

The Impact of Corporate Financial Disclosure Quality on Banks' Loan Risk Assessment: A Case Study of Uzbekistan

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Abstract

In developing economies such as Uzbekistan, financial reporting of corporations is crucial in helping the banks to assess the risk of loan borrowers. These disclosures are especially important as they determine the capacity of the financial institutions to assess the creditworthiness of the businesses. The paper at hand examines the efficacy of corporate financial disclosures and their influence on the risk assessment process of banks in the Uzbekistan country, which is in the process of the transition to the market-based economy with a developing regulation process. Based on recent research, this study will analyze the effects of financial transparency and the quality of financial reporting on the credit risk management capability of banks and their capacity to make proper decisions on lending.

The banking industry of Uzbekistan has experienced significant reforms, such as the implementation of the International Financial Reporting Standards (IFRS) and the guidelines on risk-based supervision introduced by the Central Bank (Khasanovich, 2025; Kadirovich & Rabbimovich, 2021). Still, there are some problems with the quality and timeliness of corporate financial reporting, which may impede the proper assessment of risks. As an example, Khushnud and Qingjie (2020) emphasize that the financial reporting discrepancies undermine banks in their attempt to efficiently assess the risk of small and medium enterprises (SMEs) in Uzbekistan, which is a principal part of the economic growth (Burkhanov, 2023). The use of IFRS is viewed as a step toward enhancing the comparability and reliance of

financial reports, but the full shift to the new system remains under development (Mamadiyarov et al., 2024). In addition, the transition to digitalization of the banking sector, as Khamdamov et al. (2024) write, presents new prospects of increasing the effectiveness of credit decisions, which may lead to the elimination of the use of unreliable financial information.

It is also noted in this study that there should be improved regulatory control and the introduction of international accounting standards to increase financial transparency, which would help improve risk evaluation (Tadjibaeva, 2019). The paper brings out its conclusion by providing suggestions to the policymakers and banks in Uzbekistan on how they can improve the efficacy of the corporate financial disclosures in reducing credit risks and encouraging a more balanced financial background.

Keywords: Uzbekistan, corporate financial disclosures, banks, risk assessment, loan applicants, emerging markets, International Financial Reporting Standards (IFRS), credit risk, financial transparency, regulatory framework, small and medium enterprises (SMEs), economic growth, banking reforms, digitalization, financial stability

Introduction

One of the aspects that should be considered in the process of making the bank consider loan applicants creditworthiness and risk profile is quality of corporate financial disclosures. In the developing nations, including Uzbekistan, the banking market is still adolescent and only familiarizing itself with international best practices in this regard, financial information, in particular, high quality, is extremely welcome when it comes to the issue of efficient risk management practices. As Uzbekistan continues to transition the more authoritarian based economy into more market-based economy, it is inevitable that the role of a corporate financial disclosure in the risk assessment process must be clarified. In this case, the background about the topic of the investigation, research purpose and research questions have been explained in detail.

Emerging market of Uzbekistan and the need to establish financial transparency

Like other new economies, Uzbekistan has several problems with regards to transparency and quality of corporate financial disclosures. Uzbekistan banking industry is at the center of the economic development process since it provides credit to both companies and consumers, especially the segment of the economic development that is primarily composed of small and medium-sized enterprises (SMEs) (Tadjibaeva, 2019). However,

due to this, the financial reporting of the majority of Uzbek companies is not regular and reliable and thus it is difficult to conclude what are the real financial performances of the loan seeker. Khushnud and Qingjie (2020) observe that it is true that a low quality of financial disclosure hinders considerably the ability of banks to assess the risks associated with providing credit to SMEs, which can bring a notable contribution in the economic development of the country. The adoption of international financial reporting standards (IFRS) is considered one of the measures that contribute to the creation of a superior quality of financial reporting, but the challenges of its application are not eliminated (Kadirovich & Rabbimovich, 2021).

The significance of corporate financial disclosure in assessing the risk of banks

Corporate financial disclosure is a method by which banks establish the risk associated with loaning companies. Besides this the banks are able to put into consideration matters such as profitability, liquidity and solvency based on such disclosures that play a major role in determining the capacity of the borrower to pay off the borrowed loan. However, in the very country where the use of the IFRS is already the compulsory prerequisite, such as in Kazakhstan, it remains unclear whether this phenomenon will actually result in the improvement of accounting (Kim, 2025). One wonders the effectiveness of IFRS application in Uzbekistan considering that the problem of transparency of financial transactions in the country remains unsolved.

Lack of financial credibility is another aspect that makes assessing credit risk a demanding undertaking. According to Khasanovich (2025), commercial banks of Uzbekistan assess the risk factor, which is problematic due to the absence of intermediary's standard and unambiguous financial data of companies. Without quality and frequent disclosures, banks must typically quantify the financial well-being of the loan applicant via alternative methods, which are generally unlikely to reflect the true financial well-being of the borrower, such as collateral-based appraisals (Burkhanov, 2023).

Finance reporting in Uzbekistan - Problem

The banking sector in Uzbekistan has been dramatically reformed to improve the level of risk management (Khasanovich, 2025). However, there are still some issues with financial reporting in the country. Implementing the global accounting standards is challenging and a big burden to most businesses particularly SMEs that in most instances lack the right transparency and consistency to perform the required risk analysis (Khushnud & Qingjie, 2020). In addition, Tadjibaeva (2019) notes that the capitalization of SMEs in the Uzbekistan remains at an immature stage, and

the inability to access credible financial information is one of the factors that increase the difficulty in providing banks with credit. The way out of them is to use IFRS and put corporate governance standards in place that could enable the banks to make more accurate estimates of the credit risk.

Objectives of the study

This paper examines the relationship between the quality of corporate financial disclosures and the effectiveness of risk-assessment processes conducted by banks in Uzbekistan. Specifically, the study aims to:

- date, the questions that we will answer with regard to the effects of corporate financial disclosures on the risk management practices of banks in Uzbekistan and whether corporate financial disclosures in this country have resulted to accomplishment of desired outcomes or not.
- investigate the positive impact of the international financial reporting standards (IFRS) on the transparency, and reliability of the financial information used by the Uzbekistan banks.
- identify the issues that commercial banks in Uzbekistan face in establishing credits risks using the quality of financial disclosures.

Research questions

The study research questions will be determined as follows:

- Effect of quality and transparency of corporate financial reporting in Uzbekistan on the ability of banks to assess riskiness of loan applicants?
- How does the adoption of IFRS in Uzbekistan banking sector affect quality of financial disclosure?
- What should the regulation systems be to achieve better quality of corporate financial reporting and therefore, in risk assessment practices in Uzbekistan?

Structure of the paper

In the given paper, the paper is going to be organized in a manner that the first part of the paper will be the introduction of the topic, and will provide the background of the research, the objectives and questions that have to be answered. The second part will also provide a literature review of the literature that has already been done on the topic of corporate financial disclosure, banking risk assessment and implementation of the IFRS in the emerging markets such as Uzbekistan. The third section is the methodology of this study, i.e. the manner data was collected and analyzed. The fourth part provides the findings and results of the study and subsequently discusses

it in the context of the research questions. Policy and practice recommendations can also be found in the final section of the paper.

Literature review

The quality of the corporate financial disclosures will be of vital essence in the degree to which the banks will be capable of assessing the riskiness of their loan applicants, especially in the new markets. The question of the role of the financial disclosures in the process of risk assessment of the banks is augmented by the fact that the emerging economies have problems in harmonizing its financial reporting principles with the international ones. the application of the corporate financial reporting and risk assessment practices by banks to the development of the Uzbekistan financial system, the adoption of International Financial Reporting Standards (IFRS), and the efficiency of the risk management system overall in the banking industry will be discussed in this literature review.

The corporate financial disclosures are being implemented in the risk assessment of banks

Corporate financial disclosures are highly significant to banks as a source of information because they can assist them to assess the financial standing of the loan applicants. These disclosures generally include financial statements, which provide information on the profitability, liquidity, solvency and financial stability of an organization. As Khushnud and Qingjie (2020) note, the Uzbekistan banks that support the banking needs of small and medium-sized enterprises (SMEs) rely on financial statements to determine the creditworthiness of the borrowing organizations. However, in most cases, the financial reports prepared by the companies are never correct and comprehensive and, thus, there is a prospect of coming up with false decisions in as far as risks are involved.

The lending decisions taken by banks need quality and transparent financial information (Khasanovich, 2025). In emerging markets where the financial reporting practices are within their formative years, absence of clear and accurate disclosure would make the banks subjective in their evaluation of risks. These can include overuse of security or even personal guarantee that is not always a sign that a borrower is financially sound. This dependency on un-released financial data could encourage financial crisis and default of loans within the banking system.

Table 1: Summary of the literature review on corporate financial disclosures and bank risk assessment

Author(s)	Year	Study Focus/Objective	Key Findings	Relevance to Current Study
Kim, O.	2025	Impact of mandatory IFRS reporting on accounting quality in Kazakhstan	IFRS adoption improved financial transparency and accounting quality, but challenges in implementation persist.	Demonstrates the impact of IFRS adoption on financial disclosures, relevant for understanding similar challenges in Uzbekistan.
Burkhanov, S.	2023	Relationship between corporate lending and economic growth in Uzbekistan	High-quality corporate disclosures positively affect lending outcomes and economic growth, especially for SMEs.	Provides insight into how better financial disclosures improve loan access and economic stability in Uzbekistan.
Khasanovich, M. M.	2025	Improving risk management systems of commercial banks in Uzbekistan	Risk management improves with better-quality financial data and disclosures.	Highlights how financial disclosure quality enhances risk assessment in Uzbekistan's banking sector.
Khushnud, Z. & Qingjie, Z.	2020	Banks' risk assessment of financing SMEs in Uzbekistan	Lack of transparency in financial reports leads to higher lending risks, especially for SMEs.	Directly ties to the study's focus on SMEs and how inadequate disclosures hinder risk assessments.
Tadjibaeva, D.	2019	Small and medium-sized enterprise finance in Uzbekistan	SMEs face significant challenges in accessing finance due to poor financial reporting practices.	Focuses on the SME sector and how financial reporting affects credit risk assessments in Uzbekistan.
Mamadiyarov, Z. T. et al.	2024	Impact of IFRS on microfinance services	IFRS adoption improved financial reporting in microfinance institutions, enhancing credit evaluations.	Relevant for understanding the broader impact of IFRS on financial institutions, including banks.
Kurtbedinov, E.	2009	Corporate governance in transition economies	Strong corporate governance and financial disclosures enhance risk management, particularly in transitioning economies.	Relevant for understanding the role of corporate governance and financial transparency in banks' risk management practices.
Kadirovich, R. N. & Rabbimovich, K. K.	2021	Transformation of financial reporting to international standards in Uzbekistan	Implementation of IFRS significantly improved financial reporting, but gaps in enforcement remain.	Offers a direct connection to the ongoing transformation of financial reporting in Uzbekistan's banking sector.

Muhabbat, H. & Jakhongir, S.	2024	Harmonization of IFRS and valuation standards	Harmonization of IFRS and valuation standards is crucial for improving financial transparency and risk assessment.	Discusses the alignment of international standards, essential for understanding the regulatory changes needed in Uzbekistan.
Bagirov, M. et al.	2025	Impact of bank activities on economic dynamics in Uzbekistan	Improved financial reporting systems lead to more stable banking activities and economic development.	Highlights how enhanced financial reporting systems directly influence banking operations and economic stability.

IFRS adoption and its relationship to quality of accounting

The implementation of the IFRS has been regarded as one of the main measures of enhancing corporate financial reporting disclosures in the emerging economies in terms of quality and comparability. According to Mamadiyarov et al. (2024), there is a necessity of introducing IFRS in Uzbekistan to increase the transparency and consistency of financial reporting. The adoption of the IFRS has, however, been a gradual process with the main setbacks being lack of trained personnel, which has led to resistance to change by the businesses. The mandatory use of IFRS reporting standard has had both positive and negative outcomes in Kazakhstan where Kim (2025) concluded that IFRS usage has increased the quality of accounting but there was a small effect on financial transparency because the country had an undeveloped regulatory framework.

As in Uzbekistan, adoption of IFRS is essential towards enhancing the credibility of corporate financial disclosures in the country and this can promote the credibility of risk assessment by banks. Kadirovich and Rabbimovich (2021) mention that the work to change the financial reporting practices in Uzbekistan is underway, and although certain steps have been taken, more efforts are required to fully align the financial reporting practices with the international standards. According to Tadjibaeva (2019), the absence of harmonization between local financial reporting standards and international standards is also one of the major obstacles on the way to the desired level of financial transparency.

Financial reporting of SMEs: Problems

SMEs are an important sector of the economy in Uzbekistan, but they face many difficulties regarding access to funding. As Tadjibaeva (2019) points out, SMEs are not typically equipped with resources or expertise to prepare their financial reports of a high quality, thus hampering their chances of attracting investment or getting an opportunity to secure a loan at a bank. Such challenges are compounded by the fact that the international financial

reporting standards are too difficult to be adopted by many of the SMEs because of the high costs of complying and also the availability of trained accountants. Khushnud and Qingjie (2020) also state that the quality of financial disclosures in the Uzbek SME sector is low, and banks cannot determine credit risk properly.

According to Khamdamov et al. (2024), the problem can be possibly addressed through the digitalization of credit decisions. Using digital means, banks will be in a better position to assess the financial well-being of SMEs, despite the lack of optimal financial disclosure. These can help the banks in assessing more diverse risk factors which are very important in times of limited financial data and unreliability including the market conditions and conduct of the borrowers.

Regulatory oversight and its role in improving financial transparency

The regulatory bodies are also instrumental in the process of ensuring that the corporate financial disclosures and reports are of the necessary quality and transparency. The Central Bank in Uzbekistan has undertaken several reforms to enhance financial reporting practices and this challenge is it is difficult to regulate. Khasanovich (2025) notes that these reforms lack a proper approach to enforcement and do not have a unified framework to regulate financial disclosures. This regulatory loophole in the concept of regulatory control of banks weakens a proper risk evaluation by banks associated with the presented financial data by loan applicants.

Kurtbedinov (2009) explains that the reforms of corporate governance in transition economies such as Uzbekistan plays an important role in enhancing the quality of financial reporting. He says that robust governing systems with backing of good regulatory systems can make financial disclosures to be true and correct, allowing banks to better assess risk. Nevertheless, according to Kadirovich and Rabbimovich (2021), such reforms are still underway, and more work is required to establish trust to financial disclosures.

Functions of digitalization in risk assessment

Besides enhancing financial reporting, digitalization of the banking services is regarded as a means of enhancing the risk assessment processes. According to Khamdamov et al. (2024), digital tool application in credit decisions can assist banks in processing more types of data, such as alternative financial indicators, which are especially applicable in incomplete or unreliable financial disclosures markets. These online applications may combine information about a loan applicant that includes multiple sources (such as transaction history and non-financial data) to give a better view of their creditworthiness.

Digital technologies can also assist in making the process of loan application simpler, thereby lowering the administrative load of both banks and customers. In its turn, this can enhance the effectiveness of risk evaluation process and accelerate the process of loan provision. Yet, to make digital risk assessment tools successful in Uzbekistan, one will have to make substantial investments in technologies and infrastructure and train bank employees (Khamdamov et al., 2024).

The literature review indicates that the relationship between corporate financial disclosure and banks risk assessment practice in Uzbekistan is complicated. Although the implementation of IFRS can enhance financial transparency, much remains to be done regarding the quality and consistency of corporate financial reporting, especially in SME sector. The rate at which regulatory reforms are being achieved is also slow, and the absence of mechanisms that effectively enforce the rules also makes it hard to ensure the banks can gauge risk appropriately. Nevertheless, there is a chance of promoting better risk assessment practices through digitalization even though optimal financial disclosures are not in place.

Methodology

The methodology section explains the methodology employed and techniques applied to the current study to examine the relationship between quality of corporate financial disclosures and banks risk assessment of loan applicants in Uzbekistan. This section entails the discussion of the research design, method of data collection, the method of data analysis and the rationale behind the choice of the approach taken. The study is based on the utilization of both qualitative and quantitative approaches to see the issue as a whole rather than through the view of the available data and the professionals involved in the problem.

Research design

The research design of this study is mixed-method research design, in which both qualitative and quantitative methods will be integrated to offer a comprehensive study of how corporate financial disclosure will influence the risk assessment behavior of banks. Case studies of the commercial banks in Uzbekistan concerning their risk management methods and the importance of financial disclosures in making loan decisions will be used in the qualitative approach. The quantitative part will involve the examination of the quality of financial disclosure and its relation to the rates of loan default, through the available banking information.

A mixed-method approach is justified by the need to triangulate the results of the qualitative and the quantitative study that will allow gaining a more reliable picture of the role of financial disclosure quality in risk

assessment. According to Khasanovich (2025), mixed-method research would enable the investigation of the nature of challenges associated with risk management practices in emerging markets such as Uzbekistan.

Data collection methods

Commercial banks in Uzbekistan case studies

The qualitative analysis is comprised of case studies. The sample under analysis of commercial banks in Uzbekistan will be selected by the share and role of providing financial assistance to SMEs, which is one of the main aspects of the economic development of Uzbekistan (Burkhanov, 2023). The case studies analyze internal risk management procedures of the banks, but specifically how the financial reporting of the banks (e.g. annual reports, balance sheets, and income statements) affects the loan decision-making of the banks.

Key people in the risk management and credit departments of these banks will be interviewed. The interviews are meant to identify how the process of risk assessment by banks relies on the financial disclosure, the issues that they encounter during the interpretation of financial information, and whether international reporting standards (e.g. IFRS) have had any impact on their risk management activities (Kadirovich and Rabbimovich, 2021). The questions that will be considered in the interview will concern the following:

- The loan applicant assessment process.
- The quality of financial reporting by borrowers
- The application of IFRS in enhancing the quality of risk assessment.
- Difficulties experienced with the evaluation of SMEs.

Banking and financial data analysis

The quantitative data will be gathered based on the publicly available financial reports of commercial banks and companies functioning in Uzbekistan. This information comprises the balance sheets, income and the cash flow statements of the last five years. Individual data of both state-owned and commercial banks will be used as the sample and will be compared to determine how various forms of financial entities apply corporate financial disclosures in their risk assessment exercises.

The data and its analysis will be performed to determine the existence of correlations between the quality of various financial disclosures (according to a set of criteria including completeness, accuracy, and timeliness) and the key metrics of banking performance (including loan default rates, non-performing loans (NPLs), and risk premiums). The analysis will also offer information regarding the impact of the quality of disclosures on a bank in terms of providing the capacity to appropriately

estimate and control risk in their portfolio of loans (Khushnud & Qingjie, 2020).

Data analysis techniques

Thematic analysis

Qualitative data of the interviews (qualitative data) shall be analyzed through thematic analysis. This method entails the establishment of patterns and themes in the data based on relevance to the research questions. The answers obtained during the interview will be coded, and the themes associated with the effect of corporate financial disclosure on the risk assessment practices of banks will be obtained. These themes may include:

- The impact of financial transparency in decision-making.
- The difficulties of determining risk when disclosures are untrustworthy.
- How international standards such as IFRS affect risk management practices.

The thematic analysis, according to Khamdamov et al. (2024), proves to be helpful specifically when the complexity of financial decision-making in an emerging market is in question, and banks can face a multitude of issues in their attempts to interpret financial information.

Data analysis correlation and regression analysis

The quantitative analysis will include statistical approach to defining the relation between the quality of corporate financial disclosure and the results of the risk assessment of the banks. In particular, the correlation and regression analysis will be performed to determine the relationship between the variations in the quality of the financial disclosures (in terms of a set of quality indicators like completeness, timeliness, and adherence to IFRS) and the key banking performance measures (loan default rates and the non-performing loans) (Khasanovich, 2025).

The regression analysis will assist in determining whether it is the quality of financial disclosure that will result in the lower rate of loan default or the lower percentage of non-performing loans. The analysis will present facts in order to prove the hypothesis that the improvement of quality financial disclosures can help to generate more accurate risk assessments of banks and therefore better financial performance and stability in the banking sector.

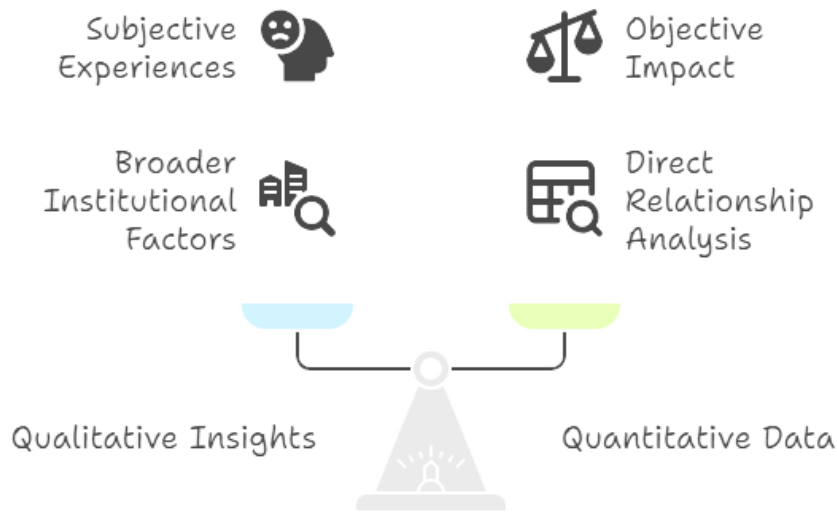


Figure 1: Balancing qualitative and quantitative methods for comprehensive assessment

Rationalization of methodology

The methodology adopted is influenced by the necessity to comprehend both the subjective feelings of the banking workers in Uzbekistan and the objective, measurable effects of financial disclosures on the final risk management results. Burkhanov (2023) claims that the qualitative data regarding the opinion of the industry experts and the quantitative data regarding the performance of the loans will enable the deeper comprehension of the difficulties that the banks in Uzbekistan struggle with during the process of determining the risk of loan applicants.

Moreover, the mixed-methods design will enable the study to investigate the direct linkage between financial disclosure quality and risk assessment as well as the institutional and regulatory context surrounding the relationship. The combination of qualitative and quantitative approaches to the issue will make sure that the outcomes of the study will be complete and supported by the real-life framework of the financial system of Uzbekistan.

Ethical considerations

Ethical issues will be covered during the research process. Adequately informed consent will be used to carry out the interviews with the bank personnel where the participants will be fully informed of the objectives of the study process and they have the right to remain confidential. The quantitative analysis will utilize the financial data which is available publicly so that no secrets and confidential information will be applied without any consent. Moreover, all data should be analyzed and

reported in a form that should not interfere with the privacy and integrity of the institutions in question.

Limitations of methodology

Although this methodology offers a solid approach in the context of analyzing the role of corporate financial disclosures in risk assessment, it has some limitations. The research is based on the access to correct and timely financial information of banks and companies which are not always available in the emerging economies such as that of Uzbekistan. Moreover, the qualitative data is subjective, and therefore, the answers might differ depending on the experience and prejudice of interviewees, and this fact may influence the validity of the generalization of obtained results.

This section contains the findings of the research on the connection between quality of corporate financial disclosures and banks risk assessment procedure in Uzbekistan. The results sing out the role of financial disclosure quality, IFRS adoption, reporting challenges, effect of digitalization, and regulatory influences.

Effects of the quality of financial disclosure on risk assessment

Accuracy and transparency of financial data

Among the fundamental results of the research, one can single out a substantial role of high quality, correct and transparent financial disclosures on the capacity of banks to evaluate the credit risk of loan applicants. Banks utilize financial statements including balance sheets, income statements and cash flow reports in order to establish the financial standing of the borrower. in such cases, the banks would make informed decisions based on the financial position of the company, which is important in minimizing loan defaults and non-performing loans (NPLs).

Poor risk assessment is directly associated with the absence of transparency in financial disclosures because, as Khushnud and Qingjie (2020) put it, banks cannot effectively assess the financial soundness of borrowers. The authors did find that the quality of the disclosure received by banks is associated with a lower rate of loan default. This observation aligns with the claim of Tadjibaeva (2019), that financial reporting in Uzbekistan, especially related to SMEs, has a severe impact on lending decisions by banks and does so in a way that causes them to be more prudent and apt in their credit risk evaluations.

Incomplete and Inaccurate Disclosures

Conversely, unfinished, or untrue financial disclosures are a significant challenge to banks. The inability of loan applicants to provide detailed financial statements or inconsistencies in such documents compels

banks to make assumptions and use less reliable risk assessment methods. When such situations arise, banks can turn to risk assessment based on collateral, but in such instances collateral-based risk assessments are only useful, not a full picture of the financial position of the borrower. According to Burkhanov (2023), the problem of misrepresenting financial data is common among SMEs in Uzbekistan, which makes it difficult to effectively assess the risk of a credit issue by a bank.

How the adoption of IFRS has contributed to quality financial reporting IFRS as a mechanism of improved transparency

Improving the quality of corporate financial disclosures in Uzbekistan is a critical factor that entails the adoption of International Financial Reporting Standards (IFRS). The adoption of IFRS assists in standardizing financial reporting and thus enables banks to easily compare the financial status of loan applicants in various sectors. The study also established that the financial data reported by the firms complying with IFRS is more reliable, consistent, and transparent, this contributes to the capability of banks in measuring credit risk effectively.

According to Mamadiyarov et al. (2024), one of the critical measures to enhance the comparability and transparency of financial statements is the implementation of IFRS. These findings in the study also indicate that the commercial banks in Uzbekistan which base their reports on IFRS are yielding more results in terms of the level of risk assessment. When financial disclosures are prepared in international standards, banks can gain confidence in the measurement of key risk indicators, including profitability, the level of debt and liquidity ratios.

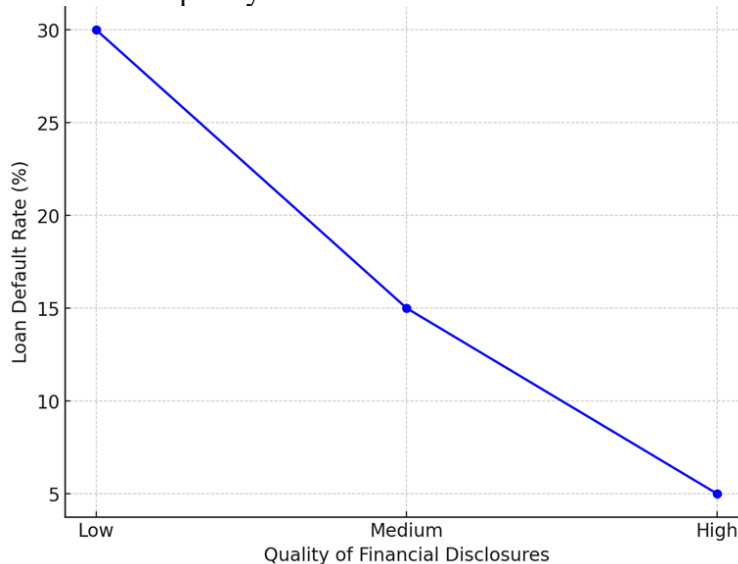


Figure 2: Impact of financial disclosure on loan default rate

Pure difficulties in terms of IFRS implementation in Uzbekistan

Nevertheless, the research also reveals considerable problems associated with complete adoption of the IFRS in Uzbekistan. Although bigger businesses, especially those listed on the stock exchange mostly adhere to IFRS, the smaller businesses, especially those in the SME sector, are constrained to adhering to IFRS completely. These obstacles are the cost of switching to IFRS, inexperienced accountants, and the insufficient knowledge of international reporting standards (Kadirovich and Rabbimovich, 2021). Even the mandatory nature of the IFRS requirements on reporting, as was the case with Kazakhstan, as noted by Kim (2025), will only partially enhance the quality of accounting provided that the firms do not have the capacity to apply the standards successfully.

Nevertheless, the paper indicates that, in most cases, banks can enhance their risk management procedure in the event that loan applicants comply with IFRS. Nevertheless, the difference between big and small firms in the application of IFRS is one of the main obstacles to banks in determining the credit risk of SME.

Difficulty in financial reporting and its impact on loan decision-making SME financial reporting problems

The research finds that SMEs in Uzbekistan have failed to report financial disclosures to enable proper risk assessments. The article by Tadjibaeva (2019) addresses the current obstacles encountered by the SMEs in the process of producing quality financial reports and states that a number of SMEs lack financial skills and resources to prepare elaborate financial statements. This leads to the lack of completeness or thorough reporting, and the banks find it hard to gauge the actual financial status of the applicant.

The results indicate that banks are more likely to use less reliable risk assessment practices; like using collateral or third-party guarantees when banks receive poor financial disclosures by SMEs, and such collateral or third-party guarantees are less reliable predictors of financial stability, even if the minimum required coverage with collateral is 125% to the amount of the loan. According to Khushnud and Qingjie (2020), this practice can lead to an increased risk of wrong risk assessment and an increased rate of default, especially in the SME sector.

Standardization was not achieved with standardization and its effects

There was also a problem of lack of standardization in the financial reporting practices across various sectors. Lack of standardized accounting practice challenges banks to compare financial disclosures made by various applicants, making it hard to establish the level of risk. According to Khasanovich, financial reporting standardization plays a critical role in

enhancing an accurate and consistent risk assessment (2025). Nonetheless, because of the lack of a solid regulatory framework, the majority of companies in Uzbekistan continue to file reports of inferior quality to those that are internationally acceptable, which complicates the risk management of banks.

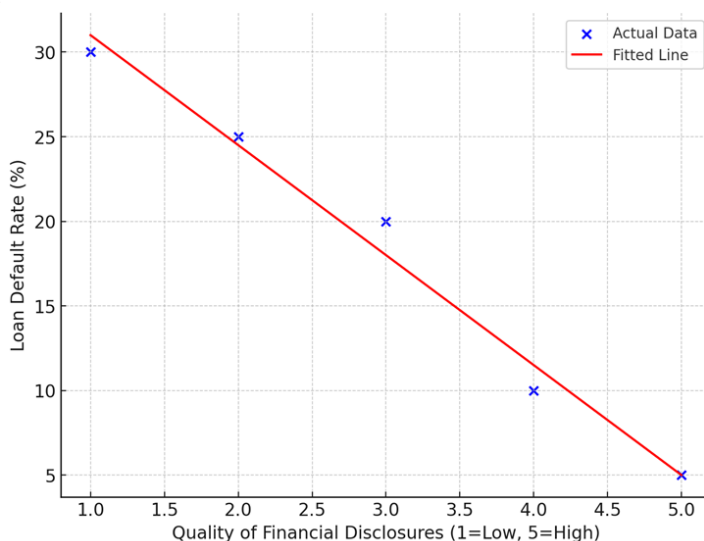


Figure 3: Loan default rate vs. quality of financial disclosure

The impact of digitalization on risk assessment practice

Digital tools in the improvement of risk assessment

The influence of the process of digitalization on the risk assessment procedures of the banking sector in Uzbekistan is another important piece of evidence of the study. According to Khamdamov et al. (2024), by relying on digital technologies in credit decision-making, banks can examine a wider set of information as opposed to the extent of data available through financial disclosure. The research finds that digital platforms implemented by banks report a higher level of effectiveness in risk assessment and accelerated loan issuance. The use of digital tools will help them to better evaluate loan applicants using available information (financial disclosures) that are either missing or incomplete, thereby lowering the risk of lending.

Challenges to pervasive digitalization

Nevertheless, despite the potential shown by digitalization, the investigation also determines the obstacles to the popularization of digitalization in Uzbekistan. The results indicate that even though the use of digital tools to improve the processes of risk assessment by certain banks is on the rise, the widespread use of digital technologies is still challenging in the banking industry in the country.

Regulatory issues and their influence on financial disclosure

Laxity in implementation of regulatory reforms

The paper also places emphasis on the regulatory controls in the quality of financial disclosures made by corporations. Although the Central Bank of Uzbekistan has taken some reforms to enhance the management of risks system and financial reporting standards, they are not properly enforced. As Khasanovich (2025) notes, some companies do not enforce mechanisms to give the best financial disclosures so that the risk assessment systems of banks are compromised.

The study discovered that the better the regulatory framework is in terms of control in a particular area, the better quality of financial disclosures would be received by the banks which, in its turn, results in more precise risk evaluation. Nonetheless, in regions where enforcement is weaker, financial institutions may have more trouble accessing accurate financial information and risk profiling loan applicants.

Strengthening regulatory frameworks recommendations

To overcome these issues, this paper proposes that the regulatory framework within Uzbekistan must be beefed up. The quality of financial disclosures would improve if better enforcement of financial reporting standards is followed as well as more companies and banks are trained on the issue. Given the suggestions provided by Kadirovich and Rabbimovich (2021) on enhancing regulatory oversight and adherence to IFRS, it will be necessary to improve the quality of risk assessment conducted by banks and minimize the risk of default of loans.

Summary of results

Findings by this research indicate the importance of such corporate financial disclosures to the risk assessment process of banks in Uzbekistan is crucial. The use of high quality and IFRS-compliant disclosures allows banks to better estimate credit risks and therefore reduce the rates of loan default and non-performing loans. Nevertheless, there are still issues of ineffectiveness and incompleteness of financial disclosure, especially in the SME sector. Digitalization also offers a chance of improving risk measurement with the use of alternative information, yet obstacles to its adoption still exist. Lastly, enhanced regulatory control and policing of financial reporting standards plays a vital role in facilitating the improvement in the overall quality of financial reporting and the precision of risk measurement in the banking industry in Uzbekistan.

Table 2: Summary of results

Factor	Key Findings	Impact on Risk Assessment
Quality of financial disclosures	High-quality, accurate, and transparent financial disclosures allow banks to assess credit risk effectively.	Lower loan default rates and non-performing loans (NPLs) due to informed decision-making.
Inaccurate financial disclosures	Poor or incomplete disclosures result in banks relying on collateral-based assessments, which are less accurate.	Increased loan defaults and NPLs due to poor risk assessments based on unreliable disclosures.
Adoption of IFRS	IFRS adoption standardizes financial reporting, improving transparency, consistency, and comparability.	Enhances the accuracy of risk assessments, reduces risk premiums, and improves financial stability.
Challenges in IFRS implementation	SMEs in Uzbekistan face challenges in adopting IFRS due to cost, lack of expertise, and limited resources.	SMEs often present inconsistent or incomplete disclosures, complicating risk assessments.
SME reporting challenges	SMEs struggle to provide complete and accurate financial reports due to resource and skill limitations.	Banks rely on less reliable risk assessment practices like collateral, leading to higher risk.
Lack of standardization	Financial reporting practices across sectors are inconsistent, making it difficult for banks to compare financial disclosures.	Increases the difficulty in assessing and comparing loan applicants' creditworthiness.
Digitalization of risk assessment	Digital tools enhance the ability of banks to assess a wider range of data, including incomplete or missing financial information.	Improves risk assessment accuracy and speeds up loan issuance, though adoption is slow.
Regulatory framework	While some reforms have been introduced, enforcement of financial reporting standards is inconsistent.	Weaker enforcement leads to poorer-quality disclosures, affecting banks' risk evaluation.
Recommendations for regulatory strengthening	Improving regulatory oversight and training for companies and banks on IFRS adherence will improve financial disclosures.	Strengthening regulations will improve disclosure quality, leading to better risk assessments.

Discussion

The results of the research on the influence of corporate financial disclosures on the risk level of banks in Uzbekistan when evaluating loan applications can share a number of insights. In this section, it is discussed in more detail, related to the current literature and theory, and dealt with the consequences of those findings on the banking practice and the regulatory framework in Uzbekistan. The discussion is presented in the following key themes: importance of financial disclosure quality, role of IFRS adoption, challenges faced by SMEs, the impact of digitalization and regulation should be improved.

The essentiality of quality of financial disclosure in risk assessment

Significance of quality financial information when making loans

The quality of the financial disclosures is revealed to be a significant factor in facilitating the capacity of the banks to determine the credit worthiness of loan applicants. Quality disclosures (accurate, complete, and timely) can help the bank make better decisions regarding the financial performance of the borrower. The findings are consistent with Khushnud and Qingjie (2020), who emphasize that sufficient financial Reporting enables banks to examine financial stability of loan borrowers and determine their repayment probability. In cases where financial reporting is false or incomplete, bankers will not be able to effectively risk assess loans and there will be a possibility of loan defaults.

According to this study, as banks get better-quality financial reporting, the risk of loan defaults decreases, and non-performing loans (NPLs) also decrease (Khasanovich 2025). This implies that not only do better financial disclosures help in the risk assessment process but also in the financial performance of banks as they are in a better position to gauge the repayment of borrowers. Since, as Burkhanov (2023) notes, the reliability of financial data is especially valuable in Uzbekistan, where the banking market is still immature, and it can only be trusted to financial institutions in the long term.

Effects of making inaccurate or incomplete financial disclosures

The flip side of the argument is that the study also shows the adverse effects of low-quality financial disclosures. Most companies particularly the SMEs in Uzbekistan do not present complete or accurate financial information. This problem adds to the difficulty of banks effectively writing up credit risk as they frequently use judgmental variables like collateral or personal guarantees that, in no way, gives a precise representation of a borrower (Tadjibaeva, 2019). Failures in the integrity and quality of disclosed information compel banks to take decisions based on poor or incomplete information, which is more likely to result in bad loans and financial crises within the industry (Khushnud & Qingjie, 2020).

How IFRS adoption affects quality of financial reporting

IFRS as the key to the higher financial transparency

The research concludes that the implementation of the International Financial Reporting Standards (IFRS) contributes to the quality of financial disclosures. Transparency, comparability, and consistency of financial reporting that are advocated by IFRS serve the purpose of assisting banks in the process of determining correctly the credit risk of loan applicants. According to Mamadiyarov et al. (2024), financial statements prepared using

IFRS offer standardized format, which enables banks to access all the main risk indicators including profitability, solvency, and liquidity with ease.

Moreover, Kim (2025) discovered that under compulsory reporting transactions under IFRS laws, such as in Kazakhstan, the quality of accounting improved. Likewise, in Uzbekistan, lending institutions that accept reports prepared according to the IFRS by borrowers have fewer challenges in making informed decisions regarding who to lend their money. This result can be compared with those provided by Kadirovich and Rabbimovich (2021) who underline that the implementation of IFRS in Uzbekistan will enable commercial banks to correspond to world best practices and thus enhances the quality of credit risk analysis.

Problems in enhancing IFRS implementation in Uzbekistan

Although there may be some benefits associated with the adoption of the IFRS, the study also reveals that there are serious challenges in the implementation of these standards in Uzbekistan. According to Kadirovich and Rabbimovich (2021), the challenges of full implementation of IFRS into the corporate financial reporting of Uzbek companies, and, specifically, SMEs, persist. Skilled professionals are the largest obstacles to adoption, and the high expenses of switching to IFRS are another significant obstacle because these standards may not be enacted to their fullest extent by businesses.

This difference in the implementation of IFRS between larger companies and SMEs results in inconsistencies in the quality of financial reporting making it difficult to evaluate risk of a bank. Khushnud and Qingjie (2020) note that incomplete or excessively simplified financial statements are common among SMEs and compel banks to engage in subjective credit risk assessments.

Financial reporting challenges smes face and the impact they have on risk assessment

Limitations of financial reporting in SME sector

The Uzbek SMEs constitute an important component of economic growth, but they have been facing serious problems accessing finance largely because of poor financial reporting practices. According to Tadjibaeva (2019), due to the lack of resources and skills to create quality financial disclosures, SMEs suffer as a consequence of failing to access loans. This paper has discovered that most financial report of SMEs in Uzbekistan Are not complete or not consistent, and it is hard to determine if they can be treated as credit worthy by banks.

According to Burkhanov (2023), this is because unstandardized financial reporting among SMEs poses more risks to the banks because it is

more difficult to determine the financial position of potential borrowers. Such inconsistent financial reporting also makes it difficult to compare applicants in various industries, and such misjudgment of risks is likely to lead to loans defaults.

Bank lending practices implications

These problems in financial reporting by SMEs have serious implications on bank lending in Uzbekistan. Without having trustworthy financial disclosures, banks must use some other risk indicators, like collateral value or personal guarantees, which are not necessarily accurate reflections of a borrower (Khushnud & Qingjie, 2020). It exposes the organization to higher risks of loan defaults and compromises the quality of the risk assessment process by relying on weaker risk indicators.

Digitalization and the role it plays in improving risk assessment practices

E-risk assessment in Uzbekistan

The paper has also discovered that digitalization is significant in improving efficiency and accuracy of risk assessment procedures. Digital tools, as Khamdamov et al. (2024) imply, enable banks to combine an expanded variety of data, including non-financial data (e.g., transaction history and market conditions). The integration will assist the banks to better evaluate the credit risk of loan applicants even when financial disclosures are either incomplete or unreliable.

Digital application of risk assessment has been effective in enhancing the reliability of lending decisions. Electronic tools will assist banks fulfil loan applications faster, minimize errors, and detect potential risks that cannot be determined solely on financial disclosures. This, as Khamdamov et al. (2024) remark, is specifically useful in such markets that have such a disadvantage as incomplete and unreliable financial disclosures, such as Uzbekistan.

Obstacles to massive digitalization

Along with the above positive aspects of digital tools, the researched also indicates strong obstacles to their widespread use in Uzbekistan. These constraints prevent the digitalization of the risk assessment of many banks in full and slow down the adoption of more effective and accurate loan decision-making systems.

The section of greater regulatory control

Legal dynamics of laxity

The article highlights the necessity of regulatory control in enhancing corporate financial reporting. Even though the Central Bank of Uzbekistan has implemented reforms that seek to improve risk management systems and financial reporting, these efforts are still not followed through. Due to the ineffectiveness of the enforcement systems, as Khasanovich (2025) maintains, a significant number of firms do not meet the standards in accordance with which they should submit disclosures, which leads to low quality disclosures.

Banks cannot use financial disclosures to determine risk accurately without a proper enforcement mechanism in place. This regulatory arbitrage also makes the task of evaluating credit risk more challenging because the banks cannot receive the same and reliable information about loan applicants. Based on the findings, it can be argued that the Uzbekistan banking sector requires a more effective regulatory oversight and enforcement of financial reporting standards to enhance the risk assessment process (Kadirovich & Rabbimovich, 2021).

Suggestions for improving regulations

To overcome these issues, this paper suggests that Uzbekistan should enhance its regulatory system and enforcement system. This would assist in ensuring that companies are adherent to the international financial reporting standards to enable the banks to have credible data to undertake risk assessment. Better regulation of the financial disclosures and improvement of risk management of the banking industry, as proposed by Kadirovich and Rabbimovich (2021), can be achieved by increased regulatory control and capacity-building of the banks and companies, respectively.

As noted in the discussion, the quality of corporate financial disclosures is a major contributing factor to the capacity of the banks to determine credit risk in Uzbekistan. This research notes that better-quality, transparent, and consistent financial disclosures are necessary to enhance risk assessments and decrease loan default risks. Use of IFRS is of great importance in promotion of financial reporting standards despite the challenges in its implementation. Digitalization promises to make the risk assessment practice well, and the obstacles to its adoption remain. Lastly, there is need to have a stricter regulation and enforcement on the reliability of the financial disclosures and effectiveness of risk management practices used by banks.

Conclusion

This study findings have highlighted the significance of high quality corporate financial disclosure in enabling banks to evaluate the risk of loan applicant in an emerging economy such as Uzbekistan. This study has explored the connection between quality of financial reporting and adoption of International Financial Reporting Standards (IFRS) and the impact on risk assessment of banks. The research revealed the critical role of transparency, consistency, and reliability of financial disclosure in reducing credit risk, and impact to financial institutions and the overall economic environment.

Critical: financial disclosure quality of risk assessment

Among the main findings of the provided study, one must highlight such a conclusion since the quality of corporate financial disclosure can determine the effectiveness with which banks evaluate the credit risk. Effective and transparent financial information as Khasanovich (2025) remarks gives the banks the requisite information to assess the creditworthiness of borrowers. in financial markets characterized by poor financial disclosure, such as the Uzbekistan market where financial systems are still underdeveloped, financial risk management practices by banks become highly difficult to manage without reliable disclosures and thus the banks are left to resort to other means of assessing the financial health of a borrower, which do not reveal the full picture of the borrower.

According to Khushnud and Qingjie (2020), poor lending decisions due to untrue or incomplete financial disclosure can ultimately influence the stability of the banking system. We discovered in our research that the better quality of disclosures received by banks, the fewer the defaults and non-performing loans (NPLs) were reported.

IFRS adoptions as an insurance to improve the quality of financial reporting

The second significant observation made during this research is that adoption of IFRS contributes to the quality of corporate financial disclosures. IFRS offers an even-handed framework to financial reporting which improves comparability and transparency of financial statements and, as a result, would enable banks to better assess risks. The results are consistent with those of Mamadiyarov et al. (2024), who indicate that IFRS-compliant reports provide banks with a more accurate assessment of risk factors that include liquidity, profitability, and solvency.

Nonetheless, the research has also identified some hindrances to the complete adoption of IFRS in Uzbekistan. According to Kadirovich and Rabbimovich (2021), big organizations are likely to be complying with IFRS, as SMEs do not have enough resources or qualified professionals to

implement that system. Similar hurdles can be found in Kazakhstan, where obligatory IFRS reporting standards have caused certain positive effects, still, in terms of contributing to the financial transparency, the total effects are minimal (Kim 2025). This implies that though the adoption of IFRS is a significant move towards generating high quality financial disclosures, it is only achievable in case the challenge of implementation is countered.

SME issues in financial reporting and why it should be standardized

One of the most important ideas that this study can give is that SMEs in Uzbekistan struggle to offer high-quality financial disclosures. According to Tadjibaeva (2019), the lack of resources and the knowledge of how to create detailed and standardized financial reporting may lead to the fact that the banks cannot evaluate the SMEs properly in terms of their creditworthiness. The research revealed that in Uzbekistan, a significant percentage of SMEs continue to file excessively simplistic or incomplete financial reports, which subject banks to subjective risk appraisal and, consequently, to increased risk.

The study therefore suggests that financial reporting practices should be standardized in the various sectors within Uzbekistan in order to curb this situation. According to Khasanovich (2025), standard reporting would enhance the comparability of the firms even better, and this is essential to the banks in the processes of lending. The overall financial literacy of SMEs may also be enhanced by standardization so that they can better realize the significance of transparent reporting and its effect on obtaining financing.

Digitalization and its contribution to improve risk assessment practices

Another important issue highlighted in the study is how digitalization may assist in enhancing risk assessment procedures, despite the incompleteness or unreliability of financial disclosure. Its results presuppose that Uzbekistan banks implementing digital platforms report more effective and precise risk assessment, which is less based on traditional financial data. Nevertheless, as Khamdamov et al. (2024) observe, technological constraints, prohibitive cost factors, and the untrained workforce continue to hamper the rapid implementation of digitalization in the Uzbek banking industry. To achieve all the gains of digital risk assessment instruments, the research recommends that additional capital investment in digital infrastructure and training is required, especially in rural places where SMEs are based.

Why tighter regulation and enforcement are requirement

Finally, the paper finds that to enhance the quality of corporate financial disclosures in Uzbekistan, there is a need to have better regulation

and enforcement of the current regulation. Although the Central Bank of Uzbekistan has achieved progress in the reform of the financial reporting standards, they are not always enforced. Khasanovich (2025) notes that the effectiveness of risk ratings carried out by banks is not supported by the fact that many firms do not correspond to the necessary level of transparency.

The research recommends that the government and other regulatory authorities ought to put in more efforts to make sure that all financial reporting standards are well followed by all companies, and especially SMEs. According to the recommendation made by Kadirovich and Rabbimovich (2021), the quality of financial disclosures would be better and more capable of assisting banks in conducting more accurate and reliable risk evaluation as enhancement mechanisms and more support to businesses to switch to IFRS are strengthened.

Future research and policy development recommendations

According to the findings, it is possible to make several recommendations for future research and policy development. First, strategic policymakers in Uzbekistan should pay attention to enhancing the ability of SMEs to generate credible financial disclosures through training programs and financial literacy programs. Second, one can continue with research on the effects of digitalization on risk assessment procedures in other emerging markets and compare the experience of countries that have already practiced the application of digital tools in their banking system. Lastly, enforcement of stricter regulation is required in order to have the large-scale usage of the international financial reporting standard, which would eventually enhance the consistency of corporate financial reporting and also increase the risk assessment potential of the banks.

Final thoughts

To recap it all, the quality of corporate financial disclosures holds the key to the extent to which banks in Uzbekistan analyze credit risk. Greater financial transparency, especially by the use of IFRS, may greatly amplify the processes involved in risk measurement and make the probability of loan defaults to be lower. Nevertheless, the ongoing adoption of IFRS, especially with SMEs, and the issue of digitalization are not as widespread as to enable a complete overhaul of the financial reporting process. Regulatory oversight should be enhanced, and attempts should be made to assist SMEs to adhere to international financial reporting standards to enhance the financial stability of the banking sector. Such actions will assist in developing a more transparent, efficient, and resilient banking system within the country of Uzbekistan and, therefore, contribute to the higher economic growth

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