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# **Essence and classification of internal bank operations in commercial banks of Uzbekistan**

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**ABSTRACT:** This paper examines essence and classification of internal bank operations. Internal bank operations are the main management concept, according to which banks are not only profit-oriented but also provide financial stability. The main objective of the paper is the analysis of the essence of internal bank operations as a source of competitive advantage, on the example of the selected commercial bank of Uzbekistan. In the paper, there are presented the basic assumptions of the concept of Classification of internal bank operations and there has been analyzed its impact on the final financial results and the results achieved by the selected bank of Uzbekistan.

**KEYWORDS:** Internal bank operations, financial stability, classification of operations, accounting methodology.

## **1. INTRODUCTION.**

The banking industry is critically important to national and global economies. Banks are vital to the operation of a country's domestic economy in their role as depository institutions and lenders to both corporations and individuals. After the disintegration of Soviet Union, 15 former Soviet Union countries established the Commonwealth of Independent States (CIS) in 1991. The majority of them faced an important issue, that is, how the financial system of the country can be regulated. It was, of course, the banking system. However, the banking system was based on socialistic conceptions. Hence, banks supposedly narrowed the range of bank services and especially performed transfer functions of government resources and attracted deposits.

In any economy, the financial sector is the engine that drives economic growth through the efficient allocation of resources to productive units. The legislated function of banks essentially implies a stable and efficient financial system that underpins intermediation process for economic growth and development of country. Hence, the stable banking system of the country provides the growth in various sectors of the economy rapidly. However, in most CIS countries, banks are regulated by the central bank of the country. For instance, the central bank of Uzbekistan controls and regulates the volume of credit through active cooperation of the banking system in the country. It helps in bringing price stability and promotes economic growth in the shortest possible period of time.

Commercial banks may regulate achieving balanced development in different regions of the country. They help in transferring surplus capital from developed regions to the less developed regions. The traders, industrialists etc of less developed regions, are able to get adequate capital for meeting their business needs. Subsequently, the volume of investments increases both in trade and production in the economy.

There is also the variety significance of banks, which creates a reliable basis to the economic development of the country. Development of commercial banking is a vast expansion of trade and industry. The use of bank draft, check, bill of exchange, credit cards and letters of credit etc has revolutionized both national and international trade.

Besides these, with the help of passive operations, banks accept deposits from individuals and businesses, these deposits are then made available to businesses which make use of them for productive purposes in the country. Usually, businessmen do not want to invest their money in risky enterprises. In this case, commercial banks generally provide short and medium term loans to entrepreneurs to invest in new enterprises and adopt new methods of production. The provision of timely credit increases the productive capacity of the economy.

Therefore, we may conclude that bank's stability is crucial for the economy of a country. In some cases, banks will go bankrupt, which seldom happens in many countries. This impacts the financial systems of the countries negatively. Hence, we should achieve stability of banks.

However, several factors influence to the stability of banks. We may classify them into four groups: political factors, economic factors, social factors and, of course, internal bank factors. In our research, we intend to do research on internal bank factors which can be managed by managers of banks. There are many tools which may influence to the stability of banks. But we ought to choose the most effective one on achieving stability of banks.

Actually, nowadays there are 31 commercial banks in Uzbekistan but about 15 banks have been opened and dissolved or merged since 1991. The majority of them are the result of poor managing of bank earnings. Hence, we need to manage internal bank operations to achieve stability of banks.

## II. LITERATURE REVIEW

The issues of internal bank operation', namely, the definition of internal bank operation and the recommendations on the classification of internal bank operations have been researched in scientific papers of such foreign scientists as K.N.Kursov, S.T.Mirjakipovo, T,SSelevanovo as well as domestic scientists R.D. Dusmurov, A.K. Ibragimov, N.F.Karimov, Z.T. Mamatov. However, in the process of studying internal bank operations and their classifications, we determined that internal bank operations are less researched and not grouped field of bank accounting.

According to Kursov K.N. "internal bank operations is accounting of fixed assets, low value and fast-wearing items, household materials." Here, we consider that Kursov K.N. did not include accounting of income and expenses of banks.

Mirjakipova S.T. defines internal bank operations as "accounting of debtors and creditors" In our opinion the view of Mirjakipova S.T. implies fragment of the significance of internal bank operations.

Having considered and generalized all these opinions it should be noted that internal bank operations includes the following operations: accounting of fixed assets, intangible assets, low value and fast-wearing items, salary, taxes, income and expenses. These operations indirectly affect the provision of banking services. However it directly affects the financial result of banks. The operations that are associated with the income of the bank can be divided into the following groups:

1. operations are related to interest income;
2. operations are related to noninterest income;
3. operations are related to other income;

Nowadays, interest income has a significant share than noninterest income. The main reason is that banks focus on the financing of investment projects. This in turn supports the government in the implementation of government projects. Besides, accounting of internal bank operations impact to stability of commercial banks by managing correctly and expediently internal bank operations

## III. ANALYSIS.

As we have said, the main task of the internal bank operations is to ensure stable growth of the commercial banks. In this will help us a direct impact to the profit of the bank. Below we present information about incomes and profit of National Bank of Uzbekistan in 2013-2017yy.

**Data of incomes and profits of National bank of Uzbekistan in 2013-2017yy**

Years	Profit (Y)	Interest income (X1)	Noninterest income(X2)	Total income (X3)
2013	102 181,00	383 688,00	312 283,00	695 971,00
2014	114 363,00	451 205,00	312 937,00	764 142,00
2015	140 085,00	590 296,00	400 411,00	990 707,00
2016	172 810,00	763 467,00	395 262,00	1 158 729,00
2017	2 150 607,00	1 389 969,00	3 315 510,00	4 705 479,00

Using the tables above we present a correlation analyses the relationship between income and profit of the bank.

$$r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum(X - \bar{X})^2 \sum(Y - \bar{Y})^2}}$$

Where:

$$\bar{X} = \frac{1}{n} \sum_{t=1}^n X_t, \bar{Y} = \frac{1}{n} \sum_{t=1}^n Y_t - \text{average value of sample}$$

Using correlation formulas we got the following results. According to correlation coefficient the relationship between interest income and net profits 0.94 what indicates related closely. It should be noted that correlation coefficient is 0.99 what demonstrates total income and profit related directly.

	y	x1	x2	x3
y		0,943345	0,999874	0,99696
x1			0,942623	0,966011
x2				0,996887

#### IV. CONCLUSION AND RECOMMENDATIONS

From our point of view the improvement the theoretical basis of internal bank operations because internal bank operations play vital role in creation data base which is valuable in making proper decision to provide stability. Considering scholar’s opinions and scientific research results we suggest following operations attribute to internal bank operations:

- ✓ accounting of fixed assets and intangible assets;
- ✓ accounting of low value and fast wearing items;
- ✓ tax accounting
- ✓ accounting of financial results;
- ✓ accounting of settlement with debtor and creditors.

Internal bank operations in terms of influence in banking services considered as operations serving in the creation bank services indirectly.

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