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MASTER DISSERTATION

ON THE TOPIC

“The relationship between business growth and investment and accessing credit”

Rahimov Subhan Shahriyar

BAKU – 2020

AZERBAIJAN STATE UNIVERCITY of ECONOMICS
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"The relationship between business growth and investment and accessing credit"

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Elm andı

Mən, Rəhimov Sübhan Şəhriyar and içirəm ki, “Kredit əlçatanlığı,biznesin böyüməsi və investisiya arasındakı əlaqə ____- mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

Biznesin böyüməsi, investisiya və kredit əlçatanlığı arasındakı əlaqə

XÜLASƏ

Tədqiqatın aktuallığı. Biznes, investisiya və kredit siyasəti arasındakı əlaqə dərin araşdırma tələb edir və müasir qlobal çağırışlar nəzərə alındıqda ən vacib və aktual mövzulardan biridir. Tədqiqat işində biznes mühiti, biznesin inkişafı, biznes-investisiya-kredit üçlüsü arasındakı səbəb-nəticə əlaqəsi və s. məsələlər araşdırılır.

Tədqiqatın məqsədi. Araşdırmanın məqsədi investisiya, biznesin böyüməsi və kredit reytinqi arasındakı həqiqi əlaqəni öyrənmək, habelə bu əlaqədən şirkətlərin daha praktik inkişafı üçün vasitə kimi istifadə etməkdir.

İstifadə olunmuş tədqiqat metodları. Tədqiqat prosesində meta-analizlər aparılmış və müqayisəli təhlil metodu ilə mövzu dərindən araşdırılmışdır.

*Tədqiqatın informasiya bazası.*Tədqiqatın informasiya bazasını ingilis, Azərbaycan və rus dillərindəki elmi ədəbiyyat (monoqrafiyalar, məqalələr, kitablar və s.) təşkil edir.

Tədqiqatın məhdudiyyətləri. Tədqiqatın əsas məhdudiyyətləri sözügedən sahədə aparılmış araşdırmaların say etibarilə azlığıdır, bu isə mövzunun təhlilini çətinləşdirir.

Tədqiqatın elmi yeniliyi və praktiki əhəmiyyəti. Tədqiqatın elmi yeniliyi və praktiki əhəmiyyəti ondan ibarətdir ki, burada bank kreditləri və investisiya arasındakı əlaqəyə sadəcə nəzəri baxımdan deyil, eyni zamanda praktiki baxımdan yanaşılır və müvafiq tövsiyələr verilir.

*Nəticələrin istifadə oluna biləcəyi sahələr.*Tədqiqatın nəticələri gələcəkdə bank sektoru, investisiya və kredit qiymətləndirilməs mövzularında araşdırma aparan tədqiqatçılar üçün faydalı ola bilər və bankların fəaliyyətinin tənzimlənməsində nəzəri baza kimi istifadə oluna bilər.

Açar sözlər:bank, kredit, investisiya, biznes, menecment, risk

The relationship between business growth and investment and accessing credit

SUMMARY

Relevance of the research. The relationship between business, investment and credit policy requires in-depth research and is one of the most important and topical issues in today's global challenges. The research examines issues such as the business environment, business development, the cause-and-effect relationship between the business-investment-credit trio.

The purpose of the study. The aim of the study is to study the real relationship between investment, business growth and credit rating, as well as to use this relationship as a tool for more practical development of companies.

Research methods. Meta-analyzes were conducted in the research process and the topic was studied in depth by the method of comparative analysis.

Research database. The research database consists of scientific literature (monographs, articles, books, etc.) in English, Azerbaijani and Russian languages.

Limitations of the study. The main limitation of the study is the small number of studies conducted in this area, which makes it difficult to analyze the topic.

Scientific novelty and practical significance of the research. The scientific novelty and practical significance of the research is that the relationship between bank loans and investment is approached not only from a theoretical point of view, but also from a practical point of view and relevant recommendations are given.

Possible implementation of the results. The results of the study may be useful for future researchers in the banking sector, investment and credit valuation, and can be used as a theoretical basis for regulating the activities of banks.

Keywords: banking, credit, investment, business, management, risk

INTRODUCTION

Every business seeks for success in this or another way and to achieve this overall and the most important goal, every entrepreneur needs to concentrate on the theory of business growth and investment as well as giving strong attention to the relation between them. How to success and how to invest in the right time and the right place may be crucial for starting up a business, but when it comes to analyze the real relationship between some financial factors which have direct impacts on the relevant business, the importance of this relationship becomes clearer. In terms of theory, there is a strong relationship between investment, business growth and credit assessment (which is also known as 'credit rating') and it cannot be denied that without using right tools and timing to succeed in any particular business, the failure would be on the way ahead and there will be a lack of success in general terms.

First of all, investment (capital) and economic growth have a tight and unbreakable relation. Investment affects economical growth and may help to develop a particular economy or business via the human knowledge and skills. Economic growth is an expected and desired increase in a particular economy's (or a business') ability compared to past periods on producing goods and services. Business growth is also mentioned as a process of improvement of some measurements of an enterprise's success. Business growth may be achieved by enhancing the revenue of the business with great sales as well as increasing the profitability of the enterprise by minimizing the costs.

And credit assessment – a rating of the creditworthiness of a particular (current or potential) borrower in the term of any particular debt or financial obligation. Credit assessment is a wide term and can be understood and commented in numerous ways: a credit assessment may be assigned to any asset which seeks to borrow some money – it can be an individual, a state, an authority, a government or a company. In modern world of economy, the credit assessment of the companies as well as governments is mainly executed by some reputable, world-famous rating agencies such as Standard&Poor's (S&P), Fitch and Moody's. Of course, the just-mentioned agencies are paid by the asset which desires to have a credit rating for itself (or for its debtors).

So the relationship between business growth, investment and credit assessment is an important and actual topic to study and investigate deeply. This master's thesis will investigate the real connection and dependence of the above-mentioned factors of any particular business which may later be affected by any of these in a good or bad manner. To create a successful business, it is vital to find temperance between these factors and utilize them by the most-useful ways as well as studying the theme properly and more detailed which later will enhance the profitability and strength of a business.

Research questions. To achieve the goal in the investigation of the topic, the following research questions will be addressed:

1. What is the real connection between banking sector, investment and credit assessment?
2. How banking sector gets affected by capital investment and credit assessment?
3. Does credit assessment of a particular company (herein banks) play a role in the overall success of it and how?

Hypothesis. Many scholars and researcher have concluded that there is a strong and undeniable connection and dependence between the business growth, capital investment and credit assessment in any particular business or even economy. The literature, methodology and findings which are indicated and investigated later in this research will confirm this hypotheses, although in the results chapter, the clearer and more detailed confirmation of this hypotheses or theory would be demonstrated and concluded properly and in detail.

Methodology. In this study, the comparative analysis and meta-analysis methods are used to maintain the research topic and address directly to the research questions. Comparative anaylis studies the main indicators of banking sector, investment policy and credit assessment and demonstrate the most important aspects of the comparison in terms of expected results. Meta-analysis focuses on analysis of a collection of research results in order to integrate some of the findings. Meta-analysis is needed when the literature of a certain type contains several studies dealing with the same area of interest. This is the research with business growth, investment studies and credit assessment reports of banking sector and businesses.

Subject of the research. The subject of the dissertation is the relation between investment, banking sector and credits. In addition, the subject of the dissertation includes mechanisms for development of the relevant fields in comparison to each other.

Object of the research. The object of the dissertation includes investment activity, banking sector and credits and their relational analysis. As it is well known.

Purposes and tasks of the dissertation. The main purpose of the dissertation work can be to analyze the relation between banking sector (credit) and investment activity. Another objective of the dissertation is to demonstrate the correlation relation between the relevant fields

The main objective of the research is to summarize the objectives listed below:

1) Investigating the basic rules of investment policy;

2) Analyzing the mechanisms of credit and loans;

3) Exploring the impact of credits and investment policy in banking sector.

Research methods. In the dissertation, the existing literature review of the tools used in the banking activity was specifically focused on the investment and loan policy and the methods of comparison and analysis of scientific research were used.

Data base of the research. The dissertation is based on the literature, internet resources and monographs of the Azerbaijani, Russian and English languages, the use of modern methods in the marketing of local and foreign publications, the indispensable role of the Internet in the establishment and development of the marketing activities of companies, materials that illuminate the issues, as well as the intellectual output of the author independently obtained in the research process, referring to or relying on the reliable source and literature before it, and so on can be displayed.

Scientific and theoretical significance of the research and scientific novelty. The scientific and theoretical significance of the dissertation work is undeniable, as the lack of sufficient literature in the field of Azerbaijani literature and the need to reduce the scientific gap in this field increases the scientific significance of the dissertation work itself. The scientific novelty of the research is not just a theoretical study of the relation between banking sector and investment, but also the scientific-analytical study of the credit strategy in the context of banks.

Structure of research. The dissertation consists of a summary of the three chapters, 6 sections, the summary, written in Azerbaijani and Russian, and a list of used literature. In chapter I of the dissertation work, investment environment of banks is being investigated. Chapter II of the study is focuced on the banking activity and credit arrangement. Finally, chapter III of the dissertation work is of practical importance and focuses on the relation between above-mentioned objects: investment policy, credit assessment and banking sector. In the Conclusion chapter, the results and suggestions on the subject have been presented.

CHAPTER I. INVESTMENT ENVIRONMENT OF BANKS

1.1 Legal basis and historical background of the Azerbaijan banking system

One of the main tasks which Azerbaijan faced after regaining its independence in 1991 was to integrate into the Eurozone, to incorporate with the Western values and achievements of modern civilization. This was not an easy task. It is known that during the seventy years of Soviet rule, as in other post-Soviet republics, the economy was established in Azerbaijan on the basis of an administrative command system and was governed by a single center. The market economy is the cornerstone of capitalism, and the Marxist-communist worldview and the development of economic philosophy in the USSR were based on a unified economic model, excluding these free competition and market relations. For this reason, no post-Soviet country can claim that the process of transformation from the administrative system to the market economy is smooth and easy. The Baltic republics, in an organic harmony with the economic system, cultural values and civilization of Western Europe, were able to quickly and effectively follow the economic and political realities of their continents, while the Central Asian republics and the South Caucasus did not have these common cultural values. The integration process has been slow. Although the formal establishment of market relations was complete, since it was not fast enough to embrace the democratic wave and to accept new challenges in all third world countries, including Azerbaijan, it was doubtful that these relations had any real working mechanisms, and therefore needed serious reforms in the national economy. To date, some undesirable factors and obstacles, including monopoly, which is a fairly big problem, have slowed the transition to a full-fledged market economy, but does not exclude the fact that its basic elements and contexts form the basis of the country's economy.

Financial institutions in every civilized country of the world - banks and investment organizations, stock and exchanges, credit and insurance organizations, etc. plays an important role in laying the foundations and strengthening the national economic growth, as the activities and functioning mechanisms of these financial institutions play a vital role in ensuring macroeconomic stability. Although the growth rates of the financial markets have risen dramatically in the early years of independence, there has been a stagnation in the development following the global financial crisis and the double devaluation of the Manat. At the same time, the role of the banking sector in the economy as a central institution of the financial system has grown and developed. Historical analysis of global financial crises shows that the banking system’s role in macroeconomic stability and growth potential is undeniable, but the development and promotion of necessary financial reforms is also important in terms of transparency of the process.

The rapid development of the banking sector since the beginning of the last century has in fact made it one of the key indicators of market economy and democracy. As mentioned earlier, the banking system may exist in the system of administrative economy and can be concentrated in the hands of the state, but its true development is possible only in countries with a democratic, free and market economy. It should not be forgotten that institutions (such as religious institutions), which have become a tool to artificially increase their wealth in the hands of the state, are outside the modern development process. From this point of view, the freedom and pluralism of the macroeconomic environment of any country is measured by the conditions created by the activities of individual businessmen in that country, where the banking sector is no exception. After the disintegration of such a huge empire as the USSR, all post-Soviet countries have undergone another wave of democratization and have begun to build their economies on the basis of market relations, but it is well known that a complete modernization of the economic and political system of any country is not an easy task. It takes years. The development of the economy could not be talked about in the face of the instability and turmoil prevailing in Azerbaijan until 1995, but it was already felt in the state budget that the 1994 Treaty of The Century had its initial benefits. The economic recession of the early years of independence has also brought about social problems, and the transition to democracy and market economy has been painful. Since 1996, the situation has changed, as the country has stepped up to economic growth for the first time since independence in 1996 and 2002, and macroeconomic stability began to bear fruit. At that time, the emerging banking system was also improving. In 2003 and 2008, Azerbaijan experienced strong economic growth in the number of commercial bankers and in business efficiency. That year was a year of economic downturn in the world, but nonetheless commercial banks in Azerbaijan were less exposed to the effects of the crisis and left the process with minimal losses. Between 2011 and 2014, the banking sector is experiencing a period of rapid development that can be called the "golden age" of the banking sector, and there is a very positive macroeconomic dynamics: the total number of high-income banks in the country has increased from 30 to 35, with net earnings approaching 370 million AZN (www.stat.gov.az, 2014). 2013-2014 is the peak of social welfare and economic development in Azerbaijan, and all these processes are directly linked to rising oil prices. In the national economy based on the oil factor, the crisis in 2015, after the sharp drop in oil prices, was completely anticipated. Oil, which is a key factor in determining Azerbaijan’s economic prospects, began to depreciate in 2015, and then for the sake of some geopolitical interests of the US, the dollar began to rise and Azerbaijan experienced the most devaluation. Thus, after the 100% devaluation of the manat against the dollar in 2015, its price declined by 3.8%, and in the following year it reached 13.4% (www.stat.gov.az, 2015). This was the beginning of a sharp economic stagnation in Azerbaijan. As a country dependent on imports following a sharp decline in oil prices and two sharp devaluations, Azerbaijan has also seen a sharp rise in prices for food and services, which has minimized social welfare. In 2015, the Central Bank increased the authorized capital required for commercial banks by $ 10 million (www.cbar.az, 2015). Banks' profit in 2015 was $ 350 million. The loss of manat caused by the loss of manat has decreased significantly as a result of increased reserves and the exchange rate fluctuations. The manat's sharp devaluation has greatly worsened the situation of individuals and legal entities who have taken out loans in dollars in the past, and this crisis continued until early 2019. The crisis situation in the area began to decline slightly in 2019 after the President of the country signed a decree to calculate the major part of the dollar loans received by individuals at the old exchange rate. But at the same time, many economists have argued that the aforementioned demand only applies to individuals and that legal entities are out of the reach of this decree, which could have negative consequences for the national economy.

In 2016-2017 it was decided to conduct serious reforms in the banking sector in the country and in the economy as a whole. The most important part of these reforms was to provide macroeconomic stability in the financial sector and to restore the private sector's previous economic growth rates. In 2016, the Financial Markets Chamber (FIMSA) was established to eliminate decentralization in the banking sector and reduce uncertainty.

The FIMSA has implemented effective reforms to strengthen the financial sector by revoking licenses from unhealthy and inefficient banks, while reinforcing existing banks and reinforcing them internationally has been a continuation of these reforms. As a result of these reforms, banks have seen significant quantitative easing, but they have also been strengthened in terms of quality. As of the end of 2018, the number of banks in the country has dropped by 30% from the 2015 situation (from 45) to 30. The reasons for these banks' closure are low assets, poor currency risk management, poor financial services and so on. can be displayed. Thus, as a result of optimization, additional infrastructure for liquidity and capitalization has been established, as stated in the Strategic Road Map (www.anfes.gov.az, 2018).

Many leading banks (International Bank, Capital Bank, PASHA Bank, Bank Respublika, Ziraat Bank Azerbaijan and Unibank) have created favorable credit environment for borrowers in this period. As a result of the reforms, banks' databases, insurance and leasing registers were re-monitored.

In the banking sector, the "renaissance" period, which lasted until 2015, was slowly reviving in 2017. In 2016, US $ 1.7bn was hit by a recession, oil prices and currency instability. The Azerbaijani banking sector, which has lost AZN 1 billion, has increased its total capitalization after 2017, reaching approximately $ 3 billion, according to 2018 data. However, the "dollarization" trend, which is at the heart of the financial crisis, remains high and lending is still preferable to the dollar: By the end of 2017, dollarization of deposits was 74.6% (www.stat.gov.az, 2017). Due to the recent economic crisis and macroeconomic instability in Azerbaijan, the position of the banking system in the national economy has been reinforced and nationalized as a result of government policies and reforms aimed at increasing oil prices, preventing devaluation of the national currency and diversifying the financial sector. conditions have been created to continue contributing to the economy.

Table 1. Index of basic social and economic indicators

(in percentage to the previous year)

	2015	**2016**	**2017**
Gross Domestic Product (GDP)	**101,1**	**96,9**	**100,2**
Industrial products	102,4	99,5	96,6
Agricultural products	106,6	102,6	104,2
Capital investment	88,9	78,3	102,8
Transportation of goods in the transport sector	100,2	100,0	101,8
Passenger transportation in the transport sector	103,5	102,0	102,3
Retail trade turnover by all sources - total	110,9	101,5	102,5
Cycle circulation	114,0	100,1	103,4
Paid services to the public	105,1	98,9	101,2
Average monthly nominal wage	105,0	107,0	105,7
Income of the population	105,8	108,7	108,4
Expenditures of the population	113,5	113,8	111,9
Real incomes that are at the disposal of the population	102,2	96,5	96,2
Consumer Price Index	104,0	112,4	112,9
Price Index of Manufacturers of Industrial Products	69,4	127,5	136,8

Source: Azerbaijan State Statistical Committee,
www.stat.gov.az

It is well-known that in countries where a significant part of the national economy, such as Azerbaijan, is based on the oil factor, the oil factor also plays an important role in the development of the banking sector. The oil boom in 2008, driven by high oil prices, has also led to growth in the banking sector, but this development has been artificial and unhealthy. The sharp decline in oil prices in 2014-2015 drove the banking sector into crisis. This example alone shows that the drop in oil prices can reduce macroeconomic stability in oil countries and slow down banks' development. Oil prices are determined not only for economic and objective reasons, but also because of geostrategic steps and trends in international relations.

1.2 Investment policy of banks and its evaluation

Forms of approach to the concept of "investment" in the modern economic literature are ambiguous. Thus, investment is a Latin word ("investio") meaning "to dress", to "cover". In English, however, the term has a number of meanings, one of which is "investing", which means "the action or process of investing money for profit or material result". Terminological terms explain the meaning of this word, albeit in part. Of course, under the name of the concept of investment, capital or equity is intended to be realized, and therefore, in order to understand the essence of investment in a market economy, it is also necessary to focus on the creation of fixed assets and the creation of working capital. Needed (Atakişiyev, Nurəliyeva and Abbasov, 2012).

The concept of "investment" was mainly used in the planned economic system. This included the cost of creating new funds, expanding and renovating existing businesses, and building new facilities. Thus, after the adoption of the Investment Law, the definition of investment includes cash, special bank deposits, shares and stocks, as well as other securities, loans, other property rights, machinery and equipment, as well as intellectual property and other assets. Thus, based on financial theory, let’s note that the term investment is understood as the acquisition of real and financial assets. It is the investment that ensures the growth of production resources and, at the same time, the pace of economic growth. Investments are the kind of capital that helps them increase national economic wealth. In this regard, investing is a kind of investment tomorrow. Thus, although all these definitions, records, reflect the essence of an investment at one or another level, its value is usually determined by the legislative acts adopted and implemented by each state in the relevant field.

It is known that under the Law of the Republic of Azerbaijan “On Investment Activities” (January 13, 1995) - investors consist of financial or other intellectual and financial resources invested in entrepreneurial or other activities for profit or social gain. . Such resources include:

-Immovable and movable property (buildings, equipment installations)

-Intellectual resources, formalized in the appropriate manner

-Pay Shares, valuable securities, loans, cash, and targeted bank deposits

-A set of technical and technological, commercial or other knowledge necessary for the organization of the production type but not patented, technical documentation, habits or production practices

-Access rights to land, water and other resources, including buildings, installations and equipment, as well as other property rights arising from copyrights (Atakişiyev, Nurəliyeva and Abbasov, 2012).

In other economic publications, investing is a Latin word, investing - dressing means investing in certain sectors of the economy, both inside and outside the country, with the aim of generating income in the future. Investor investing in various sectors of the economy depends on the current investment climate in the country. Investment climate depends on political, economic, legal, social and other factors. The expected profit and the level of risk should be taken into account as a key factor in the investment climate. Foreign investors decide whether to invest after a thorough analysis of the existing factors in the country. It is no coincidence that the law on foreign investment protection, one of the first economic laws in Azerbaijan, was adopted in 1992. Thus, a number of innovations in tax and customs legislation have been applied to the formation and development of the investment climate in the country, which in turn provides a good guarantee for foreign investors to enter the country. Today, the country has formed a rather attractive investment climate. As I mentioned, the investment consists of real and portfolio investments that are linked to securities, cash, property rights, and entrepreneurial activities and used to generate income. There are two types of investment: real and financial investments. Real investment consists of investing in real assets in the tangible and intangible sectors. Assets invested in non-material consumption are sometimes referred to as "investment". Real investments are used to form an enterprise's fixed and current capital. It is not possible to draw a clear line between real and financial investments. For example, if an investor finances an investment project in the primary securities market, he or she may become one of its owners by establishing a new business and upgrading existing facilities. If an investor wants to buy back his or her own funds, he or she can sell another stake in the secondary market to another investor. Portfolio finance investments are referred to as funds invested in various financial assets. Portfolio investment can be invested in stocks, bonds and other securities and assets of other entities. Through financial investment, the investor receives dividends on securities by increasing their financial capital. Investment activity is a set of practical actions for the implementation of investment projects by individuals and legal entities, as well as the state. Investment activity can be applied in the following forms:

Collective owners of citizens, non-governmental organizations, economic associations, public and religious organizations, as well as other legal entities are:

- public investment

- foreign investments
- joint funds of individuals or legal entities (Atakişiyev, Nurəliyeva and Abbasov, 2012).

It is necessary to differentiate between investment entities and sole entities: the subject of investment activity herein includes individuals and legal entities, foreign states, employers, investors, future users of investment facilities, intermediaries, customers, banks and insurance organizations. The object of investment activity is capital investment in certain sectors of the economy, securities, investments, scientific products, intellectual property, as well as the state or municipal and private property etc.

It is well known from the research that the concept of investing in modern times has a great content and content. As it is known, investment in macroeconomics is one of the constituent elements of total (cumulative) costs.

At this stage, innovation plays an important role in ensuring the competitiveness of the country's economy. This result was confirmed by experts of the World Economic Forum (WEF). The WEF has compiled an index of potential competitiveness since 2000 and takes into account three levels that reflect the country's long-term sustainable development prospects:

• Technological index;

• Index of public organizations;

• An indicator of the macroeconomic environment.

To conduct research on the technology (innovation) index, WEF experts have dedicated all countries to major innovation countries (key innovators) and non-competitive innovators (non-competing innovators). In major innovation countries, technology accounts for 50% of the total, and each holds 25% of the state enterprise index and the macroeconomic index. To help innovative countries, all indicators cover 1/3 of their specific weight.

This can create new opportunities for technology change, product development, new marketing techniques, production or after-sales service. Technology change comes before the emergence of a new industry. Usually, when old leaders do not understand the changing needs of their customers, they are left out of their competitive choices and thus do not have time to create a new value chain. The emergence of a new segment may surprise former leaders who are unable to quickly and significantly change the old value chain and are used by other competitors. Changes in energy, raw materials, transport, communications, and equipment prices can lead to a decline in the competitiveness of older leaders and the emergence of new leaders in the competitive advantage. Existing market leaders are in line with certain regulatory rules and do not always have time to respond to regulatory changes. New environmental policies, trade restrictions, and new industry requirements can lead companies to innovate in order to achieve new competitive advantages (Əhmədov, 2010).

In general, it is possible to classify both domestic and foreign investments by macro and micro levels. At the macro level, domestic sources of investment include budgetary and extra-budgetary funds, savings of the population, savings of enterprises, commercial banks, investment funds, insurance organizations, etc. can be referred to as Foreign investments, loans and loans can also be used here. Micro-level sources of investment include depreciation and profits of enterprises, funds of owners, investments, and state financing of foreign sources, investment loans, and securities attracted by placing securities. Depending on the economic relations of the property, the sources of financing of investment activity differ in three ways: personal, attracted and borrowed. Charter capital, profits, depreciation deductions, savings and savings of individuals and legal entities, insurance premiums, penalties and penalties, sales of equity funds, equity and other membership fees, debt securities loans, loans from banks, organizations and the budget. In this regard, systematize the main forms of financing of investment activity as follows:

- ✓ Domestic (public financing, own funds of enterprises and organizations, bank loans, securities, leasing, mortgage lending, venture capital, franchising);
- ✓ Foreign (direct investments, portfolio investments, foreign loans, transfers, grants, etc.).

Here, public investment funding can be directly or indirect. Direct financing involves the provision of subsidies and loans, and indirect financing involves tax deductions and rapid depreciation. Public financing is formed from the following sources:

- Budgetary funds (centralized financing of the state budget, these resources as a source of resources):

- financing of the main directions of the state and economy, social and cultural events);

- Extra-budgetary sources (These sources involve the collection of other public funds not included in the state budget);
- State financial and credit system (this system provides for collection of free funds of economic entities for a certain period of time in order to cover public expenditures);
- State insurance system and funds (state insurance system collected for compensation of natural disasters and accidents means) (Əhmədov, 2010).

The second form of financing of the investment process is the allocation of private funds of enterprises and households. Relevant funds include charter capital, income, depreciation, reserve capital and additional capital (increased fixed asset prices as a result of revaluation, etc.). In addition, businesses and organizations have the opportunity to use debt (bond issuance, bank loans, government loans, commercial loans, etc.) and attracted funds (stocks, grants and transfers) to fund their investment processes. Profits and depreciation are the most favorable sources for financing the investment activity of the enterprise. Relevant gains are based on the volume and cost of production and the depreciation deductions that carrying amount of the funds depends on their life span and depreciation rates. In general, the self-financing ratio of enterprises is more than 50%.

In essence, the self-financing indicator is calculated and calculated by the entity's own, debt and borrowed funds. And the rate of self-financing is usually notified by the fact that the enterprise is high during the period of sustainable development.

However, in the course of active investment activity, businesses also resort to debt and borrowed funds to meet investment needs. In case of low profitability of the enterprise, their ability to use the raised funds is essentially limited due to the decrease in the demand for shares due to the low profitability of securities. Lack of financial transparency in enterprises, low liquidity of securities as a result of underdevelopment of the stock market and non-protection of small shareholders' interests restricts the involvement of securities in investment processes. This is the case when investment in businesses increases the role of bank loans in financing their activities.

The role of bank loans in investing processes, both during the crisis and in development, is growing significantly. Increasing demand for products and services stimulates businesses to invest in new investments. In many countries, the establishment of investment banks is preferable in terms of increasing the role of bank loans in investment processes. There are two forms of investment banks for this type of activity: banks engaged in trading and placement of securities and long-term lending in various sectors (Lemmon and Roberts, 2010). Second-tier banks include business banks operating in Western Europe, mid-term and long-term credit banks, semi-state or state-owned banks in Italy. In countries such as the United States and England, such banks are substituted by specialized financial institutions, and sometimes distinguish them as "development banks."

1.3 Current investment activity of banks and credit risk assessment

In general, the tactical and strategic steps taken by banks to illustrate bank investments are, for example, large-scale global market securities (stocks, bonds and other large forward contracts). As we know, banks do not have access to the business sector, so it is important to focus on opening more financial opportunities only by investing in securities or expanding financing areas such as long-term lending or financing a large company. This, in turn, leads to the formation of extensive risks of inversion in banks.

Banks differ in four key categories in the context of investment control and interaction:

1) Market risk of loss;

2) Credit risk;

It will give us an idea of the nature of the risks, based on liquidity and operational risks. In particular, control and verification of methods can be considered as a key priority. Credit risk can be defined as the maximum future loss that can occur over a certain period of time due to the decline in the value of the bank's loan portfolio.

Banking investments should use the media and plans to insure against significant risks.

The Bank's investment risk management implies:

1) Credit functions (loans to be repaid),

2) Formation of high demand and income factors in the market;

3) Continuous monitoring of the investment portfolio quality;

4) Provision of non-performing loans and their repayment (Kərimova, 2008).

Measures will be taken to reduce the potential loss of the reserve system by reducing or minimizing the Bank's investment risks.

In addition to securing repayment of investment loans, it is necessary to raise funds for bank deposits, as only a small share of loans is generated from their own funds.

First and foremost, investment risk carriers act as follows:

1) Direct or indirect lending policy;

2) Sale of assets without prepayment by the contractor;

3) Continuous monitoring of social and political factors in the world;

Another factor affecting bank investments is the downgrade of personal ratings.

If the issuer's securities fall or the number of credit reserves increases while the banks invest, then there is a possibility that the bank will have lower yields.

Sufficient capital adequacy and debt capitalization of the bank create the necessary reserves for losses. This is also the reason why the choice is an important decision made by the bank's risk management system. Fundamental credit cannot be considered as a credit risk dynamic. The investment phase is characterized by the process of accumulating risks and expanding credit activity. It may be possible to minimize the shock event against investing from a transitional point.

Investment is heavily influenced by the risk factors that make it difficult to assess and forecast.

Examples of these are loan agreements. For example, the fact that the credit process is established is a clear proof of that.

The solvency of the investment is defined as "the level of confidence the client has in the bank's obligation to repay the debt within a specified period." It depends on making more money.

The condition (or financial stability) of the bank depends on the bank's lending facilities as well as the degree of development.

The Bank has made some differences in its operations during its lending operations. The structure and structure of the credit risk is a well-planned indicator to reduce investment risks using certain factors. The purpose is to carry out the purposeful and principled organization of the existing facilities and activities of the bank with the employees performing various duties.

Credit risk is due to the fact that it is easier to do directly than scoring, not the work of bank personnel.

Investment risk management is carried out within the framework of a separate structural division of the existing commercial banks. The Risk Department should be interested in keeping this unit under control.

The Risk Department should make decisions regarding the coordination, organization and management of the work of the students, elaboration of the provisions on the identification, analysis and minimization of the risks of the bank and taking into account the specific types of risk minimization, the Bank's Internal Control (BIC) department.

Based on this scheme, it is possible to identify all possible situations in which the bank's investment risks are regulated by a credit risk management policy, and it is advisable to initiate the credit risk, that is, risk experts, and to take immediate action.

Risk management shows all possible and key factors that may be present. Subsequently, the evaluation of documents within the bank is also based on credit risk, which results in the effect that experts have on the ability to manage the credit risk of effective tools of the risk management department.

As can be seen in the accompanying tables below, commercial banks can use two types of investment risk management tools. Investment Risk Management Tools Portfolio of Debt and Credit Risk Management Tools. For each of these groups, the tools and tools that can prevent the causes of credit risk being generated are considered as a way to manage credit risks.

The structure and volume of the bank’s loan portfolio are determined by the following factors:

1) Bank (capital) amount;

2) Rules of Banking Regulation;

3) Official bank credit policy;

4) Experience and skill of managers;

5) Placement of funds in different directions of profitability.

The amount of capital is attracted to the bank, and the total amount of debt is greatly affected, which means that it is considered to have increased the amount and the number of credit resources. In addition, the maximum amount of debt is determined by capital. Capital bank is used to determine the limits and restrictions in the process of regulating banks’ credit activities.

The CBAR has also made a significant contribution to the improvement of credit investments.

Consequently, the size and structure of capital determine the size of its loan portfolio. The quality of the loan portfolio has a significant impact on the bank’s reliability and risk, so it is precisely its credit activity that should be monitored by regulatory authorities in many countries. Restrictions and regulations play an important role in the process of regulating certain banking activities, as well as in the formation of a loan portfolio.

The Bank’s credit policy should not be included in the loan portfolio that defines the list as well as the most important areas of lending. The same credit terms may not meet the basic requirements of one bank’s credit policy, but must be acceptable to another.

One of the prerequisites for banks investment management is that the bank should be interested in financing in some important economic entities just as it is interested in lending. Consequently, the professionalism and experience of specialized loan officers has a significant impact on the characteristics of the bank's loan portfolio.

The key factor in the formation of the institution is that the level of return on assets of the bank should not be attributed to any assets. But high profitability, in most cases, high-risk bank management, and as a result, both factors need to be taken into account. If the profitability rate is almost the same with different types of assets, then the advantage would be to place funds in less risky areas. In this case, the amount of the loan portfolio may be reduced in favor of the bank or other securities portfolio for any other active operations.

The level of investment risk directly influences the borrower's interest rate. It is associated with high risk levels and, conversely, high credit rates. But the credit rate depends on the risk does not depend. It should be taken into account that external and internal factors are formed under the conditions that determine:

1) Determining the total amount of loans in the supply and demand market,
2) Competitiveness measurement criteria,
3) Credit risk minimization policy associated with a specific client;
4) Bank's credit policy,
5) Cost of credit resources for the Bank,
6) Level of base rates,
7) The form and cost of the loan guarantee and its condition.

Simple Azerbaijani citizens have a stimulating effect on the rapid development of bank loans and the development of domestic trade. As a result, the consumer and industrial properties of consumer goods, as well as the increase in consumption in our country, are therefore automatic in the growth of imports. The structure of imports is not an interesting topic for research, as it would be possible to produce goods and services in the nomenclature that would be easy to find within the country. Nevertheless, small business development analysis has been conducted for citizens in this area.

The work will undoubtedly increase the impact of the priority loans with a 39% share for the banking system (the amount of all loans and mortgage lending to individuals).

First and foremost, it is important to investigate the increasing dependence of many banks, which suggests that banks do not want to be dependent on any institutional deprivation when investing. This may eventually lead to their default.

The structure of the borrower's income should be taken into account, not the cost structure.

It is more advisable to monitor, substantiate and document all possible financial returns that may be the source of the investment;

1) A plan for how to earn income in the invested area should be prepared;

2) control the use of information provided by the Bank to a special investment office;

3) Continuously monitor the steps taken to establish and improve the Bank's investment risk management system.

4) Consult with experts - Use of scientific methods, business planning and management to take into account the increased competition and prepare changes according to the economic model of Azerbaijan.

It can be seen that the risk can be optimized. Optimization Risk - helps to put the stress tests in your business.

Bank investment risks can be identified in 5 stages;

1) Investigation of Identification Sources of Investment Risks;

2) Search for risk assessment methods and parameters;

3) Risk Reduction;

4) Monitoring risks.

Banking has its own specifics that define the main types of banking risks:

1) Risk of losing business reputation

2) influence of liquidity risk on investment factors

3) market risk adjustment situation;

4) operational risk (change of market value),

5) credit risk and bad debts.

The most significant and difficult to manage risk is the risk that the banks with the credit risks invested will be invested in acquiring enterprise securities.

Investment Risk - Increases the likelihood of these losses in investment due to past due or outstanding debts of financial liabilities. The purpose of maximizing the return on investment risk is that the commercial bank creates a substitute risk with a planned risk, which is driven by the approach to protecting all of its assets by making less money to avoid stagnation and insure against potential risks. Banks are more interested in working with legal entities than dealing with individuals.

Banks are investing more money into legal entities because the goal is more easy to solve fuel problems with one or two legal entities while minimizing more problems. Thus, it is necessary to monitor the investment of individuals. In all databases, the required loan database is maintained on a regular basis in their personal systems. This type of information can be applied to any banking system, so the design changes in the database and should be lightweight, beautiful and understandable to its core customer.

In conclusion, it can be said that bank investments constitute a competing function between them, being an integral part of the national economy and closely participating in the development of its structural subdivisions. It should be noted that banks are interested in developing any kind of economic infrastructure.

CHAPTER II. BANKING ACTIVITY AND CREDIT ARRANGEMENT

2.1 Functions and benefits of credit in the economy

In most civilized and market-oriented countries in the world, the banking institution plays an indispensable role in the development of the overall economy of the country, and much of this role is played out by bank loans. Bank loans generally play a key role in the overall economic development of banks today. Monetary policy in the country is one of the main criteria for the development of economic relations, and in post-Soviet countries such as Azerbaijan, where the market economy is not that 'historic', the main role of banks in the economy, as in the Soviet period, is largely determined by credit and borrowing. Monetary policy consists of a system of measures of the Central Bank (CB) for flexible management and stabilization of economic processes. The main purpose of the monetary policy of the Central Bank is to create a favorable financial environment in the country to achieve new jobs and full employment and economic growth while keeping inflation under control.

For sustainable economic growth, it is absolutely essential that money supply be aligned with economic conditions. To increase investment activity in the economy during the crisis, as well as to create revitalization, the Central Bank also raises money supply by stimulating commercial banks' lending operations. This in turn leads to an increase in solvency demand. As a result, prices are rising and material interest in the increase in production. The CBA also pursued this goal in providing mortgage loans to address the stagnation and weakness of the construction sector following the global financial crisis in 2008: the possibility of rising housing demand through mortgage loans. This would increase the cost of housing and increase the total number of apartments by converting housing construction and other related areas into a profitable one, raising prices. As a result, prices would stabilize and the demand for housing would also improve. At the same time, the CBA considers it effective to raise the price by that time so that production growth is higher than the rate of growth. In this case, inflation may also play a role in stimulating instruments.

Unilateral or straightforward rise in market economy development is not characteristic. In this case, there are mainly ups and downs, or certain "fluctuations" which are quite normal. However, the most important issue here is to avoid sharp and sudden fluctuations in the process, to protect rhythmicity. Otherwise, economic processes can get out of control and create a "stagnant sea storm" effect. The solution of this issue is in keeping with the main objectives of the monetary policy of the Central Bank. In order to avoid "storms" and "fluctuations" in the economy, the CBA is taking measures to increase credit operations of financial banks in the event of a fall in prices and, in the case of unemployment, or, in the case of high inflation.

The role of loans is usually characterized by the results of their application for the economy, population and the state. The role of loans is manifested in the relationships that arise during the implementation of their various forms and types. A specific form or type of credit relationship has a dominant position in every area of credit impact on the economy. For example, almost all of the commodities are sold for a share, and the main role is played by loans. On the contrary, when a loan is issued in the form of cash, the bank loan is of primary importance. The role of loans is also reflected in their impact on the continuity of production and sales. With the help of borrowed funds, the needs of business entities are met, and the recycling processes are not delayed. The demand for additional resources may also be related to the seasonal factor. At the same time, the continuity of capital and circulating capital through credit is generally ensured.

Credit is also important in expanding production. Formation of capital sources for large-scale reproduction is accelerated with the participation of credit. Loans can also be used as a source of growth in fixed assets. In these cases, loans increase the capacity of enterprises to develop production, including the creation of a number of fixed assets necessary for expansion. What is particularly important here is that credit can serve to advance the scientific and technological progress that is considered to be the driving force of modern economic growth and, consequently, to the development of productive forces in society. Credit also plays an important role in money circulation. As it is known, the issuance of cash and cash, as well as withdrawal from circulation, occurs through credit banks. That is, on the one hand, cash circulation is possible only if banks have balances in their bank accounts due to the issuance of cash from institutions and organizations, including the public. The presence of such balances also indicates the existence of credit relationships between the client and banks, which are lenders, institutions, organizations and populations. Disbursement of cash from the bank accounts means paying off its debt to the client. On the other hand, cash inflows into the bank indicate their withdrawal and, as a result, can be accompanied by an increase in bank debt to its customers.

When it comes to cashless cash flow, there is a constant need for businesses to make regular payments. This is due to the mismatch between daily cash flows and cash flows. In this case, the temporary demand for additional money may be covered by the loan. It is important that the loans given here, their volume and repayment are also linked to commodity production and sales processes.

The fact that the money supply in the period corresponds to the demand for it is also of great importance for the harmony and continuity of large-scale reproduction of public capital. It is important to adhere to the principles of lending to ensure that the money supply in the circular meets the needs of the cycle.

It is also used to regulate the volume of cash in circulation and state regulation of credit operations by taking into account the large economic importance it has. Here is a new side of the economic and financial role of credit. Credit is used as an important and important instrument of state regulation of the economy. Credit regulation of the economy is related to the impact on the prospects and prospects for the development of the economy by changing the volume and dynamics of the loan. Credit dynamics are determined by the economic development of the economy, but as a result of government regulation it can have a decisive impact on the allocation of loans by sectors / sectors of the economy.

By means of credit regulation, states can address social and economic problems, as well as mitigate tensions, mitigate economic crises, curb inflation, and simplify and optimize the economy, national products, exports and imports. works. For example, it is well known in the world that in times of crisis or crisis or nearing the crisis, the government often seeks to stimulate investment investments and civil construction, long-term consumer goods through credit, and, finally, national exports. The ratio of debt capital flow through the natural market mechanism to the borrower's regulation usually depends on the general situation in the economy of the country, changes in the chain of world governments, primarily in the production of key economic partners, in addition, in international trade, the international currency system, and international capital markets. Credit regulation serves the economy as a whole, improving its overall quality, but it also has some limitations. Understanding these constraints and being aware of them is important for maximizing credit utilization. Otherwise, excessive credit exposure, macro and micro-level abuse can ultimately lead to monetary and credit crises.

Credit multiplier is a perception that banks make money through credit mechanism. If payments are made entirely without a banknote, then the formula for the credit multiplier (k) is: $K = (1 - r) / r$. These represent the ratio of banks to which they have to make deposits. As you can see, the lower the ratio, the higher the value of the credit multiplier. In reality, loans from banks are not available for check. Partial payments are made by banknotes. In other words, a portion of the loans received is issued outside the banking system. In this case, the credit multiplier is represented by the following formula: $K = (1 - r) / (r + M)$, M is the ratio of payments made with banknotes. The lower the value of M consequently, the greater the credit multiplier (Atakişiyev, Nurəliyeva and Abbasov, 2012).

Bank loans are the most common form of credit and their role in the country's economy is undeniable. It is the banks that provide loans to people who are most in need of temporary financial resources. This is not accidental, as the banks whose principal business activity is lending are special entities. The main feature of bank loans is that banks, which carry out recurrence and circulation of cash based on redistribution, use resources rather than their own capital. Banks redistribute funds borrowed from some entities to other legal entities and individuals. At the same time, banks lend themselves, not just cash, but money itself. This means that the borrower should be able to use the funds borrowed from the banks in such a way that not only will they be repaid to the lenders but also they will have enough profit to pay the debt at least.

Thus, repayment becomes an integral attribute of the loan form of the bank. Due to all these facts, the percentage of bank loans is always higher than the interest rate on commercial loans. As the bank mainly uses external sources and resources as credit resources, the Bank strives to keep its interest rate at the maximum level. However, this is not the only thing that differentiates a bank loan from a commercial loan. The object of bank loans is cash (cash) allocated from commercial and industrial capital. The borrower is the state, natural persons / legal entities, including banks. The size of the commercial loan is determined and limited in any case by the reserves of commercial and industrial capital. The movement of commercial and industrial capital through commercial credit is targeted; the goods are transferred either directly from the manufacturer to the consumer or from the manufacturer to the trading entity engaged in the subsequent sale of the goods. Bank loans eliminate the limitations inherent to commercial loans, because the direction of lending is not limited by the amount and the term.

Bank loan, as in commercial credit, serves not only turnover, but also capital accumulation. Making vegetables through discounted transactions of a commercial promissory note with a bank loan instrument, increases credit securitization, thus expanding its scope and maturity.

Despite all of these differences, there are some common features of commercial and bank loans. Thus, commercial credit originated long before the bank loan and was logically the basis of the credit system. This, in turn, is explained by the fact that commercial credit serves the direct trade and industrial capital, the movement of goods from production to consumption. However, the benefits and flexibility of bank loans have determined that they are developing more rapidly than commercial loans in the 20th century. As the process of monopolization in the global and national economy intensified, the advantages of bank loans were more pronounced, but the use of them for real capital expansion required significant changes in bank loans. Loans are being monopolized, bank capitalization as well as centralization is accelerating, leading to the emergence of banking monopolies. The process of reconciling bank capital with industrial and commercial capital is diversified and deepened. Despite the advantages of bank loans, commercial credit is not denied. On the contrary, commercial loans benefit from the very rapid development of bank loans as they are historically and logically predisposed to bank loans. Bank adoption increases the importance of commercial loans to large companies, especially corporations, by strengthening the security of commercial bills. And the amount of debt that flows from corporate resources to corporations in the form of commodities and money in the form of cash and money is growing, and, thanks to banks. This demonstrates the need for a combination of commercial and bank loans.

By form of use: production loan, consumer loan and investment loan.

1) Investment credit - used to expand production activities, ie to open production units, and usually investment loans are long-term. An enterprise that

receives a production loan uses it in its production process and returns the principal and interest on the loan within the period specified in the loan agreement.

2) Consumer loan - used to supply goods that are consumers' resources, that is, gives consumers the purchasing power. Consumer loans are loans for individuals to meet their consumer needs, not for commercial purposes (Şəkərəliyev, 2009).

Consumer loans include cars, TVs, refrigerators, washing machines and more. is used to finance the purchase of such consumer goods. This type of loan is aimed at meeting the borrower's consumer needs, rather than creating new value by the resident. Through this loan, citizens' demand for expensive, long-term consumer goods will be met until their full value is paid.

The purchasing power of the population is generally determined by its cash income, but its purchasing power is often lower than the buyer's requirements. The desire to buy these or other goods sometimes exceeds material possibilities. In other words, there is an absolute mismatch between the current income of the population and the high prices for durable goods (furniture, cars, televisions, refrigerators, etc.). There is also a temporary release of funds from some of the population's demands. In this case, consumer lending is quite natural, as it helps to eliminate two important differences from the consumer's point of view:

- First, the contradictions between high prices for long-term consumer goods and related income of the population should be noted.
- Second, there is a deep contradiction between the emergence of free savings in a particular group of people but the need to use them in another group (Əliyev, 2008).

Consequently, consumer credit serves to increase the level of consumption of the population. Consumer credit, on the other hand, is also in the interests of the manufacturer (seller), as it serves the continuity of the sale of goods. Consumer loans can be bank and firm forms. In the first case, the consumer loan is issued by the bank in the form of money. Of the bank loans, consumer loans are the most expensive. In the second case, the trading firm itself sells some expensive long-term goods to the customer. In either case, the client makes a down payment to the bank or trading firm in the amount of a certain percentage of the loan amount. The rest of the loan amount is returned to the lender with periodic repayments throughout the loan period. If the borrower stops paying for any reason, the lender will repay the loan (amount of money or property). The source of debt repayment is the borrower's future income. For this reason, prior to the issuance of such loans, the creditor must verify that the loan repayment sources are valid. A separate type of consumer loan is housing loan. Loans are given here to buy ready-made housing or to build a house. Housing loans are provided either in cash or in natural form by the bank or the home builder. In this case, a pledge receipt is prepared. And this document gives the lender the right to confiscate the home if the borrower fails to fulfill his obligation to repay the home loan partially for a specified period. This type of loan is called a mortgage loan. This is purely a real estate mortgage loan. A loan agreement is being prepared. Debt funds can be used for various purposes, including production and consumption. In most cases, the source of the mortgage debt repayment is the borrower's future income. This necessitates a sound appraisal of the mortgaged real estate and determination of the possibility of selling the mortgaged property in case of non-repayment of debt.

2.2 Credit allocation, classification and requirements

It should be noted that the lending process is a serious activity for the bank in establishing a high-quality and high-yield credit portfolio. Accurately organized lending allows minimizing credit risk. All risks in banking are closely intertwined. However, credit risk is a factor that contributes to the emergence of all risks in banking. Therefore, the healthy functioning of the bank depends on the proper organization of the credit process. The lending process can be divided into two stages. In the first stage, a loan application is carefully analyzed by the client to determine whether a loan is issued. The first stage of the lending process is a responsible one. Thus, the bank is able to prevent credit risk at this stage. In the second phase of the lending process, the bank controls the borrower's current activities for the intended use of the loan. Banks place loans on the basis of the principles of collateral, repayment, maturity, and repayment, as well as between legal entities and individuals. Lending to individuals is very important in the development of the country's economy and this role is constantly growing. Increasing lending to the population has a positive impact on the rapid sale of manufactured products, accelerated commodity turnover, minimization of macroeconomic inflation and unemployment, growth in production, and, ultimately, national income. Thus, the enterprise, firm, organization accelerates the production or sale of products and services offered and creates a continuous process of production development. This will also have a positive impact on the growth of accumulated taxes and, ultimately, the state budget revenues. On the other hand, population lending (mortgage lending) has a positive impact on the solution of housing problems in the country. As we have mentioned, one of the types of loans granted by the foreign bank in the practice is the education loan. Further, the role of population lending in addressing the country's social problems is undeniable. Thus, the population improves the economic and social development of the country by meeting consumer needs through consumer and mortgage loans. In developed countries, consumer and mortgage loans are the most widespread among banks. These types of loans allow banks to increase their income. Consumer credit is one of the most profitable types of lending. Therefore, it is undeniable that consumer credit will play an important role in the management of banks and banking services in the future. This type of loan is aimed at meeting the consumer needs of the population. It has both commodity and money. Consumer credit is costly and risky, and is directly dependent on economic status, consumer income and education. The fixed interest rate on consumer loans is higher than other bank loans. This can be explained first of all by the fact that consumer credit is of "retail" nature. However, based on the world and local banking practice, it is important to note that there is always a need for bank loans to meet consumer demand. Consumer loans are also split into two categories, both short-term and long-term. Consumer loans can be divided into direct and indirect loans. In case of direct lending, the contract is concluded directly between the bank and the client. In the case of indirect consumer loans, another organization is mediating between the bank and the customer. Examples of such organizations include trade enterprises, shops, companies, etc. We can give an example. In this case, the loan agreement is concluded between the client and the intermediary organization. The loan is from the bank. It should be noted that in the banking practice of developed countries banks use indirect consumer loans. This type of lending allows banks to reduce their risk. In 58 developing countries, consumer credit for the purchase of boats and cars (with a 10-year prepayment rate of 23% and sometimes for 5 years in countries such as the UK) is widespread.

There are special legal norms and regulations governing the use of consumer credit in the US and other western countries. For example, one of the existing rules in the US sets the criteria for determining the bank’s creditworthiness by the bank. In other words, when evaluating the creditworthiness of the customer through the banking system, how the bank information is used by the customer, what information the client may request from the bank, etc. Banks place their assets in the statutory manner in the manner prescribed by law and obtain revenues. When using banks’ funds, they pay attention to the three-point approach. These are: 1. Reliable (minimum risk); 2. liquidity (safe period); 3. profitability (maximum profitability). It covers a certain timeframe for addressing these three critical issues, and several factors are taken into account during this process. Assessment of credit requirements. Lending is a profitable and risky function for banks. Certainly, every loan given is a risk factor, albeit at a different scale.

Factors Affecting Lending Risk:

1. Lack of a healthy future for the future;

2. Natural disasters (fire, flood, earthquake, etc.);

3. Changes in consumer demand for goods and services produced by the borrower;

4. Poor competitiveness of the borrowing company as a result of technological changes and changes in production and distribution methods;

5. Negative impact of changes in the overall economic life on the sales and profits of firms;

6. Errors in the financial policies of firms receiving loans;

7. Negative impact of government decisions on the repayment capacity of borrowers;

8. Personal factors related to the loan;

9. Loss of firms as a result of international inconsistencies (Akdogu and MacKay, 2008).

Sources of credit information are:

1. Mutual Meeting;

2. Financial status of the company;

3. The firm’s file in the bank;

4. Trade address registration;

5. Information from the Risk Center;

6. Tax declaration;

7. Market research;

8. Other information resources.

The purpose of the loan is to determine whether the lender has the ability and willingness to repay it in accordance with the loan agreements. Factors Affecting Firms Needs: 1. Frequency of Growth Growth 2. Loss of Profit or Lack of Profit. 5. Seasonal movements.

Analyzing the reasons for denying credit claims under three headings would be appropriate:

1. Compared to those who require credit;

2. Reasons for rejection from the Bank's credit policy;

3. The law regulation.

Loans that require credit:

1. Failure to meet credit requirements by the firm's responsible authorities;

2. The current liquidity situation of the mill is insolvent;

3. Insufficient debt of the firm, debt, high capital ratio;

4. Bank's discomfort with the company's management system;

5. Concentration of the sales volume of the mill and the results of its activities;

6. Transition of the mill into innovative activity;

7. Weakness of the firm owners' morale as a result of investigations by the bank.

Reasons for refusal by banks' credit policy:

1. Long term of a used loan;

2. Low or very high amount of required loan amount;

3. Lack of a loan is not one of the types of loans the bank is planning to provide;

4. Lack of access to the sectors in which the bank operates, in which the bank operates;

5. Absence of a bank depositor from a credit claiming company;

6. Failure of the firm to deposit a certain proportion of the loan in the bank (Akdogu and MacKay, 2008).

One of the Bank's active operations is its cash settlement operation. Banks provide cash services to the economy and arrange for free cash flow into the bank's cash desks; provides cash to businesses, associations, organizations, offices and populations; organizes and implements the collection of cash in the cash departments of enterprises, associations, organizations and offices. Banks provide cash services to clients under contract. According to the current legislation, all enterprises operating in the Republic of Azerbaijan must keep free cash in banks. Businesses may only have free cash in their cash box at the limit set by banks. All cash held at the cash desk above the limit must be transferred to the servicing bank.

Table 2. Statistics of credit investments during 2015-2018

Indicators:	**2015**	**2016**	**2017**	**2018**

Credit investments (million AZN)	21730.4	16444.6	11757.8	13020.3
Short-term loan investments (million AZN)	5297.3	3478.0	2101.3	2695.1
Interest rate on short-term loans (millon AZN)	24.4	21.1	17.9	20.7
Long-term loan investments (million AZN)	16433.1	12966.6	9656.5	10325.2
Interest rate on long-term loans (million AZN)	75.6	78.9	82.1	79.3
Overdue debts (million AZN)	1508.5	1472.6	1626.7	1585.0
Interest rate on overdue debts (million AZN)	6.9	9.0	13.8	12.2

Source: Azerbaijan State Statistical Committee,
www.stat.gov.az

The role of the loan is characterized by its implications for the economy, population and the state. The role of credit is reflected in the relationships that arise during the implementation of its various forms and types. It has a specific position or type of credit relationship in each area of credit impact on the economy. For example, when a commodity is traded for a share, the main role is played by commercial credit. On the contrary, bank credit is of primary importance when credit is issued in the form of cash. The role of the loan is also reflected in its impact on the continuity of production and sales. With the help of borrowings, the needs of economic entities for additional resources are eliminated and the re-production processes are not delayed. The demand for additional funds may depend on seasonal factors. It also ensures the continuity of capital circulation and turnover through credit. Credit also plays an important role in expanding production. Formation of capital sources for large-scale reproduction is accelerated with the participation of credit. The loan can also be used as a source of growth in fixed assets. In these cases, credit increases the ability of enterprises to create new fixed assets needed for the development of production. What is particularly important here is that credit can serve as one of the driving forces of the modern economic progress and, thus, the development of productive forces in society. Credit also plays an important role in money circulation. As it is known, issuance and withdrawal of cash occurs through banks on a loan basis. On the one hand, cash circulation is possible only if there are balances in their bank accounts by issuing cash from banks and cash offices to businesses and organizations. The presence of such balances indicates the presence of credit relations between the customer and banks where the enterprise, the organization and the population are lenders. Disbursement of cash from bank accounts means repayment of debt to the client. On the other hand, cash inflows into the bank indicate their withdrawal and are accompanied by an increase in banks' debts to their customers. As for cashless circulation, there is an additional need for businesses to make regular payments. The reason for this is the mismatch between daily cash flows and cash flow. In these cases, the temporary demand for extra cash may be repaid by attracting a loan. It is of great importance that the amount of loans provided here and their repayment dates are closely linked to the processes of commodity production and sale. The adequacy of the money supply in circulation is essential to the harmony and continuity of the extensive reproduction of public capital. It is important to adhere to the principles of lending to ensure that the money supply in circulation meets the needs of the circulation. At the same time, given the great economic importance of regulating the volume of cash in circulation, government regulation of credit operations is implemented through monetary policy measures. Here is a new aspect of the economic role of credit. Credit is used as a powerful instrument of state regulation of the economy. Credit regulation of the economy is intended to affect the opportunities and prospects for economic development by changing the size and dynamics of the loan. Although credit dynamics are determined by the economic development of the economy, state regulation can have a powerful impact on the allocation of loans by sectors and sectors of the economy. Credit regulation can help address state, socioeconomic problems, weaken tensions, mitigate economic crises, curb inflation, optimize the structure of the national economy, export and import, and so on. works. For example, it is well known from the international experience that the government often seeks to stimulate production investments, civil construction, long-term consumer goods credit, and national exports, in order to stimulate market demand in crisis or near the crisis. The ratio of debt capital movement with the natural market mechanism and credit regulation depends on the specific situation in the national economy, the changes in the world economy, primarily in the production of sensitive economic partners, on international trade, on the international currency system and on the capital markets (Morellec, 2001).

2.3 Management and assesment of credit and investment risks in banks

Investment is one of the most profitable types of banks' operations, but also one with the most risk factors. Banks need to exercise strict control over adherence to established principles for efficient use of credit by improving their investment activities, and lending as a whole is a key factor in shaping banks to generate revenue. Banks use a number of methods and techniques to minimize their risks by investing in the loan industry.

In developing countries, the following methods are commonly used to implement an investment risk management strategy:

1) Risk diversification improvement;

2) Periodic repayment of loans with high risk of repayment;

3) Taking advanced measures in the field of credit to sustain investment and to obtain the basic penetration of secured loans;

4) Adhere to the principle of setting limits on certain areas in which the investment is invested and controlling the risk factor provided that it does not exceed the limits.

Of course, the government, acting in the face of the Central Bank of the Republic of Azerbaijan, will have an impact on these investment risks, helping to reveal positive or negative changes in banks' assets.

Observance of these regulatory requirements, formation of effective management mechanism and creation of systematic conditions for operation, on the other hand, create risks for credit institutions and credit institutions, increasing the requirements of all participants in the credit process.

From this point of view it would be important to emphasize that the first of them is not the main task of risk management in the banking system as a whole. Such an approach would be a measure of the "risk management", which is contrary to the nature of the risky activities of banks.

A number of problems need to be solved from the level of investment risk - more effective management can be achieved by monitoring how much it is worth and monitoring the risk of minimizing losses.

It is important to take into account the fact that one or another event related to the level of credit risk is constantly changing external factors affecting the activities of banks due to dynamic changes. Risk management of investment policies, assessment of credit risk in the investment market, constant assessment of the quality of its assets and liabilities should be considered as the main subjective factor in rebuilding relationships with customers of these or other events.

Credit risk management and systematic evaluation are needed for the development and implementation of effective and comprehensive knowledge of investment risks. Note that a specific approach to investment risk factors requires risks that are constrained by each bank's assessment criteria, and their effect on their character and productivity. The CBA's methods of control and control, set up to regulate investment risks, cannot fully cover bank commercial activities. If there is such a practice, then it is characterized by a strict "compulsory" risk control, and that the comprehensive credit process is intensified and its initiative is maintained by banks.

Given all the above factors, banks need to develop a number of projects to maximize their risk levels;

1) The principle of sensitivity analysis;

2) The principle of scenario analysis;

3) Principle of Analysis Tree:

4) Cash flow statement (Бортников, 2010).

Sensitivity analysis. The main feature that distinguishes this analysis from other analyzes is the advantage of the principle of approximation to probability theory. The application of the sensitivity analysis method is to balance the sum of possible variations in the NVP due to the stability of any variable. During this analysis, a question arises that may cause investors to wonder: is there a rise in the price strategy of the opposite party? What are the possible changes in the market segment and conjuncture? Other questions such as these are techniques that help the team find answers. Sensitivity can be applied in a number of ways. While sensitivity is typically applied to bank loans, all businesses, regardless of their organizational legal form, are now able to determine their financial position at risk using these analytical tests. The goal is to assess the risks that banks face, taking into account all the risks they face.

One of the ways to minimize risks in bank investments is to use the methods listed below.

The main advantages of the method are:

a) maintenance of objectivity;

b) theoretical transparency;

c) simplicity of calculations;

It is necessary to clarify the above-mentioned problems that the formation and effective use of bank credit resources, taking into account the investment risks, is the basis for conducting credit operations.

This means that the bank's own capital formation is essential to its financial resources, and an integral part is the need for adequate equity to attract the capital of others, thereby ensuring that creditors are guaranteed a return on potential credit risks in the event of a crisis. they can count on savings as money.

Scenario analysis. It is considered to be a set of steps taken to reduce investment risks:

a) the sensitivity of its net assets to net variables;

b) The range of probability values of these variables.

If the scenario is based on the analysis, the probability of self-validation is minimized.

The possible scenario analysis method is used by an expert method. Cash flow regulation should be considered as a major aid in screening analysis. Generally, both scenarios and methods of accounting analysis are considered necessary to evaluate investment risks as a positive indicator if successful.

Banks are evaluating risk factors in 3 ways:

a) a method for quickly solving a problem;

b) the causes of the occurrence of moral and negative processes that may cause problems;

c) criteria for quantitative and qualitative risk assessment.

The key factor to be taken in the risk assessment as a key asset is its quantitative index.

The expediency of the decision in that case is considered normal:

a) it is likely that there is always an alternative plan to minimize the risks;

b) Reduce the risk that the risk of statistical and mathematical performance may occur. It is assumed that the risk level varies between 0.3 and 0.8, making it a more dangerous indicator when it reaches its upper limit;

c) avoid the risk for a lower cost, for any other reason.

The qualitative composition of banks in the structure of their funds varies widely and is constantly changing depending on various factors. The Bank's capital base is strengthened by its sustainability, its policies, and its sustainability, while improving the quality of its assets. At the same time, there is an increase in banks 'credit portfolios depending on the banks' own funds and the size of the institution. However, the situation may change so that with the increase of own funds, bank reserves will increase.

Thus, the development of global bank investment in recent years is characterized by several turning points:

1) This includes improvements in international mortgage loans;

2) Consumer protection, regulator policies are implemented to minimize and increase risks as tendencies are tightened;

3) Some competing banks are trying to hold a unified position by combining their portfolios, which means that they are at the forefront of the market;

4) Gaining the approval of market entities leads to large-scale investment;

The sharp rise in problems in banks continues to create at the same time harder for investment markets. According to estimates of the International Monetary Fund, investments from European banks totaled $ 115 billion. dollars. The euro, while the figure in the United States is more than a half.

Basel 3, the toughest requirements of retail banking regulators, which have a significant impact on many countries, is working to improve banks' liquidity and capital adequacy standards. The minimum amount of capital increased from 10.5% to

8% by 2015. Rating Agency - Standard & Poors, known to the 75 largest banks in the world, has $ 763 billion in loans to banks. will need to search.

In many developed markets, inter-bank competition has, ironically, declined. This is because of the increase in recent years (Banco Real, Spain's Santander, and Alliance & Leicester in Brazil); Many of France's BNP Paribas, Fortis and Belgium (many of which are banking products) are leaving the market.

Customers should be more careful in the choice of banks and products. They need more transparency in their relationships with their financial institution. However, the change is also a very difficult process for bank customers, who have recently become increasingly dissatisfied. The crisis has shattered the confidence of customers for the entire banking system, and building relationships with deep-rooted customers has become a vital necessity. This is characterized by an increase in deposits. According to Blonberg's research, trust in banks and the banking system is the lowest (36%) in Central Europe, with 55% in Western Europe and 75% in customer satisfaction.

In addition, it has long been known that the ICE (Index Customer Experience) indicator, which reflects a deeper relationship with the bank, reflects the level of development of the banking system, indicating how strong the banking system is.

Investment risk analysis and risk assessment methods in banks:

1) Improve the quality of the service;

2) Determining the Commission's lower limit;

3) Low interest rates;

4) Organization of information selection consultations;

5) Ability to penetrate deeply into the market;

6) Development of brand projects;

7) Principles of Loyalty Program Implementation (Кабушкин, 2005).

It increased considerably as the main tool to attract funds to savings accounts.

In addition, banks are pursuing a policy of encouraging customers to invest more actively and for longer periods of time.

Azerbaijan's retail banking has undergone significant changes over the past 10 years, both as a quality and quantity indicator. The number of banks has increased, the quality of services, the number of products offered, and the outlets have been significantly increased, paying serious attention to the development of this area. The basis for macroeconomic development (such as increasing GDP, income of the population) is improving in parallel. The increase in output was the logical consequence of all these changes for banks (retail to GDP ratio).

Table 3. Credit investments of the national economy (million AZN)

	2013	2014	2015	2016	2017	2018
Credit investments in the economy	**15 422,9**	**18 542,6**	**21 730,4**	**16 444,6**	**11 757,8**	**13 020,3**
short term	3 335,5	3 931,3	5 297,3	3 478,0	2 101,3	2 695,1
As result, in percent	21,6	21,2	24,4	21,1	17,9	20,7
long term	12 087,4	14 611,3	16 433,1	12 966,6	9 656,5	10 325,2
As result, in percent	78,4	78,8	75,6	78,9	82,1	79,3

Source: Azerbaijan State Statistical Committee,

www.stat.gov.az

Credits to individuals increased by more than 6 times from 2010 to 2015. The main reason for this is the increased attention and attention paid to individuals by banks to diversify their investments. The main reason for this is the fact that at present there is a small number of business entities and the desire of individuals to invest in their own needs. The purpose of banks lending to individuals is to help them become individual entrepreneurs.

CHAPTER III. RELATIONSHIP BETWEEN INVESTMENT, BANKING AND CREDIT ASSESSMENT

3.1 Investment, banking and credit assessment as central problems of macroeconomics

The banking sector development strategy in Azerbaijan has emerged in 2008 as a way of developing measures to increase the role of Azerbaijani credit institutions. Despite its young age, the rapidly developing Azerbaijan has not been indifferent to the development of the structural units of the state. In this regard, both the state-owned enterprises and the private sector continue to grow rapidly. At the same time, other partner countries have also shown interest in the large volume of revenues that historic investors have invested in our country. This, in turn, resulted in the inflow of foreign capital into our country, where a number of large private businesses engaged in private entrepreneurship conducted market research to express their position in the investment world. At the same time, it should be borne in mind that as a result of our country’s tolerance and democratic policies, banks have been able to work with the government, which is to gain a broader support from the state, and to promote the business environment of Azerbaijan in the world market.

Favorable macroeconomic conditions were created in 2014. This in turn increased demand for banks. Due to the credit they receive from small businesses, banks have built up their own small business and gained access to the market. Credit policy has begun to develop in banks since 2010, resulting in the investment of all the funds of the banks on credit. Positively, it is worth noting that these banks have increased competition and created a wide range of loans. At the same time, the growth of banks’ branches can be considered as a kind of investment. Banks working together with the population resulted in the allocation of funds in their own homes to certain banks by other persons, which is formed by mutual trust. Such development leads to an increase in the existing pools, which in itself is a form of investment.

In the narrow sense, "risk" is likely to have a negative, unwanted, disadvantageous, unfavorable, outcome of any planned step, and the definitions of the "risk" can be summarized as follows:

a) Risk is a situation where there is a loss of income ;

b) Risk is the measure of loss in the absence of planned actions and actions to be taken;

c) Risk is a failure that results in poor selection of competitors and lack of adequate capital;

d) Risk is a step taken to prevent uncertainty in the context of inevitable choices.

During this period the main work was carried out on the implementation of measures of the Government and the Central Bank of the Republic of Azerbaijan for the implementation of the 2010 Strategy. The risk of excessive growth of the population’s lending market posed a serious risk factor for banks, which posed a serious concern.

To mitigate this risk, banks have to adopt another strategy, which includes:

1) Simplification of document circulation and securing access to records;

2) The development of Internet information and the process of establishing Internet banking in our country;

3) Deposits attracted on favorable terms and offering low-interest loans to depositors;

4) Examples of banks’ steps to provide financial support to companies and such investment policies are examples (Akdogu and MacKay, 2008).

However, there has been a decrease in the growth rate in the lending market of individuals, and the opposite situation has been observed in these banks.

The Central Bank proposes a set of two new indicators for banks through the implementation of measures to reduce risks in the area of consumer lending.

Since 2015, when analyzing the credit risk situation in the commercial banks of Azerbaijan, they have noticed that they are exposed to significant risks. The main reason for this was that most of the loans to the public were unlikely to be repaid.

Banks' credit risk risks in 2015 were higher than other types of consumer loans.

Investment risks include the following sub-types:

a) The risk of losing profits

b) Risk of falling revenue

c) Direct Financial Loss Risk (Catalyst Risk, Selective Risk, Temporary Risk, Risk of Law Replacement, Interest Risks and Liquidity Risk)

d) Currency Risks

It should be noted that at present, the manat has led to an increase in the price and economic instability and debt expired in 2015.

The credit policy of all banks is aimed at reducing credit risk. Banks with a high probability for the period 2004-2015 refused to lend, and here are a few stop signs:

Credit Risk: Another of the banks' most responsible business activities is lending. Despite the fact that clients are at the highest level of credit verification, loan delays and bad loans are a must for all banks. The main pools of banks are formed by the deposits of the society. Since banks do not have any chances of being late on their repayments, they should be very careful and constantly monitored in the areas of credit control, the creation of a reserve for bad loans, the maximum amount of credit guarantees.

Simple Bank Risk: This risk is understood as a transaction that occurs in the course of a massive foreign exchange transaction with banks, or that profits or damages the bank's investments. I would like to bring to your notice that these are the operations that result from the transfer of the bank's private investment in such operations on a foreign basis. As this is a very difficult situation to regulate in advance, it is necessary to constantly monitor the forex market and the international currency markets and analyze the current state of the developed countries, which is regularly carried out by the Risk Management Department.

Investment Risk: Most banks are interested in developing long-term tactical and strategic plans before they can make investments. First of all, banks need to carefully examine the area they are going to invest before investing and determine the rate of return for the bank.

Operational Risks: Operations refers to risks that may be attributed to minor errors by banks as a result of credit, savings, transfer, collection and other transactions.

In conclusion, it is clear that credit risk management is a high-level bank staff, however, it is more advisable to take the steps and policies to consult and consult with professionals in the field.

From this point of view, using the aforementioned funds should be very careful, which is mainly due to the level of solvency or liquidity of the bank.

3.2 Risk factor in bank credits and its evaluation

Credit policy of the Bank should be based on the basic banking operations in the process of complex implementation of the main tactical and strategic tasks envisaged by the employees of the enterprise.

The Bank’s credit policy creates a balance between these categories, meaning that there is no risk of bankruptcy if the maximum level of risk is determined by specific transactions. After the development of key policy provisions, the document will be submitted to all members of the board of directors for approval.

Accordingly, the current governing body is responsible for making decisions. In addition, board members should also oversee the implementation of approved provisions in practice. In the modern world, many large banks have come to the conclusion that their common goals and objectives, as well as their achievements, are the need to use common methods. A special document, called for this purpose, is being developed

"Memorandum of Credit Policy". The document sets global targets, sets the maximum and minimum amount of debt, and it is not advisable to issue certain types of loans, which are considered the most risky.

During the period in which the credit policy of the bank is reviewed, the financial performance of the bank is calculated. In this regard, the volume of their own resources and availability of recurrent reserves should be taken into account, for example, urgent savings accounts, as well as the economic situation in the country.

Monetary credit policy is one of the most important directions of our country. Improvements in monetary policy also make a difference in the loan industry. The main provisions underlying this policy are those of other credit institutions in the preparation of this document. For example, the Central Bank defines the size of the required reserves that have a direct impact on the level of interest rates on all types of loans.

This software has weak and analytical capabilities. It can be used to build your own scoring models, and investors prefer electric carriers because the historical data requires large-scale financial opportunities. This helps keep confidential information about active customers constantly and easy to find.

The bank needs to get scoring cards that do not take into account the bank specifics. Currently scoring in invested loans is as follows:

1) The date of the Loan Agreement;

2) Age limits and restrictions control;

3) Confirmation of work experience and salary with relevant documents;

4) Who can be assessed whether there is a place of income or an increase in the amount of the extended loan;

5) Residence and registration address;

This list requires additions to improve the accuracy of individuals' credit risks.

Azerbaijani banks do not have an automated system, which is why market changes help to update and improve the scoring model. The market is monitored by analysts. If there is a change, a new scoring card will be purchased. As a rule, scoring cards vary from 6 months to 2 years.

For this reason, it is important to turn to less risky tools. In this case, there is an interest in investment funds, which is a possible tool for you. Investment fund can be considered as a kind of pool. These funds are set up by banks or vehicle companies. Investors' savings are collected in a pool. This pool is called a portfolio. The fund's founder manages the firm's portfolio. The portfolio aims to generate income and reduce risk by investing in various investment instruments (stocks, treasury bills, government bonds, interest rates). As an investor, be a co-founder in the background by getting a connect document that represents part of the portfolio that the fund owns. Who Can Create an Investment Fund? Establish and manage pension and welfare funds, investment funds with intermediary agencies, banks and insurance companies. How does an investment fund generate income? The way of participation documents can be shared with foundations. Participation documents are similar to your paper, indicating that you are in the background. However, they do not physically lose their hand. Customers are logged in to your account. The fund you invest in can earn you 3 ways. The share of income is much less than the movable prices held by the investment fund, and it generates interest. The proceeds are reflected in the value of the stock portfolio. Payment of securities owned by the Fund is increasing. If the investment fund sells the money to a rising price, it will get an investment return. These capital gains are reflected in the value of the stock portfolio. If the investment fund holds money in the hands of a rising moving price, the cost of participation documents increases. The high cost of a high stock indicates the value of your investment (Əhmədov, 2010).

Rotational Loan Investment - Banks provide loans to customers in different names, under different conditions and at interest rates. BCH credit is a long-term loan that is used by banks for commercial purposes. That is, the credit can be used until the credit limit expires. Writing is not a credit. It may be used within the limit in any amount with the consent of the bank and then make any payment. The term of BCH Loans is 12 months. Loans are used at any time during the period, closing at any time. It is open for use within 1 year at the end of the period, subject to interest payment.

The Bank has the right to change the interest rate and prospects of the loan. The bank constantly monitors the financial performance of the firms and wants the credit to be active. In practice, it is usually used with a weight guarantee. In other words, we pay the checks we get to the bank, when the time comes for the bank to study the checks and deduct the credit amounts we use. Each time you issue a check, the credit limit is re-opened on this amount. BCH loans can be secured by checks, other than real estate mortgages, cash blocks or company collateral. As a guarantee, the bank's checks must not exceed the credit period. Banks prefer to receive short-term checks as collateral.

Banks always keep checks on what they can secure. They make the appropriate decisions regarding the checks received. The main purpose of keeping checks in check is to determine the risk level of transactions that may occur and to make decisions that will improve the performance of the enterprise. Since the risk factor is a very scary phenomenon for banks, banking institutions need to investigate markets in advance. The risk factor is inescapable for banks, and it is based on accepting and transferring it with minimal damage. Although risk factors in banks are primarily affected by credit risk. In this regard, the Banking Risk Department first of all reduces its profits by creating reserves in accordance with the delayed loans, which in turn leads to the preservation of investment.

There are various methods of financing for various investment projects in the economic literature. One of the main differences is the notion of the term "project financing". This term can be distinguished by its wide and narrow interpretation of its abundance in all its diversity. A wide range of forms and methods of financial security under project financing are understood to be an investment project. Project financing is considered as a method of complex financing of specific investment projects using various sources of financing and various methods.

Understanding the requirements and goals of investment risk analysis decisions between contractors and customers is a poorly organized dysfunction for risk system risk. These two risks can be combined because they can be used in the same methods (which, in turn, are explained by the appropriate nature of the risks).

Based on the results of portfolio analysis, decisions can be concluded that developing a poor communication method and avoiding risks among stakeholders is less likely to be understood by the contractor and the customer, and poor projected costs and changes. However, the use of each proposed method can significantly reduce the likelihood of risk. Based on the tree-based analysis results, the decisions can be concluded that the information service for overriding the application of the "Confirmation" method and testing system is the expected cost of the bank’s risk problems, because in this case the system is inadequate to recover.

The use of each proposed method can reduce the likelihood of a greater risk. Improving risk management systems for each category of customers should be the goal of a commercial bank to significantly increase the attractiveness of credit products. Simplification of the loan issuance procedure allows achieving this. Decrease is due to declining decisions and lower demand for collateral and collateral, their expected increase, and greater use of customer risk rates and conditions, especially in retail.

Based on the analysis of the data obtained, it can be concluded that the commercial policies of the Azerbaijani banks create conditions for more aggressive market conditions. In order to implement this strategy, it is necessary to increase transparency in lending to banks, which would prevent internal and external fraud and corruption in making decisions on credit risk.

These tasks require significant changes in credit risk processes and application systems:

1) Creating a formalized credit risk assessment system for a commercial bank. Credit risk for each client accurately and explicitly should the bank be an individual or a legal entity, which should in turn assess the expected level of customer risk assessment, its default probability, ie default risks and losses. There are many elements of this approach in Azerbaijani banks, including the methodology of legal entities, including customers, which can be a good basis for future work.

2) Assessment of compliance with customer credit risk assessment and granting and repayment of commercial loans. The minimum "price risk" of losses expected to be quantitatively assessed should be included in the cost of provided credit resources. For example, the client has a certain amount of credit risk allocation or limits on the total loan portfolio or individual portfolio that the bank is willing to consider for its balance sheet.

3) Increasing the role of risk management functions in the process of preparing and making loan decisions is key. The principle of credit risk and the client’s "eye-to-eye" helps the bank to make key decisions, regardless of its size, by making

fundamental fundamental changes, such as an independent appraisal distribution. This can be done, for example, with the help of a geographical unit function that increases its independence and, in most cases, improves the quality of management and analysis.

4) The application of all types of credit applications is essential for the application of optimization credit procedures and electronic document management. These factors are considered to be the key to improving the risk management process within the bank, which is a function of credit decisions and efficient and interrelated functions, not just for the successful and efficient operation of the credit process but also for ensuring transparency. Functioning Client operations, credit analysis, formalization and escrow loan agreements are one of the key elements of the bank loan process.

5) Separate and solidarity of the monitoring service is to update the process of re-examining the quality of the bank's loan portfolio overdue debts. The key issue now is that the earliest detection of potential debt troubles and professional work with it will result in the necessary restructuring.

6) Formalization - In the credit strategy, various indicators of credit risk include principles of portfolio formation and effective organization of mechanisms at the level of monitoring and management (Кабушкин, 2005).

In conclusion, it is possible that banks are ready to apply all the methods in the market to maximize their profits by utilizing all existing legislation as an investment policy. The most common of these methods are examples of credit policy improvement policies such as high interest in securities, portfolios and increasing their investment in a regulated direction and so on. Improving their management systems is critical in the development of business to ensure the implementation of a strategy where risks are required.

3.3 Relationship between investment and credit risks in banking sector

Credit risk reflects the risk of non-fulfillment of credit obligations to the bank by a third party. Such transactions include:

- provided and received loans;
- placed and attracted deposits;
- other placed funds on purchase (repayment) of debt securities, promissory notes and promissory notes;
- bills of exchange;
- principal payments on bank guarantees to the beneficiary;
- bank requirements for financing agreements based on monetary demand discounting (factoring);
- bank requirements (bargaining) on acquired rights for bargaining;
- Banking Requirements for Deferred Payment (Acquisition) of Financial Assets (readiness for financial assets);
- requirements of the bank for payable letters of credit from payers (in the part of unsecured export and import letters of credit);
- requirements by the lessee of the bank on financial lease transactions.

Credit risk is based on the following factors:

- economic and political situation in the country and region;
- the degree of credit activity concentration in certain areas sensitive to changes in the economy;
- creditworthiness, trust, ownership and ownership of borrowers, as well as suppliers, etc. types of relationships with creditors;
- bankruptcy of the debtor;
- a significant share of loans and other banking contracts that are facing customers who have financial difficulties;

- concentration of banking activities in the less well-known areas of lending;

- new and recently attracted special customers, where the bank does not have sufficient information;

- fraud;

- borrowing of a debt that is difficult to realize, or whose value is quickly lost;

- diversification of the loan portfolio;

- feasibility of the feasibility study;

- frequent changes in credit policy;

- types, forms, amount of credit and its security.

These risk factors are grouped by external and internal factors. External factors:

- state and prospects of development of the national economy;

- possible changes in the country's monetary, foreign, domestic and foreign policies and regulations;

- risk of foreign credit: political, macroeconomic, social, inflation, sectoral, regional, legislative changes risk, interest rate risk (Бортников, 2010).

Internal factors are related to the activities of the bank and its borrowers.

Bank risk management system means the general approval of the bank's activities, when there is uncertainty in the operating environment, to ensure a positive financial result, to predict the occurrence of risk, and to take steps to eliminate or minimize its negative consequences.

The following should be taken into account when establishing a risk management system: 1. mission, strategic and tactical objectives of the bank; 2. types of operations and activities of the bank; 3. Bank management and operational processes; 4. Intra-organizational structure; 5. indoor, outdoor and regulatory environment; 6. Risk communication and their impact on each other; 7. Bank support measures in crisis situations. The risk management system should be regularly assessed by the internal audit department of the bank and the results should be reported to the Audit Committee of the bank. The Bank has established a Credit Committee for Effective Credit Risk Management, and an Asset and Liability Management Committee for liquidity and market risk management to manage risks present in the Bank. If necessary, an Information Technology Committee and other committees may be established to ensure efficient and safe operation of the bank's information technology systems, as well as to manage other risks faced by the bank (Kərimova, 2008). The powers of inter-bank committees are regulated by regulatory acts of the Central Bank of the Republic of Azerbaijan (hereinafter - the Central Bank), corporate governance standards and internal documents of the bank.

When creating an organizational structure for risk management in banks, the following should be ensured: 1. Effective communication and information flow between all levels of the organizational structure; 2. no conflict of interest; 3. Clear definition of responsibilities and powers; 4. an independent and transparent decision-making process; 5. regularly informing the bank's management and structural units about the risks that the bank may be exposed to; 6. Formation of intra-bank risk culture. The risk management structure consists of: Supervisory Board. The Supervisory Board should understand all the risks that a bank may face as a result of its activities, be fully informed about it, determine the appropriate levels of risk, their ability to manage them, and ensure the establishment of an effective risk management system that identifies, evaluates and controls risks. The Bank's Supervisory Board's responsibilities and powers in the risk management process include: risk management policies, risk management organizational structure, authority and responsibility, internal policies and procedures for various operations and activities, various risk management methodologies, to approve the limits; to give instructions to the internal audit unit to check the efficiency and effectiveness of the risk management system; determine the level of risk the bank will take; ensuring adequate risk management procedures are developed; To determine quantitative and qualitative requirements of the bank's capital taking into account the requirements of the Central Bank; make recommendations to the bank's management board on risk management; Require regular reports from the Risk Management Committee (RMC); Appointment of RMC Supervisor.

The bank should set up a risk management system adequate to the type, amount, nature and environment of operations, complexity and risks. The risk management system should ensure the identification, evaluation, reporting of risks inherent in the bank's activities, identifying and controlling acceptable risk limits, and mitigating risks. Internal risk management policies, rules, organizational structure and reporting systems of the Bank, as well as minimum requirements for risk identification, assessment, management, monitoring and reporting are regulated by the relevant Central Bank regulations.

As we know now, banking risks are more of a problem and there is a great need for their management and mitigation. According to international experience, internal problems arising from improper management of the banking system often lead to crisis in some banks and jeopardize the financial stability of the bank. In the modern era of the banking system, the problem of risk management has also had a negative impact on the situation of some banks in Azerbaijan. Some of these licensed banks can be an example of this. is one of the factors that has a significant impact on the current state of the banking system. At the same time, it is impossible to imagine the modern banking market without risk. There are and still are risks in all banking operations. It is impossible to completely eliminate any of the risks in banking. Commercial banks have higher risks than state banks. The higher the risk of a bank, the greater its profit. The main issue in modern banking is not the overall risk disappearance, but its prediction, evaluation and mitigation. Risks for all types of activities should be identified and weighed. If the current risks are not properly evaluated and not taken effective action against them, negative consequences for the bank can be created. The risks encountered include interest rate risk, currency risk, stock risk, liquidity risk, credit risk, risk of changes in contingent costs and so on. Risks (Буянов, 2005).

At present, the main objectives of banks to avoid or minimize risk are:

1) Identify all cases of risk occurrence.

2) Determine and assess the extent of the potential loss.

3) Find ways to prevent or compensate for damage.

The available criteria for distinguishing credit risks are:

1) Prepayment risk is the risk of loss as a result of the client’s inability to repay the loan. In this case, the size of the loss depends on the current market rates. Prepayment risk should be measured by the principle of credit equivalence. It should reflect all of the multiple estimates of possible future risks of an enterprise or bank as a result of changes in the capital market’s present value of risk.

2) Current risk is the type of loss that a client will be unable to repay on the same day, and the need to reassess the current situation.

3) Potential risk is an assessment of the value of a future current recovery, which reflects what is lost if the lender is unable to repay the loan within a specified time. According to current practice, this value should be avoided with the help of the simulation. For more sophisticated alternative practices, assessments can be used to calculate and identify potential risk risks.

4) Expected loss risk - reflects the level of losses the bank will face based on available data. This is also a mathematical probability that a potential future threat will not be able to repay the client’s credit. Expected loss risk is a tool to protect your bank from long-term credit losses.

5) Unexpected damage reflects the probability of an existing loss. The level of unforeseen losses is estimated by identifying and measuring the worst credit loss within a defined reliability.

6) Settlement risk is the amount of unpaid amounts expected from the opposite party. At this risk, the value was transferred by the bank to the opposite. Settlement risks can usually arise in foreign currency transactions and securities. The Risk Management Department should monitor each and every of the above risk levels individually or in total and periodically compare the relevant limits. This Department should conduct regular research on the areas of the bank's credit risk, and study the activities of borrower businesses. Let us now examine the issue of liquidity risk management in modern times. It is well known that all banks should have clear procedures for liquidity problems in emergencies. These procedures are part of the Bank's overall risk management policies. The Risk Management Department should evaluate and monitor projected cash flows for all currencies in order to identify funding requirements. Strategies to secure reserves for the loss of market liquidity should be included in the bank's liquidity planning process. In all markets where the Bank operates, these risks must be taken into account on a regular basis (Lemmon and Roberts, 2010).

In addition to the above, it should be noted that liquidity risks are the risks associated with maintaining the required level of operational requirements while also pursuing strategic objectives. Methods and models are chosen and applied to manage liquidity risks. Risk indicators that reflect the internal and external causes of liquidity risk are examined and analyzed. In addition, liquidity stress tests are conducted and shock events are analyzed. Concentration is defined in the financing process. In the process of liquidity transfer, instant liquidity and other indicators are calculated and analyzed. Interest Risk - In today's time interest rates can often be adversely affected. The financial position of the bank can be in a bad state due to interest rate fluctuations, and the risk is the risk. Banks may suffer losses when interest rates on borrowed funds exceed the interest rates on borrowed funds. The risk at this time affects the bank's entire income as well as the value of all liabilities, assets and balanced instruments (Буянов, 2005).

As we have already said, interest rate management involves the management of both the bank's assets and its liabilities. The key feature of these risks management is that it aligns with the bank's portfolio's credit risk and liquidity requirements at the same time as other banks. Management of liabilities is very difficult because the bank has limited choice and size of debt instruments that it can successfully share with its customers and other customers at any time. These risks are grouped into retrospectively, current and prospective risk exposures, so the risk levels must be analyzed both statically and dynamically. As we mentioned above, the simplest and easiest way to measure interest rate risk is to determine the time difference between assets and liabilities. The essence of this method is that bank assets (FBAs) and liabilities (IMFs) that are sensitive to interest rate fluctuations are grouped by maturity, repayment periods or revaluation periods. The following formula is true for any time period. GAP = FBA - FBP This is also the GAP-time period, FBA-net interest assets, and FBP-net interest liabilities. The following formula is used to estimate the change in net interest income (FBG) over that time period: FBG = GAP * 1, where FBG is the expected change in net interest income, the expected change of 1%. Expected change of income occurs when the rates reach the desired level during the period we have just considered. At this time rates should be maintained at the same level during the next business. The Bank is re-evaluating all of its positions throughout the year at the same rates (Буянов, 2005).

Risks are divided into external and internal interest risks. The size of the internal interest rate varies depending on the unit's operating strategy, policies and tactics. External risks are those that are directly related to the activities of the financial department and its communications audience. At the same time, the financial risks refer to the internal risks in the risks arising from the activities of the clients (ie bureaucrats) of sector entities. Currency Risk - The currency risk is the risk of the bank losing its value as a result of exchange rates. This risk has become more relevant nowadays. Thus, in the current economic crisis, the exchange rate of the national currency is constantly changing in relation to foreign currencies. As we know, the basic concept of currency risk management and regulation is the position of the currency in relation to other currencies. Currency positions are closed and open. Existing and sold foreign currency amounts are available when they do not overlap, but are open to the contrary. The currency position is the ratio of the bank's foreign currency liabilities and requirements. When the liabilities exceed requirements, the currency position is short. A long currency position occurs when demand for currency is greater than sales commitments. As the currency position usually changes continuously throughout the day, the bank assesses currency risk. The major risk factors for managing currency risk are the methods that limit those risks. These methods work according to changes in exchange rates and general bank policy. In my opinion, currency risk management can be based on anological principles of liquidity risk management and analysis of interest rate risk mismatches. The main objective of the analysis is to identify the time mismatch between foreign assets and liabilities. This discrepancy can be calculated based on key indicators such as current and expected exchange rates, interest rates, and risk-profit ratios acceptable to the bank's management.

Market risk is the probability of loss due to changes in the market value of a bank asset as a result of interest rates, foreign exchange rates, equity and market price fluctuations. Hence, market risk is the risk that a financial instrument will be incurred by a financial loss due to changes in market value or exchange rates.

All of the above factors depend on the market risk indicators determined by the regulations of the Central Bank of the Republic of Azerbaijan, the bank's investment and trade portfolio structure, the bank's position in the fixed market, and the risk of falling securities. These indicators allow identifying the form and rate of change in market risk, determining the tendency to change bank securities and the position of revenue generated from securities transactions. It also helps to assess the impact of changes in stock market price trends on bank equity and liquidity.

Measuring market risks depends on how they are applied. Probability-based measurements (calculated within 1–10 days) can be called Risk-Impaired Value (RMD). It is the determination of the maximum possible amount (99%), which is almost entirely within the given period. This maximum amount will be the information for possible losses, depending on the future distribution of the portfolio of the bank's assets or the standard deviation.

CONCLUSION and SUGGESTIONS

After studying the relevant problem, below-mentioned conclusions and suggestions may be given:

- Taking into account the current level of development and requirements, the main goal is to direct modern investments into real and self-sustaining sectors of the economy, ultimately creating new competitive forces in the country and setting up production processes to meet the highest market demands.

- The scarcity of raw materials and resource resources, uncertain natural conditions, changing social, economic and political processes, events, investment activities and projects for this purpose make the analysis and evaluation of projects more feasible and efficient.

- Interest rates of credit from commercial banks, as in international practice, should be regulated by the state as a whole, including long-term loans. As in developed countries, the ratio between commercial banks' interest rates and the NBA's interest rates should be regulated by the government, and credit rates must be differentiated depending on its purpose, ownership and region.

- Despite the introduction of innovations in the financial services structure, credit risks remain the main cause of banking problems. To minimize the existing risk, the state must formulate an optimal risk management system and thus create a favorable business environment for private sector development.

- There is a need for the establishment of a large number of specialized microfinance institutions capable of effectively addressing investment problems in the private sector. In spite of such experience, it is very important to expand and establish an effective system.

Credit unions play an important role in the solution of this problem. Creation of credit cooperatives for more efficient organization of entrepreneurial activity should be more widespread, the mechanism of solution of investment problems of small and medium-sized businesses should be fully developed. In this regard, we believe that finding opportunities to reduce credit rates, applying different tax incentives for investment use, and accelerating credit system allocation and management should be considered as important.

- High interest rates in the country are caused by both internal and external factors. In order to require banks to lower their interest rates, the central bank should, first of all, increase the volume of centralized loans provided to them, and most importantly, that all banks should benefit from these funds. From this point of view, it is also important to draw inexpensive financial resources from abroad.

- The liberalization of the banking sector is also of particular importance, it is necessary to create conditions for other foreign banks to enter the sector, to eliminate artificial barriers in this area, to achieve competitiveness of the banking sector and to lower credit interest rates. The Central Bank's access to centralized credit resources should be expanded, and commercial banks should be given greater access to centralized credit resources.

A number of generalized indicators that characterize this are quite low in comparison with developing countries. One of the major shortcomings of the country's banking system is the low level of capitalization and the volume of bank assets in the banking sector. According to international practice, the banking sector development in each country is characterized by the ratio of aggregate assets to GDP. The level of this indicator in the country is 42%. In the CIS countries this indicator is at 102%, Ukraine 63.5%, Russia 75%, Moldova 52%, Eastern Europe 60% -100%. One of the main reasons for the situation is the current structure of aggregate assets in the banking sector.

- Another important indicator that characterizes the scale and efficiency of the banking sector is the level of lending to the economy, the ratio of loans to GDP. This indicator is much lower than in both developed and developing countries.

- In modern economics, banking is increasingly important in social life, and banks are deeply embedded in the real sector at various levels of their operations. Changes in the world have a significant impact on the banking business content. The development of the private sector, entrepreneurship and the growth of income of the population in the country caused the need for commercial banks to serve and their development.

- One of the key areas of activities in the banking and financial sector is the internal control system and the relevant structure should be organized on the following basic principles, ensuring adequate internal control mechanisms:

A) Flexible organizational structure;

B) Proper policies and accounting rules;

C) Requirements and measures for the protection of assets;

D) Effective internal audit program.

- Because modern auditing and internal control procedures have a significant impact on economic security, each entity and organization must ensure the establishment of such a structure, thereby increasing the effectiveness of economic, financial and accounting risk management. Analysis of the financial statements of the leading companies shows that the risks associated with the inadequate enforcement of internal controls often cause companies to fail. In this regard, it is important to assess risk in internal control processes to improve governance.

- Internal controls to ensure transparency of banks' activities

creation of mechanisms is necessary for reliability, efficiency and legal compliance of banking operations. Improvement of the legal framework for improving the efficiency of the financial and banking sector, implementation of international standards and mechanisms of control are of particular importance.

- Increasing the competitiveness of banks in modern conditions and their integration into the international financial and credit sector puts the requirements of persistence and flexibility. One of the factors limiting banks' flexibility is their inadequate commitment. At present, the Basel 3 standard is used to increase the sustainability of the central banks and the coefficient is 3%. The use of an existing coefficient aims at reducing the share of liabilities by increasing the share of capital in asset financing, which will increase the bank's liquidity and increase its efficiency. One of the additional measures aimed at increasing the liquidity of financial and banking organizations is the issue of special bank bonds purchased by the state. Bonds are used as capital and banks are exempt from paying interest in the event of a loss, which also increases the resilience of banks while reducing their assets and income.

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