CLASSIFICATION OF THE QUALITY OF ASSETS, FORMATION AND EFFECTIVE MANAGEMENT OF LOSS COVER RESERVES IN COMMERCIAL BANKS

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Abstract: The process of classifying the quality of assets in commercial banks and forming reserves to cover losses is important in ensuring the financial stability of the bank. This process involves assessing the riskiness or safety of bank loans and other assets, anticipating potential losses, and setting aside sufficient reserves to cover them. When classifying the bank's assets, the client's financial condition, payment discipline and liquidity of the credit provision are taken into account. Reserve allocation practices reduce financial risks, protect bank capital from losses, and promote long-term sustainable development. Also, formation of reserves in accordance with international financial reporting standards ensures transparency and reliability of banking activities.

Keywords: Commercial banks, asset quality, asset classification, loss coverage, reserve formation, financial stability, loan portfolio, risk management, financial reporting, financial risk, credit provision, bank capital, financial audit, international standards , economic crisis, payment discipline, risk.

The process of classifying the quality of assets and forming reserves to cover losses in commercial banks is an important component of financial stability and risk management. This process includes determining the quality, risk level and probability of loss of the bank's loan portfolio and other assets. The reliability and stability of the bank's activity directly depends on the effectiveness of this process. Asset quality classification aims to assess how safe and profitable the loans and other financial instruments on the bank's balance sheet are. When assets are classified, they are divided into certain categories and the level of risk is determined for each category. This process allows the bank to pre-calculate potential losses and build financial reserves.

In commercial banks, the classification of asset quality and the formation of reserves to cover losses is an important practice for ensuring the stability of the financial system. This process is aimed at maintaining the bank's capital, managing risks and ensuring financial stability. Banks finance economic activities through various loans, investments and other assets. Determining the quality of these assets is necessary to assess the financial condition of the bank. The correct classification of asset quality determines how risky or safe the assets on the bank's balance sheet are and allows you to prevent future losses.

The bank's assets consist mainly of loans, investments, real estate and other financial instruments. In the process of determining the quality of assets, factors such as their maturity, payment discipline and the value of security collateral are taken into account. Financial accounting policy requires constant monitoring of bank assets, because the quality of assets can change over time. As the size of the bank's loan portfolio increases, its level of risk also increases. Therefore, the quality of assets is constantly reassessed and reserves are formed when necessary.

The process of formation of reserves is mandatory for commercial banks and it is necessary to cover possible losses in the banking activity. Reserves are reflected in the bank's balance sheet as a liability and help to realistically reflect the bank's financial position, taking into account possible losses. If the loans are at risk of non-repayment, necessary reserves are allocated for these loans. The amount of reserves is determined depending on the level of risk in the bank's loan portfolio.   Bank assets consist of loans, investments, funds, real estate and other instruments. These assets are evaluated based on their quality and risk. The asset quality classification process helps determine the quality of the loan portfolio and how safe it is. After classifying the bank's assets, the required amount of reserves are formed depending on their level of risk. Reserves act as a financial safety cushion to cover potential losses of the bank.

Factors that reduce the quality of assets include the deterioration of the client's financial condition, instability of the economic situation, negative trends in the market and violation of payment discipline. Banks determine the level of risk for each loan, taking into account these factors when granting loans. If the customer does not make timely payments on the loan, the quality of this loan will decrease and the bank will have to increase the reserve amount. The value of the property pledged as a loan guarantee is constantly evaluated by the bank. If the value of the collateral decreases, the bank is forced to allocate additional reserves for this loan.

Reserves formed to cover losses should reflect real risks in the loan portfolio and stabilize the bank's balance sheet. Reserve funds are used to cover losses in the loan portfolio, which reduces the negative impact on the bank's financial position. Allocation of reserves may have a negative impact on the bank's profitability in the short term, but in the long term it will help save the bank from a financial crisis. There are specific rules and standards for the formation of reserves in the activity of banks, which are determined by the Central Bank or the relevant financial regulator. Bank reserves should be clearly and transparently reflected in financial statements. This gives investors, customers and regulators a clear picture of the bank's financial position. Financial statements must comply with international standards and provide information on the bank's risk level, asset quality and reserves. Banks control the process of formation of reserves with the help of internal audit and external audit.

Proper management of reserves and constant monitoring of asset quality for commercial banks not only ensures the financial stability of the bank, but also strengthens the reliability of the entire banking system. This is necessary for the healthy development of the economy and the prevention of financial crises. In commercial banks, assets are classified according to the following main criteria:

Financial status of the client: The solvency and financial stability of the borrower are assessed.

Repayment period: Timely or delayed loan payments are taken into account.

Credit collateral: The liquidity and value of the collateral provided for loan repayment is taken into account.

Industry and Market Conditions: Economic conditions and trends in the borrower's industry are analyzed.

Asset quality classification and provisioning processes require accurate accounting and reporting. Banks implement these processes based on international financial reporting standards (IFRS) and national regulatory requirements. Reports should provide complete and accurate information about the bank's financial condition and risks. In commercial banks, the classification of asset quality and the formation of reserves to cover losses play an important role in ensuring the financial stability and reliability of the bank. This process allows to identify risks, pre-estimate and prevent financial losses. Effective provisioning strengthens the confidence of the bank's customers and investors and serves the long-term sustainable development of the bank.

The process of classifying the quality of assets and forming reserves to cover losses in commercial banks is complex, but it is considered necessary for the stability of the banking system. This process is closely related to the lending activities of banks and is aimed at managing financial risks and ensuring financial stability. In the lending process, which is the main activity of banks, there is always a certain level of risk. Situations such as the probability that borrowers will not repay loans on time, economic crises, and changes in the financial situation can reduce the quality of bank assets. Therefore, it is necessary for banks to constantly evaluate the quality of assets in their activities.

One of the main tasks of asset quality classification is to determine the level of riskiness of loans and other financial instruments reflected in the bank's balance sheet and to divide them into certain categories depending on the level of risk. This process is an important part of banks' financial risk management strategy. In the process of classifying the quality of loans, the customer's financial condition, debt repayment discipline, credit provision and market conditions are usually taken into account.

In the process of formation of reserves, banks take into account such factors as the main amount of the loan, interest and payment period. The risks of the credit portfolio are always analyzed and the required amount of reserve is allocated. The bank must increase the amount of reserves if the customer's loan repayment discipline is violated or their financial condition deteriorates. This process helps reduce risks in the bank balance and prepare for possible financial losses. Reserves are used to cover losses arising from non-repayment of loans. If a bank does not properly build reserves, it can face serious losses in the event of a financial crisis.

In short, the process of classifying the quality of assets and forming reserves to cover losses in commercial banks is the main part of financial risk management. This process is important in maintaining the stability of the bank, reducing risks and ensuring the healthy development of the economy. Proper organization of this process by banks strengthens the reliability of the entire financial system.