50%	*1,9%*	*3,2%*	*3,4%*	*4,1%*	*5,5%*
5.	75%				*0,0%*	*0,5%*
6.	100%	*51,4%*	*58,7%*	*59,3%*	*52,9%*	*57,3%*
7.	150%	*9,9%*	*5,8%*	*8,9%*	*8,9%*	*9,3%*
8.	200%	*5,0%*	*4,8%*	*4,6%*	*6,5%*	*2,8%*
9.	250%					*0,1%*
	Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**
	Coefficient 3 *(Ratio of High-Risk Assets to Total Assets)*	***66,2%***	***69,3%***	***72,8%***	***68,3%***	***69,5%***

Source: Prepared by the author based on the 2021-2025 annual reports of JSCB "Uzsanoatqurilishbank".

As presented in Table 1, the asset portfolio of JSCB "Uzsanoatqurilishbank" is classified according to the level of risk weighting applied to its assets. During 2021–2023, no assets were classified under the 75% risk weight category, while the 250% risk weight category was not applied during 2021–2024. The regulatory requirements governing these risk-weight categories were introduced into practice beginning in 2024 and 2025, respectively.[12]

4. Discussion

Within the bank's asset portfolio, the proportion of assets assigned a 0% risk weight—including cash and other payment instruments held in the vault, precious metals, funds maintained with the Central Bank, securities issued by the Government of the Republic of Uzbekistan and the Central Bank of Uzbekistan, as well as loans secured by or guaranteed with securities issued or guaranteed by the Government or the Central Bank and measured at current market value—showed a positive trend. By the end of the study period, the share of these assets had increased by 6.9 percentage points, or 1.73 times, compared with the base year. The highest proportion of 0% risk-weighted assets was recorded at the end of 2024. During that year, their share in the bank's total assets reached 22.4%, primarily due to a UZS 5.87 trillion (or 1.9-fold) increase in loans secured by or guaranteed with securities issued or guaranteed by the Government of the Republic of Uzbekistan or the Central Bank of Uzbekistan and measured at current market value. As a result, the value of such loans reached UZS 12.35 trillion.[13][14]

According to the framework adopted in this study, asset quality is also assessed based on the proportion of high-risk assets in a commercial bank's asset portfolio. Under this approach (Coefficient 3), asset quality is evaluated by calculating the ratio of the carrying value of assets assigned a risk weight of 100% or higher to the total carrying value of the bank's assets. As shown in Table 1, this coefficient averaged 69.2% over the study period. The highest value was recorded at the end of 2023, while the ratio at the end of the study period exceeded the average by 0.3 percentage points. Overall, the proportion of high-risk assets remained relatively stable throughout the period under analysis.[15]

5. Conclusion

Based on the research conducted and the analyses performed, the following conclusions can be drawn:

- Improving asset quality is essential for enhancing the operational efficiency of commercial banks. To achieve this objective, banks should implement measures aimed at maximizing the proportion of income-generating assets while maintaining liquidity at an optimal level. Such an approach contributes significantly to ensuring the financial stability of commercial banks.

- In managing overdue loans, banks should focus not only on preventing excessive growth in the volume of overdue debt but also on continuously monitoring its maturity classification. In addition, greater attention should be devoted to implementing mechanisms that encourage improvements in the maturity structure of overdue loans.

- The structural changes in the high-risk asset portfolio of JSCB "Uzsanoatqurilishbank" also exhibited a generally positive trend. Specifically, by the end of the study period, the share of assets assigned a 100% risk weight had increased by 5.9 percentage points compared with the beginning of the period, while the shares of 150% and 200% risk-weighted assets had declined by 0.6 and 2.2 percentage points, respectively. This development may be regarded as favorable. However, 3.1 percentage points (5.9 − 0.6 −2.2) of the increase in the share of 100% risk-weighted assets resulted from a decline in the proportion of 20% risk-weighted assets, which are not classified as high-risk assets. From the perspective of increased provisioning expenses and the higher likelihood of asset impairment, this aspect cannot be evaluated positively.

Based on the findings of the study, the following recommendations are proposed:

1. To improve the quality of bank assets by maintaining the solvency of borrowing business entities, it is recommended that, when determining the amount of short-term loans (with a maturity of up to one year), commercial banks calculate the maximum lending amount by subtracting existing short-term liabilities from the ratio of the borrower's current assets to the optimal level of the current liquidity ratio.

2. It is recommended that commercial banks introduce a methodology for assessing the quality of total assets and each asset classification category, as well as evaluating operational efficiency, based on the proportion of specific provisions within total provisions. Such an approach would enhance the effectiveness of asset quality assessment and improve the evaluation of banking performance.

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