EFFECTIVE STRATEGIES FOR MANAGING CREDIT RISKS IN COMMERCIAL BANKS

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Abstract
This article explores effective strategies for managing credit risk in commercial banks. It examines the basic principles and methods of assessing and managing credit risks and also offers recommendations for their application. The authors analyse various approaches to credit risk management, including credit policies, credit scoring procedures, borrower monitoring, and the use of credit risk insurance. Based on best practices in the global banking sector, the article offers recommendations for commercial banks to develop and implement effective credit risk management strategies.

Keywords: credit risks, risk management, commercial banks, effective strategies, credit policy, credit scoring, monitoring of borrowers, credit risk insurance, financial management, banking sector.

Introduction
Credit risk management is one of the key functions of commercial banks. Credit risk arises as a result of the possibility of non-repayment by the borrower of the amount provided by the bank in the form of a loan. This may be caused by various factors such as the financial difficulties of the borrower, changes in the economic situation or other external factors. Effective credit risk management strategies allow banks to minimize losses associated with non-repayment of loans and ensure the stability of their financial position. They also help banks make informed decisions about issuing loans and determining the conditions for their provision [1-3].
The experience of commercial banks is a valuable source of knowledge on how to effectively manage credit risks. Each bank develops its strategies and approaches based on its specific characteristics, objectives and risks. However, there are general principles and methods that can be used in different banking organizations. This article will discuss several basic strategies that commercial banks successfully use to manage credit risks. These include credit analysis and assessment of borrowers, development of credit risk policies, diversification of the loan portfolio, monitoring and control of the loan portfolio, provisioning for possible

losses, and regular assessment and updating of credit risk policies. Each of these strategies has its characteristics and requires special skills and knowledge. However, their effective use can help banks reduce risks and improve their financial stability. Below, each of these strategies will be discussed in more detail and examples of their successful implementation in the practice of commercial banks will be given [4-7].

Credit analysis and assessment of borrowers
Credit analysis and assessment of borrowers are among the most important strategies for managing credit risk. They allow banks to assess the financial condition and solvency of potential borrowers before issuing a loan. Credit analysis involves collecting and analyzing information about borrowers, such as their financial statements, credit history, business plans and other relevant data. The Bank conducts a detailed study of this data to determine the risks and opportunities associated with the provision of credit. The assessment of borrowers is based on the result of credit analysis and allows the bank to make a decision on issuing a loan and determine its terms. It includes an assessment of the borrower's solvency, his credit history, the stability of his income and other factors that may affect his ability to repay the loan.

Effective credit analysis and assessment of borrowers requires a thorough understanding of financial ratios and analysis methods, as well as experience and expertise in the field of lending. Banks may use various models and methods to conduct credit analysis and evaluate borrowers, depending on their needs and resources [8-11].

An example of successful implementation of a strategy for credit analysis and assessment of borrowers could be as follows. The bank conducts a detailed analysis of the financial performance and credit history of a potential borrower and also evaluates its business plan and forecasts. Based on this analysis, the bank decides to issue a loan and determines its conditions, such as the amount, interest rate and loan term. This allows the bank to minimize risks and ensure loan repayment. There are several commercial banks in Uzbekistan that use credit analysis and assessment of borrowers in their activities. Some of them include:

- The National Bank of the Republic of Uzbekistan is a state bank that plays an important role in the country's economy. It applies rigorous credit analysis and assessment of borrowers to make lending decisions.
- Halka Bank is one of the largest commercial banks in Uzbekistan. It also applies credit analysis and assessment of borrowers to determine the creditworthiness of clients.
- Asaka Bank is a bank specializing in financing projects in the industrial and construction sectors. It also conducts credit analysis and assessment of borrowers to make lending decisions.
- Ipak Yuli Bank is a commercial bank providing a wide range of banking services. It also applies credit analysis and assessment of borrowers to determine risk and make lending decisions.

These are just a few examples of banks in Uzbekistan that use credit analysis and assessment of borrowers. All commercial banks strive to minimize credit risks and ensure the sustainability of their loan portfolio, so these strategies are important in their activities.

Development of a credit risk policy

In Uzbekistan, banks develop credit risk policies to effectively manage their loan portfolio and minimize potential losses. These policies include the following:

Assessment of the borrower's creditworthiness. Banks conduct a thorough analysis of the financial condition and solvency of potential borrowers. They evaluate their income, expenses, assets, and liabilities to determine how likely it is that the borrower will be able to repay the loan on time.

Collection activities (the process of collecting debts from debtors). Banks have a debt collection system, which includes measures to prevent late payments and recover overdue loans. They may use various methods such as reminders, calls, letters and even going to court to collect debts.

Diversification of loan portfolio. Banks seek to spread risk by providing loans to different sectors of the economy and different types of borrowers. This helps reduce risks associated with specific industries or companies.

Loan portfolio monitoring. Banks constantly monitor their loan portfolio and evaluate its quality. They analyze overdue payments, reserve funds in case of possible losses and assess risks.

Credit risk management strategies. Banks can use various strategies to manage credit risk, such as setting credit limits, establishing collateral requirements, using credit risk insurance, etc.

These are just some of the policies that banks in Uzbekistan are developing to effectively manage credit risk. They strive to balance providing affordable finance with minimizing risk to maintain the sustainability of their operations.

Developing a credit risk policy requires a thorough understanding of credit risk and lending expertise. The bank may engage external consultants or use internal resources to develop policies. Once the policy is developed, it must be approved by the bank's senior management and brought into compliance with regulatory requirements.

Diversification of the loan portfolio

Diversification of the loan portfolio is one of the strategies for managing credit risks. It consists of distributing credit resources between various borrowers and sectors of the economy to reduce the concentration of risks. In Uzbekistan, various banks apply a loan portfolio diversification strategy to manage credit risks. Some of these banks include:

− The National Bank of the Republic of Uzbekistan is a state bank that provides a wide range of banking services and is actively developing credit risk management policies.
− Agrobank is a commercial bank that specializes in financing agriculture and rural development. They also develop loan portfolio diversification strategies to reduce risk.
− Ipak Yuli Bank is a commercial bank that provides a wide range of banking services, including loans for small and medium-sized businesses, consumer loans and other types of financing.

– Hamkorbank is a commercial bank that also provides financial services to various sectors of the economy. They actively apply loan portfolio diversification strategies to reduce risks. These are just a few examples of banks in Uzbekistan that are applying a loan portfolio diversification strategy to manage credit risks. Each bank develops its own policies in accordance with its goals and strategies.

The basic principles of loan portfolio diversification include:

1. Diversity of borrowers: A bank should provide loans to a variety of borrowers to reduce dependence on one or a few clients. This can be achieved by providing loans to different sectors of the economy, different geographical regions and different sizes of enterprises.

2. Variety of types of loans: The bank should provide various types of loans such as corporate loans, consumer loans, mortgage loans, etc. This allows risks to be distributed across different sectors and types of borrowers.

3. Regional Diversity: The bank must distribute its lending resources among different geographical regions. This allows you to reduce risks associated with economic and political factors operating in one region.

4. Concentration control: the bank must control the concentration of the loan portfolio for individual borrowers, industries and regions. This can be achieved by setting limits on the maximum proportion of loans provided to one borrower or industry. Diversifying your loan portfolio helps reduce the risk of default and losses from non-payment. However, it also requires more complex management and analysis of credit risks, since the bank must monitor a larger number of borrowers and sectors of the economy.

Monitoring and control of the loan portfolio

Monitoring and control of the loan portfolio are important aspects of diversification and credit risk management. They allow the bank to promptly identify problematic situations and take measures to eliminate them. Here are some basic aspects of monitoring and control of the loan portfolio:

– Regularly update information: The bank must regularly update information about its borrowers to have up-to-date data on the financial condition and solvency of each client. This may include requests for financial statements, analysis of current performance indicators and monitoring of the overall economic situation.

– Setting Credit Limits: The bank must set maximum credit limits for each borrower based on his financial condition and credit rating. This helps control risks and prevent exceeding limits.

– Loan portfolio analysis: The bank should regularly analyze its loan portfolio to identify potential risks and problem borrowers. This may include assessing asset quality, calculating profitability and risk indicators, analyzing loan concentration, etc.

– Developing Strategies for Managing Troubled Assets: The bank must have policies and procedures for managing troubled assets such as non-payments, defaults and late payments. This may include negotiations with borrowers, loan restructuring, sale or transfer of distressed assets, etc.

– Regular training of staff: The bank must provide proper training to its staff so that they are able to effectively monitor and control the loan portfolio. This may include training in financial statement analysis, credit risk assessment, use of analytical tools, etc.

Monitoring and control of the loan portfolio helps the bank minimize the risks associated with non-payments and defaults and take timely measures to protect its interests. They also allow the bank to adapt to changing market conditions and make decisions based on up-to-date information.

Reserve for possible losses

Provisioning for possible losses is an important part of loan portfolio control. The bank must establish reserves to cover potential losses from problem assets. Reservations can be carried out using various techniques, including the use of statistical models, analysis of historical data and expert assessments. The bank must consider factors such as the borrower's likelihood of default, expected losses in the event of default, and the likelihood of loan repayment.

Provisioning for possible losses helps a bank manage risks and ensure financial stability. It also helps the bank comply with regulatory requirements and international standards such as IFRS 9. It is important to note that provisioning for losses is a dynamic process and requires constant updating and review. The Bank must periodically evaluate its reserves and make adjustments based on changes in credit risk and other factors.

Provisioning for possible losses is an integral part of effective monitoring and control of the loan portfolio. It helps the bank anticipate and account for potential losses associated with distressed assets and take steps to reduce or prevent them. Some of the world's major banks that reserve funds for possible losses include:

1. JPMorgan Chase & Co. - in 2020, reserves for possible losses amounted to about $34 billion.
2. Bank of America Corp. - in 2020, reserves for possible losses amounted to about $11 billion.
3. Citigroup Inc. - in 2020, reserves for possible losses amounted to about $8 billion.
4. Wells Fargo & Co. - in 2020, reserves for possible losses amounted to about $8 billion.
5. HSBC Holdings plc - in 2020, reserves for possible losses amounted to about $7 billion.

Regular assessment and updating of credit risk policies

Regularly assessing and updating credit risk policies are important steps to ensure effective credit portfolio management. This allows the bank to adapt to changing market conditions and risks, as well as take into account new regulatory requirements. The assessment of credit risk should include an analysis of various factors, such as the financial condition of the borrower, loan structure, industry characteristics and macroeconomic conditions. The bank must also consider its internal policies and procedures, as well as international standards and regulatory requirements.

Updating the credit risk policy may include changing risk assessment parameters, clarifying procedures for assessing borrowers, making changes to decision-making criteria for issuing a loan, etc. The bank should also pay attention to training staff and updating systems and

technologies related to the assessment and control of credit risk. Regularly assessing and updating credit risk policies helps a bank be prepared for potential risks and issues and improves the efficiency and accuracy of risk assessment. They also help the bank comply with regulatory requirements and international standards such as Basel III. This is an international standard developed by the Basel Committee on Banking Supervision, which sets regulatory requirements for capital, liquidity and risk management for banks. It was introduced in response to the 2008 financial crisis with the aim of strengthening the financial stability of the banking system. The goal of Basel III is to strengthen financial stability and reduce the likelihood of future financial crises. It has been adopted by many countries and is applied internationally.

It is important to note that the assessment and updating of credit risk policies must be systematic and based on an analysis of current data and information. The bank should also take into account the experience and expertise of its employees and engage external consultants when necessary.

Globally, the credit risk policies of many major banks are regularly assessed and updated, including JPMorgan Chase & Co., Bank of America, Barclays plc, Deutsche Bank AG, Credit Suisse Group AG, and Industrial and Commercial Bank of China Limited. Concerning the Republic of Uzbekistan, some of the large banks that may regularly evaluate and update credit risk policies include the National Bank of Uzbekistan, Asaka Bank, Hamkorbank, Kapitalbank, Uzbek Industrial and Construction Bank, Ipoteka-Bank, Aloqabank.

These are just some of the banks that can regularly evaluate and update credit risk policies in Uzbekistan. However, each bank has its own procedures and time frames for assessing and updating credit risk policies.

In conclusion, effective credit risk management is critical for commercial banks. Although each bank has its own unique characteristics and requirements, some general strategies and approaches can be applied to improve the credit risk management process. The initial step is to develop and regularly update a credit risk policy, which must be adapted to changing market conditions and regulatory requirements. This involves assessing credit risk based on various factors such as the borrower's financial health, loan structure, industry characteristics and macroeconomic conditions.

Credit risk assessment should be systematic and based on current data and information. The bank must also consider its internal policies and procedures, as well as international standards and regulatory requirements. Effective credit risk management also requires developing and implementing portfolio diversification strategies to reduce risk concentrations. This may include lending to different industries and borrowers with different financial characteristics. An important aspect of effective credit risk management is building a reliable risk monitoring and control system. The bank must be able to quickly and accurately identify and analyze potential problems and risks associated with the loan portfolio and take appropriate action to manage them. Finally, effective credit risk management requires ongoing training and development of personnel, as well as updating systems and technologies related to risk assessment and control. The bank should also take into account the experience and expertise of its employees and engage external consultants when necessary.

In general, effective credit risk management is an integral part of the successful operation of commercial banks. It allows banks to adapt to changing market conditions and risks, as well as take into account new regulatory requirements. Properly assessing and updating credit risk policies, applying portfolio diversification strategies and developing a robust risk monitoring and control system is key to achieving success in credit risk management.

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