



## **METHODOLOGICAL ISSUES OF INCREASING INVESTMENT ACTIVITY OF COMMERCIAL BANKS**

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<b>ABSTRACT</b>	<b>KEY WORDS</b>
This study comprehensively analyzes the methodological issues of increasing the investment activity of commercial banks. In particular, the issues of using modern financial instruments in the development of investment activities of banks, improving the risk management system and diversifying the investment portfolio are covered. The role of commercial banks in financing the real sector, mechanisms for supporting innovative projects and proposals aimed at improving the investment climate are developed.	Commercial banks, investment, investment activity, financial resources, lending, banking system, economic growth, investment environment, capital investments.

### **Introduction**

Increasing the investment activity of commercial banks today is of great importance as one of the most important areas of economic development. The banking system functions not only as a financial intermediary, but also as the main institution that directs investment resources to the economy. Therefore, the study of methodological issues of increasing the investment activity of banks is of important scientific and practical importance in terms of assessing their effectiveness, strategic decision-making and improving the risk management system.

Methodological approaches are aimed at a comprehensive analysis of investment activities of banks, identification of its structural elements and development of evaluation criteria. In this process, quantitative and qualitative indicators, economic and mathematical models, methods of statistical analysis, as well as modern tools such as benchmarking and stress testing are widely used. Also, financial stability, liquidity, risk level and profitability indicators are analyzed in relation to increasing investment activity.

Within the framework of methodological issues, the optimization of the investment portfolio, the assessment of the resource base, the determination of the effectiveness of the use of financial instruments and the introduction of digital technologies are considered as important areas. In addition, consideration of ESG principles and sustainable development criteria is becoming an integral part of modern methodological approaches. In this regard, an in-depth study of methodological issues of increasing the investment activity of commercial banks serves as an important scientific basis for

increasing the competitiveness of the banking system, effective management of investment processes and supporting economic growth.

**Analysis and result**

The rating system "CAMELS" plays an important role in assessing the stability and financial reliability of the banking system. This system allows for a comprehensive analysis of the bank's activities based on the criteria of capital adequacy (C), asset quality (A), management quality (M), profitability (E), liquidity (L) and sensitivity to market risks (S). In particular, capital adequacy is the main indicator reflecting the bank's ability to cover risks, financial stability and the degree of protection of the interests of depositors. The CAMELS system has ratings from 1 to 5 on capital adequacy, which accurately describe the financial condition and level of risks of the bank.

**Table 1 Rating of banks "Camels" correlated with capital adequacy**

Rating	First-level capital adequacy	Total capital ademiqdordagi	No Limit
<b>1 – Strong</b>	Well above 5 percent	Significantly higher than 10 percent	Asset quality is at least 2; the risk asset ratio is not higher than 11%.
<b>2 – Satisfying</b>	Significantly higher than 5 percent	Significantly higher than 10 percent	The asset quality is 3; the risky asset index is uncapped
<b>3 – Average</b>	At the level of 5 %	At the level of 10%	The asset quality is 4; the risky asset index is uncapped
<b>4 – Borderline</b>	As low as 5 percent	Imperceptibly lower than 10 percent	The amount of possible losses reserves on loans is greater than the initial capital amount
<b>5 – Unsatisfactory</b>	Significantly below 5 percent	Significantly below 10 percent	The amount of losses is greater than the initial capital amount

In the CAMELS rating system, capital adequacy is manifested as a decisive factor in assessing the bank's performance. Banks with the first and second ratings have a high level of capital reserves, which are able to effectively manage risks and ensure financial stability. The third rating indicates that the bank's capital meets the minimum requirements, but may weaken in case of increased risks. The fourth and fifth ratings, on the other hand, indicate that the bank's capital adequacy means that possible losses and losses are higher than the initial capital, requiring strict control and prompt measures. Thus, the CAMELS rating serves as a reliable and effective tool for banking supervisory authorities and investors in assessing the financial stability of the bank.

In the CAMELS rating system, it is the main indicator in assessing the quality of assets of commercial banks and is an indicator of the ratio of total asset risk to capital. In this system, the total risk of bank assets is determined as follows:

$$AUR = SA \times 0.2 + WA \times 0.5 + UA \times 1.0 \text{ (1.1)}$$

Here:

AUR is the total risk of assets;

SA – substandard assets;

SHA – Doubtful assets;

UA is a desperate asset.

Total asset risk ratio index is assessed on a 5-point scale.

**Table 2 Assessment of the quality of assets of a commercial bank on CAMELS rating system**

Rating	The level of indicator, %
1	Until 5 p.m.
2	5 p.m. to 3 p.m.
3	15 to 30
4	30 to 50
5	Above 50

The data in Table 2 shows that the level of total asset risk in a bank that is considered the best bank and has a rating score of 1 does not exceed 5 percent relative to equity. Rather, the level of this indicator is higher than 50 percent for the worst banks.

In the CAMELS rating system, the quality of assets of a commercial bank is assessed through the share of problem assets in the bank's portfolio, and this indicator is important in determining the financial stability of the bank. In the first rating, the share of problem assets is up to 5%, indicating that the bank's assets are of high quality and the risks are minimal. The second and third ratings indicate a gradual increase in risks. In the fourth and fifth ratings, the share of problem assets is very high, which seriously threatens the bank's liquidity and capital adequacy and requires strict control measures.

In a comprehensive assessment of the activities of commercial banks, an important place is occupied by the profitability (E-Earnings) component of the CAMELS rating system. Profitability represents the efficiency of the bank's current activities, its ability to raise capital, as well as the ability to cover emerging risks. Stable and sufficient income ensures the financial strength of the bank, supports the quality of assets and the level of liquidity. In the CAMELS system, profitability is evaluated on a scale of 1 to 5 points, and the main criterion is taken for the stability of bank income, growth trend and impact on capital.

**Table 3 Commercial Bank's rating rating by the CAMELS rating system**

Rating	Criteria
1 ball	If the income shows growth trends, asset quality improves, losses are not observed, and there is enough funds to form capital
2 points	The bank has a relatively stable profit, the level of return gives a good result, taking into account the quality of assets and operational risk
3 points	If current and planned income suffers losses, cannot form capital, income stability is lost, if there is a satisfactory outcome on assets
4 points	Estimated earnings are due to irregular fluctuations in net income, sharp decline in revenue, unsatisfactory forecasts
5 points	Permanent losses, insolvency of the bank, when the capital ratio drops sharply, usually within 12 months

In the CAMELS rating system, the profitability assessment is crucial in determining the financial stability of a bank. Banks with a score of 1 and 2 indicate a stable and growing source of income, creating an opportunity to strengthen capital. A score of 3 indicates a decrease in income stability and the need for precautionary measures. Points of 4 and 5 indicate that there is a risk of serious problems in the bank's activities, permanent losses and insolvency, requiring prompt regulatory measures.

In the "CAMELS" rating system, Market Risk Exposure (S – Sensitivity to Market Risk) assesses the degree to which a commercial bank is sensitive to changes in interest rates, exchange rates, securities prices and other market factors. This component serves to determine the degree of protection of the bank's financial results and capital from losses that may arise as a result of changes in market conditions. Effective management of market risk ensures that the bank receives stable income, maintains capital adequacy and strengthens the confidence of investors and depositors. In the CAMELS system, market risk exposure is assessed through ratings from 1 to 5, in which the main criterion is taken as the quality of risk-management practices, the volume and complexity of positions at risk, as well as the level of income and capital protection.

**Table 4 Commercial Bank market risk rating in "CAMELS" rating system**

Rating	Criteria
<b>1 – Strong</b>	Market risk exposure is well controlled and the likelihood of financial outcome or capital losses is very low. Risk-management practices are considered to be sophisticated, given the amount and complexity of risk-exposed positions.
<b>2 – Satisfying</b>	Market risk exposure is adequately controlled, and the likelihood of financial outcome or capital incurring losses is not very high. Risk-management practices are satisfactory, given the amount and complexity of risk exposure positions. Income and capital levels provide adequate hedge against market risk.
<b>3 – Average</b>	Market risk control requires improvement, or there is a high probability that financial outcome or capital will incur losses. Risk-management practices need to be improved, given the amount and complexity of risk-exposed positions. Income and capital ratios do not provide adequate hedge against market risk.
<b>4 – Borderline</b>	Market risk control is not acceptable or is subject to financial results or capital losses. Risk-management practices are incompatible with the scope and complexity of risk-exposed positions. Income and capital ratios do not provide adequate support for the size of market risk.
<b>5 – Unsatisfactory</b>	Market risk control is not acceptable and the accepted level of risk poses a risk to the financial stability of the bank. Risk-management practices are inconsistent with the scope and complexity of risk-exposed positions.

In the CAMELS rating system, market risk exposure is an important indicator in assessing the bank's financial stability. Banks with ratings 1 and 2 will have effective control of market risks, a developed risk-management system and sufficient protection against income and capital market fluctuations. A rating of 3 indicates the need to strengthen the bank's market risk management mechanisms, otherwise the likelihood of financial losses will increase. Ratings 4 and 5 indicate that market risks pose a serious threat to the bank's operations, the risk-management practices are inadequate, and the level of capital and income is not able to cover the risks. Therefore, reducing market risk sensitivity is a priority strategic task for banks.

The banking system is one of the main institutions that ensure the financial stability of the economy. The activities of the banking system of Uzbekistan are evaluated by assets, loan investments, deposits and capital. These indicators represent the financial capacity, resource mobilization and lending potential of banks. In recent years, there has been a trend of expansion and steady growth in the banking system. This table presents the dynamics of the main indicators of the banking system during 2021–2025, and it is important to analyze their growth rates and impact on the economy.

**Table 5 Information on the main indicators of the banking system<sup>1</sup>, billion soums**

N	The name of the bulleted point(s)	01.01.2021	01.01.2022	01.01.2023	01.01.2024	01.01.2025
1.	Total assets	366 121	444 922	556 746	652 157	769 330
2.	Total loan deposits	276 975	326 386	390 049	471 406	533 121
3.	Total Deposits	114 747	156 190	216 738	241 687	308 692
4.	Total Capital	58 351	70 918	79 565	97 079	114 792

According to the table, all key indicators of the banking system showed a steady growth trend for 2021–2025. Total assets increased by almost 2.1 times from 366,121 billion soums to 769,330 billion soums. This indicates the overall expansion and increase in financial capabilities of the banking system. Total loan disbursements also increased from 276,975 billion soums to 533,121 billion soums, while the volume of credit resources directed to the economy significantly expanded. This indicates an increase in the level of financing of the real sector.

The volume of deposits increased from 114,747 billion soums to 308,692 billion soums, which means that the confidence of the population and enterprises in the banking system has strengthened. The volume of capital increased from 58,351 billion soums to 114,792 billion soums, indicating that the financial stability of banks has strengthened. In general, the growth of all indicators confirms the strengthening of the role of the banking system in the economy and the increase in the efficiency of financial intermediation.

**Conclusion**

Increasing the investment activity of commercial banks is one of the most important factors of modern economic development. Studies show that the active participation of banks in investment processes not only strengthens their financial stability, but also has a positive impact on overall economic growth through the development of the real sector. Therefore, it is necessary for commercial banks to expand investment activities and increase their efficiency. First of all, in order to increase the investment activity of banks, it is necessary to strengthen their resource base, attract long-term financial resources and diversify the investment portfolio. This serves to reduce risks and increase profitability. At the same time, the use of modern financial instruments, the introduction of innovative technologies and the development of digital banking services significantly increase the efficiency of investment activities

In addition, it is important to improve the effective risk management system. An in-depth analysis of credit, liquidity and market risks, the development of specific strategies for their mitigation will make

<sup>1</sup> Based on the financial statements of the Central Bank of the Republic of Uzbekistan (<https://cbu.uz/uz/>)

the investment decisions of banks more justified. At the same time, the study of international experience and its adaptation to the national banking system will also give positive results. Also, the creation of a favorable investment environment by the state, the improvement of the legal framework and the support of the banking sector will stimulate investment activity. Expanding the participation of commercial banks in financing small business and private entrepreneurship will serve the diversification of the economy.

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