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## ISSUES OF IMPROVING THE STRATEGY FOR MANAGING ASSETS AND LIABILITIES IN COMMERCIAL BANKS

Nasimova Yulduzkhon

Master's Student of Tashkent State University of Economics

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### **Abstract**

This article examines the theoretical and practical aspects of improving the strategy for managing assets and liabilities in commercial banks. It highlights the importance of the asset-liability management system in ensuring a balance between liquidity, profitability, and risk in banking operations. During the study, strategic approaches aimed at coordinating the structure of assets and liabilities, reducing interest rate risk, liquidity risk, and maturity mismatch were developed. In addition, proposals were formulated to strengthen the role of the Asset-Liability Committee (ALCO), introduce stress testing, apply funds transfer pricing mechanisms, and improve digital monitoring systems in asset and liability management. The findings of the study contribute to enhancing the efficiency of asset and liability management in commercial banks.

**Keywords:** Commercial bank, assets, liabilities, asset-liability management, ALM, liquidity risk, interest rate risk, strategic management, ALCO, bank profitability.

### **Introduction**

The stability of commercial banks largely depends on how effectively the strategy of managing assets and liabilities is organized. Attracting financial resources, allocating them to profitable and secure directions, maintaining liquidity, and controlling interest rate risk are among the most important areas of modern bank management. Within the framework of Basel principles, prudential approaches to banking supervision, liquidity indicators, and the



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management of interest rate risk in the banking book are given particular emphasis [1], [2], [3].

Today, the main problems in managing assets and liabilities in banks include the short-term nature of the resource base, the high share of the loan portfolio, fluctuations in interest rates, the adequacy of liquid assets, and the mismatch between the maturities of assets and liabilities. Therefore, improving the strategic ALM approach in banks, that is, managing assets and liabilities as a unified system, is an urgent scientific and practical task. In the context of IFRS 9, the expected credit loss model requires the use of probability, the time value of money, and reasonable forward-looking information in the assessment of credit risk, which makes ALM decisions more risk-sensitive [7].

The purpose of this article is to identify ways of improving the strategy for managing assets and liabilities in commercial banks and to develop scientific and practical recommendations in this area.

### **Research Methodology**

The article employs a systematic approach, comparative analysis, logical generalization, economic analysis, structural analysis, and the method of scientific abstraction. The information base of the study consists of international prudential standards, IFRS standards, statistical data of the Central Bank of the Republic of Uzbekistan, and scientific literature on bank management [1]–[7]. In the course of the research, the effectiveness of the asset and liability management strategy was evaluated on the basis of the following criteria:

- the degree of liquidity maintenance;
- sensitivity to interest rate risk;
- the balance between asset and liability maturities;
- the stability of the resource base;
- the impact on profitability indicators.

### **Results**

#### **1. The Essence of the Asset and Liability Management Strategy**

The strategy for managing assets and liabilities is a system aimed at managing both sides of the bank's balance sheet in an integrated manner. Its main objective



is to ensure an optimal balance between the bank’s liquidity, profitability, and financial stability. Within this strategy, banks should pay attention to the following areas:

1. diversification of the resource base;
2. optimization of the loan and investment portfolio;
3. control of interest rate risk;
4. formation of a liquidity buffer;
5. minimization of maturity mismatch;
6. strengthening the activities of ALCO.

**Table 1. Main Structural Elements of the Strategy for Managing Assets and Liabilities in Commercial Banks**

Structural element	Content	Expected result
Resource base management	Coordination of deposits, interbank loans, and issued obligations	Cheap and stable funding base
Asset allocation	Optimization of the share of loans, investments, and liquid assets	Balance between profitability and safety
Liquidity management	Ensuring short-term solvency	Adequate liquidity
Interest rate risk management	Control over repricing gaps	Stability of net interest margin
Maturity transformation	Alignment of asset and liability maturities	Reduction of gap risk
Internal control and monitoring	ALCO, limits, stress testing, scenario analysis	Improved management quality

As shown in the table, asset and liability management is not limited only to monitoring balance sheet indicators. It is closely linked to the bank’s strategic development model, risk policy, and operational management mechanisms.

## **2. Main Problems in Asset-Liability Management in Commercial Banks**

The analysis shows that there are a number of systemic problems in developing a strategy for managing assets and liabilities in commercial banks. In particular:

- liabilities are largely formed from short-term and expensive funding sources;
- the growing share of the loan portfolio reduces the share of liquid assets;



- there is a gap between the volumes of interest-sensitive assets and liabilities;
- deposits are highly concentrated;
- stress testing and scenario analysis are not sufficiently developed.

These problems weaken the bank's financial stability and negatively affect the quality of strategic decisions. If liabilities are mainly short-term while assets are predominantly long-term, refinancing risk increases. Likewise, changes in market interest rates can negatively affect the bank's net interest income if repricing periods are not properly aligned.

**Table 2. Key Problems Affecting the Strategy of Asset and Liability Management and Their Consequences**

Problem	Form of manifestation	Possible consequence
High share of short-term liabilities	Large share of demand deposits and short-term deposits	Increased liquidity pressure
Maturity mismatch between assets and liabilities	Long-term loans financed by short-term resources	Increased gap risk and refinancing risk
Interest rate risk	Different repricing periods of assets and liabilities	Decline in net interest margin
Concentration of deposit base	High share of large depositors	Increased risk of funding outflow
Risks related to loan portfolio quality	Growth in non-performing and restructured loans	Increase in provisions and decline in profitability
Weak monitoring	Weak stress testing and limit control	Lower quality of decision-making

### **3. Directions for Improving the Asset and Liability Management Strategy**

In order to improve the strategy for managing assets and liabilities in commercial banks, it is advisable to implement the following priority directions.

**First**, the resource base should be diversified. In this regard, it is recommended to increase the share of term deposits, ensure a balance between corporate and retail funding, and use long-term bonds and subordinated debt.



**Second**, the structure of assets should be optimized. It is necessary to reduce the excessive concentration of the loan portfolio, determine the share of liquid assets based on economic conditions, and maintain continuous monitoring over the quality of investment assets.

**Third**, the activities of ALCO should be strengthened. ALCO decisions should mandatorily take into account interest rate risk, gap analysis, duration analysis, scenario modeling, and stress testing results. Basel principles on interest rate risk in the banking book require strong governance, measurement, monitoring, and internal control [2].

**Fourth**, ALM decisions should be integrated with the expected credit loss model. Under IFRS 9, expected credit losses are measured based on probability, the time value of money, and reasonable forward-looking information [7]. This approach helps assess in advance how deterioration in loan portfolio quality may affect the cost of liabilities and capital.

**Fifth**, digital monitoring and internal funds transfer pricing systems should be introduced. In this case, the cost of resources, the value of liquidity, and interest sensitivity are calculated across the bank's divisions, and managerial decisions are made in a format close to real time.

**Table 3. Proposed Measures for Improving the Strategy of Asset and Liability Management**

Proposed direction	Implementation mechanism	Expected economic effect
Stabilization of the resource base	Increasing the share of term deposits and long-term liabilities	Greater stability of liabilities
Optimization of asset structure	Revising the ratio of loans, investments, and liquid assets	Improved balance between liquidity and profitability
Strengthening ALCO activities	Introducing gap analysis, duration analysis, scenario analysis, and stress testing	Better quality of decision-making
Reducing interest rate risk	Limiting repricing gaps and using hedging elements	Stabilization of net interest margin
Integration of IFRS 9 and ALM	Linking ECL results with asset quality and capital planning	Lower impact of credit risk
Digital ALM monitoring	Dashboards, FTP, and early warning indicators	Increased operational management efficiency



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## **Discussion**

The results of the study indicate that the strategy for managing assets and liabilities in commercial banks should move from traditional balance sheet management to a strategic risk-based management model. In such an approach, the cost of bank liabilities, the profitability of assets, the liquidity buffer, and sensitivity to interest rates are analyzed in an integrated manner.

In practice, banks often prioritize increasing the profitability of assets, while the quality of liabilities and the stability of their maturities are treated as secondary issues. As a result, long-term loans are financed by short-term deposits, which increases liquidity pressure. Therefore, within the concept of strategic ALM, the principle of “ensuring risk-adjusted sustainable profitability” rather than “maximizing profitability” should be given priority [1], [2], [3].

In addition, reserve requirements also directly affect the strategy of liability management, because required reserves held with the central bank must be taken into account in resource cost calculations and liquidity planning. In this regard, it is appropriate to implement a comprehensive model of asset and liability management that includes:

- strategic ALCO;
- a system of risk-based limits;
- integration of ECL and capital planning;
- internal transfer pricing of resources;
- early warning indicators for liquidity;
- management based on scenario analysis and stress testing.

## **Conclusion**

Improving the strategy for managing assets and liabilities in commercial banks is of great importance in ensuring the stability, liquidity, and profitability of banking operations. The research findings show that the asset and liability sides of a bank’s balance sheet should not be managed separately, but rather as an integrated and interrelated system, which is one of the priority areas of modern bank management. In particular, issues such as mismatches between asset and liability maturities, sensitivity to changes in interest rates, the stability of the



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funding base, and the quality of the loan portfolio directly affect the efficiency of asset-liability management.

From this perspective, improving the strategy for managing assets and liabilities in commercial banks is closely linked with diversifying the funding base, optimizing the structure of assets, continuously monitoring liquidity and interest rate risk, strengthening the activities of ALCO, widely applying stress testing and scenario analysis, as well as introducing digital monitoring and internal funds transfer pricing mechanisms. Such an approach not only strengthens financial stability in banks, but also creates opportunities to achieve risk-adjusted sustainable profitability, preserve the net interest margin, and adapt quickly to changes in market conditions.

In general, improving the strategy for managing assets and liabilities in commercial banks can produce high results only when it is implemented on the basis of a comprehensive approach. This means that organizational, financial, risk-management, information-technological, and analytical tools should be applied in an integrated and coordinated way. As a result, the quality of asset-liability management in banks improves, liquidity pressure decreases, the efficiency of resource utilization increases, and the overall financial stability of the banking system is strengthened.

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