



Article

Mechanisms for Strengthening the Financial Stability of Commercial Banks in International Practice: Adapting Institutional Solutions to National Conditions

Saidov Doniyor Abdullayevich¹

1. Associate Professor, Department of Banking, Tashkent State University of Economics
Correspondance: saidovdoniyor2022@gmail.com

Abstract: This article presents a comparative analysis of the 2021–2025 practices of nine foreign banks and the institutional mechanisms they employ to strengthen financial stability. The study was conducted as part of the author’s doctoral dissertation and examines approaches to addressing previously identified legal and institutional gaps. Each mechanism is assessed against four criteria: institutional proximity, commonality of the problem, empirical validation, and implementation prerequisites. The empirical analysis shows that there is no unidirectional relationship between the level of profitability and its stability: a bank with one of the highest average profitability levels simultaneously exhibited the highest volatility. The findings indicate that, although solutions developed in advanced markets are theoretically well grounded, their implementation requires sophisticated financial infrastructure. The highest degree of applicability was observed in the experience of transition economies. The principal methodological conclusion of the study is that, when adapting foreign experience, it is not the mechanism itself but the economic logic underlying it that should be transferred.

Keywords: *financial stability, commercial bank, institutional mechanism, profitability volatility, prudential regulation, dollarization, international experience, transition economy.*

Citation: Abdullayevich, S. D.. Mechanisms for Strengthening the Financial Stability of Commercial Banks in International Practice: Adapting Institutional Solutions to National Conditions. American Journal of Economics and Business Management 2026, 9(9), 720-729.

Received: 10th Jan 2026

Revised: 11th Jan 2026

Accepted: 11th Jan 2026

Published: 20th Sept 2026



Copyright: © 2026 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>)

1. Introduction

Banking activity is inherently unstable as a natural outcome of market mechanisms. The structure of a bank’s balance sheet is based on maturity and liquidity transformation; while this transformation constitutes one of its core functions in the economy, it is simultaneously a source of inherent vulnerability. For this reason, banking activities in all countries are subject to a special legal and regulatory regime [1].

The design of regulatory regimes differs significantly across countries. These differences stem from the institutional environment, the historical development of the banking system, and the level of financial-market development. This makes the study of international experience particularly relevant while, at the same time, requiring caution in its application.

This article constitutes part of the research undertaken within the author’s doctoral dissertation. At an earlier stage of the study, a number of gaps were identified in the legal and institutional framework for ensuring banking-sector financial stability in the Republic of Uzbekistan; most of these gaps were also noted in an assessment report by international financial institutions [2].

The nature of these gaps has changed in recent years. Previously, the principal problem was the absence of the necessary legal norms; legislation adopted in 2025 addressed these deficiencies. The main challenge now is to make the adopted rules operational in practice. The second task is more complex than the first, as it requires the development of institutional capacity and the establishment of effective implementation practices.

It is precisely at this stage that international experience becomes valuable, because it demonstrates the practical procedures through which mechanisms can be made operational. At the same time, transferring such experience creates a methodological challenge: a mechanism is formed within a particular institutional environment, and its effectiveness depends on the characteristics of that environment.

The literature addresses this issue from several perspectives. Barth, Caprio, and Levine [3], in a comparative analysis of banking practices across 180 countries, show that there is no unidirectional relationship between the form of regulation and its effectiveness; they conclude that the decisive factor is not the strictness of supervision itself, but its capacity to support market discipline.

Männasoo and Mayes [4], using banks in Eastern European countries as an example, demonstrate that models developed for advanced markets cannot be applied directly in these countries. Bonin and co-authors [5], examining the impact of ownership structure on efficiency, find that the transfer of management practices and technologies is a decisive factor.

The debate on the practical effectiveness of loss-absorption mechanisms is of particular importance. Philippon and Salord [6] show that, for such a mechanism to function, sufficient loss-absorption capacity must be established in advance; Avgouleas and Goodhart [7], in turn, argue that under conditions of systemic crisis the mechanism may amplify panic.

The general conclusion from the literature review is as follows: individual mechanisms have been studied extensively, but the conditions under which they can be applied in a different institutional environment have not been examined systematically. This article seeks to address that gap.

The purpose of the study is to conduct a comparative analysis of foreign banking practices and the institutional mechanisms under which they operate, to assess the degree of their applicability to national conditions, and to substantiate approaches for addressing the identified gaps. The study makes two principal contributions: it proposes a four-criterion framework for evaluating foreign mechanisms and substantiates a methodological principle for their adaptation.

2. Materials And Methods

The study employs a comparative institutional approach. Its essence is to analyze mechanisms not in isolation, but together with the institutional environment in which they operate. The methods used include comparative analysis, statistical analysis, scientific abstraction, analysis, and synthesis.

The information base comprises three groups of sources. The first group consists of international standards and recommendations [1], [8], [9]. The second comprises the annual reports of the selected banks for 2021–2025 [10]. The third includes documents issued by supervisory authorities and assessment reports of international financial institutions [2], [11], [12].

3. Results and Discussion

Two principles guided the selection of banks. First, the sample included banks from both advanced markets and transition economies, enabling a comparison of the experience of these two groups. Second, each bank was required to constitute a practical example of an institutional mechanism applied in the relevant country.

Accordingly, nine banks were selected: JPMorgan Chase, Deutsche Bank, MUFG, DBS Group, KB Financial Group, Halyk Bank, Sberbank, Akbank, and TBC Bank Group.

A methodological limitation should be explicitly acknowledged when comparing these banks. They operate in different currencies, under different inflation regimes, and according to different reporting standards; moreover, the metrics used to measure profitability also differ.

The five-year dynamics and volatility of the indicators were adopted as the basis for comparison. The theoretical foundation of this approach goes back to A. D. Roy's 'safety-first' principle [13]: an economic agent minimizes the probability that an outcome will fall below a critical threshold rather than focusing solely on expected return. Its application to banking was proposed by T. H. Hannan and G. A. Hanweck [14].

Standard deviation and the coefficient of variation were used to measure volatility. The latter enables comparisons among banks with different levels of profitability because it relates the deviation to the mean value.

The literature has noted that the width of the estimation window can affect the resulting indicator [15]; in the present study, the same five-year window was applied to all banks.

A four-criterion framework was developed to evaluate the mechanisms (Table 1).

Table 1. Criteria for evaluating foreign mechanisms

Criterion	What it assesses	Assessment indicator
Institutional proximity	Similarity of the structural characteristics of the banking system	State ownership share, concentration, stage of development
Commonality of the problem	Existence of a solution corresponding to the identified gap	Extent to which the solution addresses the relevant gap
Empirical validation	Actual implementation of the mechanism and its outcome	Time since introduction, measurable outcome
Implementation prerequisite	Required infrastructure and institutional capacity	Market, legal framework, supervisory capacity

Source: developed by the author.

The selection of the criteria is justified as follows. Institutional proximity determines whether a mechanism can function at all in the receiving environment. Commonality of the problem establishes its relevance. Empirical validation distinguishes a theoretical proposition from demonstrated practice. Implementation prerequisites identify the resources and infrastructure required for effective application; comparative evidence indicates that an identical institutional design may produce different outcomes depending on the quality of the surrounding institutional environment [16].

The degree of applicability was assessed on a three-level scale: high, medium, and low. Decisive importance was assigned to implementation prerequisites, because if these are not satisfied, the remaining criteria lose their practical significance.

The 2021–2025 indicators of banks in advanced economies are presented in Table 2.

Table 2. Profitability and capital indicators of banks in advanced economies

Bank	Indicator	2021	2022	2023	2024	2025	Average	Standard deviation
JPMorgan Chase	ROTCE	23.0	18.0	21.0	22.0	20.0	20.80	1.92
	CET1	13.1	13.2	15.0	15.7	14.6	14.32	1.08
Deutsche Bank	RoTE	3.8	9.4	7.4	4.7	10.3	7.12	2.84
	CET1	13.2	13.4	13.7	13.8	14.2	13.66	0.38
MUFG	ROE	5.63	7.79	7.00	8.50	9.90	7.76	1.60
	CET1	9.70	10.40	10.30	10.10	10.80	10.26	0.40
DBS Group	ROE	12.5	15.0	18.0	18.0	16.2	15.94	2.31
	CET1	14.4	14.6	14.6	17.0	17.0	15.52	1.33
KB Financial	ROE	10.22	8.83	9.18	9.74	10.86	9.77	0.81
	CET1	13.46	13.24	13.59	13.53	13.79	13.52	0.20

Note: profitability is reported according to the metric used by each bank in its own reporting.

Source: author's calculations based on the banks' annual reports.

The indicators for regional banks are presented in Table 3. Because their capital-adequacy indicators were not compared using a uniform methodology, only profitability indicators are reported for this group.

Table 3. Profitability indicators of regional banks, 2021–2025

Bank	Country	Metric	2021	2022	2023	2024	2025	Average	Std. dev.	Coeff. of var.
Halyk Bank	Kazakhstan	RoAE	29.7	32.4	32.5	34.0	32.6	32.24	1.56	0.048
Sberbank	Russia	ROE	24.2	5.2	25.3	24.0	22.7	20.28	8.48	0.418
Akbank	Türkiye	ROE	17.9	54.7	37.9	19.0	21.5	30.20	15.91	0.527
TBC Bank Group	Georgia	ROE	24.9	27.0	26.5	25.6	24.2	25.64	1.14	0.045

Source: author's calculations based on the banks' annual reports.

To compare the results of the two groups using a common criterion, the coefficient of variation was calculated. It is defined as the ratio of the standard deviation to the mean and enables comparison among banks with different levels of profitability (Table 4).

Table 4. Ordering of banks by profitability stability

Bank	Metric	Average, %	Standard deviation	Coefficient of variation
JPMorgan Chase	ROTCE	20.80	1.92	0.092
Deutsche Bank	RoTE	7.12	2.84	0.399
MUFG	ROE	7.76	1.60	0.206
DBS Group	ROE	15.94	2.31	0.145
KB Financial	ROE	9.77	0.81	0.083
TBC Bank Group	ROE	25.64	1.14	0.045
Halyk Bank	RoAE	32.24	1.56	0.048

Sberbank	ROE	20.28	8.48	0.418
Akbank	ROE	30.20	15.91	0.527

Note: banks are ordered in ascending order of the coefficient of variation. Source: author's calculations.

The data in the table above support the central empirical finding of the study: there is no unidirectional relationship between the level of profitability and its stability.

The case of Akbank illustrates this clearly. Its five-year average profitability was 30.20%, the second-highest result in the sample. At the same time, its standard deviation was 15.91 and its coefficient of variation was 0.527—the highest values in the sample for both indicators. Profitability fluctuated within a range from 17.9% to 54.7%.

By contrast, KB Financial Group had a relatively low average profitability level (9.77%), yet one of the lowest levels of volatility (coefficient of variation: 0.083). The bank's indicator remained within the range of 8.83% to 10.86% throughout the period.

Ordering the banks by the coefficient of variation produces an unexpected pattern. The most stable results were recorded by regional banks—TBC Bank Group (0.045) and Halyk Bank (0.048)—which proved more stable than the banks from advanced markets.

At the same time, dispersion within the regional group was substantial: Akbank (0.527) and Sberbank (0.418) exhibited the highest volatility. Thus, group membership does not determine stability; the decisive factor is the bank's business model and its sensitivity to macroeconomic shocks.

The case of Sberbank is of particular scholarly interest. Its profitability fell from 24.2% to 5.2% in 2022 and then recovered to 25.3% in 2023. The high standard deviation is attributable primarily to this single episode; in the remaining years, the indicator was relatively stable.

This leads to an important methodological conclusion: a volatility indicator measures the magnitude of a shock but does not capture the capacity to recover after that shock. These two characteristics are independent and should therefore be assessed separately.

The pattern for capital indicators is different. In banks operating in advanced markets, the volatility of capital adequacy was substantially lower than the volatility of profitability: in all five banks, the indicator increased in one direction over the five-year period, with changes ranging from 0.33 to 2.60 percentage points.

Deutsche Bank provides the clearest illustration of this pattern. In 2024, while its profitability fell to 4.7%, its capital adequacy increased to 13.8%. Thus, a short-term earnings shock does not automatically weaken the bank's capital position.

This observation has practical significance. It shows that a capital plan should not mechanically mirror current profit dynamics, but should instead be linked to a longer planning horizon. For national practice, this implies the need to separate capital planning from the annual budgeting process and link it to a two- to three-year stress horizon.

The results of the analysis of institutional mechanisms are presented in Table 5.

Table 5. Foreign mechanisms and their degree of applicability to national conditions

Country	Mechanism	Practical example	Implementation prerequisite	Applicability
United States	Supervisory stress testing linked to capital planning	JPMorgan Chase	Developed market; guarantee fund	Medium
European Union	Supervisory review and evaluation process; loss-absorption arrangements	Deutsche Bank	Developed securities market	Low
Japan	Capital allocation based on risk-adjusted returns	MUFG	Advanced analytical capacity	Medium
Singapore	Early warning and digital risk monitoring	DBS Group	Data infrastructure	Medium
South Korea	Forward-looking provisioning; borrower-based restrictions	KB Financial	Credit-history database	Medium
Kazakhstan	Independent asset quality review	Halyk Bank	Supervisory capacity; external evaluators	High
Georgia	Prudential management of dollarization	TBC Bank Group	Capital-regulation framework	High
Russia	Recovery planning and operational resilience	Sberbank	IT and payment infrastructure	Medium
Türkiye	Sensitivity-based asset-liability management	Akbank	Interest-rate and foreign-exchange risk framework	Medium

Source: author's analysis.

The results reveal an unexpected distribution: solutions originating in advanced markets displayed the lowest degree of applicability.

The European Union's loss-absorption mechanism [17] provides a clear example. In theory, it appears to be an ideal solution: losses are borne by holders of capital instruments rather than by taxpayers. In practice, however, the mechanism requires a developed securities market—if subordinated instruments cannot be placed in the market, sufficient loss-absorption capacity cannot be built up [6].

The discussion above supports this conclusion: the theoretical soundness of a mechanism does not guarantee that it will function effectively in every environment; under conditions of systemic crisis, it may even produce effects contrary to those intended [7].

The experience of transition economies, by contrast, showed a high degree of applicability. This is explained by the greater similarity of their institutional environments to national conditions: a high degree of state participation, limited financial-market development, and the relatively recent formation of the banking system.

The essence of Kazakhstan's experience lies in the practice of independent asset quality reviews. Within a group of large banks, portfolio quality is assessed with the participation of external evaluators, and the results are used to establish bank-specific corrective action plans. Three conditions for this practice were identified: prior publication

of the methodology, involvement of independent evaluators, and clear specification of the measures to be applied on the basis of the results.

The value of Georgia's experience lies in the prudential management of dollarization. The methodological feature of the mechanism is that the capital requirement is progressively linked to the level of dollarization in a bank's loan portfolio. As a result, increasing foreign-currency lending automatically becomes more costly for the bank, and an incentive to lend in domestic currency is created through an economic mechanism rather than through an administrative prohibition.

South Korea offers extensive experience with borrower-based instruments. D. Igan and H. Kang [18] empirically tested the effectiveness of these instruments and showed that they are effective in slowing credit growth. The practical implication is that such instruments should be introduced before risks accumulate, because implementing them later may involve substantial economic costs.

The scope for adapting foreign experience depends on the degree to which the national system is aligned with international standards. The analysis shows that the level of adoption varies considerably across the pillars of the Basel Committee framework. As of 2026, the adoption of minimum capital requirements [19], the capital-buffer framework, and liquidity ratios had effectively reached a complete level. Standardized disclosure requirements related to market discipline, however, have been adopted only partially: liquidity indicators are not disclosed at the level of individual banks.

The latter point is particularly important. As noted above, the effectiveness of supervision depends on its capacity to support market discipline. When information is not publicly available, the mechanism cannot function and supervision is forced to rely entirely on administrative instruments. Therefore, mechanisms based on market discipline do not operate effectively in environments characterized by low information transparency.

One of the identified gaps concerns the inconsistent assessment of asset quality under two different systems. To determine whether this issue is specific to Uzbekistan or reflects a broader pattern, available international data were compared [20].

Table 6. Comparative analysis of the share of non-performing loans under official classification and international standards

Region	Year	Official classification, %	International standard, %	Difference, multiple
Uzbekistan	2023	3.50	7.80	2.23
Kazakhstan	2022	3.40	6.60	1.94
Central and Eastern Europe	2024	1.90	1.95	1.03

Source: author's calculations based on assessment reports of international financial institutions.

The table supports a conclusion of fundamental importance. In Uzbekistan and Kazakhstan, the difference between the two indicators is of almost the same magnitude—approximately twofold. In European Union member states, by contrast, there is virtually no difference.

The absence of such a difference is not accidental. The European Union has introduced a uniform definition of non-performing exposures [21] that is applied consistently for both supervisory reporting and financial reporting. Consequently, no discrepancy arises between the two accounting and reporting systems.

This yields an important theoretical conclusion: the discrepancy is not a universal phenomenon. It arises in countries where prudential classification definitions have not been harmonized with international standards. This observation identifies the root of the problem more precisely – the discrepancy is related not to the quality of supervisory work, but to the architecture of the regulatory framework.

The practical implication is that the most effective way to eliminate the discrepancy is not to intensify supervisory practice, but to harmonize the underlying definitions.

On the basis of the analysis, the identified gaps were compared with foreign solutions that could be applied to address them (Table 7).

Table 7. Identified gaps and foreign solutions for addressing them

Identified gap	Mechanism to be applied	Source experience	Priority
Resolution mechanism not operational	Independent unit; introduction of resolution planning	United States	High
Independent asset quality review not established as a permanent practice	Prior publication of the methodology; bank-specific corrective action plans	Kazakhstan	High
Absence of prudential tools for managing dollarization	Capital requirement progressively linked to portfolio dollarization	Georgia	High
Absence of an early-warning system for deterioration in asset quality	Warning signal based on Stage 2 migration	Singapore, South Korea	High
Absence of risk-adjusted capital allocation practices	Risk-adjusted profitability criterion	Japan	Medium
Formal character of the recovery plan	Calculation of implementation deadlines and effects for each measure	Russia	Medium

Source: developed by the author.

The priority of the proposed directions was determined using two criteria: the magnitude of the gap's impact on stability and the extent to which closing the gap is necessary for the implementation of other measures.

Under the second criterion, asset-quality assessment has the highest priority. The reason is straightforward: when the true volume of problem assets is unknown, neither capital requirements can be set rationally nor corrective measures can be targeted effectively. This direction therefore constitutes the information base for all other measures.

The overall methodological result of the analysis can be formulated as follows: adapting foreign experience requires an approach based on contextual adaptation rather than mechanical transplantation. The object of transfer should not be the formal design of the mechanism, but the economic logic underlying it.

The logic of Georgia's currency-buffer approach can be expressed as follows: behavior that increases risk is constrained not through an administrative prohibition, but by making that behavior more costly. The logic of Kazakhstan's experience is different: the supervisory authority moves from relying solely on banks' own reporting to independent verification. Both principles are universal, although the forms through which they are implemented may differ.

The practical significance of the proposed approach is that it broadens the scope for implementation. Complete replication of a mechanism is often impossible; its underlying logic, however, can be operationalized within the limits of existing institutional capacity.

4. Conclusion

The study developed a four-criterion framework for evaluating foreign mechanisms—institutional proximity, commonality of the problem, empirical validation, and implementation prerequisites—in which decisive weight is assigned to the last criterion, since the remaining criteria lose practical significance when the prerequisites for implementation are not satisfied. An analysis of five-year indicators for nine banks established that the level of profitability and its stability are not related unidirectionally: one of the banks with the highest average profitability simultaneously exhibited the highest volatility, while, according to the coefficient of variation, regional banks recorded the most stable results even though dispersion within that group was the widest, which confirms that stability is determined by the business model and its sensitivity to shocks rather than by group membership. The analysis further showed that a volatility indicator measures the magnitude of a shock but does not reflect the capacity to recover from it, so that these two characteristics must be evaluated separately, and that capital adequacy in banks operating in advanced markets was substantially less volatile than profitability, which implies that capital planning should be separated from current profit dynamics and linked to a two- to three-year horizon. A comparative analysis of institutional mechanisms revealed that solutions originating in advanced markets had the lowest degree of applicability because they presuppose sophisticated financial infrastructure, whereas the experience of transition economies—in particular Kazakhstan's independent asset quality review and Georgia's prudential management of dollarization—proved institutionally closest to national conditions; international comparison also demonstrated that the discrepancy between the share of non-performing loans under official classification and under international standards is characteristic of transition economies and is most effectively eliminated by harmonizing the underlying definitions rather than by intensifying supervisory practice. The principal methodological conclusion of the study is that the object of transfer should be not the formal design of a mechanism but the economic logic underlying it, an approach that materially broadens the scope for practical implementation.

REFERENCES

- [1] Basel Committee on Banking Supervision, "Core principles for effective banking supervision," Bank for International Settlements, Basel, Switzerland, 2024.
- [2] International Monetary Fund and World Bank, "Republic of Uzbekistan: Financial sector assessment program," IMF, Washington, DC, USA, 2025.
- [3] J. R. Barth, G. Caprio, and R. Levine, "Bank regulation and supervision in 180 countries from 1999 to 2011," *Journal of Financial Economic Policy*, vol. 5, no. 2, pp. 111–219, 2013.
- [4] K. Männasoo and D. G. Mayes, "Explaining bank distress in Eastern European transition economies," *Journal of Banking & Finance*, vol. 33, no. 2, pp. 244–253, 2009.

- [5] J. P. Bonin, I. Hasan, and P. Wachtel, "Bank performance, efficiency and ownership in transition countries," *Journal of Banking & Finance*, vol. 29, no. 1, pp. 31–53, 2005.
- [6] T. Philippon and A. Salord, *Bail-Ins and Bank Resolution in Europe: A Progress Report*. Geneva, Switzerland: ICMB and CEPR, 2017.
- [7] E. Avgouleas and C. Goodhart, "Critical reflections on bank bail-ins," *Journal of Financial Regulation*, vol. 1, no. 1, pp. 3–29, 2015.
- [8] Financial Stability Board, "Key attributes of effective resolution regimes for financial institutions," FSB, Basel, Switzerland, 2014.
- [9] Basel Committee on Banking Supervision, "Basel III: Finalising post-crisis reforms," Bank for International Settlements, Basel, Switzerland, 2017.
- [10] JPMorgan Chase, Deutsche Bank, MUFG, DBS Group, KB Financial Group, Halyk Bank, Sberbank, Akbank, and TBC Bank Group, "Annual reports, 2021–2025."
- [11] Board of Governors of the Federal Reserve System, "Dodd-Frank Act stress test results," Washington, DC, USA, 2025.
- [12] European Central Bank, "SSM supervisory review and evaluation process (SREP) methodology booklet," ECB, Frankfurt am Main, Germany, 2024.
- [13] A. D. Roy, "Safety first and the holding of assets," *Econometrica*, vol. 20, no. 3, pp. 431–449, 1952.
- [14] T. H. Hannan and G. A. Hanweck, "Bank insolvency risk and the market for large certificates of deposit," *Journal of Money, Credit and Banking*, vol. 20, no. 2, pp. 203–211, 1988.
- [15] L. Lepetit and F. Strobel, "Bank insolvency risk and Z-score measures: A refinement," *Finance Research Letters*, vol. 13, pp. 214–224, 2015.
- [16] A. Demirgüç-Kunt and E. J. Kane, "Deposit insurance around the globe: Where does it work?," *Journal of Economic Perspectives*, vol. 16, no. 2, pp. 175–195, 2002.
- [17] European Parliament and Council of the European Union, "Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms," *Official Journal of the European Union*, Brussels, Belgium, 2014.
- [18] D. Igan and H. Kang, "Do loan-to-value and debt-to-income limits work? Evidence from Korea," International Monetary Fund, Washington, DC, USA, IMF Working Paper 11/297, 2011.
- [19] Central Bank of the Republic of Uzbekistan, "Regulation on requirements for the capital adequacy of banks," registered by the Ministry of Justice under No. 3697, Oct. 28, 2025.
- [20] Vienna Initiative, "NPL monitor for the CESEE region," Vienna, Austria, 2025.
- [21] European Banking Authority, "Guidelines on management of non-performing and forborne exposures," EBA, Paris, France, 2018