

Assessment of credit risks in commercial banks

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Abstract: Uzbekistan Since loans have the highest weight in the assets of commercial banks, ensuring the liquidity and financial stability of banks directly depends on the quality of the loan portfolio. In turn, improving the quality of the credit portfolio of banks creates the need to improve the practice of credit risk management. In the article, the actual problems related to the improvement of the practice of credit risk management in the activity of commercial banks are identified and scientific proposals aimed at solving them are developed.

Key words: commercial banking, loan, loan portfolio, credit risk, reserve, interest rate, interest income, inflation, prime rate, devaluation.



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INTRODUCTION

Commercial banks are the lower part of the banking system, and are commercial organizations that attract idle funds of individuals and legal entities and carry out operations of placing them on their own behalf, on the basis of solvency, term, repayment conditions, and all other operations that are considered banking activities.

Currently, the activities of commercial banks are very diverse. In addition to organizing money circulation and credit relations, they provide financing to the national economy, insurance operations, trading of securities, in some cases mediation and property management. Also, as consultants, they participate in the discussion of national economic programs, and keep statistics.

In the conditions of further deepening of economic reforms and liberalization of the banking system, credit operations occupy an important place. Due to the fact that credit operations of commercial banks are activities that shape bank income, ensuring the stability of the quality level of the loan portfolio is one of the main tasks of banks today. Lending is a type of activity of primary importance for commercial banks, because a decrease in the quality of the loan portfolio of commercial banks negatively affects their financial stability, that is, an increase in the weight of overdue loans in the volume of loan deposits leads to a sharp decrease in the bank's liquidity. Therefore, effective management of the loan portfolio of commercial banks allows meeting the needs of economic entities for credit funds.

In the Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. PF-5992 "On the Strategy for the Reform of the Banking System of the Republic of Uzbekistan for the Years 2020-2025", improving the quality of the credit portfolio and risk management, adhering to the moderate growth of lending volumes, reforming the republic's banking system defined as the priority areas of doing[1]. This indicates that the issue of improving the practice of credit risk management is urgent.

In this regard, in the President's Address to the Oliy Majlis, "The worst thing is that serious mistakes have been made in the definition and implementation of prospective large projects, and foreign loans have been spent on ineffective activities, which hinders the development of the economy. First of all, we need to create an effective system for bringing foreign loans and investments, and learn to use each loan accurately. It is not for nothing that they emphasized that in this matter, the time has come to measure seven times and cut once, and to think carefully about the consequences. The increase in the volume of bank loans directed to the development of the economy in our republic, the increase in the number of different ownership and economic entities using them, the rational placement of loans given by banks, increasing their efficiency, the tasks of ensuring timely recovery of the interest calculated on the given loans are urgent tasks of constant monitoring of the banks' loan portfolio. The development of modern technologies significantly reduces the distance between banks and users of banking services, increases interbank competition, and thus contributes to the quantitative and qualitative development of banking services. Increasing the effectiveness of the banking system of the Republic of Uzbekistan is related to the active participation of banks in lending to the real sector of the economy. However, commercial banks of our country face several difficulties and problems in lending activities. Especially today, the presence of problem assets among loans, which make up the main part of the income-generating assets of commercial banks, is noticeable. As the President of the Republic of Uzbekistan, Sh.M. Mirziyoyev, stated, "it is necessary to expand the capabilities of banks to return problematic loans, and to collect them, banks, debtor enterprises, companies and associations, regional leaders should work together." Ensuring the financial stability of the banking system by improving the quality of the credit portfolio and the quality of risk management, following a moderate level of credit growth,

conducting a balanced macroeconomic policy, improving corporate governance and attracting managers with international practical experience, implementing technological solutions for assessing financial risks. It is defined as one of the priority directions of reforming the banking system of the Republic of Uzbekistan.

Literature Review.

According to N. Tsokolinskaya, careful monitoring of risks, formation of a high-quality credit portfolio, having a good database for managing the lending process are the main aspects of ensuring the quality content of the loan[2].

According to the conclusion of J. Tsinki, the analysis of the cash flow of the borrower's client plays an important role in assessing the level of credit risk in the activity of commercial banks. Its cash flow analysis should allow you to find answers to the following pressing questions:

- is the client's net profit sufficient to pay the current portion of its long-term debt?
- exactly how much cash does the company receive?
- How does the company finance its operations?
- which actions of the management or which external influences determine the current state of the company[3].

According to I. Yudina's conclusion, the profitability of commercial banks' assets in developing countries directly depends on the level of credit risk, and as a result of the devaluation of the national currency, the inability of customers who received loans in foreign currency to repay the loan leads to an increase in the level of credit risk [4].

In order to improve the methodology of formation of reserves to cover financial losses, the following criteria were proposed for realistic assessment of the quality of loans and the establishment of reserves for them: from 1 percent to 10 percent for sub-standard loans; from 11 percent to 25 percent on bad loans; from 26 percent to 50 percent for doubtful loans; up to 100 percent on bad loans[6].

According to Sh.Abdullaeva's conclusion, according to the results of the diversification of the loan portfolio according to the sources of resources, it is necessary to take into account the high weight of centralized loans in the loan portfolio of some commercial banks and to take measures such as giving relief to banks on these loans, exempting the income received from them from tax in some cases. would be appropriate[7].

Analysis and Results.

It should be noted that in the volume of problem loans of commercial banks of our republic, problem loans of state banks occupy a high weight. This is explained by the fact that loans granted under state programs, but not returned, were not returned to commercial banks.

In our opinion, the following measures should be implemented to improve the practice of credit risk management in commercial banks of our republic:

1. It is necessary to develop an assessment methodology that allows for a more accurate assessment of the impact levels of financial risks (inflation risk, deflation risk, devaluation risk) that affect the level of credit risk in the activity of commercial banks. As we know, an increase in the inflation rate leads to an increase in interest rates on loans. This increases the level of credit risk. An increase in the rate of devaluation of the national currency makes it difficult for banks to repay loans in foreign currencies on time and in full.

2. The Basel Committee's standardized approach to credit risk assessment should be used when assessing credit risk on international loans of commercial banks.

Four main principles are at the heart of the operation of the bank's credit portfolio management system: First, within the requirements of the Central Bank of the Republic of Uzbekistan "On the classification of the quality of assets in commercial banks and the formation of reserves to cover possible losses on assets and the procedure for their use", bank loans are regularly evaluated according to the main criteria ; Secondly, control over the provision of loans allocated by the bank. In this case, it is necessary to take into account that the security is not considered the main source of extinguishing the loan. The bank uses collateral only to reduce the risk of loan default. Thirdly, the implementation of credit monitoring. Monitoring of the loan portfolio includes the following: a) monitoring of the loan; b) monitoring of the loan portfolio. At present, the increase in the volume of bank loans directed to the development of the economy, the increase in the number of customers of various ownership and business management forms that use bank loans, the rational placement of loans given by banks and their efficiency, ensuring the timely collection of loans and the interest calculated on them from the loan portfolio of banks requires constant monitoring. Fourth, credit portfolio audit and credit risk management. The loan portfolio is audited by internal and external auditors. Commercial banks should immediately report to the Central Bank when there are cases where an increase in the concentration of any type of risk may lead to significant losses. The effective structure of bank risk management includes the following main elements: the role (functions) of the bank's bodies and persons involved in risk acceptance and management, including the supervisory board, risk management committee, bank management and risk management structure in bank risk management, powers and risk management organizational structure that clearly defines obligations (responsibilities); risk management culture, code of ethics and prevention of conflict of interests; risk appetite and resulting risk limits; risk management system - risk identification, measurement, preparation of reports, monitoring and control clearly expressed normative documents, methods, instruments and processes of risk management, including; the policy of introducing new products; the risk information management system.

Summary.

Based on the above, it can be said as a conclusion that the main tasks of managing the credit portfolio of commercial banks can be of great importance in the management of risks arising in the banking activity. These are: identification of factors affecting the level of credit risk and their assessment; classification of loans by risk groups; approval of the loan portfolio in terms of

credit risk, customer composition and loan structure; to determine the level of creditworthiness of the borrower and the possibility of changes in his financial situation in order to forecast the credit risk; early identification of problematic loans; assessing the adequacy of the created reserves and providing them in time; diversification of credit investments, ensuring their liquidity and profitability; consists of developing the bank's credit policy and conducting it based on a qualitative analysis of the loan portfolio. Adherence to the above in managing the credit portfolio of commercial banks will increase the efficiency of the bank's credit activity, and in turn, the bank's profit will increase.

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