Modern American Journal of Business, Economics, and Entrepreneurship
ISSN (E): 3067-7203
Volume 2, Issue 5, May, 2026
Website: usajournals.org

UTILIZING THE EXPERIENCE OF FOREIGN COUNTRIES TO IMPROVE THE SYSTEM FOR ASSESSING THE FINANCIAL STABILITY OF COMMERCIAL BANKS IN UZBEKISTAN

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Abstract

This article examines the theoretical and practical aspects of assessing the financial stability of commercial banks. A comparative analysis of financial stability assessment mechanisms applied in the banking systems of the United States, the United Kingdom, and Germany is carried out. Particular attention is paid to capital adequacy, liquidity, asset quality, profitability, and stress testing. Based on the findings, scientific recommendations are proposed for improving the financial stability assessment system of commercial banks in Uzbekistan in accordance with international standards.

Keywords: Commercial bank, financial stability, Basel III, capital adequacy, CET1, liquidity, stress testing, risk management, integrated index.

Introduction

Geopolitical tensions emerging in the global economy, intensifying inflationary pressures, uncertainties in international financial markets, and the rapid development of digital technologies are placing increasingly stringent demands on the stability of the banking system. In particular, the global financial crisis of 2008 and the COVID-19 pandemic demonstrated that traditional financial ratios alone are insufficient for adequately assessing the financial stability of banks. Consequently, international practice has developed approaches based on a comprehensive assessment of capital adequacy, liquidity, asset quality, profitability, and stress-testing results.

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In recent years, the Republic of Uzbekistan has been implementing large-scale reforms aimed at transforming the banking system, reducing the state's participation in the banking sector, improving corporate governance, and gradually introducing Basel III standards. These processes have created a need to improve the methodology for assessing the financial stability of banks in accordance with international requirements.

In practice, the assessment of banks' financial stability remains largely limited to capital adequacy and certain prudential requirements. However, the experience of developed countries demonstrates that a comprehensive assessment of financial stability should also take into account macroprudential factors, stress-testing results, capital buffers, risk concentration, and indicators of digital transformation. From this perspective, an in-depth study of the experience of foreign countries and its adaptation to the specific characteristics of the national banking system is of significant scientific and practical importance.

The purpose of this article is to conduct a comparative analysis of the mechanisms used to assess financial stability in the banking systems of developed countries and to develop scientifically grounded recommendations for improving the financial stability assessment system of commercial banks in Uzbekistan.

To achieve this objective, the following tasks have been identified:

- to examine the institutional mechanisms for assessing bank financial stability in foreign countries;
- to conduct a comparative analysis of the dynamics of capital adequacy, liquidity, and asset quality indicators;
- to evaluate stress-testing models applied in different countries;
- to develop scientifically grounded recommendations that can be adapted and implemented in Uzbekistan.

Research Methodology

The study employed a systematic approach, comparative analysis, economic and statistical analysis, dynamic analysis, scientific generalization, and expert assessment methods. In addition, the Basel III prudential standards,

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recommendations of the Bank for International Settlements (BIS), and stress-testing mechanisms applied by the central banks of foreign countries were adopted as the theoretical foundation of the study.

During the analysis, the activities of leading commercial banks in the United States, the United Kingdom, and Germany were examined. The financial stability of banks was assessed based on capital adequacy indicators (CET1 and CAR), asset quality (NPL), profitability (ROA), liquidity ratios (LCR and NSFR), the leverage ratio, and stress-testing results. The interrelationships among these indicators were analyzed, and the key factors contributing to the financial stability of banks were identified.

1. Comparative Analysis of Financial Stability Assessment in the Banking Systems of the United States, the United Kingdom, and Germany

An analysis of international practices demonstrates that in developed countries, the assessment of banks' financial stability is not limited to determining capital adequacy. Particular importance is attached to the early assessment of risks, stress testing, the formation of liquidity buffers, and the application of macroprudential supervision mechanisms to ensure financial stability.

In the United States banking system, the assessment of banks' financial stability is conducted based on the principle of **risk-based supervision**. Under this model, capital adequacy (CET1), risk-weighted assets (RWA), liquidity ratios (LCR and NSFR), the leverage ratio, and the **Comprehensive Capital Analysis and Review (CCAR)** stress tests conducted by the Federal Reserve are applied in an integrated manner. This approach enables the resilience of banks to external economic shocks to be assessed on a regular basis.

During 2020–2025, the examples of **JPMorgan Chase** and **Bank of America** demonstrated a consistent improvement in capital adequacy and asset quality indicators. This indicates that capital buffers and stress testing have become key instruments for ensuring financial stability in the U.S. banking system.

In the United Kingdom, the assessment of bank financial stability is based on a macroprudential approach and is carried out by the **Prudential Regulation Authority (PRA)** and the **Financial Policy Committee (FPC)**. An analysis of the activities of **HSBC** and **Barclays** indicates a sustained positive trend in capital adequacy, liquidity, and the share of non-performing loans. An important

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feature of this model is the dynamic management of capital buffers throughout economic cycles.

In the German banking system, particular attention is given to capital protection and the limitation of risk concentration under the European Union's Single Supervisory Mechanism. The cases of **Deutsche Bank** and **Commerzbank** demonstrate that increases in CET1 ratios and declines in NPL levels have contributed to improving the effectiveness of credit risk management. In Germany, the diversification of credit portfolios and the monitoring of large exposures are therefore particularly important in assessing banks' financial stability.

2. Comparative Analysis of Financial Stability Assessment in the Banking Systems of Japan, South Korea, Russia, and Kazakhstan

An analysis of global banking practices demonstrates that the economic development model and the specific characteristics of financial markets in each country directly influence the mechanisms used to assess banks' financial stability. Therefore, although the instruments used to ensure banking stability in Japan, South Korea, Russia, and Kazakhstan differ, their common objective is to strengthen capital resilience, limit credit risks, and enhance the banking sector's ability to withstand external economic shocks.

The Japanese banking system has been characterized by a conservative risk management policy for many years. In assessing the performance and stability of banks, particular importance is attached not only to capital adequacy but also to liquidity reserves, credit portfolio diversification, long-term profitability, and asset quality.

An analysis of **MUFG** and **SMFG** demonstrates that during 2020–2025, capital adequacy indicators increased steadily, while the share of non-performing loans declined consistently. This situation confirms that the principle of prudence has remained highly significant in lending policies.

An important feature of the Japanese experience is that banks prioritize long-term financial stability over short-term high returns. Consequently, capital buffers are consistently maintained at relatively high levels, while credit portfolios are diversified across sectors and customer segments. This approach

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contributes to strengthening banks' resilience to economic and financial shocks and reducing their exposure to concentrated credit risks.

This experience demonstrates the need for Uzbekistan to strengthen liquidity buffers, diversify credit portfolios, and introduce long-term financial stability indicators into the practice of assessing banking activities.

Since the economy of South Korea is highly dependent on foreign trade and exports, its banking system has been developed with due consideration of external economic and foreign exchange risks.

The cases of **KB Kookmin Bank** and **Shinhan Bank** demonstrate a year-on-year improvement in capital adequacy indicators, while the share of non-performing loans has declined to below 1 percent. This indicates the high effectiveness of systems for early identification and monitoring of credit risks.

Under the South Korean model, bank financial stability is assessed based on the following factors:

- capital adequacy;
- foreign exchange risks;
- external liquidity;
- the ability to service foreign debt;
- asset quality.

The experience of South Korea demonstrates the importance of establishing a macroprudential monitoring system within the national banking system that takes external economic shocks into account, introducing foreign currency liquidity indicators, and conducting stress tests related to external debt.

In the Russian banking system, the assessment of commercial banks' financial stability is characterized by a high degree of state participation and a centralized prudential supervision system.

Although external economic sanctions have posed significant challenges to banks in recent years, an analysis of the activities of **Sberbank** and **VTB Bank** demonstrates that effective measures have been taken to maintain capital adequacy and ensure liquidity.

In particular, although profitability declined in 2022 as a result of external pressures, the capital base was subsequently restored, while the share of non-performing loans decreased.

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The experience of Russia confirms that rapid intervention by the state and the regulator under conditions of economic crisis is of critical importance for maintaining the stability of the banking system.

At the same time, the use of specific capital buffers, emergency liquidity mechanisms, and early warning indicators for systemically important banks has been observed to produce effective results.

Among the Central Asian countries, Kazakhstan is considered one of the countries that has successfully harmonized international **Basel III** standards with the specific characteristics of its national economy.

An analysis of the activities of **Halyk Bank** and **Kaspi Bank** demonstrates the development of two distinct models for ensuring financial stability in the country.

The first model is a universal banking model based on high capitalization, in which capital buffers and liquidity are of primary importance.

The second model is a fintech model based on digital technologies. The example of **Kaspi Bank** demonstrates that the expansion of digital services has made it possible to reduce credit risks, lower operating costs, and significantly increase the return on assets.

This situation demonstrates that digital transformation should be considered a new indicator in assessing the financial stability of banks. In this regard, the integration of digital transformation indicators into the existing framework for assessing banks' financial stability can contribute to a more comprehensive evaluation of their resilience, operational efficiency, and ability to withstand emerging financial risks.

Comparative Analysis of International Practices

The findings of the study demonstrate that there is no single universal approach to assessing the financial stability of banks across the countries analyzed. Each country has developed its own assessment mechanisms based on the specific characteristics of its economy and the level of development of its financial sector.

The comparative analysis identified the following common patterns:

- capital adequacy is considered a key indicator of bank financial stability in all countries;

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- asset quality and the share of non-performing loans are among the factors that have the strongest impact on financial stability;
- stress testing has become an important element of prudential supervision in all developed countries;
- maintaining liquidity buffers at adequate levels enhances resilience to external economic shocks;
- risk management based on digital technologies and artificial intelligence is emerging as a new direction for ensuring financial stability.

Based on the findings of the analysis, it is considered appropriate to develop a comprehensive assessment methodology for commercial banks in Uzbekistan that integrates capital adequacy, liquidity, asset quality, stress testing, risk concentration, and digital transformation indicators into a unified framework.

Based on the comparative analysis conducted, the following scientific conclusions were formulated:

1. In assessing the financial stability of banks, an integrated system of financial indicators provides more reliable results than the assessment of individual financial ratios separately.
2. The experience of foreign countries demonstrates that stress testing, capital buffers, and early warning indicators play a decisive role in ensuring financial stability.
3. In modern banking practice, the level of digital transformation is also becoming one of the important criteria for assessing financial stability.
4. In improving the methodology for assessing the financial stability of banks in Uzbekistan, it is advisable to take into account the specific characteristics of the national economy alongside international prudential standards.

Priority Directions for Improving the Financial Stability Assessment System of Commercial Banks in Uzbekistan

An analysis of international practices demonstrates that limiting the assessment of banks' financial stability to capital adequacy or liquidity indicators alone is insufficient under modern economic conditions. The increasing volatility of the economic environment, the rapid acceleration of digital transformation, geopolitical risks, and external financial shocks require a comprehensive approach to assessing banks' financial stability.

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In Uzbekistan, large-scale reforms have also been implemented in recent years to align the banking system with international standards. However, the current assessment system places primary emphasis on capital adequacy and certain prudential requirements, which does not fully reflect the long-term financial stability of banks. In this regard, it is necessary to develop an integrated approach to assessing banks' financial stability that evaluates both financial and non-financial factors within a unified framework.

Based on the findings of the study, the following integrated model is proposed for assessing bank financial stability (BFS):

БМББ=0.25(CA)+0.20(LQ)+0.20(AQ)+0.15(PR)+0.10(ST)+0.10(DI)

бу ерда:

CA – capital etarliligi indexi;

LQ – liquidity index;

AQ – asset quality index;

PR – profitability (ROA, ROE) index;

ST – stress test results index;

DI – digital transformation index.

The advantage of this model is that it allows for a comprehensive assessment of the financial condition of banks based on several important criteria at once. At the same time, the integral index allows for the comparison of banks of different sizes and the formation of early warning signals for banks of systemic importance.

Based on the results of the study, the following scientific innovations were achieved:

Firstly, a comprehensive assessment model was proposed that integrates capital adequacy, liquidity, asset quality, profitability, stress test results, and digital transformation indicators in assessing the financial stability of commercial banks.

Secondly, based on the experience of foreign countries, factors affecting the financial stability of banks were systematized and their classification adapted to the banking system of Uzbekistan was developed.

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Thirdly, a system of early warning indicators was developed for early assessment of the financial stability of banks based on capital adequacy, problem loans, liquidity, and stress test results.

Fourth, a scientific approach to including the share of digital banking services, the volume of online transactions, and technological efficiency in financial stability indicators was substantiated.

Based on the results of the study, the following practical proposals were developed:

Introducing the integral stability index (ISI) to assess the financial stability of banks.

Expanding the practice of conducting comprehensive stress tests for systemically important banks by the Central Bank every quarter.

Using forecast models that take into account economic shocks when assessing capital adequacy.

Introducing an automated monitoring platform for early detection of problem loans.

Forming separate liquidity buffers in banks with high currency risks.

Developing minimum requirements for diversifying the loan portfolio across sectors.

Developing a credit scoring system based on artificial intelligence and Big Data technologies.

Assessing the share of digital services as one of the financial stability indicators.

Phased introduction of additional capital buffers for systemically important banks.

Introduction of indicators that take into account ESG (environmental, social and corporate governance) factors in assessing the stability of banks.

Conclusion

The results of the study showed that in foreign countries the system for assessing the financial stability of banks is formed on the basis of an integrated approach, in which capital adequacy, liquidity, asset quality, stress tests, macroprudential monitoring and digital transformation play an important role.

As a result of a comparative analysis of the experience of the USA, Great Britain, Germany, Japan, South Korea, Russia and Kazakhstan, it was found that each

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country has formed its own assessment mechanisms based on the characteristics of the national economy. However, the common feature that unites them all is capital adequacy, the effectiveness of risk management and ensuring liquidity.

The integrated stability index proposed as part of the study allows for a comprehensive assessment of the financial condition of banks and serves to improve the early warning system. The implementation of this approach will serve to increase the resilience of the Uzbek banking system to external economic shocks, reduce financial risks, and enhance the effectiveness of prudential supervision.

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