American Journal of Economics and Business Management

Vol. 8 Issue 12 | **pp.** 6491-6495 | **ISSN:** 2576-5973
Available online @ https://www.globalresearchnetwork.us/index.php/ajebm

Article

Specific Features of Determining Performance Effectiveness in Banks' Financial Activities

Alimjanova Dilrabo Sobirjanovna

1. Services Independent researcher at Tashkent International University
* Correspondence: d.alimjanova@tmci.uz

Abstract: The article examines the formation of financial performance of commercial banks and its theoretical foundations. Scientific conclusions and approaches proposed by foreign and domestic scholars aimed at identifying the specific features of the effectiveness of banks' financial activities are systematized. The distinctive characteristics and statistical indicators of the banking system of Uzbekistan are analyzed. Based on banks' financial indicators, scientific and practical approaches aimed at ensuring performance effectiveness have been developed.

Keywords: Financial stability, profitability, asset quality, capital adequacy, cost-to-income ratio, interest and non-interest margin.

1. Introduction

During their operations, banks develop strategies and plans aimed at enhancing financial performance. The financial performance of banks is reflected through a wide range of financial indicators, among which the profitability of assets and capital deserves particular attention. The financial performance of commercial banks is manifested in the sustainability of income generation and the effectiveness of financial decision-making.

The main factors of financial performance in commercial banks include the profitability of assets and capital. In addition, margin indicators that reflect income-generating capacity play a significant role in assessing performance outcomes. In the course of our research, special attention is given to systematizing the scientific views of domestic and foreign scholars regarding the development of these categories.

In this context, an attempt is made to analyze the stability of banks' financial efficiency and the extent to which performance outcomes deviate from established benchmarks. It can be argued that the level of financial performance is achieved when financial efficiency indicators are maintained at no less than the prescribed criteria. From this perspective, financial performance can be identified and evaluated by examining the degree of deviation of financial indicators from stability benchmarks, which allows for a more comprehensive assessment of overall performance.

2. Materials and Methods

In the course of our research, we primarily focus on systematizing the scientific conclusions of Uzbek researchers and scholars and substantiating our independent approach in relation to their findings.

Citation: Alimjanova D S.. Specific Features of Determining Performance Effectiveness in Banks' Financial Activities. American Journal of Economics and Business Management 2025, 8(12), 6491-6495

Received: 03th Sep 2025
Revised: 11th Oct 2025
Accepted: 22th Nov 2025
Published: 29th Dec 2025

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Z. Rakhmanov pays particular attention to strategic planning directions in the development of commercial banking activities. In his doctoral dissertation, he analyzes the financial performance indicators of Turonbank JSC and Hamkorbank JSCB. The study emphasizes the assessment of interest and non-interest income, as well as interest and non-interest expenses as indicators of financial performance. In addition, the author examines bank assets, operating income and expenses, and the profitability and efficiency of operating costs as key indicators of operational efficiency, thereby substantiating scientific conclusions [1].

In his doctoral dissertation, O. Sattarov seeks to develop methodological approaches aimed at ensuring the stability of the banking system. His research analyzes indicators such as asset quality, return on assets, and return on capital within the national banking system. Furthermore, using the examples of Uzsanoatqurilishbank, Turonbank, Agrobank, and other banks, the author evaluates trends in compliance with current liquidity standards. Based on the findings, scientific recommendations are proposed to strengthen capital profitability through the application of the Risk-Adjusted Return on Capital (RAROC) approach in assessing banks' financial stability. In addition, the author suggests introducing a banking financial stability index based on capital adequacy, current liquidity, and asset and capital profitability indicators [2].

A. Abdullaev conducts research aimed at developing a methodology for enhancing banks' liquidity. His scientific approach substantiates ideas related to liquidity regulation, including the proposal of a mechanism for assessing the liquidity level of commercial banks. Alongside this, he develops a comprehensive framework for managing liquidity risk and protective measures, emphasizing their role in ensuring financial stability. The author also proposes an algorithm for implementing a sequential process for assessing the potential value of liquidity in commercial banks [3].

In her doctoral dissertation, Sh. Ubaeva focuses on substantiating scientific approaches to strengthening the mechanism for managing the financial stability of commercial banks. She proposes modern methods such as DEA (Data Envelopment Analysis) and CAMEL (Capital, Assets, Management Quality, Earnings, and Liquidity) to assess risks and improve banking performance efficiency. It is noteworthy that the scientific results obtained during the research have been implemented in the operations of Davrbank and Infinbank. The author also substantiates proposals aimed at introducing financial innovations to ensure financial performance and suggests stabilizing bank management ratings based on the calculation of marginal income and expenses [4].

Continuing our research, special attention is given to systematizing scientific studies aimed at assessing asset efficiency in determining banks' financial performance. In this regard, a number of studies conducted by Uzbek scholars can be observed. In particular, L. Muradova puts forward scientific proposals aimed at increasing the profitability of bank assets. In her research, she analyzes the profitability of Sberbank's assets and explains the 143 percent increase in net profit in 2016 by growth in operating income and a reduction in the share of expenses. Additionally, she evaluates trends in provisions for credit risk at Germany's Deutsche Bank, noting that interest income constitutes the main share of its revenues. The author also analyzes the profitability levels of domestic banks such as Ipoteka Bank, Asaka Bank, Ipak Yuli Bank, and Infinbank, ultimately emphasizing the need to reduce the share of cash assets in commercial banks [5].

In her doctoral dissertation, M. Muminova substantiates scientific conclusions aimed at evaluating strategies for managing asset operations in commercial banks. The researcher highlights the interdependence of effective asset and liability management. She analyzes the volume of income-generating and non-income-generating assets of commercial banks over the period 2003–2017. The findings indicate that the volume of income-generating assets decreased by 23.1 percent, while the share of non-income-generating assets increased by 23.4 percent. This trend reflects a high level of risk and an insufficient share of profitable assets in banks. From this perspective, the author proposes managing asset

operations based on profitability, reducing the volume of non-income-generating assets, and appropriately allocating asset operations while taking regional characteristics into account [6].

A. Akhmedov, in his doctoral dissertation, substantiates scientific proposals aimed at improving the practice of asset securitization in commercial banks. His research emphasizes that securitization enables the transformation of illiquid assets into liquid ones. In this context, the author analyzes trends in the structure of commercial bank assets in 2017–2018, as well as the sectoral distribution of loan portfolios. To promote the development of asset securitization in commercial banking, he highlights the importance of increasing the role of institutional investors in financial markets, establishing a solid legal framework for securitization, and expanding opportunities for placing issued securities in both domestic and international markets [7].

H. Rakhmatov also substantiates scientific conclusions aimed at improving the efficiency of bank assets. He proposes managing asset efficiency through a "multi-stage" model, increasing asset volumes using a "credit conveyor" approach in customer lending, and introducing a risk appetite framework to reduce risks in asset management. In addition, the author analyzes trends in return on assets among Russian banks such as Sberbank, VTB Bank, Raiffeisenbank, Post Bank, and Rosselkhozbank, and compares these indicators with those of domestic banks including Aloqabank JSCB, Ipak Yuli Bank, and Hamkorbank JSCB [8].

3. Results

Figure 1 illustrates the development trend of the credit market in the national banking system. While banks' liabilities relative to capital demonstrate a moderate trend of change, the tendency of banks to extend credit to individuals relative to deposits shows a steady increase. Overall, it can be observed that these indicators have a significant impact on the financial performance of banks.

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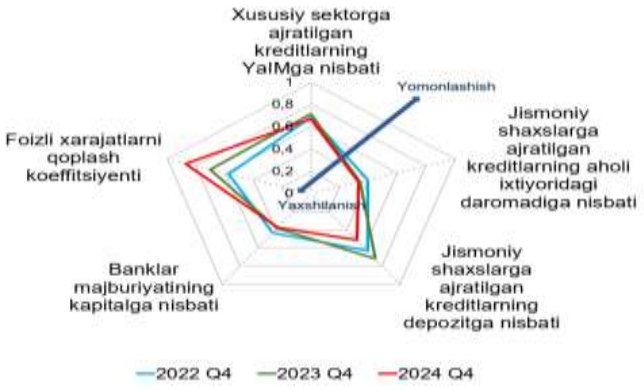

Figure 1. The State of the Credit Market in Uzbekistan [9]

Figure 2 presents the indicators of capital and asset profitability, reflecting the financial performance of banks. In 2024, a decrease in banks' net profit can be observed, which correspondingly led to a decline in the level of profitability. Similarly, in the first quarter of 2021, a reduction in profitability levels is evident. At the same time, the decrease in asset profitability is associated with a rise in operating expenses, as highlighted by previous research findings.

The financial performance of banks largely depends on the regulation and systematization of their financial indicators [10]. This is of critical importance from the perspective of developing and implementing scientific recommendations aimed at ensuring banks' financial stability. As a result of our research, we have successfully developed scientific approaches to ensuring the financial performance of banks:

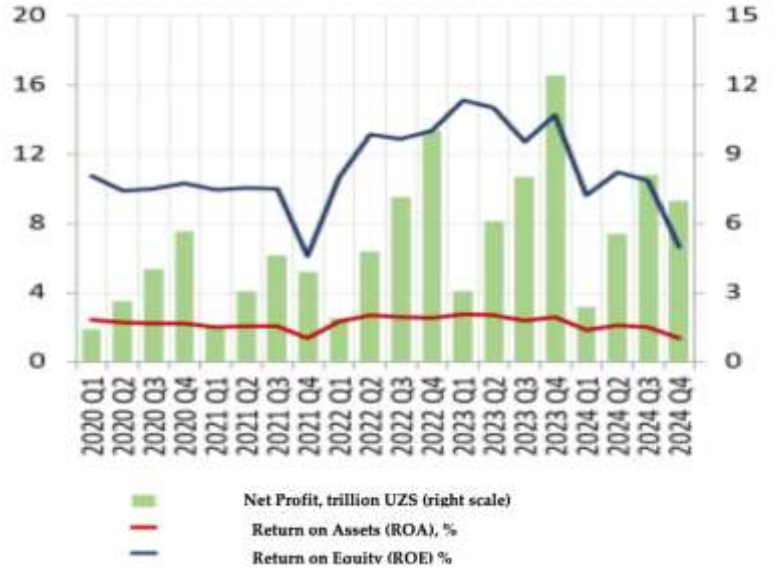

Figure 2. Profitability of the Banking Sector in Uzbekistan [11]

First, ensuring the efficiency of banks' assets. This involves achieving stable profitability of assets and maintaining their share within the total asset structure. Focusing on the return on assets is essential for enhancing asset efficiency [12]. It should also be noted that improving the quality of bank assets creates opportunities to strengthen the financial performance of banks.

Second, developing modern approaches aimed at optimizing banks' credit policy. When forming credit policy, attention should be paid to preventing an excessive increase in the risk exposure of assets. Furthermore, it is advisable to avoid the concentration of loans in a single sector and to ensure their diversification, taking into account ownership forms [13].

Third, focusing on the return on equity and income margin of commercial banks. The optimal use of capital is crucial for ensuring stability in banks' financial performance. Efficient utilization of capital, along with a corresponding increase in income generated per unit of capital, contributes to the stabilization of capital profitability [14].

Fourth, utilizing both interest and non-interest income in revenue generation, ensuring their stability relative to expenses and forming them in significant proportions, is of critical importance for enhancing banks' financial performance [15]. Therefore, maintaining the predominance of interest income is considered advisable in ensuring financial performance.

4. Conclusion

In our opinion, it is appropriate to pay special attention to the efficiency of assets when assessing and improving banks' financial performance. From this perspective, the following aspects should be considered when evaluating financial performance from the standpoint of asset efficiency:

First, it is important to prevent an excessive increase in the share of highly liquid assets within the asset structure, ensuring that the volume of cash assets remains moderate. Second, banks should avoid an excessive proportion of non-income-generating assets. It is

advisable to manage high risks associated with the share of income-generating assets. Third, taking into account the practice of securitization in bank operations can enhance banks' participation in the financial market, thereby creating conditions for the expansion of financial performance. Fourth, maintaining asset quality through a multi-tiered model aimed at strengthening asset profitability is crucial. Fifth, it is advisable to implement models that reduce the risk exposure of assets while ensuring their profitability.

In conclusion, improving banks' financial performance can be achieved by ensuring asset efficiency. Special attention should be paid to aspects such as asset securitization, risk exposure, and the composition of liquidity.

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