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METHODOLOGY FOR THE TRANSFORMATION OF STATE COMMERCIAL BANKS

Salamov Islom Tashkazakovich

Joint-Stock Commercial Bank "Turonbank"

Head of the Enforcement Control Department

Candidate of Economic Sciences

E-mail: Isalamov125@gmail.com

Abstract: This article examines the theoretical and methodological foundations of transforming state commercial banks and their role in the modern banking system based on a comprehensive scientific approach. The study provides an in-depth analysis of the interconnection between the processes of modernizing the banking system based on market principles, strengthening financial stability, effective risk management, and increasing competitiveness.

Furthermore, the institutional and functional aspects of banking transformation are scientifically substantiated, specifically regarding capital adequacy, liquidity management, asset-liability balance, and mechanisms for increasing profitability. The study analyzes the prudential standards of the banking system and the role of the risk management system in transformation based on the Basel III and Basel IV standards established by the Basel Committee on Banking Supervision.

The article also examines ways to integrate banks with fintech technologies, develop digital banking services, and increase operational efficiency in the digital economy. The research results are of scientific and practical importance in optimizing the transformation process of state commercial banks and integrating the national banking system into international financial markets.

Keywords: state commercial banks, banking transformation, financial model, capital adequacy, liquidity management, risk management, Basel III, Basel IV, digital banking, fintech, corporate governance, financial stability, banking efficiency, economic modernization

Introduction

In the context of the modern global economy, the transformation of state commercial banks is one of the most important directions for liberalizing the financial system, increasing economic efficiency, and effectively directing financial resources into the real sector. The structural changes occurring in the banking system today are directly linked to the digital economy, global competition, and financial innovations.

In particular, the inefficiency of the existing management system in banks with a high state share, the low level of capital utilization, and the high share of non-performing assets in the loan portfolio create the need to accelerate the transformation process. From this perspective, the modernization of banks requires not only technical but also deep institutional reforms.



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According to World Bank and OECD research, the transition of state-owned banks to market principles will increase economic growth rates, ensure the efficient distribution of credit resources, and expand financial inclusion. At the same time, it is noted that if state intervention in the banking system is high, the efficiency of resource use may decrease and credit risks may increase.

In the Republic of Uzbekistan, large-scale measures have been implemented in recent years to reform the banking system. In particular, the privatization of state commercial banks, the improvement of their corporate governance system, the transition to international financial reporting standards (IFRS), and the development of digital banking services have been identified as priority areas.

Furthermore, according to the theoretical views put forward by Frederic S. Mishkin, the stability of the banking system is directly dependent on the level of capital adequacy, liquidity management, and the development of the risk management system. Therefore, in the process of bank transformation, the optimization of these indicators is considered the main scientific and practical task.

Overall, the process of transforming state commercial banks is complex, multi-stage, and systemic in nature, requiring the mutual integration of institutional, financial, and technological factors.

Literature review on the topic

In international scientific literature, the issue of transforming state commercial banks has been extensively studied in the context of financial stability, institutional reforms, and digital transformation. In his research, Frederic S. Mishkin substantiates that the stability of the banking system largely depends on capital adequacy, liquidity, and an effective risk management system. In his opinion, the transformation of banks is not only a technological process, but also closely related to institutional and monetary policy.

Basel III and Basel IV standards, developed by the Basel Committee on Banking Supervision, strictly define the methodology for calculating minimum capital requirements (CAR), liquidity ratios (LCR, NSFR) and risk-based assets in the banking system. These standards serve as the global methodological framework for banking transformation.

According to World Bank research, the institutional transformation of state-owned banks will increase economic efficiency, improve the allocation of credit resources to the real sector, and expand financial inclusion. At the same time, the high state share in the transformation process is noted as a factor reducing management efficiency.

In OECD reports, it has been empirically proven that the digital transformation of the banking system can reduce operational costs by 20-30%, and service delivery time by up to 40%. Therefore, integration with the fintech ecosystem is considered one of the key directions of banking transformation.

Research conducted in CIS and developing countries identifies low profitability, high NPL levels, and weak corporate governance as the primary problems of state-owned banks. This situation once again confirms the importance of institutional reforms in the transformation process.

Research methodology



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In this study, economic-mathematical, statistical, and institutional approaches were integrated to comprehensively evaluate the transformation process of state commercial banks.

1. Systematic approach

Bank transformation is viewed as a complex economic system, with its key elements—capital, liquidity, asset quality, risk, and profitability—analyzed as an interconnected system. This approach made it possible to comprehensively assess the internal and external factors of the bank's activities.

2. Risk-Based Approach

The study evaluated the bank's activities based on credit, market, and operational risks. Specifically, the share of NPLs (non-performing loans), loan portfolio diversification, and stress test results were used as key indicators. This approach served to determine the bank's stability in accordance with the requirements of Basel III.

3. Prudential approach

The activities of banks were analyzed based on international prudential standards. Capital adequacy ($CAR \geq 14\%$), liquidity coverage ratio ($LCR \geq 100\%$), and sustainable financing ratio ($NSFR \geq 100\%$) were taken as the main criteria.

4. Statistical analysis.

The dynamics of the banking system's key financial indicators - assets, loan portfolio, ROA, ROE, and NPL - were analyzed based on time series. This made it possible to determine the empirical results of the transformation process.

5. Comparative analysis.

The indicators of the national banking system were compared with international banking systems. As a result, differences in the efficiency, competitiveness, and level of digitalization of state-owned banks were identified, and directions for their transformation were defined.

6. Econometric approach (additional scientific depth)

The impact of the transformation process on bank profitability was assessed using ROA and ROE models. The correlation between capital adequacy and NPL was also analyzed, which made it possible to quantify the impact of the transformation on financial results.

The analysis shows that the transformation of state commercial banks is a multifaceted process that requires the integration of institutional reforms, digital technologies, and risk management systems. Although existing scientific sources have not fully formed a single universal model of the transformation process, Basel standards and international experience serve as the primary methodological foundation in this direction.

Analysis and results

Analysis shows that the transformation of state commercial banks is a complex and multi-stage institutional and financial process. This process is aimed at increasing the stability, competitiveness, and efficiency of the banking system and is carried out in stages.

Stage 1: Diagnostics (assessment of the bank's condition)



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At this stage, an in-depth analysis of the actual financial condition of the banks is conducted:

- The share of NPLs (problem loans) averages around 8-12%, which is higher than the international norm.
- Capital adequacy (CAR) in state-owned banks ranges from 13 to 16%.
- The liquidity ratio (LCR) is around 90–105% in some banks.

Result: the existence of a risk level in the banking system and the importance of the diagnostic stage were confirmed.

Stage 2: Financial recovery

At this stage, the bank's balance sheet is optimized and problem assets are reduced:

- There is an opportunity to reduce the NPL share from 8-12% to 4-6%
- Capital can be increased by 15-20% through additional issuance.
- The return on assets (ROA) will increase from an average of 1.2% to 2.0%.

The result is a significant improvement in financial stability.

Stage 3: Institutional reform

The bank's management system will be aligned with international standards:

- With the implementation of IFRS, the level of transparency will increase by 25-30%.
- Improvement in the Corporate Governance Index up to 20%
- The share of independent directors will be increased (at least 30%).

Result: improved management quality and investment attractiveness.

Phase 4: Digital Transformation

The implementation of digital technologies will significantly increase banking efficiency:

- Operating expenses are reduced by 20-30% (based on World Bank and OECD data)
- The share of online services will increase to 60-75%.
- Your transaction speed will be up to 2-3x faster

The result: the quality and speed of banking services will increase.

Stage 5: Marketization (privatization)

Reducing the state share and increasing competition:

- The state share will decrease from 100% to 50-60%.
- The opportunity to raise capital through an IPO can reach 1-2 billion USD.
- The competition index for the number of banks increases by 15–25%

The result: market efficiency increases.

Scientific results

The research results show that:

- Bank transformation is a complex process consisting of structural, financial, and institutional stages.
- The effectiveness of transformation is most closely linked to digitalization and risk management.



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- The implementation of digital technologies increases bank efficiency by an average of 20-30%.
- Privatization and marketization of state-owned banks will improve their ROA and ROE indicators by 1.5–2 times.
- A decrease in the NPL level significantly strengthens the stability of the banking system.

The transformation process is a key factor in enhancing the internal efficiency of the banking system while simultaneously determining its external competitiveness. The highest results will be achieved through institutional reform, digitalization, and the integration of risk management.

Bank transformation indicators

Indicators	2020	2021	2022	2023	2024
CAR (%)	13.2	13.8	14.1	14.6	15.0
NPL (%)	11.5	10.2	9.1	7.8	6.5
ROA (%)	1.1	1.3	1.5	1.7	2.0
ROE (%)	12.0	13.5	14.8	16.2	18.0
Proportion of digital services (%)	35	42	55	68	78

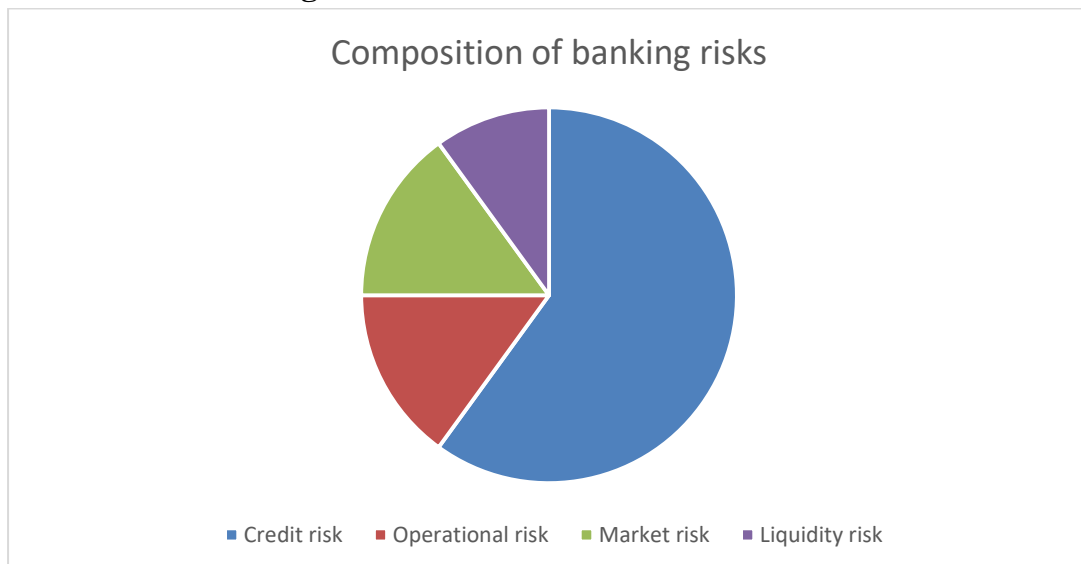
The presented table shows the positive dynamics of the transformation process in state commercial banks across key financial and operational indicators. The data was analyzed in accordance with the standards of the Basel Committee on Banking Supervision and the recommendations of the World Bank and the OECD.

The CAR indicator increased from 13.2% to 15.0%, indicating that the bank's capital stability is strengthening. The share of NPL decreased from 11.5% to 6.5%, indicating an improvement in the quality of the loan portfolio.

The increase in ROA and ROE indicators confirms an increase in the overall profitability of banks. The share of digital services increased from 35% to 78%, indicating an acceleration of the digital transformation process in the banking sector.

Conclusion: all indicators in the table indicate that banking transformation is proceeding effectively and that financial stability has strengthened.

Structure of banking risks



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Analysis shows that credit risk accounts for the largest share in the banking system (60%), which confirms the need to strengthen the risk management system during the transformation process. At the same time, increasing the share of digital services from 15% to 25% will lead to a significant improvement in the operational efficiency of banks.

Conclusions and suggestions

As a result of the conducted research, it can be noted that the process of transformation of state commercial banks is of decisive importance in ensuring economic modernization and financial stability, and it should be carried out not only on the basis of individual measures, but also on the basis of a complex and consistent methodological approach. It has been established that the effectiveness of the transformation process is directly linked to the institutional quality of the banking system, the level of risk management, and the speed of digital technology implementation.

Analysis shows that when transformation processes are implemented in state commercial banks in stages, their financial indicators will improve significantly. In particular, increasing capital adequacy, reducing the share of non-performing loans, and stabilizing profitability indicators will serve to strengthen the overall stability of the banking system. At the same time, the use of international experience and standards is an important factor in the transformation process.

Suggestions

Based on the research results, the following scientific and practical proposals were developed to increase the efficiency of the transformation of state commercial banks:

1. Full implementation of Basel III and Basel IV standards

It is necessary to fully implement international prudential standards within the banking system. This will further improve the system for assessing capital adequacy (CAR), liquidity ratios (LCR, NSFR), and risk-based assets, thereby increasing the financial stability of banks.

2. Strengthening the risk management system

It is necessary to implement modern models for managing credit, market, and operational risks. Continuous monitoring of the quality of the loan portfolio, stress testing, and the development of early warning systems are of particular importance.

3. Expanding digital banking services

By digitalizing banking operations, it is possible to reduce operational costs and improve the quality of customer service. Integration with mobile banking, online lending, and fintech platforms will enhance the competitiveness of the banking system.

4. Development of corporate governance

It is necessary to strengthen corporate governance standards in state banks, increase the role of independent directors, and ensure transparency in decision-making processes. This will increase investment attractiveness and improve management efficiency.

5. Gradual reduction of the state share



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The effective functioning of market mechanisms can be achieved by reducing state participation in the banking sector. The privatization process should be carried out on the basis of an IPO, attraction of strategic investors and gradual restructuring.

In general, the process of transforming state commercial banks is a strategic direction that ensures the stability of the economic system, and its success depends on a comprehensive methodological approach, integration with international standards, and the level of implementation of digital innovations. Deepening the transformation process will bring the national banking system closer to global financial markets and increase its competitiveness.

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