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PRINCIPLES OF EFFECTIVE CREDIT RISK MANAGEMENT IN COMMERCIAL BANKS

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Commercial banks play an important role in ensuring financial stability in the country's economy, but they are exposed to various risks. Therefore, it is vital for banks to create effective risk management systems and monitor them continuously. Credit risk, operational risk, liquidity risk and market risk are the main types of risk faced by banks.

Since commercial banks derive their main income from loans, effective management of this type of risk is important. Credit risk is the possibility that a borrower will not fulfill its debt obligations in the specified amount and within the specified period, and creditors face the risk of not receiving the principal and interest on the loan, which can lead to disruptions in cash flow and increased costs.

The objective of credit risk management is to maximize a bank's risk-adjusted return while keeping the exposure to credit risk within acceptable parameters. Banks should manage credit risk across the entire portfolio and the risk of individual loans or transactions. Banks should also consider the relationship between credit risk and other risks. Effective credit risk management is an important component of a comprehensive risk management approach and is essential for the long-term success of any banking organization. Banks are exposed to credit risk through a variety of financial instruments, such as acceptances, interbank transactions, trades, foreign exchange transactions, financial agreements, swaps, bonds, shares, options and commitments, and guarantee and settlement transactions.

Effective credit risk management is of paramount importance for every financial institution. There are several principles for commercial banks to effectively manage credit risk. One of them is that the board of directors is responsible for approving and periodically (at least once a year) reviewing the bank's credit risk strategy and key credit risk policies. The strategy should reflect the bank's risk tolerance level and the expected level of profitability achieved by accepting various credit risks. This is also emphasized in our legislation: "Preparing conclusions on the risks associated with new bank products before their introduction, conducting stress tests, and assessing the bank's risk profile and compliance with the bank's risk appetite and risk limits at least once a year"[1]Included in the tasks of the Risk Department.

The second principle is reflected in the responsibility of management to implement the credit risk strategy approved by the board of directors and to develop policies and procedures for identifying, measuring, monitoring and controlling credit risks. Such policies and procedures should cover credit risks inherent in all activities of the bank, as well as at the individual loan and portfolio level.

The third principle is that banks should identify and manage the credit risks inherent in all products and activities. Risks in products and activities that are new to banks should be subject to appropriate risk management procedures and controls and should be approved in advance by the board of directors or its relevant committee before they are implemented.

The fourth principle states that banks should have a system for monitoring the status of individual loans, which includes determining the adequacy of reserves.

The fifth principle recommends that banks develop and use an internal risk rating system to manage credit risk. The rating system should be appropriate to the nature, size and complexity of the bank's activities.

The sixth principle states that banks should establish a system for independent ongoing assessment of their credit risk management processes, and that the results of such assessments should be reported directly to the board of directors and senior management.

According to the seventh principle, banks should have a system in place for early treatment in the event of deteriorating loans, management of problem loans, and similar corrective situations.

Credit risk, if not properly mitigated, can lead to loan losses for the lender. These losses negatively impact the profitability of financial services companies. It is extremely important to understand any collateral security available and structure the loan accordingly. The main objective of credit risk management is to maximize the bank's ability to earn a return commensurate with the level of risk it accepts. This

[1]https://lex.uz/ru/docs/-6436466

allows the bank to not only collect the principal and interest on the loan, but also to diversify the portfolio, improve the quality of loans, and ensure overall profitability. Thus, credit risk management is an important tool not only for mitigating risks, but also for ensuring the long-term success of the bank.