

ANALYSIS OF INCOME AND EXPENSES OF A COMMERCIAL BANK**Sharipova Nigina Djurakulovna****Teacher of Samarkand Institute of Economics and Service**

Annotation. This work explores the financial performance evaluation of a commercial bank through the analysis of its income and expenses. It highlights the main sources of bank income, including interest and non-interest revenues, as well as common expenditure categories such as interest payments, operational costs, and loan loss provisions. The analysis serves as a tool for identifying profit drivers, detecting inefficiencies, improving risk management, and supporting strategic financial decisions. It also contributes to transparency, regulatory compliance, and long-term sustainability. Overall, this study emphasizes the importance of financial analysis in maintaining a bank's competitiveness and stability in a dynamic economic environment.

Keywords. Commercial bank, income analysis, expense analysis, financial performance, interest income, operational efficiency, profitability, cost management, loan loss provisions, net interest margin, financial ratios, risk management, banking strategy, regulatory compliance, financial sustainability.

The analysis of a commercial bank's income and expenses is a fundamental process that helps evaluate the bank's financial condition and efficiency. It allows for a deeper understanding of how the bank earns revenue, manages its costs, and sustains profitability over time. Commercial banks generate income mainly through interest earned on loans provided to individuals, businesses, and institutions. This is known as interest income and forms the core revenue stream. In addition to this, banks also earn non-interest income, which includes service fees, commissions, card transaction charges, ATM usage fees, and gains from foreign exchange or trading activities. Another important source is investment income, which comes from investments in securities, government bonds, and other financial assets.

On the other hand, expenses represent the costs a bank incurs to operate its business. The largest portion of expenses usually comes from interest paid on customer deposits and borrowings, which is called interest expense. Operating expenses such as employee salaries, office rent, utility payments, IT systems, and administrative costs also take up a significant share. Additionally, banks allocate funds for loan loss provisions to cover possible defaults or non-performing loans. Depreciation of fixed assets like buildings and equipment is also considered part of total expenses. To evaluate how well a bank is performing, financial specialists analyze the relationship between

income and expenses. This involves measuring profitability, efficiency, and risk. Key indicators often include net interest margin, return on assets, return on equity, and the cost-to-income ratio. A healthy bank typically shows a stable income structure, controlled expenses, and strong returns.

The main purpose of this analysis is to identify opportunities for income growth, manage and reduce unnecessary costs, and support strategic planning. It helps bank managers make informed decisions, improves operational effectiveness, and ensures long-term financial stability. Investors and regulators also rely on this analysis to assess the bank's performance and compliance with financial standards. Beyond measuring basic financial performance, income and expense analysis also reveals the internal strengths and weaknesses of a commercial bank. It provides a clear view of how resources are being allocated and whether financial strategies are aligned with the bank's long-term objectives. A detailed examination of income streams can highlight which services or products generate the highest returns, allowing the bank to focus on its most profitable segments.

Similarly, analyzing expenses helps uncover inefficiencies within operations. Rising operational costs without a corresponding increase in revenue may signal poor resource management or outdated systems. Such findings can lead to cost-cutting measures, process optimization, or investments in digital infrastructure to enhance productivity. Understanding expense trends also enables the bank to anticipate future financial pressures and adjust its strategies accordingly. Another critical aspect of this analysis is its role in risk management. For example, a sudden increase in loan loss provisions might indicate a growing credit risk within the bank's loan portfolio. By monitoring these changes, management can tighten lending criteria, improve credit assessment procedures, or shift focus to lower-risk lending activities. This approach helps protect the bank from financial instability and ensures the security of customer deposits.

Moreover, regulatory bodies closely observe a bank's financial reports to ensure transparency, accountability, and compliance with laws and industry standards. Through regular analysis, banks can maintain accurate reporting and build trust with regulators, investors, and clients. A well-documented income and expense structure reflects a stable institution that manages its assets and liabilities responsibly. The analysis also supports budgeting and forecasting. Historical financial data provides the basis for projecting future earnings, planning investments, and preparing for potential market fluctuations. This allows bank executives to set realistic goals and develop contingency plans for uncertain economic conditions. A reliable financial forecast enhances confidence among stakeholders and supports sound business planning.

In a competitive environment, maintaining a favorable income-to-expense ratio is vital. Banks that consistently manage their finances effectively can offer better services, lower fees, and more attractive interest rates, thereby gaining a competitive edge. They are also better positioned to innovate, expand, and meet the changing demands of clients in a dynamic financial landscape. Analyzing these income and expense items helps management and stakeholders assess:

- Profitability: Whether the bank is making enough return on its assets and equity;
- Cost control: How efficiently the bank manages operating costs relative to income;
- Risk exposure: How much income is at risk due to loan defaults, interest rate changes, or market volatility;
- Strategic position: Whether the bank is focused on lending, fee-based services, or investment activities.

The analysis of income and expenses in a commercial bank is one of the core tools used in financial management and decision-making. It helps the bank understand how effectively it generates income, manages costs, and sustains profitability under different market conditions. The primary source of income for most commercial banks is interest income, which comes from loans issued to individuals, businesses, and institutions. This includes personal loans, mortgages, business loans, and credit lines. The interest rate charged on these loans is typically higher than the rate paid on deposits, allowing the bank to earn a net interest spread. In addition to interest income, banks earn non-interest income, which includes service charges, ATM fees, account maintenance fees, foreign exchange commissions, and income from selling financial products such as insurance or mutual funds. Trading income and investment income also fall under this category, especially for banks involved in capital markets.

Some banks, especially large or universal banks, have diversified income structures where non-interest income may equal or exceed interest income, helping reduce dependency on lending activities. Expenses for banks fall into several categories. The largest is usually interest expense, which includes interest paid on customer deposits, interbank loans, bonds issued by the bank, and other forms of borrowing. Next are operational expenses, such as staff salaries and benefits, rent, utilities, marketing, IT systems, and equipment.

Banks with large branch networks usually have higher fixed costs compared to digital or branchless banks. Provision for loan losses is another critical expense. Banks must estimate and set aside a portion of their earnings to cover expected losses from bad loans or defaults. This directly affects net income and signals the credit risk environment the bank is facing. Modern banks increasingly use data analytics and financial modeling to conduct income and expense

analysis. Artificial intelligence and automation are helping banks analyze large volumes of transaction data in real time, detect anomalies, and improve forecasting accuracy.

This also supports compliance with international financial reporting standards (IFRS) and Basel requirements. Banks often compare their income and expense profiles with peers to benchmark performance. Ratios like efficiency ratio, NIM, or ROA are useful for identifying whether a bank is over- or under-performing compared to competitors. This information is critical for investors and credit rating agencies.

Finally, income and expense analysis contributes to overall strategic development. It helps define priorities, measure progress toward financial goals, and align daily operations with the broader mission of the bank. This process is not just about numbers; it's about understanding the story behind those numbers and using that insight to guide smarter, more effective decisions. In conclusion, the analysis of income and expenses is a crucial tool in the financial management of a commercial bank. It not only reflects the bank's current financial position but also guides future improvements and sustainable growth.

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