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## **Commercial Banking Financial Management and Increased Efficiency of Credit Risk Management**

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### **ABSTRACT**

*The article examines the scientific and practical significance of the processes related to the role of credit risk management in increasing the efficiency of financial management of commercial bank.*

### **KEYWORDS**

*Banking System, Bank Resources, Credit Risk, Bank Interest Risk, Bank Service Quality, Stability Of Bank Resources.*

### **INTRODUCTION**

In the conditions of the formation of market relations, the demand to improve the management processes in the banking system based on modern requirements is increasing. In this regard, revision and improvement of management processes in the banking system is one of the current topics. At the meeting on the banking system on October 25, 2019, the President of our country emphasized that stabilizing and strengthening the activities of commercial banks is a systematic, deep theoretical and methodological problem. In this regard, we need to study the experience of foreign banks, to support it, and to study the operation of applying the positive aspects of the foreign banking system to the banking system of our country.

No matter which bank you ask, the most pressing issue today is loan foreclosure. Despite the opening of separate monitoring units for loan collection in banks and the granting of various powers to enforcement bureaus, this issue remains a sore point of the banking system. As the main reason for this, it is possible to point out that various irregularities are allowed in granting credit to the client, mechanisms for granting credit are still centralized, and the client's credit documents are not professionally studied by a specialist. Of course, if credit is given to clients without studying these reasons, it will be a problem to return the interest and principal amount of the loan in the future, which will be the main reason for the occurrence of credit risk. In our country, the main attention is still paid to the provision of collateral for customers in the provision of loans.

Collateral should be considered as a last resort. When granting a loan, first of all, it is necessary to pay attention to a deep analysis of the client's working capital, to study the history of previously received loans.

KAMI was opened in our country in 2004 and is the National Institute of Credit Information. It collected and analyzed all the documents related to credit, that is, the credit history is formed. We should not forget that the most important attention should be paid to the client's current activity before granting a loan. It should take into account what activities its current turnover is focused on, what its market situation is, and its current trends in general. We need to determine the demand for credit through various calculation methods in foreign operations. If the interest rates in the market increase, the current price will decrease, if not, the current price will increase. There are several factors affecting the level of similar credit risks. In foreign practice, credit risk can be assessed by determining the amount of losses on assets. We can express it in the formula as follows:

$$EL=PD*LGD*EAD$$

Here:

EL-expected losses

PD - is the probability of default

LGD is the loss ratio

EADs are assets at risk of loss.

Commercial banks can assess credit risk using this formula. A process that does not take a lot of time for the bank, or the bank employee, and at the same time allows to more accurately calculate the amount of losses that can be incurred from credit risk.

Based on the above, in our opinion, to minimize or eliminate credit risk:

- Proportionality of credit quantity and collateral quantity and quality;
- Simplifying the process of crediting clients and providing convenience to their clients;
- Increasing the stability of bank resources and the quality of banking services;
- To increase the quality and competence of personnel in the banks' activities.

We believe that the implementation of the above proposals will help to increase the efficiency of the banking system and banks of our country.

The issue of comparing and identifying the relationship of risks in banking activity is considered complex and complex. In recent years, with the rapid development of financial markets, products, and organizations providing financial services, the emergence of significant legislation and knowledge related to the regulatory and legal order in the field of risk creates additional complexity.

The risks to which the bank is prone can have a combined effect, which should be taken into account when creating risk management systems, in particular, interest rate risks. This risk can be considered both separately from other systemic risks faced by banks in their economic activities and concerning other risks. This is because, in most cases, the variability of market conditions for banking operations is determined by the simultaneous influence of many factors. It should be noted that any banking activity is prone to accumulation of risks. On this basis, economists distinguish risks associated with unexpected events (Table 1).

**Table 1**

**Risk categories related to banking activities<sup>1</sup>**

<b>RISK CATEGORIES RELATED TO BANKING ACTIVITY:</b>				
<b>SYSTEM RISKS</b>	<b>PRICE RISKS</b>	<b>CREDIT RISK</b>	<b>OPERATIONAL RISK</b>	<b>REGULATORY RISK</b>
– these are general risks resulting from a maximum decrease in the money supply, as well as certain restrictions imposed on banks.	– these are risks that include the possibility of an unexpected increase in interest rates, in which the bank will have assets that mature after the maturity of liabilities.	– these are the risks that occur if the received loans are not paid in a certain amount and at a specified time.	– these are general risks that reflect risk management characterized by incompetence or the implementation of certain inefficient operations.	This includes unexpected changes in regulatory documents regulating the activities of banks, which hinder efficient and safe operation.

Usually, the risk indicator is calculated as follows:

$$RI = \frac{PC}{VR},$$

where: RI is the risk indicator;

PC – initial installed capital;

VR – the value of risky assets.

A risk indicator can be obtained as a result of calculations. As a scale of the risk indicator, certain circular intervals are established, which allow to assessment the possible level of risk of banks.

It should be noted that the market value of financial instruments with a fixed yield (for example, constant coupon bonds) decreases when the market rate of return increases, and increases when it decreases.

The interest rate risk applied to banks can be defined as the reduction of net income to the risk of loss of equity capital due to changes in interest rates, as a result of which the average value of funds raised exceeds the value of funds placed.

Bank interest rate risk management includes asset and liability management. The peculiarity of this risk management is its limitation. On the one hand - due to liquidity and credit risk requirements, on the other - due to price competition with other banks. There are several concepts of interest rate risk management.

<sup>1</sup> Formed by the author according to the research results

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