



## Complex System Of Credit Risk Management

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**Abstract:** The creation of an effective system of credit portfolio management as an important element of the complex system of credit risk management in commercial banks of the Republic of Uzbekistan is an urgent problem in the banking system of our republic. taking into account the prudential requirements set by commercial banks in relation to lending activities and as a result of studying the problems of loans given by commercial banks within the framework of state programs, it was recognized as a conclusion what should be paid attention to in managing the composition of the credit portfolio from the point of view of creating a complex system of credit risk management and improving it.

**Key words:** liquidity of commercial banks, credit, modernization, investment, securities, real sector of the economy, banking system, risk, credit portfolio, credit policy, credit portfolio, concentration, credit risk management, Tier 1 capital, transnational, regulatory capital, project .

### INTRODUCTION

The lack of balance between the available and required amounts of stable funding in commercial banks has a negative impact on their liquidity and solvency. As a result, the ability of commercial banks to increase the volume of investments in loans and securities will be limited. However, the modernization of the country's economy creates the need to re-equip the enterprises of the real sector of the economy in terms of technical and technological aspects. This, in turn, creates the need to increase the amount of long-term loans granted by commercial banks to the real sector of the economy.

One of the problems related to ensuring the stability of liquidity and solvency of commercial banks of the Republic of Uzbekistan is the problem of ensuring the proportionality between the growth rate of regulatory capital and the growth rate of the amount of assets at risk.

Creating an effective system for managing the composition of the credit portfolio as an important element of the complex system of credit risk management is one of the urgent problems in the banking system of our republic.

From the point of view of improving the credit risk management system, the main attention in managing the composition of the credit portfolio should be focused on:

- the degree of diversification of the loan portfolio according to the branch nature;
- qualitative changes in classified loans;
- concentration of loans.

The prudential requirements set by the Central Bank of the Republic of Uzbekistan regarding the lending activities of commercial banks should be taken as a criterion for focusing on the concentration of loans.

Currently, the Central Bank of the Republic of Uzbekistan has established the following prudential control requirements for the credit policy of commercial banks, and their criteria are as follows:

- the maximum amount of unsecured loans granted to one client or a group of related clients (criterion: 5% of the bank's first-tier capital);
- the maximum amount of secured loans granted to one client or to a group of related clients (criterion: 25% of the bank's Tier 1 capital);
- the maximum amount of large loans (criterion: up to 8 times the first-tier capital of the bank);
- the maximum amount of unsecured loans granted to one insider (criterion: 5% of the bank's first-tier capital);
- the maximum amount of secured loans granted to one insider (criterion: 55% of the bank's first-tier capital);
- the maximum amount of loans to all insiders (criterion: 50% of the bank's Tier 1 capital).

Commercial banks should make extensive use of effective management strategies in managing their loan portfolios. This strategy includes:

- achieving the formation of the optimal structure of the credit portfolio in terms of risk and profitability levels in banking activity;
- aligning the quality and quantity of the loan portfolio with the current state of the national economy;
- monitoring and evaluating the quality of the loan portfolio.

The process of loan portfolio management is to determine the areas directly related to the formation of the loan portfolio, which allows strategic and tactical management of the commercial bank. First, it is based on the fact that commercial bank loans are an important source of financing the activities of economic entities, and secondly, it is explained by the high share of interest income from loans in the gross income of commercial banks.

The lower limit of the profitability of the loan portfolio is determined by the sum of the costs of loan operations and the interest paid on the resources involved. Therefore, the cost of credit operations and the cost of the involved resources play an important role in keeping the price of loans at a low and stable level.

It is worth noting that in foreign countries with high inflation rates, the possibility of reducing the interest rates of commercial bank loans is limited. The reason for this is based on the following:

firstly, commercial banks should take into account the level of inflation when setting loan interest rates;

and secondly, with the inability of the Central Bank to reduce its refinancing rate in the context of high inflation.

The high level of credit risk in commercial banks indicates that they have not improved their loan portfolio management practices.

If it is arranged that the Ministry of Finance will pay off the problematic debts arising from the part of the loans granted by the commercial banks under the state programs based on the guarantee of the Government. Reduction of overdue loans in our republic is achieved. As a result, it is possible to increase the amount of interest income of banks from loans.

✓ Financing of state programs cannot be organized without the participation of commercial banks. Each program must provide specific resources to ensure that the loan granted by the commercial bank is not returned. In many state programs implemented in the economy of the Republic of Uzbekistan, sources of repayment of overdue debts on loans given by commercial banks within the framework of this program are not indicated. Therefore, a large amount of overdue debt is arising on loans granted under government programs, and its repayment leads to an increase in

problem loans. This creates a negative situation in the banking system regarding the liquidity and financial stability of commercial banks. Also, there is an increase in the level of transformation risk in banks.

✓ In accordance with the programs of projects for the development of neighborhood infrastructure in 2022-2023 approved by the Resolution of the President of the Republic of Uzbekistan No. PQ-408 of October 25, 2022:

✓ • construction and repair works are financed through the funds "Obod Kyshlov" and "Obod Mahalla" under the Council of Ministers of the Republic of Karakalpakstan, regions and Tashkent city hokims. In this case, funds are allocated from the republican budget of the Republic of Uzbekistan to local budgets as interbudgetary transfers;

✓ • Funds allocated in 2022 and remaining unutilized until the end of the year will not be returned to the State budget, and these funds will be purposefully directed to complete the construction and repair works of the facilities provided for in the Programs in 2023;

✓ • in the event that the allocated funds are not enough to finance the amount of work determined based on the project-estimate documents, additional costs will be financed from the budget of the Republic of Karakalpakstan, additional sources of the local budgets of the regions and the city of Tashkent;

✓ • address lists of construction and repair works for financing are approved by the Council of Ministers of the Republic of Karakalpakstan, regional and Tashkent city hokimities;

• Until November 15, 2022, the Council of Ministers of the Republic of Karakalpakstan, regions and Tashkent city hokims were assigned the obligation to transfer funds in the amount of 1.7 trillion soums to the "Obod Kyshloh" and "Obod Mahalla" funds;

• in the future, depending on the need, it was decided to allocate additional funds in the amount of 1 trillion soums for the financing of these construction and repair works;

• The Chairman of the Council of Ministers of the Republic of Karakalpakstan, the governors of the regions and the city of Tashkent, as well as the heads of relevant ministries and departments, were assigned personal responsibility for the systematic control of the targeted and effective use of the funds allocated within the framework of the programs and for preventing the occurrence of creditor debts.

Due to the reduced demand for international loans due to the current coronavirus pandemic, their interest rates are at a very low level. However, the recovery of the world economy after the coronavirus pandemic will undoubtedly lead to an increase in the interest rates of international loans. As a result, the amount of payments on international loans obtained at a floating rate will increase significantly.

Foreign banks, including multinational banks, are always interested in providing international loans with a floating interest rate. The reason for this is that when international loans are issued at a floating rate, the spread (margin) received by the lending bank remains unchanged, regardless of how their market value changes. International loan recipients are always interested in receiving international loans at a fixed (fixed) rate. Because when an international loan is taken at a variable interest rate, it pays off the loan at the rate at the time it was taken, regardless of how their market value changes.

Deterioration of the project initiator's reputation reduces his ability to attract financial resources necessary for financing investment projects. In particular, it will be difficult for him to get loans from commercial banks. That is, commercial banks are not interested in lending to customers with a bad reputation. In particular, according to the standardized approach proposed in the Basel-2 standard developed by the Basel Committee, the risk level of loans given to customers with a low credit rating is high.

**Conclusion:**

In order to create an effective system of managing the composition of the credit portfolio as an important element of the complex system of credit risk management, based on the above opinions and considerations, we express our conclusion in the following order.

1. From the point of view of improving the credit risk management system, the main attention should be paid to the following when managing the composition of the credit portfolio:

- the degree of diversification of the credit portfolio according to the branch nature;
- changes in the quality of classified loans;
- to the concentration of loans.

- The prudential requirements set by the Central Bank of the Republic of Uzbekistan regarding the lending activities of commercial banks should be considered as a criterion for focusing on the concentration of loans.

2. Commercial banks should widely use effective management strategies in managing their loan portfolio. This strategy includes:

- achieving the formation of the optimal structure of the credit portfolio in terms of risk and profitability levels in banking activity;
- aligning the quality and quantity of the loan portfolio with the current state of the national economy;
- monitoring and evaluating the quality of the loan portfolio.

3. Commercial banks should widely use effective management strategies in managing their loan portfolio. This strategy includes:

- achieving the formation of the optimal structure of the credit portfolio in terms of risk and profitability levels in banking activity;
- aligning the quality and quantity of the loan portfolio with the current state of the national economy;
- monitoring and evaluating the quality of the loan portfolio.

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