



## METHODOLOGY AND CHARACTERISTICS OF DETERMINING THE ACTIVITY RATING OF BANKS IN FOREIGN COUNTRIES.

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Article history:	Abstract:
<b>Received:</b> 6 <sup>th</sup> September 2022 <b>Accepted:</b> 6 <sup>th</sup> October 2022 <b>Published:</b> 7 <sup>th</sup> November 2022	The analysis of the modern banking system and the activity of commercial banks also require methodological support and the study of advanced foreign experiences in rating the activity of commercial banks. There are different methodologies for determining the rating of commercial banks, and it was found that they differ from each other depending on the characteristics of countries and rating companies.. There are different aspects and specific features of the methodologies for determining the rating of commercial banks. This article illustrates that the methodology and features of rating evaluation of banks in developed foreign countries.
<b>Keywords:</b> Commercial bank, rating, ranking, bank rating, bank ranking, rating companies, CAMELS, PATROL, ORAP, BAKIS, Basel Committee, capital adequacy, asset quality, liquidity level, Standard&Poor's, Fitch Ratings, Moody's Investors Service", "The Banker" journal.	

**INTRODUCTION.** The practice of rating commercial banks is a complex and integrated set of indicators it takes into account the most important aspects of the activity of commercial banks. During the experience of foreign countries, the practice of rating, the activities of commercial banks are carried out by the following international rating companies, which include various indicators: "Standard&Poor's", "Fitch Ratings", Moody's Investors Service, "Thomson Bank Watch", as well as ratings developed separately by themselves in different other countries, are used. Determining the rating of commercial banks is closely related to determining the level of their financial stability.

**ANALYSIS OF LITERATURE ON THE SUBJECT.** In the process of analyzing the opinions of scientists of different countries regarding the rating, we found the following. According to Russian scientist G.S. Panova from among foreign scientists, "Rating of banks is a system of evaluating their activity based on their financial indicators and bank balance data. The rating of the bank consists of creating an independent rating in all areas analyzed as a whole" [6] And A.D. Sheremet said, "Determining the rating of the bank is an expert method of determining the position of the bank among other credit institutions according to a limited number of indicators [8]. According to Uzbek scientist N.A.Karabaev's opinion, "Bank rating is a systematic assessment of banks' activity, in which the balance sheet and financial indicators of different banks are determined on the basis of mutual comparison. The size of the indicators, factors determining the bank's development, quality indicators and the level of reliability of the bank are taken as

comparison criteria. [3]. In the given definitions, the authors put forward the idea that the rating is a function of adherence to predetermined economic standards, and that they are carried out directly through the rating, comparing banks with each other.

**RESEARCH METHODOLOG.** The purpose of the study is to study the theoretical basis of CAMELS, PATROL, ORAP, BAKIS and other similar rating methodologies from the systems that assess the stability of commercial banks in foreign countries. This article analyzes the main indicators of rating systems used in the banking system of foreign countries. At the same time, their advantages and disadvantages are mentioned. In the course of the study, general conclusions were drawn on rating systems that determine the stability of banks in foreign countries.

**ANALYSIS AND RESULTS.** In the experience of foreign countries, there are 4 categories of assessing the financial stability of commercial banks. They are:

1. Rating system of assessment (CAMEL, PATROL, ORAP);
2. Coefficient analysis system (BAKIS);
3. System of comprehensive assessment of bank risks (RATE, RAST);
4. Statistical models (FIMS, SAABA)

The systems available in these 4 categories are widely used in the experiences of different countries. In the table below, we can see the experience of using existing assessment systems in foreign countries.



**Table 1**  
**Rating systems of foreign countries<sup>1</sup>**

The USA	"CAMEL"
	"FIMS"
Italy	"PATROL"
France	"ORAP"
	"SAABA"
Germany	"BAKIS"
The great Britain	"RATE"
The Netherlands	"RAST"

We will try to give brief information about the ratings of foreign countries presented in the data of Table 1.

The United States' CAMEL rating system is a multi-factor rating system that has been widely used since 1978. Also, the "CAMEL" rating system is widely used not only in the USA, but also in the whole world in order to determine the financial stability of banks.

"CAMEL" rating system consists of 5 integral components, "C" - capital adequacy, "A" - asset quality, "M" - management, "E" - profitability level, "L" - liquidity level.

"CAMEL" rating system is widely used not only in the USA, but also in several other countries, including the banking practice of the Republic of Uzbekistan. "CAMEL" rating system is based on the advantages of its comprehensive assessment of the activity of commercial banks and motivational analyzes of banking supervision experts.

"CAMEL" rating system serves to assess the level of reliability and stability of commercial banks. "CAMEL" rating system has undergone constant changes and updates. For example, starting from January 1, 1997, the "S" component was added to the "CAMEL" rating system, and today it is evaluated through 6 components instead of 5. The "S" component is evaluated using a 5-point score, like other components. Component "S" is the level of risk appetite, which serves to assess the operational and all other risks of banks.

All 6 components are evaluated on a "5" point system, that is, "1" points are strong, "5" points are weak, and the points of all components are summed up and a general integrated assessment of commercial banks' activities is formed. They :

- 1 – Strong
- 2 – Satisfactory
- 3 – Fair
- 4 – Marginal
- 5 – Unsatisfactory

Recently, in order to develop the "CAMEL" rating system, the "Fims" system was developed in order to monitor the financial reliability of banks.

"PATROL" rating system is considered the Italian rating system and is widely used in determining the rating of commercial banks. It has been used since 1993. This rating methodology is implemented remotely on the basis of 5 main indicators of all commercial banks.

"PATROL" rating system is very similar to "CAMELS" rating system of the USA, but it is important because it is adapted to the Italian banking system and is mainly implemented remotely.

Among the 5 main components of the "PATROL" (PATRirnonio, Redditivita, Riscliiosita, Organizzazione, Liquidita) rating system: capital adequacy, profitability level, credit quality (risk), organization and liquidity are evaluated. Similar to the rating system, "CAMELS" is evaluated on a "5" point system, and "1" from good to "5" is evaluated as an unsatisfactory bank. Also, according to the Italian banking law, the monthly analysis and calculations indicate that additional on-site studies of the banks are possible if necessary.

The French "ORAP" rating system was established in 1997 by the French Banking Commission. The main purpose of the "ORAP" rating system is to identify existing problems by evaluating the quantitative and qualitative indicators of the risks of commercial banks. "ORAP" rating system will consist of 14 indicators and 5 groups.

"ORAP" (Organization and Reinforcement of Preventive Action) rating system is divided into 5 groups: prudential indicators (capital, liquidity, etc.), balance and off-balance sheet activity (asset quality), market risk, earnings, quality criteria (shareholders, management and internal control).

The German "BAKIS" rating system is conducted by the Central Bank of Germany based on the analysis of coefficients. The main purpose of the "BAKIS" rating system is to provide an opportunity to assess the financial situation of credit organizations, identify changes in credit, market and liquidity risks in banking activities, along with the situation in the financial sector of the economy. 47 indicators are used in this rating system<sup>1</sup>.

The Bank of England RATE system has been used since 1997 to determine the financial stability of banks. It includes three interrelated blocks: risk assessment (Risk Assessment), control instruments (Tools) and evaluation of the effectiveness of the use

<sup>1</sup> Fetisov G.G. Sustainability of a commercial bank and rating systems for its assessment / Fetisov G.G. - M.: Finance and statistics, 1999



of control instruments (Evaluation). Risk assessment is carried out on the basis of indicators, represents the bank's risk category and reflects the adequacy of risk control. As the next stage of control, programs and approaches are developed in order to effectively implement control instruments and control functions that have special features for each credit institution. Based on the RATE system control, changes in the activity of credit institutions during the monitoring of banks' activities are evaluated<sup>2</sup>.

The RAST rating system has been used in the Netherlands since 1999 to evaluate commercial banks. The RAST (Risk Analysis Support Tool) rating system is an assessment of banks' risk level, which includes 4 main stages: financial analysis and general condition of banking activities as a result of the latest collected information on the results of visits to banks; division into large management units and according to activity directions; risk assessment and management of individual departments; summarizing indicators and preparing reports.<sup>3</sup>

Above, we considered the methodology of determining the financial stability of banks of foreign countries, and after this we present a comparative analysis of their indicators.

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<sup>2</sup> Lavrushin O.I. , Mamanova I.D. Assessment of the financial stability of a credit institution. / Lavrushin O.I. – M.: KNORUS, 2011. S. 92-93

<sup>3</sup> Shevrinsky V.N. Development of banking monitoring systems: analyzing the world experience / Shevrinsky V.N. // Banking technologies. – 2009.- №5. pp. 135-136

**Table 2**  
**Comparative analysis of determining the rating**  
**of**  
**Commercial banks of foreign countries<sup>4</sup>**

Nº	Methodologies	Data base of analyzes	Quantitative indicators	Quality indicators	Expert assessment	The availability of a rating by analysis
1.	CAMELS (The USA)	The open report data of the bank, information about the bank in the media	+	+	+	+
2.	RATE (Great Britain)	The open report data of banks; collected information on the results of visits to banks.	+	+	+	-
3.	PATROL (Italy)	The open report data of banks; collected information on the results of visits to banks.	+	-	-	+
4.	ORAP (France)	The open report data of banks; collected information on the results of visits to banks.	+	+	+	+
5.	FIMS	The open	+	-	-	-

	(The USA)	report data of banks				
6.	SAABA (France)	The open report data of banks	+	-	-	-
7.	BAKIS (Germany)	The open report data of banks	+	-	-	-

From the data of this table, the specific aspects, advantages and disadvantages of the methodologies of all foreign countries can be observed. At the same time, as a result of the analysis of the table data, the absence of a single methodology, mainly the use of open bank data in the analysis, and in some cases collected information on the results of visits to banks also took place. Also, while quantitative indicators cover all of the methodologies being compared, qualitative indicators and rankings appear to be lacking in all. This is once again proof of the non-existence of a single methodology and rating system.

### CONCLUSIONS.

- In the experience of foreign countries, there are 4 categories of assessing the financial stability of commercial banks: rating system of assessment, system of coefficient analysis, system of comprehensive assessment of bank risks and statistical models

- "CAMEL" and "FIMS" rating systems are used in the USA, "PATROL" in Italy, "ORAP" and "SAABA" in France, "BAKIS" in Germany, "RATE" in Great Britain, and "RAST" in the Netherlands

- The United States "CAMEL" rating system is a multi-factor rating system that has been widely used since 1978.

- "PATROL" rating system is the rating system of Italy, widely used in determining the rating of commercial banks, and has been used since 1993.

- Among the 5 main components of the "PATROL" (PATrinonio, Redditivita, Riscliiosita, Organizzazione, Liquidita) rating system: capital adequacy, profitability level, credit quality (risk), organization and liquidity are evaluated.

- The French "ORAP" rating system was established in 1997 by the French Banking Commission. The main purpose of the "ORAP" rating system is to identify existing problems by evaluating the quantitative and qualitative indicators of the risks of commercial banks. "ORAP" rating system will consist of 14 indicators and 5 groups.

- The German "BAKIS" rating system is conducted by the Central Bank of Germany based on

<sup>4</sup> Prepared by the author through Internet sites



the analysis of coefficients. The main purpose of the "BAKIS" rating system is to provide an opportunity to assess the financial situation of credit organizations, identify changes in credit, market and liquidity risks in banking activities, along with the situation in the financial sector of the economy. This rating system uses a system of 47 indicators.

- The Bank of England RATE system has been used since 1997 to determine the financial stability of banks. It includes three interrelated blocks: risk assessment, control instruments and evaluation of the effectiveness of the application of control instruments.

- The RAST rating system has been used in the Netherlands since 1999 to evaluate commercial banks. The RAST (Risk Analysis Support Tool) rating system is an assessment of banks' risk level, which includes 4 main stages: financial analysis and general condition of banking activities as a result of the latest on-site inspections and studies; division into large management units and according to activity directions; risk assessment and management of individual departments; summarizing indicators and preparing reports.

- in determining the rating of banks, their capital, asset quality, liquidity level, profitability indicators and management quality are of great importance.

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