GALAXY INTERNATIONAL INTERDISCIPLINARY RESEARCH JOURNAL (GIIRJ)
ISSN (E): 2347-6915
Vol. 12, Issue 5 May (2024)

BANK RISKS AND METHODS OF THEIR MANAGEMENT

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ABSTRACT

This article describes bank risks, their essence, the importance of management and their methods, types of problematic loans and ways to reduce them. Also, the article analyzes the practical situations of problematic loans of our country's banking system and commercial banks, and offers suggestions for reducing them.

Keywords: Bank, banking risk, activity, loss, assessment, capital, risk management, risk factor, banking risks, credit risk, liquidity risk, risk control.

INTRODUCTION

The effective functioning of the banking system or individual commercial banks, which are considered important parts of the economy, serves to further develop our economy and increase the efficiency of the use of monetary resources. Nevertheless, excessive risk-taking in pursuit of high returns, widespread use of speculative practices can negatively affect the stability of not only individual banks, but also the banking system as a whole. Since banking activity is always associated with risks, the ability to correctly assess risks, optimize the use of insurance tools, and in general, to form a banking risk management system based on modern requirements, has become one of the important tasks.

At present, there are a number of problems in the practice of credit risk management in the activity of commercial banks of our republic. In particular, the large amount of overdue loans, the level of reserve allocations intended to compensate for losses from loans is larger compared to the standard requirements, and the use of international loans is not at the required level are considered as the parts of the essential issues.

In the Decree of the President of the Republic of Uzbekistan " On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025 " **[1],** also stated that " to improve the quality of the credit portfolio and the quality of risk management, to adhere to a moderate level of growth of lending volumes, to conduct a balanced macroeconomic policy, to improve corporate governance and attracting managers with practical experience at the international level, ensuring the financial stability of the banking system by implementing technological solutions for assessing financial risks.

ANALYSIS OF LITERATURE ON THE SUBJECT

Creating a synonym for risk analysis is interpreted differently in different literatures. The word "Risk" is derived from a Spanish-Portuguese word meaning "underwater hill" . Famous lexicographer S. N. Ojegov's dictionary of the Russian language says that "risk" means "desire for success, hope for a happy event", and the popular Webster's dictionary defines risk as "the possibility of danger, harm or loss".**[2]**

V.T. Sevruk: "Risk is the measure of the probability of damage or loss of benefit." [3] V. M. Usoskin: "Risk is always accompanied by uncertainty, and in turn, it is associated with event that are unpredictable or impossible to happen." [4] E.S.Stoyanova: "Risk is the probability of not getting a profit or suffering a loss compared to the planned action." [5] O.I. Lavrushin "Bank risk is a measure of the value of a possible event that will lead to losses." [6]

Our local economists interpreted "Risk" as follows:

I.R.Toymukhamedov, the author of the book "Banking" , says: " Risk is a result of unreliability, sometimes unsatisfactory results of activities carried out with a certain goal in mind and it consists of the losses due to unsatisfactory ending of events " "Credit. Authors of the book "100 questions - 100 answers" Yo. Abdullaev, T. Bobokulov: "Risk is risk of bank, risk of credit." Authors of the book "Economic Theory" A. Olmasov, M. Sharifkhojaev : "Risk is a bank's risk, and the bank should reduce the risk in order to make a profit."

Another Russian economist, G.Panova, defines that "Risk is the risk or possibility of loss or gain when unexpected events occur." He tries to justify two main directions by his definition. These are, firstly, consistent with the opinion of Professor O. Lavrushin about risk, who also teaches that risk represents the losses, and secondly, he wants to emphasize that risk is an unexpected event.

Sh. Z. Abdullaeva , the author of the book "Bank risks and crediting", disagreed with G. Panova's definition of risk and stated as follows: "Risk in banking practice is not always an unexpected events. [9]All banking activities are associated with risks. Knowing that activities or operations are risky, the bank decides or carries out those operation, and it plans to make a high profit as a result of this operation at all points. Because of this we cannot fully join to G.Panova's definition of bank risks." [7] Summarizing the above points, risk has a relationship with the future, which means making a specific decision through analysis and planning.

RESEARCH METHODOLOGY

The theoretical and scientific methodical basis of this article are scientific articles from various economic sources, researches of foreign economists on the issues of bank risk management, and scientific conclusions based on the analysis of experts' opinions. Also, in the course of research, methods were used to make appropriate conclusions by conducting a systematic approach to economic events and processes, comparative analysis with the author's experiences.

ANALYSIS AND RESULTS.

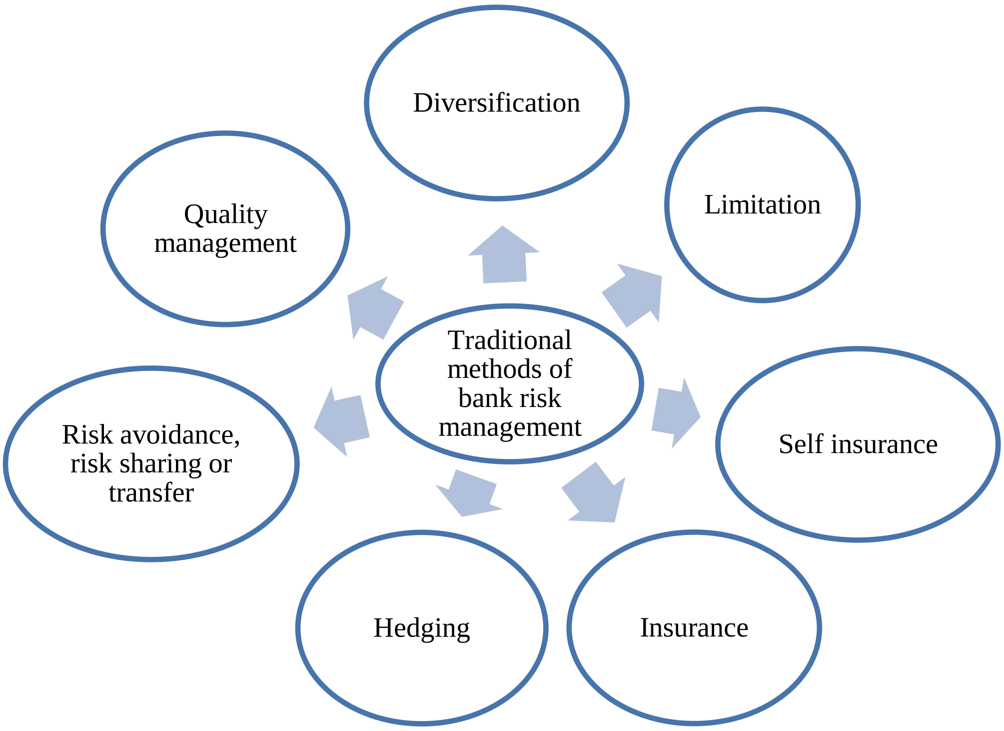
Risk management is the actions aimed at determining the rational combination of risk and profit. The main goal of risk management is to reduce the risks.

Risk management is divided into the following main stages:

1. Identifying risk factor;
2. Analyzing and evaluating the risk factor;
3. Planning actions related to reduce risk or eliminating its consequences;
4. Preventing and controlling risk;
5. Choosing and utilizing risk management methods

6. Gathering information about risk situations and their consequences and making recommendations for the future.

Several methods of risk management have been developed in banking practice:



Limiting is setting a limit,creating a limit for expenses, sales, loans. A limiting system is one of the efficient working instruments in the policies of the bank risks management. Limitation system helps to limit the risks can be done by the bank In most cases, it will not be allowed to cross the limit, except some management decisions.

Limiting system divided into three parts which fills one another: business limit, term limit, risk limit.

Business limit mainly includes followings:

- Limit to lending to corporate clients;
- Limit to investing securities market;
- Limit to interbank credits and deposits;
- Limit to attracting legal entities to make deposits;
- Limit to attracting interbank loans and deposits;
- Limit to release promissory notes.

Term limit means determining the maximum amount of funds attracted or placed for a certain period. Limits can be set for a specific bank businesses or instruments.

Self-insurance method. In some literatures, this method is also called "Risk acceptance" method. In order to cover possible losses on transactions and write off problematic non-performing loans, the bank should form reserve funds at the expense of bank income or additional funds received from shareholders, founders or the state.

Insurance. All risky banking assets, including deposits, loans and investments should be insured. Moreover, the bank property itself must be insured.

Hedging means protecting, insuring if it is translated from English . Hedging refers to the use of one instrument to reduce the risk associated with adverse market factors that are directly related to the price of the instrument. In most cases, hedging is intended to insure against changes in exchange rates, asset prices, and so.on. Hedging can also be considered as an investment to reduce the risks associated with price movements in the market.

Risk avoidance. Avoidance is simply deviating from risk-related activities. This method of reducing risk is not considered perfect. **Distribution of the risk among its participants** (giving a part of the risk to the partners). In the practice of banks, these are effectively used for syndicated loans.

Quality management. This method is one of the most modern methods of risk management. This is the ability of senior bank managers to solve emerging problems before they become serious issues for the bank.

Diversification. This is the distribution of funds across different financial instruments. Diversification is a key strategy in investment and risk management, allowing investments to be spread across different assets or markets to reduce potential risks.

Moving on to the practical analysis, credit risk and its management are of the great importance in the practice of the banking system in Uzbekistan today. Credit risk means the risk of loss as a result of non-fulfillment of the terms of the loan agreement by the borrower, non-payment of the loan amount (partly or fully) and interests within the terms specified in the agreement. It is obvious that the assets and credit deposits of commercial banks of our country are increasing year by year. We can see this trend from the table below :

	Assets	Credits	Credits to assets ratio in percentage
01 01 2024	652 157	471 406	72.3
01 01 2023	556 746	390 049	70
01 01 2022	444 922	326 386	73.3

It can be seen from the data in the above table, the share of commercial bank loans in bank assets is currently 72.3%. It can be concluded that credit risk and its management are important in banking risks.
According to the Regulation No. 2696 of the Central Bank of the Republic of Uzbekistan dated July 14, 2015 "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", problematic loans are defined as "unsatisfactory", "doubtful" and "hopeless" loans. [8]

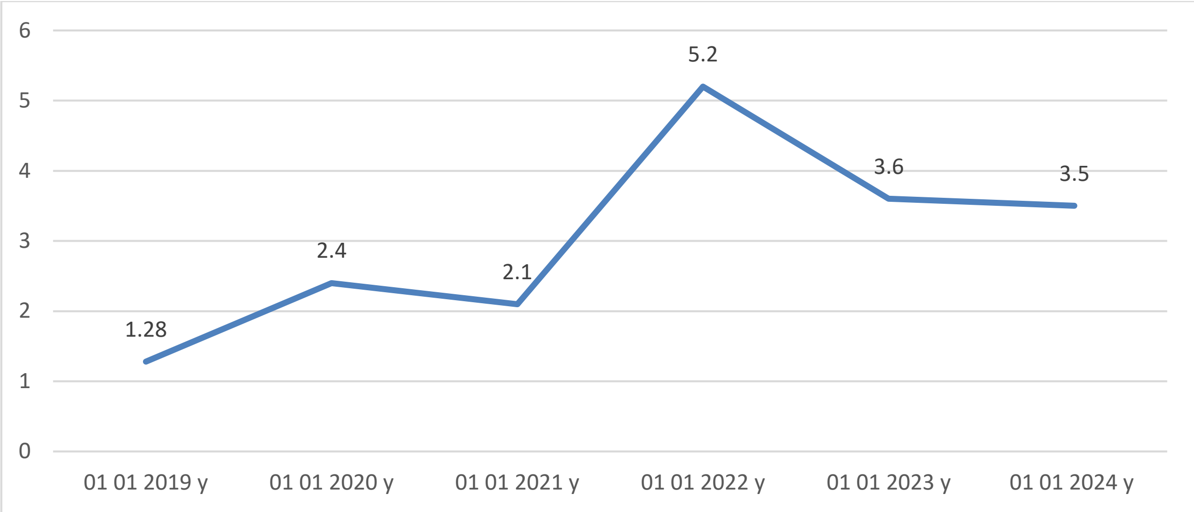


Figure 1. The dynamics of the share of problematic loans in the total loans in the banking system of our republic[8], in percentage.

The share of problematic loans in total loans has a tendency to decrease regularly in 2020 - 2021 . In 2022, 5.2 percent of total loans were problematic loans, and in the following years, a sharp decline was observed. By 2023, it was only 3.5 percent. If we take into account the rapid growth of bank loans and the volume of loans in recent years, this is a negative situation for the banking system.

In recent years, as a result of extending the term of loan payments, the share of problematic loans in state-owned banks was 4%, while in other banks, this indicator reached 3,354 billion soums or 2.4 %.[8]

Data on non-performing loans (NPL) of commercial banks
as of January 1, 2024

billion soum

No	Bank name	Credit portfolio	Problematic loans (NPL)	Share of problematic loans on total loans
Total		**471 406**	**16 621**	**3.5%**
Banks with share of the government		**333 298**	**13 267**	**4.0%**
1	NBU	99 423	3 098	3.1%
2	"Uzpromstroybank" JSCB	57 124	1 283	2.2%
3	JSCB "Agrobank"	54 483	2 071	3.8%
4	"Asakabank"	39 213	1 731	4.4%
5	JSC "Xalq bank"	24 549	1 855	7.6%
6	JSCB "BDB"	21 801	1 935	8.9%

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7	JSCB "Microcreditbank"	14 437	865	6.0%
8	JSCB "Turonbank"	11,894	271	2.3%
9	JSC "Aloqabank"	10 294	157	1.5%
10	"Poytakht bank"	79	2	2.3%
Other banks		**138 107**	**3 354**	**2.4%**
11	JSCMB "Ipoteka-bank"	37 264	1 733	4.7%
12	JSCB "Kapitalbank"	26,586	375	1.4%
13	JSCB «Hamkorbank»	15,854	99	0.6%
14	JSICB "Ipak Yuli"	11 701	251	2.1%
15	Orient Finance Bank	8 448	25	0.3%
16	Invest Finance Bank	6 431	68	1.1%
17	Davr bank	5 004	32	0.6%
18	PJSB "Trustbank"	4 947	101	2.0%
19	Tenge Bank	4 208	109	2.6%
20	JSCB "TBC Bank"	3 730	73	1.9%
21	Asia Alliance Bank	3 712	55	1.5%
22	JSC "ANOR BANK"	3 169	64	2.0%
23	UzKDB Bank	2 651	0.0	0.0%
24	Ziraat Bank	1 595	36	2.2%
25	Universal bank	1 162	35	3.0%
26	JSC «Garant bank»	922	43	4.7%
27	JSCB "Madad Invest Bank"	292	39	13.2%
28	JSCB "Octobank"	249	212	85.2%
29	Uzum bank	50	0.0	0.0%
30	JSC "YANGI BANK"	46	0.0	0.0%
31	JSC "HAYOT BANK"	30	0.0	0.0%
32	JSC "APEX BANK"	29	0.0	0.0%
33	Affiliated Bank SADERAT Tashkent	22	4	17.6%
34	JSCB "AVO BANK"	7	0.0	0.0%
35	JSC "Smart bank"	0.3	0.0	0.0%

State-owned banks have a large share of these loans, which is mainly due to their connection with social loans. The main way to solve this problem is to transform the commercial banks with a state share, which means to take them out of state control step by step.

CONCLUSION

In this regard, in order to prevent the consequences of these situations, following actions are suggested to implement:

- paying more attention to the subject of the loan than the collateral in lending;
- pay attention to the limitation of the total amount of the bank's loan portfolio;
- clearly defining objects of the credit risk management department and its duties;
- diversification of loans by sector, in other words limiting the amount of loans corresponding to one sector.

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