

CREDIT PORTFOLIO DIVERSIFICATION AND CREDIT RISK MANAGEMENT IN COMMERCIAL BANKS: MODERN CHALLENGES AND IMPROVEMENT DIRECTIONS

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Abstract

Credit operations represent one of the most important areas of commercial banks' activities and play a crucial role in financing economic development. The efficiency and sustainability of lending activities largely depend on the availability of sufficient financial resources, the level of capitalization, liquidity position, and profitability of banks. Therefore, ensuring resource adequacy has become one of the key prerequisites for expanding credit operations while maintaining financial stability.

This study examines the issues of resource adequacy for improving credit operations in commercial banks. Based on statistical data from the Central Bank of the Republic of Uzbekistan, the research analyzes the dynamics of capital adequacy, liquidity indicators, profitability measures, and the financial capacity of the banking sector. The findings demonstrate that the strengthening of regulatory capital, improvement of liquidity positions, and growth in profitability indicators have created favorable conditions for expanding lending activities and supporting the real sector of the economy. However, further improvement of credit operations requires the diversification of funding sources, expansion of the deposit base, enhancement of long-term financing mechanisms, and improvement of resource management efficiency.

Keywords: Commercial banks, credit operations, resource adequacy, capital adequacy, liquidity management, banking resources, financial stability, profitability, deposits, lending capacity.

Introduction

Commercial banks play a significant role in mobilizing financial resources and allocating them efficiently among different sectors of the economy. Credit operations constitute the largest share of banks' earning assets and serve as a primary mechanism for supporting investment activities, business development, and economic growth. Therefore, the sustainable



development of lending activities depends not only on the demand for credit resources but also on the ability of banks to maintain sufficient financial resources, capital strength, and liquidity. In recent years, the banking sector of Uzbekistan has undergone substantial transformations aimed at strengthening financial stability, improving the quality of banking services, and increasing the efficiency of financial intermediation. The implementation of banking reforms, development of digital financial services, and improvement of regulatory requirements have contributed to the enhancement of banks' financial positions and their capacity to support economic development through lending.

At the same time, rapid growth in lending activities requires banks to maintain an appropriate balance between credit expansion and financial sustainability. Excessive lending without adequate capital and stable funding sources may increase liquidity pressures and negatively affect the resilience of the banking system. Consequently, maintaining sufficient capital, stable deposits, adequate liquidity reserves, and sustainable profitability has become an essential element of effective credit operations.

International banking regulations, particularly the Basel III framework, emphasize the importance of capital adequacy and liquidity management as fundamental components of a sound banking system. The Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and capital adequacy requirements are designed to ensure that banks possess sufficient resources to withstand financial stress and continue supporting economic activities.

Although numerous studies have examined bank performance and financial stability, the issue of resource adequacy as a factor influencing the effectiveness and sustainability of credit operations in developing banking systems remains highly relevant. In the context of Uzbekistan's banking reforms and expanding lending activities, evaluating the relationship between banks' resource capacity and credit operations is of particular scientific and practical importance.

Therefore, the objective of this study is to analyze the current state of resource adequacy in the banking sector, assess its impact on the efficiency of credit operations, and identify key directions for strengthening the resource base of commercial banks.

Literature review

Resource adequacy is one of the fundamental conditions for ensuring the stability and efficiency of commercial banks' credit operations. In banking theory, credit operations are considered the main form of financial intermediation, through which banks mobilize temporarily free financial resources and allocate them to households, enterprises, and other economic agents. According to Mishkin (2022), the effectiveness of bank lending largely depends on the ability of banks to attract stable resources and transform them into productive loans while maintaining financial stability.

Rose and Hudgins (2021) emphasize that the quality of bank lending is closely related to the structure of bank liabilities, capital adequacy, liquidity position, and profitability. In their view, credit expansion without a sufficient resource base may increase funding risks and weaken the financial resilience of banks. Therefore, commercial banks should maintain an optimal balance between credit growth, capital strength, and stable funding sources.



Capital adequacy is widely recognized in the literature as a key factor supporting sustainable lending. Saunders and Cornett (2021) argue that sufficient bank capital performs two important functions: it protects banks against unexpected losses and creates a foundation for expanding active operations, including lending. Inadequate capitalization may limit banks' ability to issue new loans and increase vulnerability to credit and liquidity shocks.

The Basel Committee on Banking Supervision (2019) also highlights the importance of capital adequacy and liquidity standards for maintaining a sound banking system. Basel III introduced stricter requirements for regulatory capital, the Liquidity Coverage Ratio (LCR), and the Net Stable Funding Ratio (NSFR). These requirements are aimed at ensuring that banks have enough high-quality capital and stable funding sources to withstand financial stress and continue providing credit to the economy.

Liquidity management is another important component of resource adequacy. According to the International Monetary Fund (2023), the ability of banks to maintain sufficient liquid assets is essential for meeting short-term obligations and avoiding disruptions in lending activities. A strong liquidity position allows banks to continue credit operations even under conditions of market uncertainty or deposit outflows.

The role of deposits in ensuring resource adequacy has also been widely discussed in academic literature. Demirgüç-Kunt et al. (2022) argue that a broad and stable deposit base reflects public trust in the banking system and strengthens banks' lending capacity. Stable deposits reduce banks' dependence on external funding sources and support long-term credit expansion.

Financial sector development and economic growth are also closely linked to the availability of banking resources. King and Levine (1993) demonstrated that more developed financial systems contribute to economic growth by improving capital allocation and increasing investment activity. Beck, Levine, and Loayza (2000) further confirmed that financial intermediaries play an important role in mobilizing savings and channeling them into productive sectors of the economy.

Recent studies also emphasize that resource adequacy should be evaluated not only through capital indicators but also through profitability and operational efficiency. A bank with sustainable profitability is better able to accumulate internal capital, expand its loan portfolio, and absorb potential losses. Therefore, indicators such as return on assets (ROA), return on equity (ROE), and net interest margin are important in assessing the capacity of banks to support lending activities.

Overall, the literature shows that improving credit operations requires a comprehensive approach to resource adequacy. Capital adequacy, liquidity, stable deposits, profitability, and effective resource management should be considered together. Although these issues have been widely studied in international literature, the relationship between resource adequacy and the efficiency of credit operations in the banking sector of Uzbekistan remains insufficiently explored. Therefore, this study contributes to the existing literature by analyzing the adequacy of banking resources as a key condition for improving commercial banks' credit operations.

Methodology

This study employs a comprehensive methodological approach to examine the adequacy of financial resources for improving credit operations in commercial banks. The research is based



on the analysis of theoretical approaches to banking resource management, international banking standards, and statistical indicators reflecting the financial condition of the banking sector.

The empirical basis of the study consists of statistical data obtained from the Central Bank of the Republic of Uzbekistan, annual reports of commercial banks, and analytical materials published by international financial institutions, including the International Monetary Fund and the World Bank. The research focuses on evaluating the key indicators that determine banks' capacity to support sustainable lending activities, including capital adequacy, liquidity, profitability, and the stability of funding sources.

Several research methods are applied in this study. Comparative analysis is used to identify changes in the main financial indicators of the banking sector over different periods and to evaluate the trends in resource formation and utilization. Dynamic analysis is employed to assess the growth patterns of regulatory capital, high-quality liquid assets, deposits, and profitability indicators.

In addition, structural analysis is applied to examine the composition of banking resources and to evaluate the relationship between the availability of financial resources and the ability of commercial banks to expand credit operations. Particular attention is paid to the assessment of capital adequacy ratios, liquidity indicators, including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), as well as profitability measures such as Return on Assets (ROA) and Return on Equity (ROE).

The study also applies a systematic approach, which allows resource adequacy to be analyzed as a combination of interrelated elements, including capital strength, stable funding, liquidity reserves, and financial performance. This approach makes it possible to determine the extent to which the existing resource base of commercial banks supports sustainable credit expansion and maintains financial stability.

The applied methodology provides a basis for identifying the current state of banking resources in Uzbekistan and developing practical recommendations aimed at strengthening resource adequacy, improving lending capacity, and ensuring the long-term sustainability of credit operations in commercial banks.

Results And Discussion

The adequacy of financial resources is one of the fundamental factors determining the ability of commercial banks to conduct sustainable and efficient credit operations. A sufficient resource base allows banks to expand lending activities, support economic development, and maintain financial stability under changing market conditions. Therefore, assessing the dynamics of capital adequacy, profitability, and liquidity indicators is essential for evaluating the capacity of the banking sector to ensure continuous credit expansion.

The analysis of the Uzbek banking sector demonstrates positive developments in strengthening its financial capacity. The increase in regulatory capital, improvement of liquidity indicators, and growth in profitability reflect the ability of commercial banks to maintain an adequate resource base for supporting lending activities. In this context, an assessment of capital adequacy indicators provides important evidence regarding the resilience of the banking system and its capacity to absorb potential losses associated with credit operations.



Table 1 Capital Adequacy Indicators of the Banking Sector of Uzbekistan¹

Indicators	01.05.2025	Share (%)	01.05.2026	Share (%)
Tier 1 capital	115 732	85,8	138 726	85,0
Common equity capital	115 590	85,7	134 579	82,4
Additional capital	256	0,2	4 149	2,5
Deductions from Tier 1 capital	115	0,1	2	0,0
Tier 2 capital	19 194	14,2	24 517	15,0
Total regulatory capital	134 925	100	163 243	100
Capital adequacy ratio (CAR), %	17,3	-	18,4	-
Tier 1 capital adequacy ratio, %	14,8	-	15,7	-
Common equity Tier 1 ratio, %	14,8	-	15,2	-

The results presented in Table 1 indicate a significant strengthening of the capital base of the Uzbek banking sector. Total regulatory capital increased from UZS 134,9 trillion in May 2025 to UZS 163,2 trillion in May 2026, representing a growth of approximately 21%. The increase in Tier 1 capital and the improvement of capital adequacy ratios indicate that commercial banks have enhanced their ability to absorb unexpected losses and support further expansion of lending activities.

Moreover, the capital adequacy ratio increased from 17,3% to 18,4%, remaining significantly above the minimum regulatory requirements established by international banking standards. This demonstrates that the banking system has accumulated sufficient capital resources to maintain financial stability and expand credit operations.

Table 2 Income and Expense Indicators of the Banking Sector of Uzbekistan (billion UZS)

Indicators	01.05.2025	01.05.2026
Interest income	39 020	46 970
Interest expenses	27 217	33 789
Net interest income	11 803	13 181
Non-interest income	21 685	35 491
Non-interest expenses	7 158	10 661
Operating expenses	8 495	10 826
Net non-interest income	6 032	14 004
Provision for possible losses on loans and leasing	9 817	14 188
Assessment of non-credit losses	2 755	5 053
Profit before tax	5 263	7 944
Income tax expenses	953	998
Net profit	4 309	6 946

Table 2 shows that the profitability of the banking sector has improved considerably. Net profit increased from UZS 4,3 trillion to UZS 6,9 trillion, demonstrating a growth of more than 61%. The growth in interest income confirms that credit operations remain the main source of bank

¹ Prepared by the author based on data from the Central Bank of the Republic of Uzbekistan.

revenues, while the increase in non-interest income reflects the expansion of banking services and digital financial products.

The strengthening of profitability enables banks to accumulate internal capital, improve their financial resilience, and create additional opportunities for increasing credit operations. Therefore, sustainable profitability is an important component of resource adequacy and long-term lending capacity.

Table 3 Liquidity Indicators of the Banking Sector of Uzbekistan²

Indicators	01.05.2025	01.05.2026
High-quality liquid assets (billion UZS)	150 632	194 442
Share of liquid assets in total assets (%)	18,2	20,8
Liquidity Coverage Ratio (LCR), %	196,5	246,4
Net Stable Funding Ratio (NSFR), %	116,4	136,7
Instant liquidity ratio, %	125,4	152,2

The liquidity analysis demonstrates that commercial banks maintain a strong liquidity position. The volume of high-quality liquid assets increased by approximately 29%, while the LCR rose from 196,5% to 246,4%, significantly exceeding the minimum Basel III requirement of 100%. The improvement of the NSFR from 116,4% to 136,7% indicates the availability of stable funding sources that support long-term lending activities.

Overall, the results suggest that the banking sector of Uzbekistan has developed a sufficient level of capital, liquidity, and profitability to support the sustainable expansion of credit operations. However, maintaining this capacity requires continuous improvement of resource management practices, diversification of funding sources, and strengthening of long-term financial sustainability.

Conclusion

This study examined the role of resource adequacy in improving the efficiency and sustainability of credit operations in commercial banks. Based on the analysis of the banking sector of Uzbekistan, the study assessed the dynamics of capital adequacy, profitability, and liquidity indicators as the key determinants of banks' capacity to expand lending activities while maintaining financial stability.

The findings indicate that the Uzbek banking sector has developed a sufficient financial capacity to support further growth of credit operations. In particular, the increase in regulatory capital by approximately 21%, the growth of the capital adequacy ratio from 17,3% to 18,4%, and the high share of Tier 1 capital demonstrate the strengthening of banks' ability to absorb potential losses associated with lending activities. These indicators confirm that the banking sector maintains a strong capital position in accordance with international regulatory standards. The analysis of profitability indicators revealed positive trends in the financial performance of commercial banks. The significant increase in net profit, together with the growth of interest and non-interest income, indicates an improvement in banks' operational efficiency and their

² Prepared by the author based on data from the Central Bank of the Republic of Uzbekistan.

ability to generate internal financial resources. Therefore, sustainable profitability serves as an important source of capital accumulation and creates additional opportunities for expanding credit activities.

The liquidity assessment also showed that commercial banks maintain a stable funding position. The increase in high-quality liquid assets, together with the improvement of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), demonstrates that banks possess sufficient short-term and long-term liquidity resources to continue lending activities even under unfavorable economic conditions.

Overall, the results suggest that the current level of resource adequacy in the Uzbek banking sector provides a favorable basis for improving credit operations and increasing financing opportunities for the real economy. However, ensuring the long-term sustainability of lending requires further enhancement of resource management practices, expansion and diversification of the deposit base, development of long-term funding sources, and continuous strengthening of banks' capital positions. The implementation of these measures will contribute to improving the efficiency of credit operations, enhancing the resilience of commercial banks, and supporting sustainable economic growth.

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