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ECONOMIC MEANING AND CLASSIFICATION OF BANK RISKS

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Abstract: In carrying out their activities, commercial banks, as well as any business entities operating in a market economy, strive for maximum profit. However, it should be noted that any operations carried out by banks have ahighriskimpact.The article analyzes the economic significance of banking risks, the scientific views and approaches of various scientists and researchers, as well as focuses on their calcification.

Keywords: risk, classification, banking risks, types of banking activities.

Introduction

The fact that there is still no specific approach to the interpretation of bank risks makes it a key issue to analyze and study as a current issue. In domestic and foreign economic literature and research, we can see different definitions and approaches given to bank risks.

Commercial banks, like any business entities operating in a market economy, focus their activities on maximizing profits. The bank's activity is characterized by risks arising from the specific characteristics of its activities, in addition to the impact of general risks specific to economic entities.

The peculiarity of the risks of bank operations is that the level of risk assumed by the bank is mainly determined by the objective or subjective level of risk of customers. The higher the level of risk inherent in the type of activity of the bank's customers, the greater the risk that the bank can expect when working with these customers. Transactions related to the attraction of temporarily free funds in the money market and their placement in various types of assets (including loans) determine the financial stability of commercial banks of their customers, as well as the state of the money market and their specific position in the state economy in general.

Literature review

In domestic and foreign economic literature, there is no single approach not only about the nature of bank risk, but also about its classification and division into categories. First of all, it depends on the different goals and tasks set in the systematization of risks, as well as the features of using the classification for the development of further proposals in the field of risk management.

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Classification of risks means their distribution, division, division into specific groups according to certain criteria in order to achieve the specified goals. Scientifically based classification allows to clearly determine the position of each type of risk in the overall system.

In his research, Tojiev (2018) defines bank risk as he puts it, that is, bank risk is the loss of part of the bank's funds in the process of carrying out banking activities, or when carrying out bank operations (deposit, credit, investment, currency) hoping for a positive result, above. states that the mentioned negative points are likely to occur and classifies them as follows (Table 1):

Table 1

Bank risks classification

Criteria	Types of risk
Banking activity to the results effect reach level according to	low, average and complete risks
To the body to arrive to the forms according to	Systematic risks , irregular risks
To the body to arrive reasons according to	pure and artificial risks
Impact on time according to	The past with dependent , current or prospective risks
Management method on this	It's open and closed
Calculation method according to	General and private
To the body to arrive to the field according to	External and internal risks

Kovalenko (2013) and Mastyaevaand Mirzakhanyan(2014) consider bank risk as the possibility of losses and damages in the form of loss of assets, inability to receive planned income or additional expenses as a result of the bank's financial operations.

Penyugalova (2013) made the following conclusions as a result of her research in the field of banking risks, according to which banking risk is a subjectively objective category, which reflects the situation in which there is a possibility of (different than expected) development of events arising from the uncertain influence of external and internal factors in banking activity. these alternatives are actions that require decision-making taking into account the actual deviations from the available action (inaction) and expected results.

Semenova and Kutukovalar (2019) define bank risks in their scientific work, bank risk is an activity carried out in conditions of uncertainty aimed at obtaining a high financial result and eliminating possible unpleasant situations, and divide it into the following classifications. (Table 2)

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Table 2

Classification of banking risks

Group	Risk class	Risk category
External risks	Operating environment risks	- Regulatory risks; - Competitive risks; - Economic risks; - Country risk
Internal risks	Management risks	- Risk of fraud; - Risk of ineffective organization; - The risk of the bank's management not being able to make firm, purposeful decisions; - The risk that the bank system of payment of wages does not provide adequate incentives.
	Financial services delivery risk	- Technological risks; - Operational risks; - The risk of introducing new financial instruments; - Strategic risk.
	Financial risks	- Interest rate risk; - Credit risk; - Liquidity risk; - Unbalanced risk; - Currency risk; - The risk of using debt capital.

Economist professor Babicheva (2008) proposes a tariff for bank risk, according to which he states that "bank risk is the probability of an event that will negatively affect the bank's profit or capital."

In their studies, Bogolov et al. (2020) and Nikolaeva (2016) gave a standard rate to banking risks, that is, they argue that banking risk is the probability of unexpected events with negative consequences, expressed in the loss of profits, income or assets, characteristic of banking activities.

Professor Abdullaeva (2003), one of our mature national economists in the field of banking activity, gave a generalized definition of bank risks, that is, bank risk is the risk of losing part of the bank's funds in the process of carrying out banking activities , or hoping for a positive result in banking operations (deposit , credit, investment, currency) gives the definition that it is a transfer and describes the risks of the bank in detail (Table 3).

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Table 3

Systematic classification of bank risks

Risk criteria	Types of risk
According to the level of influence	Low, medium, full
According to the form of emergence	Systematic, unsystematic
According to the reason for the emergence	Pure, artificial
By the time of effect	Retrospective, current, prospective
By way of management	Open, closed
According to the method of calculation	Private, general
By field of origin	Internal, external
By type of banking operations	Balance transactions, off-balance sheet transactions, financial transactions
By impact factor	Political, economic, natural
By coverage area	District, region, country, world

Research methodology

In the course of research, the theoretical foundations of the emergence and formation of bank risks were studied, comparative analysis of bank risks in different periods and countries, many theoretical literature on the subject, logical thinking based on empirical research, scientific observation, systematic approach methods were widely used.

Analysis and results discussion

During their activity, commercial banks face various risks. In the conditions of the breadth of the banking industry and the diversity of banking products and services, the classification of banking risks is of great importance. Depending on certain criteria, bank risks can be expressed as follows (Table 1)

Table 1

Classification of bank risks

Classification criteria	Types of bank risks
Risk level	Risk at the macro level of relationships Risk at the mirco level of the relationship
By the nature of the bank's product, service and operations	Off-balance sheet risk Credit risk Account risk Currency risk Operational risk and others
Level of ensuring stability of bank development	Imbalanced liquidity risk Interest rate risk

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	Risk of loss of income Risk of losing competitiveness Capital risk Management risk
Risk factors	External risk (political, economic, demographic, social, geographical and other) Internal risk (in the main and auxiliary activities related to bank acts and liabilities, related to the quality of management and implementation of financial services)
On the scale and scope of the risk	A risk arising from the country's medicine Risk associated with certain types of banking Risk arising from financial responsibility centers Risk arising from banking operations
Time to make a face	Retrospective risks Current risks Potential risks
According to the level of dependence on the bank	Risk associated with banking activities Non-banking risk
By type of bank	Specialized banking risk Universal banking risk
According to the magnitude of the risk	Low risk Medium risk Full risk
According to the composition of the customer base	Y large , medium and small from customers come coming out risks M of permission network from the composition come coming out risks
On account of operations	Balance _ operations risk on From balance except operations risk on

Risks first of all, it is necessary to divide according to their level. Since bank risk is not only the risk of an individual bank, but also the risk of the entire banking sector, it is appropriate to take into account the risks at the micro and macro level. In each of these cases, the size of the losses, the factors or the time of recovery from the crisis situation, as well as the means of risk management may be different.

The risk of the banking sector of the economy is mainly related to the economy and politics of the country, its legal framework, as well as the management system. The risks that cover the economic activity of an individual bank are directly related to its specific activity, the ability to effectively manage the cash flows passing through it.

When carrying out credit, settlement, deposit, currency and other operations, the bank assumes the risks associated with each specific type of activity. By minimizing these risks, on the one hand, banks expand the list of their products and services, diversify their activities, and on the other hand, improve the quality of their operations.

In order to increase the efficiency of the bank's activity, it is necessary to classify risks depending on the level of ensuring its stable development. Balanced and stable activities of credit organizations are reflected in the country's economy , depending on how banks manage their liquidity, form a capital base, conduct interest policies on asset and passive operations, and conduct competitive activities in the

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market of banking products and services . Unfortunately, at the moment, management of the main parameters of the bank's activity is not given as much importance by the bank's management as the economy requires. Therefore, most of the commercial banks are not competitive and are required to make serious efforts to manage the risks in these core activities.

From the point of view of the objectives of risk management in banking activities, it is necessary to distinguish the factors related to risks. In this case, external and internal risks are traditionally separated.

External risks usually consist of political, economic, network, demographic, social, geographical and other risks.

Political risks are changes in the political system, loss of capital without adequate compensation, threat of nationalization or exploitation of property; restrictions on free conversion and transfer of local currency; closure of borders or violation of contracts as a result of decisions of the executive authority with the country where the counterparty bank is located; are the risks that may be associated with wars, political upheavals and others.

Economic risks at the Marco level are generally related to changes in the country's economy, including market conditions (export and import prices), balance of payments, exchange rates, etc. Also, the revision of regulatory documents by the Central Bank may have a significant impact on the scope of banking activities.

Mirko-level economic risks are associated with small-scale risks in the relationship between a particular bank and its client. There may be changes that occur as a result of revision of the loan agreement due to changes in the borrower's creditworthiness, the financial condition of the credit organization, its bank policy, etc. Some of these risks may arise from external or internal factors. There can be external reasons at the micro level, that is, bankruptcy of the borrower, demands of creditors for debt repayment, indebtedness, theft, fraud, family problems, unemployment (the bank's relationship with individuals), etc.

In the analysis of risks, it is necessary to differentiate banking risks according to the scope and scope of activities. Often the risk can increase or decrease depending on the country the bank's customers go to. Depending on country risk, the bank strives to properly organize relations with customers, taking into account the general economic and political situation in the respective country. In accordance with international ratings, a general risk level is determined for each country.

In the practice of banking activity, the time of emergence of banking risk is of great importance. According to this time criterion, risks are divided into retrospective (past), current and prospective risks. Retrospective risk accounting allows the bank to more accurately calculate current and future risks. Therefore, the risk of loss in the future largely depends on the correct calculation of current risks. In practice, it can be seen that the longer the duration of bank operations, the higher the risk. The consideration of retrospective risk and error omissions significantly increases the importance of forecasting risks in the future .

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The risk consists of independent and bank-dependent risks according to the degree of dependence. The risk independent of the bank is related to the impact of political and economic factors, unpredictable changes in legislation. Bank-related risks occur at the level of micro-relationships with the client, so here a lot depends on the bank itself, its management level (internal reasons).

The type of bank plays an important role in considering bank risks. The risk of a specialized bank is often closely related to the specific product that the credit institution specializes in producing. The demand for this product and the quality of the product are one of the decisive factors that determine bank risks and effective development of the bank.

However, in practice, the client usually needs a comprehensive type of service (not one or two operations, but a set of operations), which encourages banks to expand their range of services.

Sometimes banks specialize not only in one or another product, but also in providing services to clients of certain industries. The risks that arise will depend mainly on the state of the relevant industry.

In addition to specialized and branch risks arising from the respective types of banks, there are also universal banking risks. The demand of customers to provide various banking services and operations is pushing banks to universalize their activities.

In the classification of bank risks, their separation by size plays an important role. Here the risks are divided into low, medium and full. The amount of damage for each entity may be separate and different, and also vary depending on the scale of certain operations. However, in some cases certain limits can be set.

Bank risks can also differ according to the composition of bank customers. There are two types of risk:

– risks arising from large, medium and small customers;
– risks arising from the composition of the network of customers.

In the first case, a large client does not always mean a large risk, on the contrary, a client with a large amount of cash flows and transactions through the bank, in turn, brings a large profit to the bank. But it also has a dangerous side, that is, the concentration of bank capital in the economy of a large enterprise can significantly worsen its condition and lead to bankruptcy, leading to large losses of the creditor bank. Small businesses that face significant changes in the production and sale of their products in market conditions can also cause certain losses to the bank.

The risk arising from the composition of the network of customers is also not small. As mentioned above, network risk is related to the state of economic development of the relevant industry. The introduction of preferential capital by the bank into one sector of the industrial sector of a steadily developing economy (for example, oil or gas) from a macro-economic point of view can also have a negative

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impact on the economy as a whole, and harm the production of raw materials of the national production.

Based on the accounting of operations carried out by the bank, two types of risk are distinguished: risk on balance sheet operations and risk on off-balance sheet operations. In both cases, the risk is related to the asset and liability operations of the credit institution.

Balance sheet risks may be related to the loss of the bank's liquidity, if it does not meet the capital adequacy ratio, etc. Off-balance sheet risks are often associated with non-fulfillment of obligations regarding the bank's guarantee activities, currency operations , issued securities. Off-balance sheet risks may be exacerbated by on-balance sheet risks in the event of client bankruptcy.

arise from the bank's actions or inaction, early or late actions. In general, the successful operation of the bank depends on the selected risk management system.

Conclusion

Thus, the issue of forming a complete and reasonable classification of banking risks is currently not fully developed and requires detailed study. These situations significantly complicate the process of creating an effective system for diagnosing bank risks by the bank, which requires the development of a reasonable classification of risks, based on which the correct formation of the system is carried out.

The ongoing uncertainty over the magnitude and duration of the pandemic's economic impact is placing a heavy burden on the financial system. Internationally coordinated action to support a well-functioning, stable financial system as well as efficient open markets remains a priority.

Above, we have come to the following conclusions based on the study and analysis of various literature and scientific articles on banking risks:

- Bank risk is a constantly evolving concept that changes over time, so there is no clear approach to risk definition;
- b the nature of bank risk, risk in general changes based on various factors (based on market volatility, regulatory standards, etc.);
- bank risk is an activity carried out in conditions of uncertainty aimed at obtaining a high positive financial result and eliminating possible unpleasant situations.

Considering all possible classifications of risk, it is important to mention the main elements (criteria) of bank risk classification. These items can include:

- Type or form of commercial bank;
- origin and scope of banking risk;
- composition of bank customers;
- risk calculation method;
- level of bank risk;
- risk distribution over time;
- form of risk assessment;

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– ability to manage banking risks;
– risk management tools.

The classification of bank risks presented by us is not final, it is a natural situation that their number and nature will change with the development of science and technology. Regardless of the risks, there are many ways to avoid unnecessary losses.

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