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**CONTACTS**

Phone: +998 50 737 87 88

Website: <https://ist-journal.uz>

Email: [innovationist2025@gmail.com](mailto:innovationist2025@gmail.com)

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# WESTERN COUNTRIES' EXPERIENCES IN ENSURING THE FINANCIAL PERFORMANCE OF BANKING ACTIVITIES

**Alimjanova Dilrabo Sobirjanovna**

Independent Researcher,  
Tashkent International University  
Email: [d.alimjanova@tmci.uz](mailto:d.alimjanova@tmci.uz)  
ORCID: 0009-0007-3391-3526

**Abstract:** The article examines the formation of the financial performance of commercial banks and its theoretical foundations. Scientific conclusions and approaches of foreign and domestic scholars aimed at identifying the specific characteristics of the efficiency of banks' financial activities are systematized. In conducting the study, attention is focused on systematizing ideas proposed in international academic research and analyzing their impact on the formation of financial performance from the perspective of countries' experiences. Based on banks' financial indicators, scientific and practical approaches aimed at ensuring performance have been developed.

**Key words:** financial stability, profitability, asset quality, capital adequacy, cost-to-income ratio, interest and non-interest margin.

**Annotatsiya:** Maqolada tijorat banklari faoliyatining moliyaviy natijadorligining shakllanishi va uning nazariy asoslari tadqiq etilgan. Xorijiy va mahalliy olimlarning banklarning moliyaviy faoliyati samaradorligining o'ziga xos xususiyatlarini aniqlashga qaratilgan ilmiy xulosa va yondashuvlar tizimlashtirilgan. Biz tadqiqotimizni amalga oshirishda xalqaro maydondagi ilmiy tadqiqotlarda ilgari surilayotgan g'oyalarni tizimlashtirish va ularning mamlakatlar tajribasi nuqtayi nazaridan moliyaviy natijadorlikni shakllantirishga ta'sirini tahlil qilishga e'tibor qaratilgan. Banklarning moliyaviy ko'rsatkichlari asosida natijadorlikni ta'minlashga qaratilgan ilmiy va amaliy yondashuvlarni ishlab chiqilgan.

**Kalit so'zlar:** moliyaviy barqarorlik, rentabellik, aktivlar sifati, kapital yetarliligi, xarajatlarning daromadga nisbati, foizli va foizsiz marja.

**Аннотация:** В статье исследуются формирование финансовой результативности деятельности коммерческих банков и ее теоретические основы. Систематизированы научные выводы и подходы зарубежных и отечественных ученых, направленные на выявление специфических особенностей эффективности финансовой деятельности банков. В ходе исследования особое внимание уделено систематизации идей, выдвигаемых в международных научных исследованиях, а также анализу их влияния на формирование финансовой результативности с точки зрения опыта различных стран. На основе финансовых показателей банков разработаны научные и практические подходы, направленные на обеспечение результативности.

**Ключевые слова:** финансовая устойчивость, рентабельность, качество активов, достаточность капитала, соотношение расходов и доходов, процентная и непроцентная маржа.

## INTRODUCTION

Assessing and evaluating the financial performance of banks requires an analysis of a number of foreign experiences. It should be noted that the financial performance of commercial banks is largely reflected in their level of profitability and the scale of return generation. At present, it is possible to observe the existence of various scientific approaches to determining banks' financial performance based on both financial and non-financial factors.

In classical theory, banks' financial performance is primarily explained through their ability to form margins, although this theoretical approach is currently undergoing transformation. In general, defining financial performance solely through profitability and return indicators represents a distinctive feature of classical views. This, in turn, reflects the close integration of banks' financial performance with the category of stability. From this perspective, many studies grounded in classical approaches also demonstrate that banks' financial performance is expressed through profitability and return indicators.

## REVIEW OF LITERATURE ON THE SUBJECT

In our research, we initially focus on the U.S. banking system and the specific features of modern financial policy within it. In U.S. banks, financial performance is determined not only by lending activity but also by the priority role of non-interest income. Financial performance is strengthened through commission income, consulting services, and investment cooperation in asset management. As a result, although the share of total interest income in U.S. banks is relatively small, return on equity remains high, largely due to the fact that non-interest income accounts for approximately 40–50 percent of total income.

In a joint study, R. DeYoung and T. Rice empirically analyzed the relationship between non-interest income and financial performance in U.S. commercial banks. They noted that non-interest income includes asset management services, operations in financial markets, and other financial services. Based on their analysis, they formulated several scientific conclusions. In particular, banks with higher non-interest income exhibited higher returns on assets and equity; however, not all forms of non-interest income were found to be equally stable. For example, commission income demonstrated a more stable trend, while income from financial market activities and brokerage services was characterized by higher volatility and risk. From this perspective, the authors emphasized the need to diversify non-interest income and stabilize its sensitivity to market fluctuations [1].

In a study conducted by J. Schildbach and others, the financial performance of U.S. and European commercial banks was comparatively analyzed, focusing on differences in business models, asset structures, non-interest income trends, and regulatory environments, as well as their impact on returns on assets and equity. The U.S. banking system was found to be distinguished by a business model characterized by a high share of non-interest income, which contributes to higher profitability compared to European banks. In contrast, European banks, despite holding larger asset volumes, exhibit lower profitability due to the persistence of traditional lending models. The authors note that while U.S. banks achieve return on equity levels of around 10–12 percent due to higher non-interest income, European banks, with a greater reliance on interest income, maintain return on equity levels of approximately 7–10 percent [2].

S. Nippani and co-authors examined the relationship between bank size and financial performance in the U.S. banking industry in the period following the global financial crisis of 2008–2009. Their research compared the performance of very large banks, often described as “too big to fail,” with that of medium-sized and small banks. The findings indicate that large banks achieved significantly higher returns on assets and equity than smaller banks. The authors also substantiate the presence of economies of scale, showing that profitability increases as the ratio of operating costs to assets declines. They note that the profitability of small and medium-sized banks is highly dependent on regional factors. At the same time, they emphasize that while large banks demonstrate higher financial performance, they also pose greater systemic risk [3].

In a joint study, O. Batay and others empirically examined the relationship between ESG indicators and financial performance (ROA, ROE, and Tobin’s Q) using panel data on European banks for the period 2009–2018. Their results indicate that green-oriented financial policies positively affected banks’ returns on assets and equity. However, governance-related indicators were found to contribute not to higher profitability but to greater profit stability. Banks that implemented ESG principles not merely as a marketing tool but as part of strategic integration with other sectors achieved higher levels of financial performance. The authors conclude that ESG principles reduce operational risk, enhance reputational advantages, and contribute to higher long-term profitability [4].

In another study, B. Tos and co-authors analyzed the relationship between ESG disclosures and financial stability in European banks. Examining trends for the period 2014–2019, they argue that ESG factors should be regarded not only as an “image” tool but also as a mechanism for mitigating risk. Greater transparency of information reduces the likelihood of banks falling into market risk traps. Their findings indicate that transparency in ESG disclosures contributes to a reduction in systemic and crisis risks. For example, banks with open and standardized ESG indicators exhibited crisis risk levels that were 10–15 percent lower. This positive effect was particularly pronounced among large banks. According to the authors, transparent and standardized ESG disclosure for European banks has evolved from being a “communication cost” into a form of investment in financial stability [5].

## RESEARCH METHODOLOGY

This study is based on data obtained from official statistics of Western countries’ central banks, annual reports of commercial banks, and materials of international financial institutions. The collected data were analyzed using comparative analysis, trend analysis, and logical generalization to assess approaches to ensuring the financial performance of banking activities across different national contexts.

## ANALYSIS AND RESULTS

As shown in Figure 1, the volume of income earned by U.S. banks in 2024 varied significantly. Although total income increased compared to previous years, profitability levels displayed signs of instability. This indicates the existence of complexities in asset and liability management within banks. From this perspective, it should be emphasized that banks' financial performance depends not only on direct financial indicators but also on non-financial and external factors influencing banking activities (Figure 1).

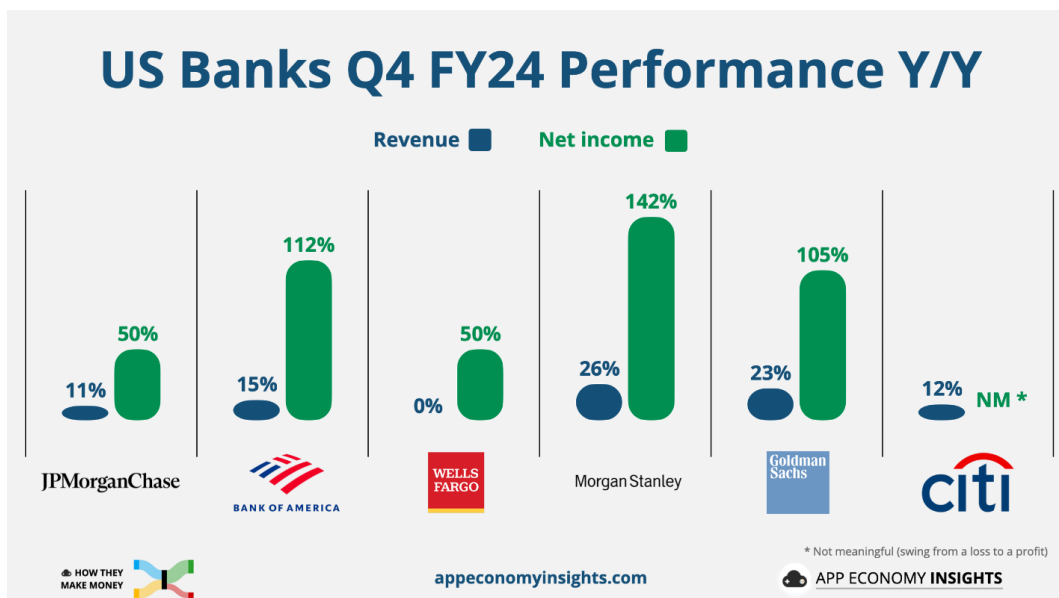


Figure 1. Total profits and revenues of major U.S. banks — 2024 results [6]

Certain analyses conducted by the U.S. Federal Reserve on banks' financial statements also reveal aspects related to financial performance. In 2023–2024, U.S. banks experienced negative financial outcomes as total interest expenses exceeded interest income. Although interest income was generated from mortgage lending and reserve securities, it did not reflect sufficient financial performance. In addition, under conditions of increasing payments to depositors, banks' financial performance demonstrated a downward trend, as noted in the analysis [7].

Based on our research and the experience of the U.S. banking system, the following scientific conclusions were formulated.

First, it is necessary to implement measures aimed at strengthening the role of financial markets in increasing the return on banks' assets. In order to reduce the sensitivity of risk-weighted assets to market fluctuations, diversification should be actively pursued.

Second, greater attention should be paid to increasing the share of non-interest income in banks' income structures. In this regard, it is advisable to expand non-interest income primarily through revenues derived from financial intermediation. In other words, priority should be given to developing banks' role as key advisors in investment activities.

Continuing our research, we proceed to analyze banks' financial performance by examining the banking systems of European Union countries. At present, the banking systems of EU member states are distinguished by the application of international regulatory standards and the prioritization of green policy principles. In addition, practical measures are being implemented to enhance financial performance by expanding high-return assets through green lending, reducing risks, and decreasing the share of non-performing loans.

In regulating banking activities, the European banking system relies heavily on Basel III standards. These standards aim to maintain banks' financial stability by requiring capital adequacy (a minimum Tier 1 core capital ratio of at least 10 percent), a liquidity coverage ratio of at least 100 percent under a 30-day stress scenario, and a stable funding ratio of no less than 100 percent.

Currently, European Union banks are implementing their credit policies based on ESG (Environmental, Social, Governance) principles that prioritize green policy objectives. In 2023, approximately 13 percent of EU banks' asset portfolios consisted of financial instruments reflecting green policy criteria. According to Bloomberg Intelligence estimates, the share of "green" assets in EU banks' asset portfolios is projected to reach 20 percent by the end of 2025 [8].

It should be noted that interest rates on green loans in the EU banking system are typically 0.2–0.45 percentage points lower than those on traditional bank loans. As a result, the volume of loans directed toward sustainable green policies exceeded USD 500 billion during 2022–2023. Since 2020, under European Commission regulatory frameworks, the “Green Asset Ratio (GAR)” indicator has been introduced to measure the share of green assets within banks’ loan portfolios. Currently, this ratio stands at approximately 7–8 percent among major European banks. Overall, European banks are increasingly positioning green policy principles as a central element of asset management. The introduction of the green asset ratio indicator has demonstrated that financial performance can no longer be adequately assessed solely on the basis of traditional financial indicators.

## CONCLUSIONS AND SUGGESTIONS

In our view, drawing conclusions from the trends observed in the U.S. banking system, it should be emphasized that banks’ financial performance depends on a number of key factors.

First, the stability of non-interest income and its share in total bank revenues. Increasing the volume of non-interest income requires the implementation of measures aimed at expanding banks’ advisory role in financial market participation.

Second, it is important to prevent an excessive increase in interest-based income from assets relative to non-interest income. A comprehensive approach focused on limiting the growth of banks’ risk exposure within their asset portfolios is essential.

Third, ensuring economies of scale plays a significant role. Through policies aimed at bank consolidation and expansion, it is possible to enhance financial performance. From this perspective, banks’ financial performance is directly proportional to the scale of their operations; however, it is also necessary to take into account the accompanying increase in risk exposure.

Turning to the financial performance of the banking systems of European Union countries, several scientific conclusions can be highlighted. Since 2010, European commercial banks have undergone complex transformations. In this context, banks’ profitability and financial stability have become less dependent on interest margins alone and increasingly focused on risk reduction at various levels, the integration of ESG principles, and improvements in asset quality.

First, banks in the European Union maintain a strict stance based on reserve and capital requirements under Basel III. While this approach strengthens financial stability, it may also constrain banks’ profitability levels.

Second, European banks have successfully implemented a transformation by integrating ESG principles into their credit policies. As a result, banks prioritizing ESG principles achieved higher ROA and ROE levels, while operational risks declined. Moreover, greater transparency in ESG disclosures created conditions for reducing crisis risk by 10–15 percent. Consequently, ESG has evolved for European banks from an “image” consideration into a core element of competitive strategy and a tool for risk mitigation.

Third, the introduction of criteria for green lending by European banks has led to a steady increase in the share of green assets over time.

Fourth, alongside the growing importance of non-interest income, the profitability of traditional lending activities appears increasingly constrained.

From this perspective, ESG integration, improvements in asset quality, and strategic risk management are becoming firmly established as the primary drivers of enhanced financial performance in the banking sector.

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