

IMPROVING THE METHODOLOGY OF CREDIT RISK MANAGEMENT IN LENDING TO BUSINESS ENTITIES

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Under market economy conditions, commercial bank loans represent one of the primary sources for financing business entities. Bank credits enable enterprises to expand production capacities, form working capital, adopt new technologies, execute investment projects, and generate employment opportunities. Simultaneously, lending to commercial entities constitutes one of the highest-risk operational directions for banking institutions; failure to recover credit funds fully and in a timely manner can adversely affect a bank's liquidity, profitability, and capital adequacy. Therefore, effective credit risk management serves not only to secure the financial stability of commercial banks but also stands as an essential prerequisite for the uninterrupted financing of entrepreneurship.

Credit risk is an economic category reflecting the probability that a creditor will incur financial losses due to a borrower's inability to fulfill contractual obligations in full or on time. In business lending, this risk is directly tied to the enterprise's financial position, business model viability, cash flow adequacy, prevailing market conditions, management quality, sectoral competition, and macroeconomic factors. Evaluating credit risk proves particularly intricate for small and newly established enterprises due to limited financial statements, absent credit histories, and insufficient collateral coverage.

Traditional credit risk management methodologies assess borrower creditworthiness primarily through financial statements, historical credit records, and pledged collateral. While moderately effective, this approach necessitates a more comprehensive framework in modern economic environments due to the inherent dynamic volatility of entrepreneurial operations. Evaluating an enterprise's debt repayment capacity solely through balance sheet metrics fails to fully capture its future cash flows and prospective business viability.

From this perspective, implementing a comprehensive evaluation combining financial and non-financial indicators holds critical significance in credit risk

management. Alongside enterprise liquidity, financial autonomy, profitability, and debt burden, metrics such as management quality, market positioning, product competitiveness, customer base structure, and business plan feasibility must be factored in. Integrating these indicators into a unified assessment model enhances the analytical quality of credit decisions.

In modern credit risk management methodology, digital technologies and data-driven analytics occupy a prominent position. Automated credit scoring systems facilitate the rapid processing of large-scale financial data to determine borrower creditworthiness accurately. Leveraging legal financial data—including bank account turnovers, tax payments, and electronic commerce transactions—enables precise credit risk profiling. This approach accelerates credit decision-making while mitigating errors stemming from the human factor.

Portfolio diversification also holds critical significance in credit risk management. Excessive concentration of a bank's credit portfolio within a specific sector, region, or borrower segment heightens systemic vulnerabilities. Consequently, credit portfolios must be diversified across industries, geographic regions, loan maturities, and borrower categories. Furthermore, employing stress testing to proactively evaluate the potential impacts of adverse shocks—such as interest rate fluctuations, exchange rate volatility, inflationary pressures, or drops in market demand—on the loan portfolio is essential.

In Uzbekistan, the expansion of commercial lending to business entities underscores the growing urgency of effective credit risk management. While funding small enterprises remains imperative for boosting economic activity, securing loan recovery is fundamental to maintaining banking system stability. Therefore, establishing an optimal equilibrium between risk mitigation and credit accessibility is vital when financing business operations.

Post-disbursement monitoring represents another crucial pillar in managing credit risk. Commercial banks must extend their scope beyond pre-lending evaluations by continuously tracking the targeted utilization of funds, corporate financial health, and cash flow dynamics. Implementing early warning indicators (EWIs) allows banks to detect potential non-performing loans preemptively and execute timely remedial actions.

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Additionally, transitioning away from over-reliance on collateral toward cash-flow-based lending constitutes a highly promising direction for credit risk methodology. Although collateral serves as a key credit risk mitigant, the primary source of debt repayment should derive from cash flows generated through business operations. Thus, credit analysis must prioritize an enterprise's ongoing revenue-generating capacity.

Consequently, refining credit risk management methodologies in enterprise lending necessitates the seamless integration of modern digital technologies, comprehensive credit scoring, cash-flow-driven evaluations, portfolio diversification, and continuous monitoring systems. Advancing these mechanisms will mitigate credit risks for banking institutions while simultaneously expanding access to credit resources for financially viable enterprises.

Research findings demonstrate that managing credit risk effectively during enterprise lending serves as a key prerequisite for maintaining commercial bank financial stability and optimizing credit resource allocation. Elevated credit risk levels adversely affect bank liquidity and profitability while constraining future financing avenues for business entities. Therefore, enhancing credit risk management methodologies must aim directly at sustaining a balance between the interests of the banking sector and the real economy.

Traditional approaches to credit risk management—namely assessment systems based on financial statements, credit histories, and collateral—are no longer sufficiently comprehensive in modern economic conditions. Due to the dynamic nature of enterprise operations, evaluating borrower creditworthiness requires considering not only current financial standing but also future cash flows, business model viability, and market prospects. On this foundation, formulating a multi-factor and dynamic methodology for credit risk management is essential.

First and foremost, refining the credit scoring system is imperative. Alongside evaluating borrower liquidity, profitability, debt burden, cash flows, and credit history, factors such as industry type, prevailing market conditions, management quality, and growth prospects must be incorporated. Utilizing modern statistical and econometric models to

estimate the impact of these variables on default probabilities will enable banks to reach more grounded credit decisions.

The second crucial direction is developing a digital credit risk management architecture. Digital technologies facilitate the rapid analysis of an entrepreneur's financial transactions, credit history assessment, and automated risk profiling. Leveraging cash flows from bank accounts, verified tax data, and other available financial intelligence allows for more precise creditworthiness evaluations. This is particularly vital for financing small business entities that lack sufficient collateral or extensive credit histories.

Thirdly, the principle of cash-flow-based lending should be expanded within credit risk management. An entrepreneur's real operating revenues and cash flows must serve as the primary criteria for debt repayment capacity. Consequently, collateral should be viewed as a secondary, risk-mitigating instrument. This approach expands access to credit for financially sound entrepreneurs who lack substantial physical collateral assets.

Fourthly, credit portfolio diversification and strict concentration risk controls are necessary. Excessive concentration of bank loans within a specific sector or borrower segment can sharply elevate credit losses under adverse economic conditions. Therefore, commercial banks must regularly analyze portfolio composition, establish sector-specific and regional lending limits, and enforce precautionary measures for high-risk segments.

Fifthly, stress testing and scenario analysis must become integral components of credit risk management. Preemptively modeling the impact of macroeconomic shocks—such as interest rate hikes, exchange rate volatility, accelerating inflation, or contractions in domestic and foreign demand—on enterprise cash flows allows banks to prepare for potential losses. Such analytical frameworks are vital for identifying portfolio vulnerabilities and proactively mitigating risks.

Sixthly, post-disbursement monitoring mechanisms need to be strengthened. Continuously tracking the targeted utilization of funds, corporate financial health, and shifts in payment discipline helps prevent loan defaults. Implementing early warning indicators (EWIs) proves highly effective in this regard; declining revenues, sharp drops in account turnover, or

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deteriorating payment timeliness serve as clear signals of escalating credit risk.

Seventhly, enhancing human capital and professional competencies of bank personnel is essential for managing credit risk. Credit officers must possess modern expertise in financial analysis, risk management, business model evaluation, and digital analytics. This elevates the qualitative standard of credit decisions while reducing subjective evaluation bias.

Overall, the future framework for enterprise credit risk management methodology must rely on the integration of comprehensive scoring, digital data streams, cash-flow-based evaluations, portfolio diversification, stress testing, and continuous monitoring principles. Integrating these mechanisms enables banks to minimize credit risks and effectively control non-performing loan (NPL) ratios.

In conclusion, the primary objective of refining credit risk management methodology is not to restrict lending, but rather to ensure high-quality and sustainable credit allocation based on precise risk assessments. A modern lending ecosystem that reflects the true financial potential of business entities reduces risks for commercial banks while expanding access to financial resources for entrepreneurs. Ultimately, this reinforces financial linkages between the banking sector and entrepreneurship, fostering necessary prerequisites for sustained growth in investment activity, industrial output, and employment.

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