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**FINANCIAL MODEL FOR THE TRANSFORMATION OF COMMERCIAL
BANKS**

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Abstract: This article comprehensively examines the financial model for the transformation of commercial banks from the theoretical, methodological, and practical perspectives. In the context of the digital economy, the importance of forming an effective financial model in ensuring the institutional transformation, financial stability, and competitiveness of the banking system is deeply analyzed. During the study, the main financial indicators of commercial banks' activities—capital adequacy (CAR), return on assets (ROA), return on capital (ROE), liquidity level, and the share of non-performing loans (NPL) —were studied based on a systematic approach.

The article scientifically substantiates the interdependence of asset and liability management (ALM), the improvement of the risk management system, the maintenance of liquidity at an optimal level, and the mechanisms for increasing profitability during bank transformation. Opportunities for increasing the financial efficiency of banks through the introduction of fintech technologies, the expansion of digital banking services, and the optimization of operating costs were also considered.

As a result of the study, a comprehensive financial model for the transformation of commercial banks was developed, and its main components—capital management, liquidity management, risk diversification, and profitability increase blocks—were proposed as a mutually integrated system. This model serves to strengthen the stability of the banking system, reduce financial risks, and expand opportunities for effective lending to the real sector of the economy.

The results obtained are of great scientific and practical importance in modernizing the activities of commercial banks, strengthening their integration with international financial markets, and developing the national banking system.

Keywords: commercial banks, bank transformation, financial model, ALM, liquidity, capital adequacy, risk management, digital banking.

Introduction

Changes occurring in global financial markets, the rapid development of fintech technologies, and the formation of a digital economy require a fundamental transformation of commercial bank operations. Traditional banking models are gradually losing their effectiveness and being replaced by modern, flexible, and technology-based financial models.



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In recent years, large-scale reforms have been carried out in the banking system of Uzbekistan, and special attention is paid to the process of transforming commercial banks. In particular, one of the priority areas is the privatization of banks with a state share, strengthening their capital base, and improving the quality of services.

The object of the research is the activities of commercial banks.

The subject of the research is the financial model of banking transformation and the mechanisms for its improvement.

The aim of the study is to develop and scientifically substantiate an effective financial model for the transformation of commercial banks.

Literature review on the topic

Issues regarding the transformation of commercial banks and the improvement of their financial models have been studied in modern economic literature based on broad and multifaceted approaches. In particular, the stability of the banking system, the effectiveness of financial intermediation, and the improvement of risk management mechanisms constitute the central object of research in this field.

In his research, Frederic S. Mishkin (2021) substantiates that the stability and efficiency of the banking system directly depend on the level of capital adequacy and the development of the risk management system. According to the author, sufficient capital formation by banks reduces the risk of financial crises and ensures the long-term stability of the banking system. From this perspective, international financial regulatory standards, specifically the Basel III requirements developed by the Basel Committee on Banking Supervision, serve to strengthen the stability of the financial system by establishing minimum standards for capital adequacy, liquidity, and risk management for banks.

Research conducted by international organizations, including the World Bank and the OECD, emphasizes that the digital transformation of the banking system serves to significantly increase operational efficiency. In particular, it is noted that the implementation of digital technologies has the potential to reduce operational costs by 20-30%, increase service speed, and expand the customer base. At the same time, digital transformation creates new risks in banking activities - risks related to cybersecurity, data protection, and technological failures.

In recent years, scientific literature has highlighted that the rapid development of fintech companies is creating a new competitive environment for the banking system. Fintech entities are taking over certain segments of traditional banking activities through innovative financial services, forcing banks to rethink their business models. As a result, banks are seeking to operate in an integrated manner with fintech, develop digital platforms, and expand customer-oriented services.

Local economic literature also pays special attention to the modernization of commercial banks, strengthening their financial stability, and improving lending mechanisms. In particular, in the process of reforming the banking system of Uzbekistan, priority areas such as reducing the state's share, privatizing banks, improving corporate



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governance, and transitioning to international financial reporting standards have been identified.

Furthermore, scientific research extensively highlights the role of asset and liability management (ALM), the improvement of risk management systems, loan portfolio diversification, and liquidity management mechanisms in the transformation of banks. This, along with increasing the efficiency of banking activities, is an important factor in ensuring financial stability.

Overall, an analysis of existing scientific literature shows that the process of transforming commercial banks is complex in nature and requires the mutual integration of financial, institutional, and technological factors. At the same time, the insufficient development of a unified universal financial model in existing studies determines the scientific novelty of this study.

Research methodology

In this study, modern economic analysis methods and scientific approaches were systematically applied to comprehensively evaluate the financial aspects of the commercial bank transformation process. The research methodology is aimed at assessing the efficiency of banking activities, determining financial stability, and measuring the level of transformation.

The following main methods were used during the research process:

- systems analysis - the activities of commercial banks are considered as a single integrated system, and the interrelationships between its main components (capital, liquidity, risk, and profitability) are analyzed. This method served to reveal the complex nature of bank transformation;

- statistical analysis - based on empirical data on the banking system, the dynamics of key financial indicators (assets, loans, profitability) were studied, and their growth trends were clarified;

- comparative analysis - the level of development and existing problems of the national banking system were identified by comparing them across different years and with international practice;

- analysis of financial indicators - the following main indicators were used to evaluate the performance of commercial banks:

- ROA (Return on Assets) - represents the efficiency of using bank assets;
- ROE (Return on Equity) - assesses the return on capital;
- CAR (Capital Adequacy Ratio) - indicates the level of capital adequacy;
- NPL (Non-Performing Loans) - determines the share of non-performing loans.

Based on these indicators, a comprehensive assessment of the financial stability, risk level, and profitability of banks was conducted.

In addition, the study took into account approaches based on international standards, in particular the requirements of Basel III, as well as advanced foreign experience. This served to increase the scientific validity and practical significance of the results obtained.



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Overall, the applied methodological approaches allowed for a deep and comprehensive analysis of the commercial bank transformation process, as well as the development of an effective financial model.

Analysis and results

Key indicators of the banking system (using Uzbekistan as an example)

Indicator	2020	2022	2024
Assets (trln sum)	272	444	672+
Volume of loans (trln sum)	206	326	480+
Capital adequacy (CAR, %)	18.5	17.8	17.2
NPL (non-performing loans, %)	2.1	4.5	3.8
ROA (%)	1.5	2.2	2.8

Analysis:

- Assets and loans are growing sharply → the banking system is expanding
- CAR downward trend → capital pressure
- NPL increased → risks increased
- Increasing ROA → improving performance

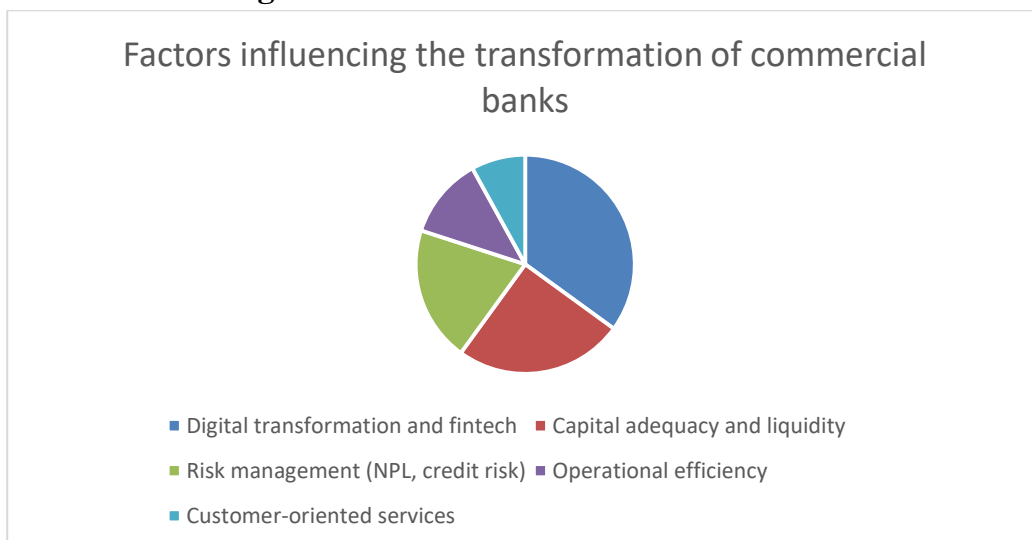
Key issues

- the quality of the loan portfolio is insufficient
- the risk management system is not fully formed
- level of digital transformation uneven
- high operating costs

Positive results through transformation

Direction	Result
Digitalization	costs will decrease by 20-25%
ALM optimization	improves liquidity
Risk management	NPL will decrease
Fintech integration	new sources of income

Factors influencing the transformation of commercial banks



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The chart was compiled based on international organizations and scientific research, demonstrating the priority importance of digital technologies in the transformation of commercial banks. In particular, the share of digital transformation and fintech technologies is 35%, which is a key factor in increasing the operational efficiency and competitiveness of banks.

Capital adequacy and liquidity management (25%) serve as the primary financial instruments ensuring the stability of the banking system. The risk management system (20%) plays an important role in ensuring the quality of the loan portfolio and financial security.

Additionally, operational efficiency (12%) and customer-oriented services (8%) are considered additional but strategically important components of the transformation process.

Financial model of commercial banks (proposal)

Based on the research results, a comprehensive financial model is proposed for the effective transformation of commercial banks. This model covers the main areas of banking activity and consists of four interconnected blocks: capital management, liquidity management, risk management, and profitability mechanisms.

1. Capital management

Capital management is a key element of a bank's financial stability. In the proposed model, it is considered appropriate to maintain the capital adequacy ratio (CAR) at a level of at least 14%. This level is close to international standards and increases banks' ability to cover potential losses.

At the same time, it is necessary to optimize the capital structure, expand the capital base through additional issuance, and increase capital efficiency by reducing high-risk assets.

2. Liquidity management

Effective liquidity management ensures the bank's ability to meet its short-term and long-term obligations in a timely manner. Within the framework of the model, it is important to monitor liquidity indicators - LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) - at the level of international requirements.

The following measures are important in liquidity management:

- increasing the share of highly liquid assets;
- diversification of the deposit base;
- ensuring a balance between short-term and long-term sources of financing.

3. Risk management

The risk management system is an integral part of banking transformation and plays a crucial role in ensuring financial stability. The model provides for the diversification of credit risks, the reduction of the share of non-performing loans (NPL), and the introduction of mechanisms for early risk detection.

Special attention will also be paid to the following areas:

- balancing the loan portfolio by sector;



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- implementation of modern scoring systems;
- assessment of potential risks through stress testing.

4. Profitability model

Increasing profitability is one of the key indicators determining the final efficiency of a bank's operations. In the proposed model, in addition to interest income, increasing the share of non-interest income is considered an important direction.

This can be achieved by:

- expanding commission-based services;
- creating new sources of income through digital banking services;
- developing partnerships with fintech platforms.

As a result, banks' ROA and ROE indicators will improve, and their overall financial efficiency will increase.

The proposed financial model covers all the main aspects of the activities of commercial banks and ensures their interconnection. The implementation of this model will strengthen the stability of the banking system, reduce risks, and increase competitiveness.

Conclusions and suggestions

The results of the study show that the transformation of commercial banks will yield positive results only if it is carried out based on an effective financial model.

Key takeaways:

- bank transformation is a necessary process
- the financial model determines the bank's stability
- digitalization is a key factor

Suggestions:

- Full transition to Basel III requirements
- strengthening integration with fintech
- reduction of credit risks
- full digitalization of banking services
- optimization of operating expenses

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