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Research Article

ASSESSMENT OF CREDIT RISK OF A COMMERCIAL BANK

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ABSTRACT

This article presents a method for assessing the risks of commercial banks, mainly analyzing the credit risk, interest rate risk and capital risk faced by commercial banks. A model for assessing the credit risk of commercial banks in Uzbekistan is also reviewed.

KEYWORDS

Banking risks, credit risk, interest rate risk, capital risk.

INTRODUCTION

Banking business is considered one of the most important sectors of the economy throughout the world. Being high-tech, it is most susceptible to ongoing changes at the macro and micro levels. What changes are associated with the increasing internationalization of credit institutions and markets, the improvement of banking legislation and modern computer technologies, an increase in the level of competition, and the emergence of new banking products and services in financial markets. Banks act as a kind of "circulatory system of the economy," so it is important that the state's banking system functions smoothly, stably and efficiently.

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The sovereignty of the national banking system depends on an effective organized system for managing banking risks in the context of the rapid development of the banking services sector. Experts have named many different types of banking risks. These are credit risk, interest rate risk, liquidity risk, risk of loss of profitability and others. All these risks play a significant role in determining the total amount of banking risk, and each of these types of risks can be devoted to separate work. Credit risk is the most significant component of banking threats, since most bank failures are caused by borrowers' non-repayment of loans and the bank's ill-conceived risk policy, which is especially relevant for the current economic situation. In addition, the increasing activity of the banking sector in the field of investment lending leads to the need to protect the financial interests of commercial banks and requires a significant improvement in the quality of management of their loan portfolio, as well as improving existing methods for managing credit risk, as well as improving existing methods for managing credit risk.

Literature review

The theoretical and methodological basis of the study is the concepts and hypotheses of domestic and foreign scientists in the field of finance, management, banking and credit risk management. Many foreign and domestic works are devoted to the study of problems of credit risk management in banking. G.V. Antoshina , A.I. Achkasov , A. Belikova , I.A. Blank and other scientists can be highlighted . Their works mainly considered risk issues from the point of view of the theory of finance, lending and money circulation. However, the study of modern priority areas of banking activity encourages the search for new ways to implement the tasks of credit security and predetermines the comprehensive use of the theoretical heritage of foreign and domestic scientists for objective knowledge of this management process.

Analysis and results

A bank's lending activity is one of the fundamental criteria that distinguishes it from non-banking institutions. In world practice, a significant part of a bank's profit is associated with lending. At the same time, non-repayment of loans, especially large ones, can lead the bank to bankruptcy, and due to its position in the economy, to a number of bankruptcies of related enterprises, banks and individuals. Therefore, credit risk management is a necessary part of the strategy and tactics for the survival and development of any commercial bank.

A portfolio of bank loans is exposed to all the main types of risk that accompany financial activity: liquidity risk, interest rate risk, loan default risk (credit risk) . Credit risk management requires the bank to constantly monitor the structure of the loan portfolio and their qualitative composition. As part of the profitability-risk dilemma, the bank is forced to limit the rate of profit, insuring itself against excessive risk. It

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must pursue a policy of dispersing risk and preventing the concentration of loans among a few large borrowers, which is fraught with serious consequences if one of them defaults on the loan.

The bank should not risk depositors' funds by financing speculative (albeit highly profitable) projects. This is closely monitored by banking supervisory authorities during periodic audits . Credit risk is historically inherent in the activities of a commercial bank. Despite the fact that many studies have been devoted to bank credit risk, there are, however, some differences in its definition.

Assessing the credit risk of a commercial bank includes an analysis of various factors that may affect the borrower's ability to repay the loan. This process includes the following steps:

1. Collection and analysis of information about the borrower: The bank collects information about the borrower, including his financial statements, credit history, income and expenses data, as well as information about his business and the industry in which he operates.
2. Assessing the borrower's creditworthiness: Based on the information collected, the bank assesses the borrower's creditworthiness, that is, his ability to repay the loan. For this, various methods are used, such as analysis of financial ratios, scoring models, etc.
3. Determining the category of credit risk: based on an assessment of the borrower's creditworthiness, the bank determines the category of credit risk, that is, the degree of probability that the borrower will not be able to repay the loan. Typically, the following credit risk categories are distinguished: low, medium and high.
4. Credit risk monitoring: after issuing a loan, the bank continues to monitor the borrower's credit risk in order to monitor his financial condition and promptly identify possible problems with loan repayment.
5. Development and implementation of measures to reduce credit risk: if the bank identifies that the borrower's credit risk is increasing, it develops and implements measures to reduce this risk. This may include changing the terms of the loan (for example, increasing the interest rate or providing additional collateral), restructuring the debt, or even going to court to collect the debt.
6. Formation of reserves for possible losses on loans: based on an analysis of credit risk, the bank creates reserves for possible losses on issued loans, which represent the amount of money that the bank is willing to lose if the borrower does not repay the loan. These reserves are taken into account when calculating the bank's capital and affect its stability and reliability.

Credit risk assessment in commercial banks of Uzbekistan follows the same principles as in other countries. However, there may be some differences in approaches and assessment methods related to the characteristics of the national economy and banking sector of Uzbekistan.

For example, banks may take more conservative approaches to assessing the creditworthiness of borrowers, given the high risks associated with economic instability and corruption. Various national methods and standards can also be used to analyze the financial performance of borrowers and assess credit risk.

In general, the assessment of credit risk in banks of Uzbekistan should be carried out in accordance with the legislation of the country, international standards and the recommendations of the Basel Committee on Banking Supervision. The Central Bank plans to tighten requirements for issuing consumer, mortgage and car loans to the population.

The population's debt burden will be calculated by the ratio of average loan payments to the borrower's average monthly income.

From July 1, 2024, the limit is proposed to be set at 60%, and from 2025 to be reduced to 50%.

This parameter is already used in microcrediting to individuals. Thus, the issuance of microloans is limited to half the borrower’s income . In addition, the innovation will make it possible to whiten the income of the population, evaluate unofficial sources, and also push commercial banks towards responsible lending (responsible lending).

Average monthly income takes into account indicators for the last 6 months:

wage;

pension payments and contributions to a savings account;

income received in a bank account;

taxes paid;

interest, dividends and lease payments.

Moreover, if the loan repayment period exceeds 36 months, then the average monthly income is calculated for the same period.

When issuing mortgage loans, the Central Bank plans to set the loan term at 120 months (10 years).

At the same time, the new requirements will affect only 85% of the banks’ loan portfolio. Credit institutions will be able to dispose of the remaining 15% of the volume at their own discretion - without complying with the requirement that loan payments not exceed half of the borrower’s average monthly income.

The regulator also envisages the introduction of indicators for assessing credit risk - the loan/collateral ratio and the debt burden indicator.

In particular, the “loan/collateral” ratio is calculated by relating the loan amount to the value of the collateral. Let's say the apartment costs $1,000 and the down payment is $200. In this case, the borrower will need to take out a mortgage loan of $800, and the coefficient will be 80%. The Central Bank intends to limit the loan/collateral ratio for mortgages to 80%, and for car loans to 75% .

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The regulator emphasized that they assess the risks for car loans higher than for mortgage loans. Prices in the automobile market may be artificially high due to limited supply. Moreover, when the market becomes saturated, car prices may fall more easily than real estate prices, he added.

In addition, from July 1, 2024, the borrower's credit risk will be assessed for consumer, mortgage and car loans. The Central Bank has developed a measurement scale for different types of lending with an assessment of credit risk, calculated as the ratio of the loan/collateral ratio and the debt burden indicator.

Thus, the debt burden indicator is calculated by relating the amount of average monthly payments on all loans and borrowings, including a new loan, to the borrower's average monthly income. The higher the loan/collateral ratio and the debt load indicator, the higher the credit risk. The new requirements will apply only to commercial banks and microfinance organizations connected to the Credit Information Bureau system. However, some types of lending, including gray installment plans, will not be subject to the new restrictions. However, the pace of consumer lending is not expected to slow down once the proposed restrictions take effect.

CONCLUSION

In the credit risk management system, a significant place is occupied by the mechanism for banks to create reserves for possible loan losses. At the same time, the volume of contributions to the RVPS is very significant, which imposes special requirements on justifying its value, in order to determine the reserve, which allows you to effectively respond to changes in micro and macroeconomic factors, will reduce its value, thereby providing an opportunity to direct the released part of the funds to the development of the banking business . Since loans serve as the main source of bank income and at the same time the main cause of risk, its stability and development prospects depend on the structure and quality of the loan portfolio.

So, credit risk is the main risk that a bank faces in its activities. It arises as a result of non-fulfillment, untimely or incomplete fulfillment by the debtor of financial obligations to the bank in accordance with the terms of the agreement. Credit risk management is the process of identifying and assessing risks, as well as selecting methods and tools to minimize them. Regardless of the classification, credit risk is multifaceted and is associated with negative trends in the business of the borrower, the counterparty to the transaction, in the market environment, and with the violation and failure of the debtor to fulfill its obligations. Risk can arise at any stage of management and management decisions.

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