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WAYS TO INCREASE REVENUES IN COMMERCIAL BANK OPERATIONS

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Abstract: This article provides a systematic analysis of the mechanisms for forming commercial bank revenues, the factors influencing their growth, and the role of income structure in modern banking practice. During the study, ensuring an optimal balance between interest and non-interest income, increasing the profitability of asset and liability operations, and optimizing credit portfolio quality and interest margins are identified as key directions for enhancing bank revenues. In addition, the importance of service diversification, the development of digital banking services, the implementation of effective risk management systems, and the utilization of capital market opportunities in increasing bank revenues is highlighted. The article concludes with scientifically grounded practical recommendations aimed at ensuring the sustainable and long-term growth of commercial bank revenues.

Key words: commercial banks, revenue growth, interest income, non-interest income, interest margin, credit portfolio quality, efficiency of banking operations, service diversification, digital banking services, capital market, asset and liability management, financial stability, risk management.

Annotatsiya: Ushbu maqolada tijorat banklari daromadlarining shakllanish mexanizmlari, ularni oshirishga ta'sir etuvchi omillar hamda daromadlar tarkibining zamonaviy bank amaliyotidagi o'rni tizimli tahlil qilingan. Tadqiqot jarayonida foizli va foizsiz daromadlar o'rtasidagi optimal nisbatni ta'minlash, aktiv va passiv operatsiyalarning rentabelligini oshirish, kredit portfeli sifati va foiz marjasini optimallashtirish kabi omillar banklar daromadlarini ko'paytirishning asosiy yo'nalishlari sifatida baholangan. Shuningdek, bank daromadlarini oshirishda xizmatlar diversifikatsiyasi, raqamli bank xizmatlarining rivojlanishi, risklarni boshqarishning samarali tizimini joriy etish hamda qimmatli qog'ozlar bozori imkoniyatlaridan foydalanishning ahamiyati yoritilgan. Maqola yakunida tijorat banklari daromadlarini barqaror va uzoq muddatli o'sishini ta'minlashga qaratilgan ilmiy asoslangan amaliy takliflar ilgari surilgan.

Kalit so'zlar: tijorat banklari, daromadlarni oshirish, foizli daromadlar, foizsiz daromadlar, foiz marjasi, kredit portfeli sifati, bank operatsiyalari samaradorligi, xizmatlar diversifikatsiyasi, raqamli bank xizmatlari, qimmatli qog'ozlar bozori, aktiv va passivlarni boshqarish, moliyaviy barqarorlik, risklarni boshqarish.

Аннотация: В статье проведён системный анализ механизмов формирования доходов коммерческих банков, факторов, влияющих на их рост, а также роли структуры доходов в современной банковской практике. В ходе исследования обеспечение оптимального соотношения процентных и непроцентных доходов, повышение рентабельности активных и пассивных операций, оптимизация качества кредитного портфеля и процентной маржи рассматриваются как ключевые направления увеличения банковских доходов. Кроме того, раскрывается значение диверсификации услуг, развития цифровых банковских сервисов, внедрения эффективной системы управления рисками и использования возможностей рынка ценных бумаг в процессе роста доходов банков. В заключение статьи представлены научно обоснованные практические рекомендации, направленные на обеспечение устойчивого и долгосрочного роста доходов коммерческих банков.

Ключевые слова: коммерческие банки, увеличение доходов, процентные доходы, непроцентные доходы, процентная маржа, качество кредитного портфеля, эффективность банковских операций, диверсификация услуг, цифровые банковские сервисы, рынок ценных бумаг, управление активами и пассивами, финансовая устойчивость, управление рисками.

INTRODUCTION

The intensification of competition in global financial markets, the diversification of banking services, the rapid development of digital technologies, and changes in customer needs are compelling banks to reconsider their income generation strategies. In particular, optimizing the income structure based on interest and non-

interest revenues, increasing the profitability of asset and liability operations, introducing new financial products and innovative services, improving risk management systems, and effectively utilizing digital banking services are emerging as priority directions for revenue growth.

Commercial banks play a strategically important role in ensuring the sustainable development of the national economy. The strength of banks' income bases not only determines the efficiency of the financial system but also serves as a key factor in financing the real sector of the economy, supporting investment projects, and improving the quality of financial services provided to the population. Therefore, improving the mechanisms for forming and increasing commercial bank revenues represents one of the most pressing scientific and practical tasks in the context of a modern market economy.

This importance is also emphasized in the Decree of the President of the Republic of Uzbekistan No. DP-5992¹ dated May 12, 2020, "On the Strategy for reforming the banking system of the Republic of Uzbekistan for 2020 — 2025" which highlights the need to expand banks' income sources, strengthen their activities in the capital market, issue and place corporate bonds, and deepen integration with international financial markets. These reforms create an institutional foundation for enhancing the competitiveness of the banking system, strengthening financial stability, and increasing the revenues of commercial banks [1]. From this perspective, studying ways to increase commercial bank revenues, identifying factors influencing income composition, and analyzing mechanisms for expanding the income base through innovative banking products and services are of significant scientific and practical importance. This article develops research-based recommendations on the processes of commercial bank income formation, strategic directions for revenue growth, and the effective use of digital transformation and capital market opportunities.

REVIEW OF LITERATURE ON THE SUBJECT

The issue of increasing commercial bank revenues, ensuring their stability, and maintaining a high level of profitability remains one of the most relevant scientific problems at all stages of economic development. Effective income management in the banking system is becoming increasingly important in the context of volatility in global financial markets, intensifying competition, the development of fintech technologies, and the continuous expansion of customer segments. Therefore, scientific approaches, theoretical schools, international experience, and reforms implemented in the national banking sector aimed at increasing commercial bank revenues form a solid scientific and theoretical foundation for this study.

International academic literature has extensively examined the factors that directly affect the growth of commercial bank revenues. In particular, studies by scholars from developed countries emphasize that forming an optimal balance between interest and non-interest income, diversifying income sources, expanding the range of services, improving risk management strategies, and enhancing the efficiency of asset and liability management are key determinants of revenue growth. In addition, the integration of financial markets, liquidity management, credit portfolio quality, and interest margins have been scientifically proven to have a significant impact on the pace of revenue growth.

The systemic reforms being implemented in the banking system of Uzbekistan—such as the development of capital markets, the expansion of corporate bond issuance, the introduction of digital financial services, deeper diversification of banking products, and the improvement of risk management systems—are recognized as important institutional factors contributing to increased commercial bank revenues. Studies conducted by local scholars also demonstrate a particular focus on expanding income sources, increasing the share of non-interest income, and analyzing the impact of service innovation on profitability. Consequently, the literature review serves to reveal the theoretical foundations of increasing commercial bank revenues, to synthesize international and domestic scientific approaches, and to identify the dynamics of the development of existing academic views in this field.

In particular, A. Saunders and M. Cornett emphasize that risks affecting bank revenues—credit, liquidity, and market risks—are closely interrelated with profitability [2]. F. Mishkin scientifically substantiates that the stability of bank revenues determines the effectiveness of monetary policy [3]. The works of P. Rose and S. Hudgins extensively highlight the role of service diversification in increasing bank revenues [4]. R. Levine argues that the development of the banking system is a key driver of economic growth [5]. A. H. Demirgüç-Kunt and H. Huizinga note that internal governance indicators and macroeconomic factors have a significant impact on bank profitability [6]. A. Berger and C. Bouwman provide empirical evidence that proper liquidity management is a crucial factor in ensuring income stability [7]. P. Athanasoglou, M. Delis, and C. Staikouras identify interest margins, cost management, and credit portfolio quality as the strongest determinants of profitability [8]. Among local scholars, A. Karimov scientifically demonstrates that banking reforms have a strong positive effect on

1 <https://lex.uz/docs/6972970>

expanding income sources [9]. Another local researcher, N. To'laganova, examines the strategic impact of non-interest income on bank stability [10].

Overall, existing academic research confirms that the processes of forming and managing commercial bank revenues are influenced by a complex set of factors, including risk management, diversification, macroeconomic conditions, asset quality, liquidity, interest rate policy, and managerial efficiency. Therefore, optimizing the income structure remains one of the most important strategic priorities of modern bank management.

RESEARCH METHODOLOGY

In preparing this article, regulatory and legal documents, referenced literature, and internet-based sources were used, with particular attention paid to their official status. In addition, the scientific and theoretical views of economists relevant to the topic were subjected to comparative and critical analysis. During the study, alongside general economic methods, system analysis, generalization, abstract-logical reasoning, and statistical methods were applied.

ANALYSIS AND RESULTS

An analysis of the main financial indicators of commercial banks based on the results of their activities in 2024 provided a clearer picture of the factors influencing bank revenue formation and existing constraints. In particular, the return on banking system assets declined, and as of January 1, 2025, the ratio of net profit before tax to total assets amounted to 1 percent. This indicator decreased by 1 percentage point compared to the beginning of 2024. Despite the decline in profitability, the 18 percent annual growth in total bank assets indicates that revenues are not increasing at a sufficient pace during the asset expansion process. The reduction in net profit was significantly influenced by a 41 percent increase in reserves created to cover losses on the loan and leasing portfolio.

Changes observed in the quality of the bank loan portfolio also have a direct impact on profitability dynamics. As of January 1, 2025, the share of substandard and non-performing loans in total loans reached 21 percent, representing an increase of 1 percentage point compared to the previous year. This growth necessitates higher provisioning by banks due to increased credit risks and deteriorating asset quality. As a result, the profitability burden has intensified, leading to a decline in net profit.

At the same time, the resilience of the banking system to risks improved significantly in 2024. The liquidity coverage ratio reached 194 percent, increasing by 29 percentage points compared to 2023. The net stable funding ratio also rose by 4 percentage points to 115 percent. The capital adequacy ratio remained above the established minimum requirements and stood at 17 percent as of January 1, 2025. These indicators demonstrate that banks possess financial stability, resilience to shocks, and sufficient capital capacity to support revenue growth (Figure 1).

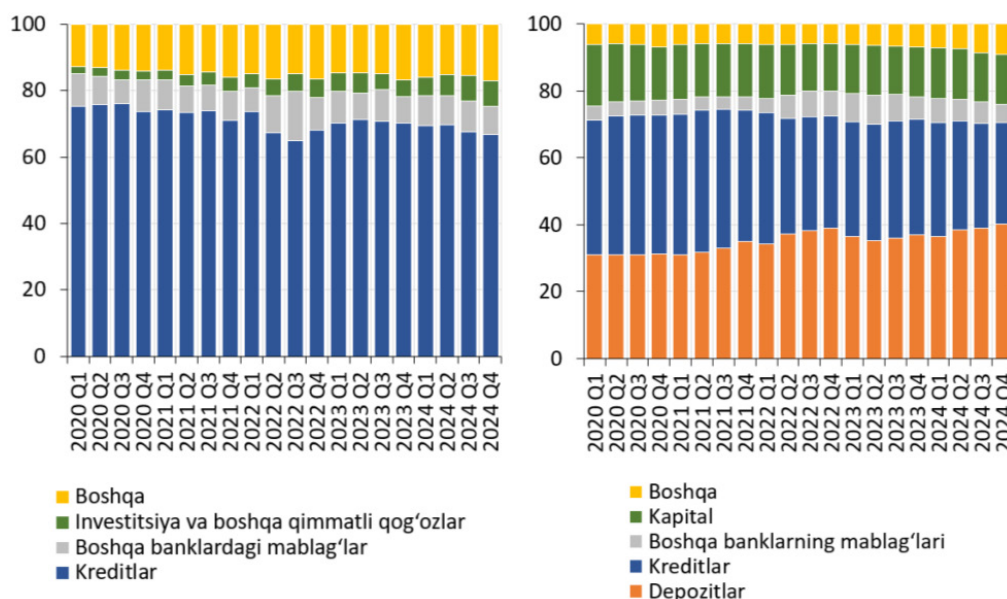


Figure 1. Decomposition of Commercial Bank Assets and Sources of Financing²

² <https://lex.uz/docs/6972970>

Loans remain the primary source within the income structure. As of January 1, 2025, total assets of the banking system amounted to UZS 769 trillion, of which 67 percent consisted of loans. This confirms that lending activity continues to be the main revenue driver for banks. At the same time, the share of investments and the securities portfolio in total assets reached 16 percent, indicating expanding opportunities for banks to diversify their income sources.

Within the structure of banking system liabilities, the growing share of deposits has a positive effect on the stability of the resource base. In 2024, the share of deposits attracted by banks in total liabilities increased by 3 percentage points, reaching 40 percent. This strengthened the role of deposits as a low-cost and stable source of funding. Borrowed funds remain one of the key financing sources for banks, accounting for 31 percent of total liabilities. Overall, the analysis shows that although credit portfolio quality issues, rising provisions, and increasing interest expenses constrain profitability, improvements in liquidity, capital adequacy, and the expansion of the resource base are creating the necessary macro- and microeconomic conditions for increasing bank revenues. These trends require, in developing revenue growth strategies, a stronger focus on credit risk management, enhanced diversification processes, and the effective use of stable funding sources.

The capital adequacy of commercial banks is directly linked to their ability to increase revenues. Based on the results of 2024, capital adequacy indicators remained above the minimum regulatory requirements, demonstrating banks' financial stability and their capacity to absorb additional risks. The capital adequacy ratio for the banking system and systemically important banks amounted to 17.4 percent and 16.8 percent, respectively, indicating sufficient risk coverage capacity. The Tier 1 core capital adequacy ratio at the level of 14.3 percent further confirms the stability of banks' high-quality capital. At the same time, the widening dispersion of capital adequacy indicators in 2024 reflects uneven capital distribution within the banking system (Figure 2).

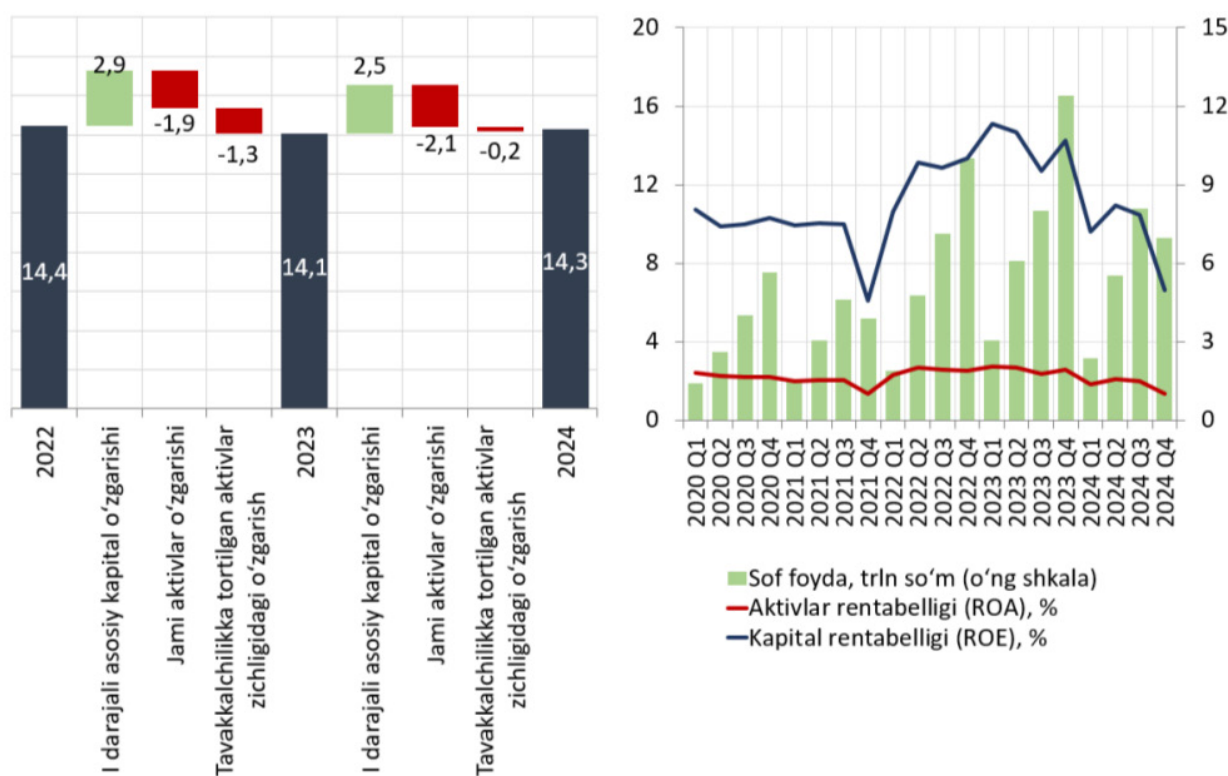


Figure 2. Distribution of Changes in the Tier 1 Core Capital Adequacy Ratio and Profitability Indicators of the Banking System³

The risk level of bank assets remains high. At the end of 2024, the share of risk-weighted assets accounted for 93 percent, indicating a high level of risk acceptance by banks. The fact that this indicator is higher than in Central Asian and Caucasus countries reflects the predominance of prudential, risk-based regulatory procedures in Uzbekistan. At the same time, the profitability of risk-weighted assets at 1.4 percent signals a decline in the income-generating potential of bank assets. In 2024, a clear downward trend in the profitability indicators of the banking system was observed. Net profit amounted to UZS 7 trillion, decreasing by 44 percent

3 <https://cbu.uz/uz/financial-stability/report/> sayti ma'lumotlari

compared to 2023, which resulted in a return on equity (ROE) of 6.6 percent. Return on assets (ROA) also continued its downward trend, reaching 1.4 percent by the end of 2024. A 21 percent increase in operating expenses and a 45 percent rise in provisions for expected losses on assets were the main factors behind the decline in profitability.

The stable funding capacity of the banking system (NSFR) demonstrated positive dynamics. In 2024, the system-wide NSFR reached 115 percent, increasing by 4 percentage points compared to the previous year. For systemically important banks, the NSFR stood at 114 percent, while the median value of 124 percent indicates disparities in funding stability among banks. A significant increase was also observed in the liquidity coverage ratio (LCR), which reached 194 percent system-wide in 2024; for systemically important banks, the indicator amounted to 193 percent. This suggests that banks remain resilient to short-term liquidity pressures.

The increase in high-quality liquid assets further strengthened banks' operational stability and their potential to increase revenues. By the end of 2024, the share of such assets in total assets reached 17.3 percent, up by 2.5 percentage points compared to 2023. A key contributing factor was the expansion of the government securities portfolio by UZS 20 trillion.

The growing share of retail lending within the loan structure indicates progress in credit portfolio diversification. By the end of 2024, 33 percent of total loans were granted to individuals, representing a 2 percentage point increase compared to the previous year. Loans to legal entities accounted for 67 percent of total lending. The ratio of loans to legal entities and individuals to GDP stood at 24 percent and 12 percent, respectively, highlighting the role of lending in the economy.

While the ratio of loans to GDP in Uzbekistan is higher than in neighboring countries, the share of deposits in total liabilities remains relatively low. As of January 1, 2025, deposits accounted for 47 percent of total liabilities, which is below the regional median. This indicates the need for commercial banks to expand their stable and low-cost funding base.

Overall, these indicators confirm that, in developing strategies to increase commercial bank revenues, priority should be given to asset quality, risk management, efficient liquidity allocation, expansion of stable funding sources, and diversification of the loan portfolio.

Each type of banking activity differs depending on the role the bank plays in a given operation. Some of the activities discussed above fall under asset operations, while others are classified as liability operations. Income generated from each activity varies accordingly. Revenue from asset operations constitutes the main share of total bank income.

CONCLUSIONS AND SUGGESTIONS

The results of the conducted study indicate that commercial bank revenues are formed through a combination of interest and non-interest income, and their stability represents a key factor determining the overall efficiency and financial soundness of banking operations. Revenue formation mechanisms are closely linked to credit risk, interest margins, liquidity conditions, diversification of banking services, asset quality, management efficiency, and macroeconomic factors.

An analysis of empirical data shows that in 2024 the growth in loans and deposits strengthened banks' resource bases: household deposits increased by 42 percent, while loans to individuals rose by 20 percent. The 18 percent growth in net interest income reflects the effectiveness of interest rate policy; however, a 35 percent increase in interest expenses and a 36 percent decline in pre-tax profit negatively affected bank profitability. A significant rise in provisions for expected credit losses also became one of the main reasons for the decline in net profit.

The return on assets declined to 1.4 percent in 2024, while return on equity (ROE) stood at 6.6 percent. The share of risk-weighted assets at the level of 93 percent indicates the persistence of a conservative approach within Uzbekistan's banking system. At the same time, capital adequacy ratios remaining well above the minimum regulatory requirements (17.4 percent system-wide) demonstrate that banks possess a sufficient capital buffer to generate additional income. Improvements in liquidity indicators (LCR at 194 percent and NSFR at 115 percent) confirm the strengthened capacity of banks to meet both short- and long-term financial obligations. The increase in the share of high-quality liquid assets to 17.3 percent further reinforced financial stability. The rise in the share of retail loans to 33 percent of the total loan portfolio and the ratio of loans to legal entities to GDP at 24 percent highlight the important role of lending in the economy. However, the relatively low share of deposits in total liabilities (47 percent), compared to regional peers, points to the need to expand the resource base.

Overall, the analysis confirms the high importance of credit portfolio quality, resource base stability, interest margin management, service diversification, risk management systems, liquidity optimization, and digital transformation in increasing commercial bank revenues. In this regard, it is advisable to improve the

following areas. First, increase interest income by improving credit portfolio quality through automated credit risk assessment, the development of scoring systems, strengthening comprehensive measures to reduce non-performing loans, and optimizing provisioning policies for expected losses. Second, expand the share of non-interest income by developing digital banking services (mobile banking, online payments, fintech integration), increasing the range of value-added services such as consulting, trading, and investment services, and strengthening monitoring of commission-based service pricing and profitability. Third, enhance the stability of the resource base by developing incentive mechanisms for attracting household deposits, increasing the share of long-term deposits, expanding strategic cooperation with corporate clients, and improving mechanisms for attracting low-cost funding from interbank markets and international financial institutions. Fourth, optimize interest margins by revising interest rate policies for asset and liability operations, reducing the cost of resources, and strengthening liquidity management. Fifth, stabilize income from foreign exchange operations by actively using hedging instruments in foreign exchange risk management and optimizing open currency positions. Sixth, reduce operating expenses through digitalization, process automation, optimization of branch networks, and centralization of service platforms. Seventh, diversify assets by expanding participation in securities markets, increasing income sources through corporate bond issuance, and optimizing investment portfolios. Eighth, enhance market competitiveness by developing innovative banking products, expanding cooperation with fintech companies, and designing customized financial solutions tailored to customer needs.

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