



Volume: 05 Issue: 01 | 2024 ISSN: 2660-454X

<https://cajitmfcentralasianstudies.org>

Forming the Profit of Commercial Banks in the Development of the Digital Economy

¹ Jakhongir Gadaev

Received 25th Nov 2023,
Accepted 30th Dec 2023,
Online 30th Jan 2024

¹ Assistant, Department of Finance,
Samarkand Institute of Economics and
Service, Samarkand, Uzbekistan

ABSTRACT: The article discusses the essence of profit of commercial banks, the importance of their formation and analysis of influence factors in the context of the digital economy. It also provides conclusions and recommendations on increasing the profit of commercial banks.

KEYWORDS: commercial bank, digital economy, digital banking, profit, net profit, profit, expense.

Introduction

Commercial banks are central to the financial market. It is through commercial banks that various financial services are provided to legal entities and residents. Therefore, it is important to build confidence in the banking system.

In his speeches, the President of our country emphasized the development of the banking system as one of the important issues. "We need to take drastic measures this year to develop the banking system... From 2020, a large-scale transformation program will be implemented in every bank. In this regard, increasing the capital, resource base and income of our banks will be in the center of our special attention" [1].

It is known that profit plays an important role in the market economy. Wherever financial relations are carried out in the activity of commercial banks, ideas about profit formation are put forward. The reason for every transaction in commercial banks is to make a profit.

Literature review

There are different opinions on the formation of profit in different economic literature. In most scientific works, profit is interpreted as the difference between revenues and costs.

British economist John Hicks, winner of the Nobel Prize, clarified this idea and recognized that profit is such an amount that a person can use in a certain period of time and at the end of this period he will have the same balance as at the beginning [2].

Russian scientists N.N. Selezneva and A.F. Ionova interprets it as "Profit is a monetary representation of the added entrepreneur's capital in relation to net income..."[3].

Also, N.F.Karimov defined profit as an economic category and revealed that it is a component of production relations related to the production and distribution of a part of the additional product and that it appears as a part of the newly created value [4]. That is, he focused not on the accounting size of the profit, but on the economic size.

Economist Sh.Abdullaeva states that the profit of commercial banks is the main indicator representing the final results of commercial banks [5]. If the commercial banks ended their activities with a profit or a loss - the loss is the sum remaining after deducting expenses, taxes and fees from all their income for this reporting period (month, quarter, year).

Main part

The net profit of commercial banks this year is a relatively stable source of their capital. In our opinion, it is necessary to consider the issue of including the net profit of the current year, which is currently included in the additional capital of commercial banks, in the main capital of commercial banks. Because the net profit of the bank for the current year is stable financing, and it is created after all mandatory payments have been made.

In the digital economy, it is important to provide financial services of commercial banks. We must admit that the concept of "digital bank" has been introduced recently. Looking at the data, it is said that a bank or its structural unit that provides remote banking services using innovative banking technologies (without providing cashier service) is a digital bank [6]. It is through the digital bank that various digital banking services are provided.

The profitability of commercial banks also depends on digital banking and innovative online services provided through digital banking. It is known that the income of commercial banks is divided into interest and non-interest income [5]. Interest income includes credit operations, interest on deposits, income on securities, etc., while non-interest income includes income from investments, various innovative services of banks, currency operations and other income. All this is related to the provision of quality and modern services of commercial banks (digital bank).

M.M. Ahamed emphasized the non-interest income and stated that "the more the banks' non-interest income, the more risk-free the bank's profit is" [7]. Through this, the bank recognizes the increase in investment income and innovative services.

The expenses of commercial banks are divided into interest-bearing, non-interest-bearing and other expenses. In the context of the development of the digital economy, the correct calculation of costs allows for the accurate assessment of bank assets, as well as covering costs, achieving profit, and the correct distribution of income for shareholders. In the assessment of costs, it should be considered as the main factor in determining the interest rates of loans. In practice, it is observed that the main part of the bank's income is spent on interest expenses, covering losses on loans, paying taxes, and increasing the expected profit.

In the formation of the profit of commercial banks, there are the following characteristic signs of profit:

- commercial banks direct the attracted funds to the activities of economic entities and receive profit from them in the form of interest;

- in the process of production of bank products, the transaction costs of commercial banks are fully covered by interest. It should also be said that here the profit of a commercial bank is taken into account as the difference between the interest received and the transaction costs.

The main goal of any business venture is to make a profit and increase it. An important task of commercial banks is to know all the factors affecting profit and to rationally manage the process of its formation.

Today, a number of digital banking services are implemented using advanced information technologies. Regardless of their location, banks provide services to customers at long distances through communication tools. Due to the progress in technological development, the effect of the geographical factor on the implementation of banking operations has decreased, and the volume of banking services is expanding.

The analysis shows that it is possible to observe that the financial result of commercial banks ends with a net profit. This can be seen in the case of Uzsanoatkurilishbank ATB (Table 1).

Table 1. Dynamics of financial results of "Uzsanoatqurilishbank" ATB, mln. soum

#	Indicators	2015	2016	2019
1.	Interest income	415843	480947	2516104
2.	Interest expenses	243989	287119	1458728
3.	Net interest income	171854	193828	1057376
4.	Assessment of possible losses on loans and leases	75074	89164	781662
5.	Net interest income after deducting reserve valuation	96780	104665	261322
6.	Interest-free income	251846	291937	1422129
7.	Interest-free expenses	48570	51272	184668
8.	Operating expenses	217237	247143	658282
9.	Net profit (loss) before income (profit) tax	79465	90614	840501
10.	Income (profit) tax credit (expense)	17880	19352	135975
11.	Net profit for the period	61585	71262	704526

Source: "Uzsanoatqurilishbank" ATB financial reports for the corresponding years - <https://uzpsb.uz/uz/for-investors/horaklik-va-yillik-hisobotlar/>

During the analyzed period, the interest income of "Uzsanoatkurilishbank" ADB in 2015 was 415,843 mln. amounted to 2,516,104 million soums by 2019, that is, compared to 2017, it increased by 6 times in 2019 and showed a sharp growth trend. This is confirmed by the increase in the provision for possible losses on loans and leases related to the increase in the portfolio of loans issued by the bank.

In addition, if we look at the net profit of the bank, it can be seen that the net profit has increased by 2019 compared to 2015 in the analyzed period. The main reason for such a change can be explained by the increase in income. From the data in the above table, it can be noted that operations related to interest income have a direct impact on the bank's net profit, that is, internal banking operations are also closely related to each other.

The fact that commercial banks are making a profit is realized at the expense of the loans given by them. By itself, the more loans you give, the more profit you can make. Documents on granting loans lag behind the processing of loans (in some cases, borrowers refuse to take loans). Therefore, it is important to fully digitize the process of issuing loans in the context of the digital economy. Digitization also requires a borrower (user) friendly interface (for example, the required type of service can be easily

found). Due to the simplicity of the loan process in developed countries, it is possible to get loans in 1-2 hours.

It should be said that profit is the final financial result of any commercial organization, including a commercial bank. It is influenced by various factors. These include:

- composition of the loan portfolio;
- amount of private capital;
- change of foreign exchange rate;
- change of taxation system;
- volume of bank asset transactions;
- amount of various interest, non-interest and other expenses, etc.

Taking into account the above factors, commercial banks should implement profit planning measures.

It is important to study the income and sources of commercial banks. Commercial banks should take measures to improve capital adequacy and liquidity, increase the bank's asset operations, expand the customer base, develop optimal tariffs for the customer and the bank, improve the management system and other areas in terms of income formation. It is also advisable to take measures to reduce non-performing assets.

Today's bankers prefer innovative digital services. Therefore, it is necessary to search for new types of operations that bring income to the commercial bank.

Conclusion

The main goal of any commercial entity, including a commercial bank, is to make a profit and strengthen it. An important task of commercial banks is to know all the factors affecting profit and to rationally manage the process of its formation.

Commercial banks should take measures to improve capital adequacy and liquidity, increase the bank's asset operations, expand the customer base, develop optimal tariffs for the customer and the bank, improve the management system and other areas in terms of income formation. It is also advisable to take measures to reduce non-performing assets.

In order to increase the profit of commercial banks in the digital economy, it is advisable to take the following measures:

- increase the efficiency of bank control by types of bank income;
- organization of new types of services in banks based on the principles of digital banking and increasing their attractiveness;
- in-depth study of the creditworthiness of customers, development of new assessment methods and, at the same time, taking measures to repay;
- to study the composition of interest and non-interest expenses, which affect the formation of profit, and to take appropriate measures, etc.

References

1. Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Oliy Majlis. //Halk suzi, 2020 йил 25 январь. 3-сон
2. Hicks J. R. The theory of uncertainty and profit //Economica. – 1931. – №. 32. – С. 170-189.

3. Nozimov, E. A., & Kholmirezayev, E. B. (2022). MAIN PROBLEMS OF THE BANKING SYSTEM OF THE REPUBLIC OF UZBEKISTAN. *Miasto Przyszłości*, 24, 143-145.
4. Селезнева Н.Н., Ионова А.Ф. Финансовый анализ. Управление финансами. Учеб. пособие для вузов – 2-е изд., перераб. и доп. –М.: ЮНИТИ-ДАНА, 2007 – с.159
5. Nozimov, E. A. (2021). The Role of Information Technologies in Innovative Development of Banks. *Journal of Marketing and Emerging Economics*.
6. Karimov N.F. Risklar va tijorat banklarining foydani shakllantirish muammolari: i.f.n. ilmiy darajasini olish uchun yozilgan dissertatsiya avtoreferati –Т.: 1998. – b. 16.
7. Абдуллаева Ш. Банк иши. Дарслик. – Т.: ТМИ, 2003.
8. Anvarovich, N. E. (2023). Economic Growth and Increasing Investment Attractiveness of the Region. *Central Asian Journal of Innovations on Tourism Management and Finance*, 4(11), 1-7.
9. <https://uz24.uz/economics/gzbekistonda-rauamli-bank-faoliyati-yglga-ugyiladi>
10. Ahamed M. M. Asset quality, non-interest income, and bank profitability: Evidence from Indian banks //Economic Modelling. – 2017. Т. 63. – С. 1-14.
11. Nozimov, E. A. (2020). Theoretical fundamentals of financial health of the enterprise. *Indonesian Journal of Innovation Studies*, 10.
12. Zaynalov, J. R., Ahrorov, Z. O., & ugli Akhadov, I. E. (2020). The Importance and Characteristics of Application of Blockchain Technologies in the Tax System. *ECLSS Online 2020a*, 297.
13. Lesta, R. D., & Ahrorov, Z. O. (2023, May). Boosting Stock Returns in Coal Mining: Key Strategies Revealed. In *International Conference on Intellectuals' Global Responsibility (ICIGR 2022)* (pp. 600-610). Atlantis Press.
14. Anvarovich, N. E. (2024). The Concept of Electronic Commerce and The Importance of Developing this Field in Uzbekistan. *EUROPEAN JOURNAL OF BUSINESS STARTUPS AND OPEN SOCIETY*, 4(1), 33-37.
15. Ходжимамедов, А. (2023). Рақамли трансформация шароитида инновацион банк хизматларидан фойдаланиш йўллари. *Economics and Innovative Technologies*, 11(1), 368-378.
16. Ходжимамедов, А. (2022). Банк тизими мисолида иқтисодий рақамлаштириш масалалари: https://doi.org/10.55439/ECED/vol23_iss3/a10. *Economics and education*, 23(3), 66-71.