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## FACTORS INFLUENCING CHANGES IN FINANCIAL RESULTS IN BANKING ACTIVITY

*The aim of the article is to formulate the multifaceted nature of banking activities, covering a wide range of services and processes designed to meet the financial needs of individuals, businesses and other legal entities. It is noted that the bank plays a decisive role in financial intermediation, directing funds from depositors to borrowers, thus contributing to the efficient distribution of financial resources in the economy. The following methods were used in the study: analysis of statistical data, observation of financial flows, comparative analysis of the dynamics of financial transactions by periods, systematization and generalization of banking operations on certain topics. An attempt was made to classify the implementation of the use of advanced technologies and analytical methods to improve lending, risk assessment, analysis of customer experience and general management of the loan portfolio in banking operations in Azerbaijan. It is noted that the factors under consideration can affect the profitability, liquidity and overall financial stability of the bank. Also, the results of the study can contribute to the effective operation of national banks in Azerbaijan. Summarizing the issues under consideration, the article notes that the banking industry in Azerbaijan is currently experiencing a revival, supported by a favorable economic climate and strategic improvements. It is noted that it is also important for a bank client to ensure the availability of a credit balance on his account in accordance with the rules for organizing short-term lending. Here, the only way to save on debt is for the borrower to have a bank deposit account. It is also noted that if the client does not have deposit funds in the bank and there is a debt on the balance at the end of the month, then regardless of the amount of the debt, the bank is obliged to stop lending until the loan is repaid. Thus, if there is a debt on the client's account at the end of the reporting month, the company cannot risk paying overdraft payments in the following month. It is emphasized that although the expected stable profit margin and intensive loan repayment activity will continue, the sector may face asset quality obstacles and a slowdown in loan expansion. It is recommended that successfully overcoming these obstacles will be vital to influence the sector to maintain its growth momentum and ensure sustainable financial stability in the banking sector.*

**Key words:** report, income, credit, commercial, accounting.

**Introduction.** Banks prepare various reports showing their financial position in certain reporting periods to inform both capital owners and depositors about the bank's financial structure. The main financial statements used in banks are the balance sheet, and profit or loss statement, as in other commercial enterprises.

Income and profit statements are traditional financial statements. As a result of the development of enterprises, tables such as "changes in net working capital" and "statement of cash flows" are prepared. "Income reflects only the income of the economic benefit that has entered or will enter the account of the enterprise" [1].

**Method.** During the research, many methods were used, including analysis, observation, comparison, systematization and generalization.

**Scientific innovation.** To realize application of advanced technologies and analytical methods to improve the lending

process, risk assessment, customer experience, and overall loan portfolio management in bank operations in Azerbaijan.

**Practical importance.** These factors can affect the profitability, liquidity and overall financial stability of a bank. The results of the research can contribute to the efficient operation of local banks in Azerbaijan.

**Main part.** Even if the bank balance sheet is structurally the same as the balance sheet of a commercial enterprise, the sub-items of activities and liabilities are different. In fact, this is the main reason why the analysis methods of bank financial statements and farm financial statements differ to some extent. When conducting the bank's financial analysis, information received from the bank's management and investment experts, financial statements published by the bank, notes related to the financial statement, additional information, annual report, and at the same time reports of independent audit firms are used.

Various analysis techniques, such as comparative financial analysis, vertical analysis, and ratio analysis, which are used in the analysis of a number of business financial statements, can also be used in the analysis of bank financial statements. These analysis methods can be used individually or together to get better results from the analysis.

A balance sheet is a statement that summarizes the financial activities intended to achieve any business objective in a given period. Besides, there are different definitions of balance sheet. According to another definition, the balance sheet is a table that shows the assets (asset values), debts and equity of an enterprise grouped in a certain period of time.

It would not be wrong to say that the sum of the activity of the bank's balance is equal to the sum of resources and capital. The activity of accounting balance consists of turnover and receivables, and the liabilities are external resources and capital, and profit or loss, if any. Currency, money, capital in circulation in our country is the sum of Azerbaijani manat banknotes, coins and foreign currencies. Foreign currencies are entered into the cash register based on the exchange rate. At the end of the period, it is included in the valuation and the balance is converted into manat.

The bank account consists of AZN and foreign currency deposit accounts of the bank in local and foreign banks. Banks keep the value of cash in this account to meet their cash needs and fulfill their legal obligations to the Central Bank, and keep foreign currency in foreign correspondent banks for foreign exchange liabilities and payments. A bank account must be created for this.

"All enterprises with an independent balance sheet can first open a settlement account in the bank of their choice in order to keep their free cash and carry out business financial transactions. Settlement and operations on current and other accounts are regulated and determined by the legislation of the Republic of Azerbaijan and normative acts of the National Bank of the Republic of Azerbaijan". [2, p. 393]

A high and non-refundable deposit requirement ratio reduces the funds available in banks and appears to increase the cost of investable funds. Banks invest part of their funds in securities for legal obligations or investment purposes. Securities may consist of promissory notes, all kinds of bonds, shares in the form of bullion and gold coins received by banks both for their free portfolio and for sale to third parties. Securities occupy a special place in the activity of modern banks. Banks buy securities because they have to allocate a certain amount of liquidity in exchange for their liabilities. In addition, they must invest in treasury bills and government bonds to borrow from the market. But the real reason is investing for risk-free profit. Securities, which are domestic debt instruments for the government, are high-yield and risk-free financial instruments that can be easily converted into cash for banks. With the reorganization of financial statements after the financial crisis in the banking sector, this account can be grouped as "Securities held for trading", "Securities available for sale" and "Securities held to maturity".

Loans are the part of the balance sheet from which banks get the most income and have the largest share in the activity. There are many classifications of loans according to their duration, such as short, medium and long-term, and according to their types, such as business, consumer loans and mortgage loans. Although banks mostly provide short-term loans, they also provide medium and long-term loans in some cases. Loans are also one of the most risky activities for the bank. Because there is always a risk that the loan will not be returned. For this reason, when lending to commercial enterprises, banks conduct a detailed analysis and investigation of the entrepreneur or enterprise requesting a loan. As a result of these investigations, they may be forced to reject loan applications from businesses they deem too risky.

One of the important issues that require the calculation of interest, commission and expense reserves placed on loan accounts is the reporting of interest income. In addition to short, medium and long-term loans, a report of interest-bearing activities and interest-bearing securities is prepared, and the obtained rediscounts are recorded as income at the expense of interest rediscounts.

Finance lease receivables is also an active account that tracks receivables from banks other than loan transactions. In fact, in principle, this is related to the tracking of the debts of individuals and legal entities that do not have a debtor or creditor account in the relevant bank, that is, it is an account where the receivables of banks related to financial leasing from tenants in AZN and foreign currency are tracked.

The government bond account is a kind of funds that banks invest in the account of government bonds opened in the National Bank from the annual gross profit until the full amount is paid.

Sundry receivables account is an account that controls the debts of banks arising from non-credit operations. In fact, it is related to tracking the debts of individuals and organizations that do not have a current account in the relevant bank.

A securities account is an asset account that records money invested as capital in partnerships that are not classified as subsidiaries or affiliates but are decided to be held for the long term.

Fixed assets account consists of fixed assets, movable, immovable property and special expenses. Items such as safes, office machines, furniture and vehicles with a useful life of more than one year belong to the group of movables. Land plots and buildings purchased by the bank are included in the real estate group.

As we mentioned above, the organization of credit transactions can be considered as the most important activity of the banking sector. Credit is a relationship that results from the borrowing and repayment by others of funds temporarily in the hands of their owners, with the condition of repayment for a certain period of time. A credit relationship is established between two subjects, one is the owner of money, i.e. the lender, and the other is the one who needs money, i.e. the borrower. The lender

becomes the debtor and vice versa. At the same time, the enterprise can be both a lender and a borrower from others. For example, a bank is an intermediary between a money holder and a borrower, and at the same time, it borrows money from shareholders and then lends it to others. Credit subjects are diverse and include the state, banks, enterprises, organizations, individual entrepreneurs without legal status, and various categories of the population belonging to different forms of ownership.

There are several forms of credit, one of which is a bank loan. About banks and banking activities, we can say that a bank is an institution established to attract and deposit funds on its own behalf based on repayment, solvency and payment terms. Banks and other credit organizations collect money in their hands on the condition of paying interest to their customers, lend and receive interest on their behalf. At this time, a credit relationship is created between three subjects, that is, the owner of the money, the credit institution and the borrower [3, p. 512].

Bank loans can be short-term or long-term. There are also different types of short-term loans, which differ from each other in terms of lending, type of security and repayment periods. A number of main accounts are opened in the chart of accounts of commercial banks to record short-term credit transactions. Short-term loans are loans granted for a period of up to one year from the date of the loan. Long-term loans are loans granted for more than one year. Loans are classified by status as follows. Overdue loans are loans that are not paid on time according to the loan agreement concluded between the bank and the customer. Loans from this category are considered indefinite and are collected as soon as possible [4, p. 512].

“Simple interest and simple discount are generally used in short-term financial transactions, while compound interest and compound discount are used in long-term transactions. The interest calculated on capitals that change in each period is called “compound interest” and the method applied is called “compound interest method.” [5, p. 81].

Interest on overdue loans is taken into account in the reserve account, and when the borrower repays the loan, interest is charged along with it. These accounts are debited with the amount of loans granted to other banks and customers. When the loans given by the bank are returned or transferred to another type due to the change in the status of a specific loan, and when the losses incurred on these loans are paid, the numbers of the corresponding loan accounts are written. Reserves for possible losses on the given loans are also created at the expense of the bank's funds. These reserves are created as a result of assessing the financial situation of the debtor, the security of the loan and the risks of non-repayment.

Lending and payment operations are reflected in credit accounts. If it is necessary to pay the price of the purchased goods immediately, but the personal funds of the company are not sufficient for this, then in such cases the company is informed that one-time credit funds are needed. An “unsecured” loan account is used to meet this need. Lending

from such an account can be done through a one-time loan. The Bank makes a separate decision on each such loan. This means that if the loan is needed again in the future, the management of the enterprise must fully prepare a new set of documents required by the bank, negotiate and perform all the legal formalities as the first loan.

Therefore, if the long-term and recurring need for credit resources is analyzed in advance, it will be more convenient and profitable to conclude an agreement on “opening a credit line”. A credit line is an agreement concluded between an enterprise and a bank for issuing a set of loans (debts) in a specified amount.

When opening a credit line, the bank sets a credit limit. Additional negotiations with the bank are not required to grant a loan within this limit. Opening a credit network means that the bank pays for the goods and services provided to the enterprise within the credit amount according to the settlement documents of the enterprise. At the same time, the bank is obliged to pay the money on the day of submission of the documents. The bank is responsible for not providing the loan on time and late settlement of the client.

It is not necessary to open a separate credit line for a short-term loan. A special agreement is concluded between the bank and its client, on the basis of which the client is allowed to make payments in excess of the amount remaining on his bank account. This type of short-term loan is called “overdraft”.

“Overdraft is the crediting of the client's settlement account by the bank for the payment of settlement documents by the client-borrower when there are insufficient or non-existent funds in the settlement account. At this time, the bank withdraws funds from the client's account in full, that is, automatically gives the client a loan in excess of the balance of funds.

Overdraft differs from a regular loan in that all amounts received in the customer's account are directed to debt repayment. Sometimes a grace period is given for using an overdraft, during which no interest is charged for using the loan. It depends on the bank's credit policy. The interpretation of the described concept for individuals is different: Overdraft (loan-overdraft) is a loan that can be used by a borrower who needs temporary funds. Many banks allow overdraft – excessive spending of borrowed funds. Credit resources are used with interest.” [6].

The agreement specifies the maximum amount of overdraft debt, terms of credit: loan repayment procedure, interest rate. As we mentioned, in Overdraft, the entire amount entered into the customer's account book is directed to repaying the loan. Therefore, the loan amount changes as funds are received, and overdraft differs from other types of loans. Despite the provision of overdraft in short-term lending rules, in the practice of republican banks, the right to readjust overdraft to any type of credit other than current account is used.

The current account allows you to combine all the operations of the enterprise. The current account is the only account of the customer in the bank intended for

the implementation of the credit settlement service, and all operations are carried out on this account. It includes both loan and deposit account features. On the one hand, receipts are reflected in the current account, and on the other hand, credits and payments are recorded. As a result, both a debit balance (debt) and a credit balance (availability of funds) can be seen. When a current account is opened, the accounting sheet of the borrowing company is closed. The bank's current account credit limit determines the limit amount of the loan. The bank's guarantee obligation is formalized for this limit amount, its form is the same as when opening a credit line.

These loan funds can be spent only on goods and services related to the main activity of the enterprise. All other payments (general household expenses, wages, etc.) are debited only. This type of loan is widely used in foreign practice in settlements with checks and credit cards.

It is also important for the client of the bank to ensure that there is a credit balance in the client's account in accordance with the rules for organizing short-term lending. The only way to save on debt is for the borrower to have a bank deposit account.

If the client does not have deposit funds in the bank and there is a debt in the balance at the end of the month, regardless of the amount of the debt, the bank must stop lending until the loan is paid. So, if at the end of the reporting month, the customer's account sheet has a debt, the company cannot risk paying payments within the

framework of the overdraft in the next month. On the one hand, receipts are reflected in the current account, and on the other hand, loans and payments are recorded. As a result, both a debit balance, that is, a debt, and a credit balance, that is, the availability of funds, can arise. This is a current account. The validity period of the current account should not exceed one year. The debtor must ensure that the funds are deposited into the account within twelve months. If the account has a negative balance at the end of the specified period, the loan is suspended until the loan is paid in full.

To get a loan, a separate loan account is opened at the bank for each loan and the client submits the initial package of documents to the bank. According to the decision of the Credit Commission, when it is considered necessary to grant a loan, a loan agreement is concluded between the bank and the borrower. The loan agreement specifies the purpose, term, amount, repayment procedure, loan payments, obligations and responsibilities of the parties and other conditions.

**Conclusion.** Banking industry in Azerbaijan is currently experiencing a resurgence, bolstered by a supportive economic climate and strategic enhancements. Although a steady profit margin and vigorous loan disbursement activities are expected to persist, the sector may encounter hurdles concerning the quality of assets and a deceleration in the expansion of loans. Successfully overcoming these obstacles will be vital for the sector to sustain its upward momentum and preserve ongoing financial solidity.

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## ФАКТОРИ ВПЛИВУ НА ЗМІНИ ФІНАНСОВИХ РЕЗУЛЬТАТІВ БАНКІВСЬКОЇ ДІЯЛЬНОСТІ

*Мета цієї статті сформулювати багатогранний характер банківської діяльності, що охоплює широкий спектр послуг та процесів, призначених для задоволення фінансових потреб фізичних осіб, підприємств та інших юридичних осіб. Наголошується, що банк відіграє вирішальну роль у фінансовому посередництві, спрямовуючи кошти від вкладників до позичальників, сприяючи таким чином ефективному розподілу фінансових ресурсів в економіці. У ході дослідження були використані такі методи, аналіз статистичних даних, спостереження фінансових потоків, порівняльний аналіз динаміки фінансових операцій за періодами, систематизація та узагальнення банківських операцій за тими чи іншими тематиками. Було зроблено спробу класифікації реалізації застосування передових технологій та аналітичних методів для покращення кредитування, оцінювання ризиків, аналіз клієнтського досвіду та загального управління кредитним портфелем у банківських операціях в Азербайджані. Зазначається, що фактори, що розглядаються, можуть впливати на прибутковість, ліквідність і загальну фінансову стабільність банку. Також результати дослідження можуть сприяти ефективній діяльності національних банків в Азербайджані. Узагальнюючи питання, що розглядаються в статті, зазначається, що банківська галузь в Азербайджані зараз переживає відродження, підкріплене сприятливим економічним кліматом і стратегічними вдосконаленнями. Наголошується, що також клієнту банку важливо забезпечити наявність кредитового залишку на своєму рахунку відповідно до правил організації короткострокового кредитування.*

Тут єдиним способом набуває заощадження на заборгованості – наявність у позичальника банківського депозитного рахунку. Також наголошується, що якщо клієнт не має депозитних коштів у банку і на залишку на кінець місяця є заборгованість, то незалежно від суми заборгованості банк зобов'язаний припинити кредитування до моменту погашення кредиту. Так, якщо на кінець звітного місяця на рахунку клієнта є заборгованість, компанія не може ризикувати виплатою платежів у рамках овердрафту наступного місяця. Наголошується, що незважаючи на те, що очікувана стабільна норма прибутку та інтенсивна діяльність з виплати кредитів триватимуть, сектор може зіткнутися з перешкодами якості активів та уповільненням розширення позик. Рекомендується, що успішне подолання цих перешкод буде життєво важливим для того, щоб сектор зберіг свою динаміку зростання і забезпечив стійку фінансову стабільність у банківському секторі.

**Ключові слова:** звіт, дохід, кредит, комерційний, бухгалтерський облік.