

Theoretical and Practical Aspects for Assessment the Financial Security of a Commercial Bank

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Abstract. In this paper has been investigated the concept of "financial security of a commercial bank" from different positions. The analysis of existing approaches to assessing the financial security of a commercial bank was carried out, the most promising methods were identified. A method is proposed for comparing qualitative and quantitative assessments of the components of the economic security system with cost indicators of a credit institution.

Keywords: Financial security, banks, assessment methods, security criteria.

1. INTRODUCTION

Banking institutions play an important role as financial intermediaries that ensure the functioning of such an economic process as "savings investment". Banks attract temporarily free funds to citizens and organizations for deposits at a certain percentage, thereby maintaining the purchasing power of invested funds. Banks provide individuals and legal entities that temporarily need additional resources with funds, which, in turn, are issued on the terms of repayment, payment and urgency.[1]

In this regard, the role of analysis of the activities of banking institutions is increasing. The results of the analysis are of practical interest both for the banks themselves and for the Central Bank. Most banks create departments for analysis and risk management, while other aspects of the analysis of banks' activities remain unattended by analysts. Therefore, an integrated approach and well-thought-out tactics are needed to improve the financial security of a commercial bank, as well as a flexible control system.[7]

The problem of financial security of commercial banks is one of the most important problems of the domestic economy at the present stage of its development.

The financial security of a credit institution lies in its ability to independently develop and implement a financial strategy in accordance with the objectives of its activities, in an uncertain external environment, which necessarily entails the following:

- ensuring a stable financial condition and the necessary level of liquidity in the current period and strategic perspective;
- a guarantee of sustainable functioning of a credit institution in a dynamically changing competitive environment;
- ensuring the necessary level of financial independence;
- exploiting economic opportunities and confronting existing and emerging threats;
- Ensuring sufficient flexibility in making financial decisions;
- protection of financial interests of founders, investors and creditors.

2. LITERATURE REVIEW

A large number of scientists are studying the problem of ensuring the financial security of a commercial bank. Consider modern approaches to the definition of the term "financial security of a credit institution". So, Kucherov I.I. [4] defines the financial security of a credit institution as a mechanism for protecting against the negative impact of external and internal threats in order to ensure the sustainability of the implementation of the main interests and stability of operation. Chudaikina T.N. argues that the financial security of a bank is an economic category that includes the concept of financial stability. That is, the financial stability of a commercial bank is an important condition for ensuring its financial security.[8]

From the position of the bank, financial security is the protection of the bank from internal and external threats, ensuring management, assets and liabilities in accordance with the marginal conditions of security indicators, taking into account the risks of maintaining the bank's own capital, its effective use, the bank's ability to fulfill its obligations to customers and the state while the condition of legitimacy of operations and compliance of its financial documents

with the requirements of supervisory authorities.

Thus, the financial security of a credit institution is a system of measures that contributes to the stable functioning of the bank, the prevention of internal and external threats. The financial security system should be unique in each bank, as it depends on the direction of the bank's activities, the sale of relevant banking products and services to individual consumers. Only the complexity and consistency of the bank's financial security system can ensure the reliability of its security.

3. THEORETICAL ASPECTS FOR ASSESSMENT THE FINANCIAL SECURITY OF A COMMERCIAL BANK

The scientific and economic community has formed a system of principles that includes methods and methods for determining the stability of financial institutions by comparing many factors with the stability of the financial aspects of the activities of credit institutions.

Methods for assessing the financial stability and reliability of commercial organizations and financial institutions are widely used and quite thoroughly studied by both international researchers and domestic scientists. [5]

So, in the methodology proposed by the Bank of Russia, it determines a generalizing result that reveals the degree of stability of a commercial bank as a whole, new analysis criteria are constantly added, which allows us to draw a reliable conclusion. The main disadvantages of this technique are that the evaluation is static. Within the framework of this methodology, there are no calculations of predictive indicators. The revealed result according to this technique may be late in relation to the occurrence of problems.

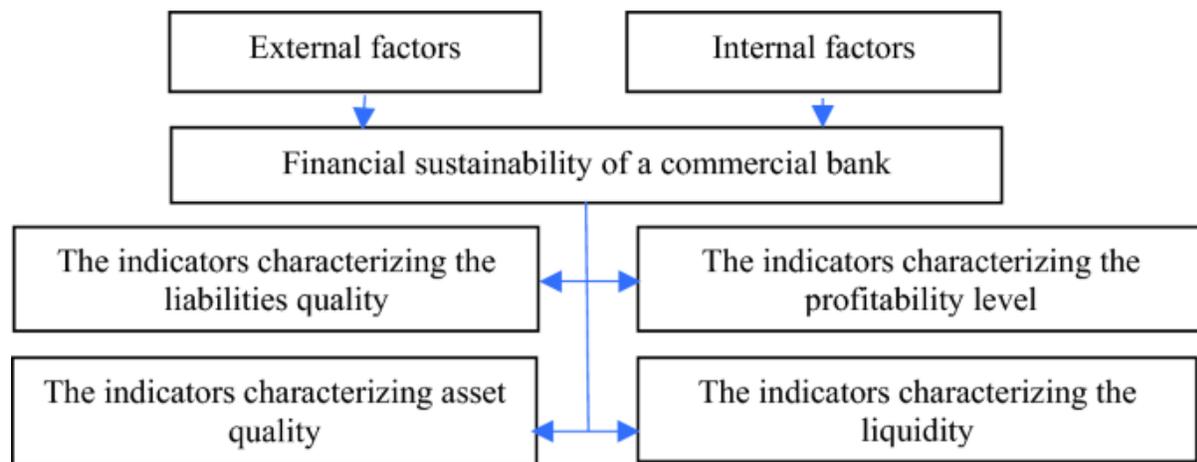


Fig.1. Assessment of Commercial Banks' Financial Sustainability scheme [9]

By V. Kromonov's technique is to calculate 5 groups of indicators and compare these indicators with an ideal bank. The initial information for the calculations are balances, the data of which are grouped into economically homogeneous groups.[4] Compiled and grouped such indicators as the authorized capital (UF), equity (SC), demand liabilities (OS), total liabilities (CO). liquid assets (LA), working assets (risk) (RA), capital protection (PC).

Based on these guidelines, six coefficients are calculated. According to Kromonov's method, the optimally reliable bank is a bank with the following coefficients: $K_1=1$, $K_2=1$, $K_3=3$, $K_4=1$, $K_5=1$, $K_6=3$. This means that such an ideal "bank": [7]

- invests in operating assets in the amount of equity capital;
- contains funds in liquid form in the amount equal to demand liabilities;
- has three times more liabilities than working assets;
- contains funds in liquid form and in the form of capital investments in an amount equal to total liabilities;
- has capital assets in the amount equal to the size of equity capital;
- has a capital three times greater than the authorized capital.[2]

Thus, the concept of V. Kromonov's methodology lies in the fact that in it the analyzed bank is compared with the ideal bank, the value of which is taken as 100%, the closer the real analyzed bank is to the ideal one, the higher its reliability. The reliability of the bank according to this technique characterizes it as an object of break-even or safe

investments for depositors. The disadvantages of this technique are the controversy of the normalization of the coefficients and the ambiguity of the reliability criteria, as well as how the weight values were determined.

The CAMELS valuation methodology is a system for analyzing the state of financial instruments, which is a comprehensive assessment based on data received by the control authorities. The methodology for analyzing bank performance was introduced in 1978 after the decision of the US supervisory authorities to standardize their systems for analyzing the financial condition of a commercial bank.[8]

The abbreviation stands for the first letters of the analyzed indicators.

- C - capital adequacy ratio: is the amount of capital sufficient to protect deposits;
- A - asset quality indicator: assessment of the return potential of assets, taking into account problem loans;
- M - indicator of the quality of management institutions, analysis of the qualitative characteristics of banking management based on the results of work;
- E - indicator of profitability (profitability) of organizations: the efficiency of activities and the sufficiency of profit for long-term development are determined;
- b - an indicator of the organization's liquidity: liquidity is determined in terms of the timely fulfillment of obligations.
- B - an indicator of the organization's sensitivity to risks assesses the impact of external factors on banking activities: interest rate, currency risks, the risk of loss of profitability.[6]

The advantages of this technique are that the rating for each indicator shows directions for improving the efficiency of the bank. The overall score reflects the degree of need for intervention in relation to the bank. The disadvantage of this technique is that it is based on subjective assessments, therefore, the overall result of this technique depends on the professionalism of the analyst.

The methodology of the magazine "Expert", it consists of two parts, the first analyzes profitability and reliability, the second analyzes changes in dynamics. Profitability in the framework of this methodology characterizes the ratio of profit to net assets, the reliability indicator is determined based on the ratio of the bank's capital to attracted funds. The main advantages of this technique are that two-criteria statistical analysis is used. The disadvantage of this technique is that non-quantitative indicators are not taken into account. The methodology of the MBO "Agrobank", this methodology is based on statistical models of the formation of dependencies. The advantage of this technique is the construction of an evaluation system, which is produced by means of processing statistical information. The disadvantage of this technique is that it is necessary to obtain expert information on a group of banks, which determines the accuracy of the results.

4. ANALYSIS AND RESULTS

In recent years, as a result of large-scale reforms in the economy of Uzbekistan on financial support of small business and private entrepreneurship, the volume of loans and microfinance services provided by commercial banks to this sector is growing year by year. In particular, the volume of credit resources allocated to small businesses and private enterprises from all sources in 2019 amounted to 19,564.0 billion. amounted to 3.2 times compared to 2017, and the volume of microcredits increased by 3.6 times to 4015.0 billion soums. amounted to soum. In particular, in 2019, 490.3 billion will be allocated for the development of family entrepreneurship and crafts. 2,782.2 billion soums for the development of women's entrepreneurship. soums, 3381.4 billion to food production enterprises. soums, 3915.8 billion to enterprises producing non-food consumer products. 360.2 billion soums for financing business projects of vocational college graduates. loan funds in the amount of soums were allocated [9]. In the practice of countries with a developed financial market, the funds of credit organizations are the main source of financing for the development of small businesses. Funds of commercial banks make up a large share of financing of small business and private entrepreneurship.

It is necessary to define targeted strategies aimed at further expansion of the practice of lending to small business and private business entities by commercial banks. Also, the fact that the main attention in lending to small business entities is focused on the presence of high liquidity prevents the further increase in the volume of lending to small business entities. The reason for this is that most of the small business entities do not have highly liquid collateral required by the banks. Another problem that needs to be solved in the practice of lending investment expenses of small business entities is the high cost of investment loans attracted through foreign credit lines. The lack of resource capacity for small business lending in banks has a negative impact on the stability of cash flows of all economic entities, including small business entities. This means that the low level of financial resources of the economy does not allow solving the problem of non-payment among economic entities. Along with the above, there is a sharp

difference in the structure of loans given by commercial banks to small business entities of our republic, and the growth of lending rates is observed in developing industries.

Table 1 Rating of activity of large banks for the II quarter of 2021 [11]

No	BANK	Overall rating	Change in the rating	Financial intermediation rating	Financial access rating	Capital Adequacy Rating	Asset quality rating	Quality management rating*	Ranking by profitability	Liquidity rating
1	Capital Bank	1	0	1	6	17	1	9	13	2
2	Trust bank	2	2	8	1	10	5	7	4	10
3	Aloqa bank	3	-1	6	17	3	9	5	1	1
4	Hamkor bank	4	2	2	12	13	2	10	8	11
5	Asia Alliance bank	5	2	7	16	2	3	6	3	4
6	Invest Finance Bank	6	-3	4	7	4	8	13	12	9
7	Orient Finance Bank	7	3	16	4	7	10	8	2	7
8	Microcredit bank	8	1	15	2	14	12	4	7	6
9	Mortgage bank	9	-4	3	11	15	17	16	6	3
10	Ipak yuli bank	10	1	14	14	6	13	1	5	8
11	Uzpromstroybank	11	2	5	9	11	15	14	11	12
12	Agrobank	12	-4	10	5	8	11	12	10	15
13	National Bank	13	2	11	13	12	14	3	17	5
14	Turon bank	14	-2	9	3	9	7	17	15	14
15	Asaka bank	15	1	13	8	5	6	11	16	16
16	Qishloq Qurilish Bank	16	-2	12	10	16	4	15	14	13
17	National Bank	17	0	17	15	1	16	2	9	17

Among the 17 largest banks, Kapitalbank has maintained its leadership since the second quarter of 2020. (Table 1) Kapitalbank strengthened its position in the overall rating and once again showed the highest results in terms of financial intermediation and asset quality. In particular, the ratio of term deposits of banks to total loans amounted to 84%.

Hamkorbank took 2nd place in the overall ranking, moving up 2 places compared to the first quarter of 2021. This was facilitated by improvements in the bank's financial intermediation, asset quality and management efficiency.

Trustbank finished 3rd overall and lost one point. At the same time, this bank remains one of the leading banks in terms of capital adequacy, profitability and liquidity.(Table 2)

Table 2 Rating of activity of small banks in the first quarter of 2021 [11]

No	BANK	Overall rating	Change in the rating	Financial intermediation rating	Financial access rating	Capital Adequacy Rating	Asset quality rating	Quality management rating*	Ranking by profitability	Liquidity rating
1	Davr bank	1	0	8	1	10	1	1	2	12
2	Ziraat bank	2	1	1	3	12	2	7	10	7
3	Universal bank	3	-1	1	9	7	7	3	6	5
4	Ravnak Bank	4	7	1	5	1	3	10	5	11
5	Savdogar bank	5	-1	1	4	11	5	8	7	10
6	Uzagroexport bank	6	2	10	10	1	9	6	3	6
7	Madad invest bank	7	2	11	2	1	4	14	8	3
8	Poytaxt bank	8	4	14	7	1	6	4	9	8
9	TBC bank	9	-4	1	6	14	10	11	11	9
10	UzKDB bank	10	-3	11	8	1	13	5	4	1
11	Anor bank	11	-1	11	14	9	8	2	13	1
12	Tenge bank	12	-6	9	13	1	14	9	1	4
13	High-Tech bank	13	0	1	12	8	11	13	12	14
14	Turkiston bank	14	0	1	11	13	12	12	14	13

In the second quarter of 2021 year, Davrbank, Universalbank and Ziraatbank took the first three places in the overall rating of 14 small banks in Uzbekistan. [11]

State-owned banks accounted for 85% of the sector's assets at the end of 2020. In accordance with the new strategy for the development of the banking sector, the government plans to privatize seven banks by the end of 2025. These banks must significantly transform their business models with the involvement of international financial institutions (IFIs), which can become minority shareholders before the sale of controlling stakes, in order to improve profitability, corporate governance and investor attractiveness. If seven banks are successfully privatized, the share of state-owned banks in the sector's assets will drop to 35%.

According to the CERR methodology, management performance indicators are based only on quantitative indicators and, as one of the indicators, the bank's net profit / loss is divided by the number of bank employees. Note that TBC and Anor Bank started their activities in the fourth quarter of 2020 and are currently in the process of formation. Therefore, operating costs are expected to remain high until these banks fully adapt to the market.

The sector's average impaired loan ratio increased to 2.1% at end-2020 from 1.5% at end-2019. Banks continued their strong growth in 2020 despite the outbreak of the pandemic, and we expect nominal lending growth to be over 30% in 2021. In recent years, banks have been actively increasing long-term financing. The bulk of new corporate loans have been issued with grace periods for investment purposes and are not yet amortised, which, together with payment holidays granted to some borrowers in 2020, means that asset quality is largely untested at most banks. Impairment risks are also associated with the high 50% dollarization of sector loans at the end of 2020.

5. CONCLUSIONS

Summarizing the above, it can be noted that in all methods there are quantitative indicators, while qualitative indicators are not present in all. For a full assessment of the bank, not only a quantitative, but also a qualitative analysis of its activities is necessary. Also, after analyzing all the advantages and disadvantages of the available methods, we can conclude that all methods reliably assess only the current position of the bank, without making a forecast. Thus, for a reliable analysis of the financial stability of a bank, it is not enough to use only one method. For a qualitative analysis, it is necessary to use a coefficient and rating methodology, as well as use economic and mathematical methods and techniques that will allow you to calculate forecast values, determine areas for increasing financial stability in a commercial bank.

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