

## THE ESSENCE OF COMMERCIAL BANKS AND THEIR MAIN FUNCTIONS

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### ANNOTATION

*This article discusses issues related to the essence of commercial banks, distinguishing features of banks from other financial organizations, types and main functions of commercial banks, as well as conclusions about the activities of the central bank and commercial banks.*

**Keywords:** *bank, credit, deposit, profit, currency, stock exchange, foreign capital, income, interest rates, plastic cards, factoring services, business, budget.*

**INTRODUCTION.** Commercial banks are an important part of the economy, providing it with the necessary financial services through the distribution of accumulated savings of the population and businesses. This mediation is the main factor in providing the country's economy with the necessary function for further development

The main distinguishing feature of the bank from other organizations is its versatility, that is, a restaurant for example can offer a maximum of 3-4 types of services, while the bank has about 20 types of services; money transfers, bank cards, mobile banking, conversion operations, individual safes and cells, cash and settlement services, payment acceptance, payment public utilities, savings certificates, property trust management, deposits, credit products, including in foreign currency, leasing, factoring, internet banking, international credit lines, project financing, conclusion of an insurance contract on behalf of insurance organizations, certificates of deposit, property trust management.

**METHODS.** Над вопросами, связанными с исследованием сущности коммерческого банка. Many scientists, including N.A.Lvova, R.I.Bekkin, Z.M.

Shugushkhova, M.V.Chudinovskikh, I.A.Zaripov, I.E. Mikheeva, Yu.N. Gamberova, S. N. Medvedeva, and others, worked on issues related to the study of the essence of a commercial bank. This study was conducted using the methods of scientific abstraction, induction, and synthesis.

**RESULTS.** A bank is a credit and financial institution that meets public needs and makes a profit as a result of its statutory activities. A bank is like a store, but instead of selling goods, a bank sells services, and from here the name commercial bank commerce is translated from Latin as trade.

There are approximately 32 commercial banks in the Republic of Uzbekistan. The Republic of Uzbekistan has a two-tier banking system the first Central Bank of the Republic of Uzbekistan and the second commercial banks.

The central bank is the main credit structure of the state. The main tasks of the Central Bank are: conducting monetary policy, controlling the issue of money, organizing a unified settlement system, regulating and supervising the activities of commercial banks, micro-credit organizations, pawnshops and credit bureaus, storing and managing official gold and foreign exchange reserves of the Republic of Uzbekistan, as well as representing the interests of the Republic of Uzbekistan in the central banks of other states and international financial and credit institutions. The Central Bank organizes auctions of credit resources, ensures the smooth functioning of the Republican Currency Exchange, and organizes cash execution of the state budget together with the Ministry of Finance.

The banking system of our republic has several types of commercial banks, in particular, such as: state commercial bank, private commercial bank, banks opened at the expense of foreign capital, as well as joint commercial bank.

Commercial banks profit from interest income and interest-free income. Commercial banks receive interest-free profit on: loans, borrowed funds provided to other commercial banks, investments, leasing operations, etc. Interest-free profit on: cash and settlement services for clients, provision of bank guarantees, servicing of clients' currency contracts, conversion operations, brokerage and depository services, operations with plastic cards, trust management operations, factoring services, deposit storage services, etc.

**The main functions of commercial banks in the Republic are as follows:<sup>15</sup>**

1. Attraction and accumulation of temporarily available funds. On the one hand, the funds concentrated in the bank bring their owners a certain interest income, and on the other hand, they serve as a source of resources for loan operations. It is with the

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<sup>15</sup> Banki.ru [https://www.banki.ru/wikibank/funktsii\\_banki/](https://www.banki.ru/wikibank/funktsii_banki/)

help of financial institutions that temporarily available funds become loan capital, which is used by banks for lending.

2. Mediation in lending. Many factors hinder direct credit relations between owners of available funds and those in need of them. For example, the amount of money capital offered for a loan does not match the required loan amount or the amount of demand for it, the release period of this capital does not match the loan term, the risks of non-repayment of the loan, etc. Performing the function of a financial intermediary, the bank eliminates these problems. Through deposit and loan operations, they redistribute resources between participants in economic relations. Temporarily available funds are directed to places where there is a need for them and where they can bring economic benefits. The bank must calculate credit risks.

3. Mediation in settlements and payments. Payments made by individuals, businesses, organizations, etc. pass through banks. Today, credit organizations provide and regulate the settlement process between almost all subjects of economic relations. Banks offer customers various forms of settlement: payment orders, collection orders, letters of credit, cheques, promissory notes, bank cards, etc. Electronic cashless payments have been actively developing in recent years. Credit institutions are responsible for timely execution of their clients' payment orders.

4. Creating credit money. By providing loans, banks create so-called credit money. They do not have a physical appearance, but only exist as an entry on a bank account. The mechanism for creating credit money is regulated by the Central Bank using mandatory reserve requirements. Credit institutions are required to leave a certain part of depositors' funds in the form of a reserve, and they can issue the rest in the form of loans. At the same time, when issuing a loan, the total amount of non-cash money in circulation increases, and vice versa, when the client repays the loan, the money supply decreases.

In addition, in addition to basic functions, credit institutions carry out intermediation in the stock market, provide consulting and information services, electronic cashless payments are actively developing, and soon. Credit institutions are responsible for timely execution of their clients' payment orders.

*A commercial bank* can only risk its capital, its profit, but not the client's capital, its profit. In relations with the client, the client should act as a partner whose activities are based on mutual voluntariness and mutual interest. A commercial bank cannot perform the functions of the state for financing and gratuitous support of enterprises in various sectors of the economy or solve only charitable tasks. Long-term partnership relations of the bank with clients and mutual trust allow both parties to use resources efficiently and correctly, contribute to the appropriate investment of money and increase profits.

**CONCLUSION.** Commercial banks are the main link of the market system, as well as the most important and integral part of the structure of the banking system. After conducting research on the essence of commercial banks, we came to the following conclusions:

1. Commercial banks create their own resources. Regularly interacting with each other, actively developing financial and credit institutions perform various banking operations.

2. A wide variety of operations allows banks not only to retain their customers, but also to remain profitable in crisis situations, that is, we can say that commercial banks have been and remain a key operational link of the entire credit system, they are constantly being modernized and evolved to provide services to their customers in full.

3. Active operations of commercial banks are responsible for reflecting the placement of the bank's own and borrowed funds in order to generate income. Such transactions are recorded on active balance sheet accounts and the balance on a particular account shows the amount of funds invested by the bank in this asset. Passive operations also play a significant role, since without equity it is impossible to imagine the beginning of banking activities, it is the core of activity and the last reserve in case of an unfavorable combination of circumstances. A special feature of all commission operations is the execution of these operations and receiving income from their execution. In this case, the bank does not assume significant risks.

4. The principles of commercial banks are the grounds that guide business entities in the course of their activities.

5. Improving innovative implementation in the banking sector will increase the sustainability of credit institutions, increase the variety of banking products and services that banks provide to their customers, which will lead to an increase in the level of development of not only the banking sector, but also contribute to the economic and social development of the country as a whole.

In all countries, including Uzbekistan, the economy has been undergoing profound changes for several years. The economic crisis increases the impact of competition, which has the upper hand over the banking world. In order to adapt to the evolution of their environment, commercial banks must undertake unprecedented modernization. The state also needs to implement a set of measures aimed at maintaining the country's economic system in a stable state.

The state of the banking system depends on the ability of the entire national economy and its individual sectors to function effectively.

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