

## Risk Assessment Problems of Commercial Banks

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### *Abstract*

*In the current conditions, when the digital economy is entering all aspects of social life on a large scale, the demand for improving the banking system and management processes in this system based on modern requirements is increasing.*

**Keywords:** Risk, bank profit, statistics, correction coefficient, income, credit, operation.

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One of the main reasons for the improvement of commercial banks is that the weight of the participation of the Republic of Uzbekistan in the world economy is increasing, and the scope of international economic relations is expanding. The role of banks in this regard is known to all of us, but the work being done on banking risks and their management, the study of banking risks, their analysis and evaluation today depends on the talent and knowledge of each economist.

It was noted that macroeconomic stability is a solid foundation of economic reforms, and that the main task of the Central Bank and the Government will be not to exceed 10 percent of price growth in the framework of inflation targeting next year.<sup>1</sup>

At the same time, in our republic, there are still unsolved problems in risk assessment and management of commercial banks.

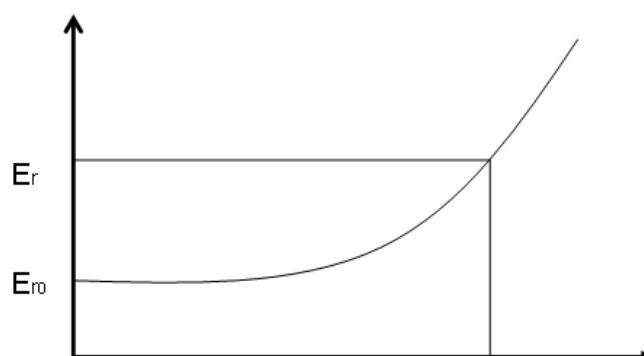
As any economic activity is aimed at making a profit, the intended result in the activity of commercial banks is to make a profit first. And it will certainly be associated with risk. Risk is considered one of the main elements of business activity, and it is a multifaceted concept with a wide meaning. Therefore, in order to achieve the efficiency of the bank's activity, to ensure its financial stability, it is necessary to thoroughly study the existing risks in the economy and their impact on the bank's activity.

Risk analysis begins with identifying its sources and causes.

There are the following reasons for the occurrence of risks in banking activities:

- lack of market research;
- inaccuracy or insufficient information in the field of resource attraction and deployment;
- incorrect or incomplete information about the loaned project, object and clients, their financial status;
- the specific characteristics of the activities of industries or sectors are not taken into account;
- awareness of subjects or clients, level of knowledge and diversity of goals for use of funds, etc.

The task of the bank is to achieve the optimal ratio of riskiness and profitability of its operations.



**Figure 1. The relationship between risk and benefit**

<sup>1</sup>Address of the President of the Republic of Uzbekistan Shavkat Mirziyoyev to the Oliy Majlis and the people of Uzbekistan 20.12.2022.

Here:  $E_r$  is the amount of planned profit, %;

$E_{r0}$  is the amount of profit the investor plans in the absence of risk.

If the risk is large enough, the expected return should be large. The curve shown in Figure 1 is the indifference curve. This line characterizes the argument that the increase in the amount of earnings should compensate for the additional risk. The curve shows the amount of profit an investor can get even when the level of risk is zero.

The impact of the bank's risky operations on additional income can be determined by the following formula:

$$Q_d = BF \Phi \frac{H}{100},$$

This where:

$Q_D$  - risk

additional income received on account of the implementation of operations ;

BF - balance profit;

N is the acceptable level of risk for the bank, it is determined by the following formula:

$$N = \frac{P_1 + P + \dots + P_i + P_n}{K_p} EK_k,$$

Here:

$R_i$  – types of risk,  $i=(1,n)$ ;  $K_q$  is the sum of credit deposits for a given operation,  $K_r$ -the composition of customers and the corrector coefficient of creditworthiness;  $E$  is a corrective coefficient that takes into account the movement of external factors of risk;

Achieving the optimal level of bank risk leads to earning a large amount of income . An increase in the level of acceptable risk can lead to the bankruptcy of the bank.

If we use the economic category of losses, the risk can be described quantitatively. Risk indicates the amount of losses that can be seen in the implementation of certain operations. However, it is not always possible to estimate these losses with sufficient accuracy.

If we say that the amount of possible losses is related to some indicator characterizing the bank's activity, for example, the amount of credit resources, the amount of expenses or the amount of bank income related to the implementation of a specific operation, then the magnitude of the risk is formed in a relative form.

It is not possible to calculate all the factors of bank risks, so the assessment is determined based on the exact ones allowed and the result is approximated to it. The basis of risk assessment is to find the relationship between the exact number of bank losses and the probability of their occurrence. This relationship is reflected in a specially made curve of probability of occurrence of a certain level of losses. Various methods are used to create it: statistical, expert assessment, calculation methods.

The essence of the statistical method is that it analyzes all the statistical data related to the effectiveness of the bank's operations in order to calculate the probability of losses. In this case ,

check the accounts increase compared to for from a large statistical sample used . The frequency of occurrence of losses is determined by the following formula:

$$P(x) = \frac{m}{n},$$

Here, m is the number of occurrences of losses at a certain ( concrete ) level;

n is the total number of cases in the selection.

Perhaps this is a quantitative indicator of the level of probability that the event will occur. The probability of any loss is always compared to the fixed amount of the outcome. Risky situations are characterized by a probability distribution, and this provides an opportunity to determine the probability of deviation from the expected return. A probability distribution represents all the situations that have occurred as a result of the decisions made and the exact value of the probabilities corresponding to this distribution.

Amounts and interest rates serve as a basis for forecasting future earnings. For this purpose, it is advisable to calculate at least 3 options: the most probable - base, pessimistic - the worst, optimistic - the best. This approach is called options analysis. Since there are actually many options for the development of events, the presentation of data is adopted in the form of a "decision tree". The final state of a certain period corresponds to the peak (highest level), and the branches of the tree are the probability of the event occurring. The probability of development of each situation represents that it will lead to a change in income, which indicates that it is risky.

In conclusion, in the conditions of today's digital economy, it will be important to pay attention to the following in the future in terms of mathematical modeling, factor analysis and optimal decision-making by receiving a very large amount of necessary information regarding the study, analysis, and assessment of risks in the activities of banks:

- Use of experiences of foreign countries in the analysis of bank risks;
- Improving the qualifications of potential personnel who correctly assess bank risks in current operations, have a perfect understanding of information technology and the field of currency and credit relations, and pay attention to their effective work;
- Reliance on modern banking system methodologies in risk assessment.

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