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THE CURRENT STATE OF ENSURING THE PROFITABILITY OF COMMERCIAL BANKS AND FACTORS AFFECTING IT

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A B S T R A C T

This article comprehensively studies the current state of ensuring the profitability of commercial banks, the main sources that form it, and the internal and external factors that affect the financial results of the bank. It is based on the fact that the stable operation of commercial banks, strengthening their capital base, maintaining the level of liquidity and increasing their competitiveness in the financial market largely depend on their ability to generate sufficient and stable income. The research analyzes the composition of bank income, including interest and non-interest income, income from credit operations, investment activities, commission services, foreign exchange operations and other financial services.

K E Y W O R D S

Return on equity, loan portfolio, non-performing loans, bank assets, bank liabilities, financial stability, liquidity, capital adequacy, operating expenses, bank risks, digital banking services, income diversification, bank efficiency.

Introduction

The stable and effective operation of commercial banks in a market economy is directly related, first of all, to their sufficient income and ensuring financial stability. Bank income is an important financial source not only for covering the bank's current expenses, but also for strengthening its capital base, ensuring liquidity, introducing modern banking technologies, developing new financial services and increasing its competitiveness. Therefore, analyzing the current state of ensuring the profitability of commercial banks and identifying the factors affecting it is of particular importance in assessing the effectiveness of banking activities.

In the current environment, the formation of bank income is influenced by internal and external factors in a complex way. In particular, the volume and quality of the loan portfolio, interest margin, cost of resources, asset structure, level of problem loans, volume of commission services, operating expenses, adequacy of bank capital and effectiveness of risk management are among the main internal factors affecting bank profitability. At the same time, macroeconomic factors such as the level of inflation, the monetary policy of the Central Bank, refinancing conditions, changes in exchange rates, economic growth rates and the competitive environment in the financial market also have a significant impact on the financial results of banks.

The intensification of competition between banks and the rapid development of digital financial services are increasing the need to diversify sources of income. Along with traditional interest income, increasing the share of commission income, remote banking services, investment operations, foreign exchange operations and other non-interest income is becoming an important strategic task for banks. From this point of view, a comprehensive analysis of the current state of commercial banks' profitability, an assessment of its structural changes, identification of the main influencing factors and identification of opportunities for increasing profitability determine the relevance of this study. Such an analysis serves to ensure the effective use of bank resources, reduce financial risks and ensure the long-term stability of the banking system.

Material and methods

The study of the factors affecting the profitability of commercial banks and their effectiveness is one of the important scientific directions in the field of banking and finance. In the scientific literature, bank profitability is mainly studied on the basis of the interrelationship between the bank's internal financial indicators, the characteristics of the banking market and macroeconomic factors. In foreign studies, indicators such as return on assets (ROA), return on equity (ROE), net interest margin (NIM) and cost efficiency are considered as the main criteria for assessing bank profitability.

The study conducted by P. Bourke (1989) on the example of European, North American and Australian banks is one of the first important studies that comprehensively studied the internal and external factors affecting bank profitability. The author showed that the adequacy of bank capital, liquidity status, market concentration and macroeconomic conditions are of great importance in the formation of bank profits. At the same time, it was noted that banks with a relatively high position in the market have a greater ability to manage risks and ensure the stability of income.

P. Molyneux and J. Thornton (1992) analyzed the activities of banks in European countries and proved that the profitability of commercial banks is affected by the level of capital, market concentration, government economic policy and bank costs. The authors emphasize that rational cost management and effective use of capital in bank activities are important factors in achieving high profitability.

A. Demirgüç-Kunt and H. Huizinga (1999) conducted a comprehensive study based on data from banks in 80 countries and found that, in addition to the specific characteristics of the bank, the macroeconomic environment, tax policy, deposit insurance system, development of the financial market and the legal and institutional environment also significantly affect bank profitability. The results of the study show that it is not enough to assess bank profitability based on internal financial indicators alone, but it is also necessary to take into account external economic and institutional factors.

P.P. Athanasoglou, S.N. Brissimis and M.D. Delis (2008) divided the factors affecting bank profitability into three groups - bank-specific internal factors, banking sector-specific factors and macroeconomic factors. Their study found that bank-specific indicators such as operational efficiency, capital, credit risk and asset management have a significant impact on profitability. They also noted that an increase in economic growth rates has a positive effect on bank profitability, while in the downturn phase of the economic cycle, pressure on bank profits increases.

A. Dietrich and G. Wanzenried (2011) studied bank profitability before and during the financial crisis based on data from 372 Swiss commercial banks. The authors show that the degree of influence of factors affecting bank profitability varies depending on economic conditions. In particular, it is argued that asset quality, funding costs, capitalization and operational efficiency become more important in conditions of financial instability.

E. Menicucci and G. Paolucci (2016) in their empirical study of European banks studied the impact of bank size, capital level and credit risk on profitability. The results of the study showed that the level of capitalization is an important positive factor of bank profitability, while an increase in the volume of reserves allocated for possible losses on loans reduces bank profits. This indicates that managing the quality of the loan portfolio is one of the priority tasks in ensuring bank profitability.

In studies conducted on the banking system of Uzbekistan, special attention is also paid to factors affecting bank profitability. O. Isakov's study, based on data from 32 commercial banks operating in Uzbekistan in 2017–2021, found that bank profitability is largely determined by the bank's internal financial indicators. In particular, the ratio of loans to deposits, asset utilization efficiency, and resource management were assessed as important factors affecting the bank's financial results.

M. Anvarova and O. Isakov (2022) studied the impact of state ownership on bank profitability using the example of Uzbek commercial banks. The authors considered the form of ownership, the bank's market position, and bank-specific financial factors as important indicators determining profitability. This approach indicates the need to separately assess the profitability of state-owned and private banks in the Uzbek banking system.

Sh. Khannaev (2025) assessed the performance of Uzbek commercial banks for 1999–2023 using the stochastic frontier analysis (SFA) method. According to the results of the study, although the profit efficiency of banks had a long-term growth trend, it decreased during the global financial crisis and the pandemic. Also state, private and foreign capital It was found that there are differences in the profitability of banks participating in the study.

Based on the generalization of the above scientific studies, the factors affecting the profitability of commercial banks can be conditionally divided into three groups: first, internal factors specific to the bank - capital adequacy, asset quality, loan portfolio, cost of resources, liquidity, operating costs and management efficiency; second, banking market factors - the level of competition, market concentration, ownership form and the degree of diversification of banking services; third, macroeconomic factors - economic growth, inflation, interest rates, exchange rate and monetary policy. At the same time, the existing studies have not sufficiently studied the structural changes in the income of commercial banks of Uzbekistan, the ratio of interest and non-interest income, the impact of digital banking services on profitability, the relationship between operating costs and income, and the impact of credit risk on net profit in a single comprehensive system. Therefore, it is scientifically and practically relevant to conduct a comprehensive analysis of the current state of profitability of commercial banks based on indicators such as ROA, ROE, net interest margin, share of non-interest income, and cost/income ratio, and to identify the factors influencing them.

Analysis and results

Assessing the current state of profitability of commercial banks allows us to determine the financial stability of the banking system, the efficiency of asset use, and whether banks are generating sufficient financial results in relation to the risks they assume. In this regard, it is important to analyze the changes observed in the income and expenses, net profit, and profitability indicators of the banking sector of Uzbekistan.

According to the Central Bank of the Republic of Uzbekistan, as of July 1, 2026, the interest income of the banking sector amounted to 71,792 billion soums, while in the corresponding period of 2025 this indicator was 60,178 billion soums. As a result, interest income increased by 11,614 billion soums or

19.3% over the year. At the same time, the interest expenses of banks increased from 42,071 billion soums to 51,513 billion soums, or 22.4%. This indicates that the growth rate of interest income is relatively lower than the growth rate of interest expenses. Nevertheless, the interest margin increased from 18,107 billion soums to 20,279 billion soums, or 12.0 percent.

Table 1 Key profitability indicators of the banking sector of Uzbekistan

Indicators	01.07.2025	01.07.2026	Change, %
Interest income, billion soums	60 178	71 792	+19,3
Interest expenses, billion soums	42 071	51 513	+22,4
Interest margin, billion soums	18 107	20 279	+12,0
Non-interest income, billion soums	32 898	52 155	+58,5
Non-interest expenses, billion soums	11 774	16 348	+38,8
Operating expenses, billion soums	13 229	16 828	+27,2
Net non-interest income, billion soums	7 896	18 979	+140,4
Earnings before tax, billion soums	7 880	12 542	+59,2
Net profit, billion soums	6 508	10 993	+68,9
ROA, %	2,0	2,6	+0,6 ф.п.
ROE, %	10,8	15,5	+4,7 ф.п.

The results of the analysis show that the growth of non-interest income in the structure of the banking sector's income is of particular importance. If on July 1, 2025, non-interest income amounted to 32,898 billion soums, then on the same date in 2026 they reached 52,155 billion soums. This indicator increased by 58.5% in a year. Non-interest expenses increased by 38.8%. As a result, net non-interest income increased from 7,896 billion soums to 18,979 billion soums, or almost 2.4 times. This situation indicates that the process of diversifying sources of income in commercial banks is intensifying. In particular, the expansion of settlement operations, bank cards, money transfers, currency operations, guarantees, letters of credit, digital banking services and other commission services is contributing to the growth of non-interest income. The decrease in banks' dependence on interest income from credit operations alone will allow them to increase the stability of their total income base.

At the same time, operating expenses increased from 13,229 billion soums to 16,828 billion soums, or 27.2 percent, during the analyzed period. This indicator can be explained by the fact that banks are spending more on branch networks, information technology infrastructure, personnel costs, cybersecurity, software, and digital platforms. Therefore, it is an important task for banks to simultaneously optimize operating expenses while increasing income.

The dynamics of net profit is of particular importance in analyzing the financial results of the banking sector. At the end of the first half of 2025, the net profit of the banking sector amounted to 6,508 billion soums, while in the corresponding period of 2026 this indicator reached 10,993 billion soums. That is, net profit increased by 4,485 billion soums, or 68.9 percent. Profit before tax also increased from 7,880 billion soums to 12,542 billion soums, or 59.2 percent. This result indicates that the growth rate of income in the banking system has a positive impact on the final financial result.

Return on assets - ROA and return on equity - ROE play an important role in assessing bank profitability. On July 1, 2025, ROA in the banking system was 2.0 percent, while on July 1, 2026 it reached 2.6 percent. This means that the amount of net profit per 100 soums of bank assets has increased. During this period, ROE increased from 10.8 percent to 15.5 percent. Thus, the efficiency of using banks' equity capital has improved significantly.

Also, the ratio of net interest income to total assets increased from 4.2% to 4.8%, the ratio of net interest income from loans to total loans from 6.3% to 7.6%, and the ratio of net interest income to total liabilities from 5.0% to 5.7%. The ratio of interest margin to total assets also increased from 4.5% to 5.1%. These indicators indicate that the efficiency of banks' management of asset and liability operations is improving. However, it is necessary to take into account the risk factor when assessing the growth of banks' profitability. In the first half of 2026, reserves formed for possible losses on loans and leasing operations amounted to 18,878 billion soums, an increase of 42.3% compared to 13,262 billion soums in the corresponding period of 2025. The cost of assessing potential losses not related to credit increased from 4,861 billion soums to 7,839 billion soums. This indicates the need for constant monitoring of costs related to credit risk and asset quality, despite the high growth in the income and profit of the banking sector.

Based on the analysis, the main factors affecting the profitability of commercial banks can be summarized in the following areas: the volume and quality of the loan portfolio; the value of deposits and other attracted resources; the spread between interest rates; the scope of interest-free and commission services; the composition of bank assets; the level of problem loans; operating expenses; the level of use of digital technologies; capital adequacy and effective management of assets and liabilities.

Based on the results of the analysis, it can be noted that the current state of ensuring profitability in commercial banks of Uzbekistan is characterized by a positive trend. In particular, the increase in net profit by 68.9 percent, ROA from 2.0 percent to 2.6 percent, and ROE from 10.8 percent to 15.5 percent indicates an improvement in the financial efficiency of the banking system. At the same time, the increase in non-interest income by 58.5 percent indicates that banks are expanding their opportunities to diversify their sources of income. From this point of view, in order to ensure sustainable growth in the profitability of commercial banks in the future, it is advisable to improve the quality of the loan portfolio, expand the base of low-cost and stable resources, increase the share of non-interest income, develop digital banking products, optimize operating expenses, and use risk-adjusted profitability indicators. These measures are not limited to increasing the short-term profit of banks, but also to serves to ensure financial stability and competitiveness.

Conclusion

The conducted analyses showed that ensuring the profitability of commercial banks is one of the important criteria for the effectiveness of banking activities. Bank profitability is closely related not only to the amount of profit received, but also to the efficiency of asset and capital use, the cost of resources, the quality of the loan portfolio, the level of operating expenses and the risk management system. The results of the analysis showed that in recent years, the banking system of Uzbekistan has been experiencing an increase in interest and non-interest income, an increase in net profit, and an improvement in the indicators of asset and capital profitability. In particular, the rapid growth of non-interest income indicates that the process of diversifying sources of income in banks is intensifying. This allows commercial banks to reduce their dependence on interest income received only from credit operations and increase the stability of the income base. At the same time, the growth of interest expenses, operating expenses and provisions for possible losses on loans indicates the presence of factors that can negatively affect the profitability of the bank. Therefore, banks should pay priority to optimizing the cost of resources, reducing the share of problem loans and improving the quality of assets. Based on the results of the study, it is advisable to diversify the loan portfolio, widely attract low-value deposit resources, increase the scope of commission and digital services, automate operational processes and optimize costs in order to increase the profitability of commercial banks. It is also necessary to widely use risk-adjusted profitability indicators, along with ROA, ROE and net interest margin, in assessing bank performance. In general, to ensure sustainable growth in the profitability of commercial banks, it is important not to mechanically increase the volume of income, but to improve its quality, form stable and diversified sources of income, effectively manage assets and liabilities, and minimize financial risks. The systematic implementation of these measures will serve to ensure the financial stability, competitiveness, and long-term development of commercial banks.

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