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

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Abstract

Corporate financial disclosure quality plays a decisive role in banks' loan risk assessment, particularly in emerging markets where reporting practices remain uneven. In Uzbekistan, the ongoing expansion of IFRS (International Financial Reporting Standards) and the shift toward risk-based banking supervision have increased the need for accurate, timely, and comparable borrower financial information. However, disclosure quality, especially among SMEs (Small and Medium-sized Enterprises), remains inconsistent, limiting banks' ability to conduct cash-flow-based analysis and increasing reliance on collateral. This study examines how disclosure quality affects banks' credit risk assessment in Uzbekistan using a conceptual mixed-method approach. Due to the scarcity of standardized borrower-level datasets and inconsistent audited reporting, econometric analysis is not feasible; instead, the study synthesizes existing empirical and regulatory evidence to identify key disclosure risk channels. Drawing on international research and Basel III requirements for data integrity, the paper shows that weak disclosures undermine reliable PD (Probability of Default) and LGD (Loss Given Default) estimation, distort risk-weighted asset calculations, and reduce the effectiveness of supervisory review and market discipline. The study concludes that improving financial reporting quality, advancing practical IFRS adoption for SMEs, and enhancing enforcement and digital data infrastructure are essential for strengthening risk assessment accuracy and reducing credit misclassification in Uzbekistan.

Keywords: Corporate financial disclosures, credit risk assessment, emerging markets, Uzbekistan, IFRS, financial transparency, SMEs, Basel III

Introduction

Corporate financial disclosure is a fundamental input for banks' credit risk assessment because it provides the information required to evaluate a borrower's profitability, liquidity, solvency, and cash-flow capacity (Khushnud & Qingjie, 2020; Khasanovich, 2025). When disclosures are accurate, complete, and timely, banks can more reliably assess repayment ability and determine appropriate lending terms. In contrast, weak or inconsistent reporting increases information asymmetry, limits analytical depth, and raises the likelihood of misclassification of credit risk.

The significance of corporate financial disclosure in banks' risk assessment

Corporate financial disclosure is a means by which banks assess the risk associated with lending to companies. In addition, banks are able to take into consideration factors such as profitability, liquidity, and solvency based on these disclosures, which play a major role in determining the borrower's capacity to repay the loan. However, in a country where the use of IFRS is already compulsory, such as Kazakhstan, it remains unclear whether this requirement will actually result in improved accounting quality (Kim, 2025). One wonders about the effectiveness of IFRS application in Uzbekistan, considering that the problem of transparency of financial transactions in the country remains unsolved.

Lack of financial reporting credibility is another aspect that makes assessing credit risk a demanding undertaking. According to Khasanovich (2025), commercial banks in Uzbekistan face difficulties in assessing risk due to the absence of unified standards and clear, reliable financial data from companies. Without high-quality and frequent disclosures, banks must typically assess the financial well-being of loan applicants using alternative methods, such as collateral-based appraisals, which are generally unlikely to reflect the borrower's true financial position (Burkhanov, 2023).

Problem - financial reporting in emerging markets: the case of Uzbekistan

Emerging economies have several problems with regard to transparency and the quality of corporate financial disclosures. In Uzbekistan, these issues are especially relevant as the country continues its transition toward a market-oriented financial system, where commercial banks remain the dominant providers of financing for corporate borrowers and SMEs (Tadjibaeva, 2019; Burkhanov, 2023). As a result, the financial reporting of

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the majority of Uzbek companies is neither regular nor reliable, making it difficult to determine the true financial performance of loan applicants. Khushnud and Qingjie (2020) observe that low-quality financial disclosure considerably hinders banks' ability to assess the risks associated with providing credit to SMEs, which can make a notable contribution to the country's economic development. The adoption of IFRS is considered one of the key measures for improving the quality of financial reporting, but the challenges of its implementation have not been fully eliminated (Kadirovich & Rabbimovich, 2021).

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. Uzbekistan continues to operate a dual financial reporting framework, which contributes to substantial variation in the quality and comparability of corporate disclosures. According to the IFRS Foundation's jurisdictional profile, IFRS is mandatory for joint-stock companies, commercial banks, insurance organisations, large taxpayers, and state-owned or state-invested enterprises included in the annual list approved by the State Assets Management Agency, while other entities, including the majority of SMEs in the country, prepare their financial statements in accordance with national accounting standards „milliy buxgalteriya hisobi standartlari" (NAS) issued by the Ministry of Finance (IFRS Foundation, 2024).

Implementing global accounting standards is challenging and burdensome for most businesses, particularly SMEs, which in many cases lack the capacity and consistency in reporting needed to support reliable risk analysis (Khushnud & Qingjie, 2020). In addition, Tadjibaeva (2019) notes that the capitalization of SMEs in Uzbekistan remains at an early stage, and the inability to access credible financial information is one of the factors that makes it difficult for banks to provide credit. A way forward is to implement IFRS and strengthen corporate governance standards so that banks can make more accurate estimates of credit risk.

These disclosure limitations also have broader prudential implications. Effective implementation of Basel III requirements, particularly those related to credit risk measurement, internal risk governance, and market discipline, depends on the availability of reliable borrower-level information (BCBS, 2011; BCBS, 2017; BCBS, 2018). Weak financial reporting undermines the accuracy of risk-weighted asset calculations, complicates supervisory evaluation of internal risk processes, and reduces the reliability of banks' own public disclosures. For Uzbekistan, improving disclosure quality is therefore essential not only for strengthening lending practices but also for aligning the banking sector with international regulatory standards.

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Although individual studies have examined SME financing, IFRS implementation, and risk management in Uzbekistan, their findings have not been synthesized to explain how disclosure quality shapes banks' risk evaluation practices in a Basel-aligned environment (Khushnud & Qingjie, 2020; Khasanovich, 2025). This study addresses that gap by examining the main channels through which disclosure quality affects banks' credit assessment processes and the broader regulatory context in which these issues arise.

Objectives of the study

The study aims to:

- examine the effects of corporate financial disclosures on the risk management practices of banks in Uzbekistan and assess whether these disclosures have led to the desired outcomes;
- investigate the impact of International Financial Reporting Standards (IFRS) on the transparency and reliability of the financial information used by banks in Uzbekistan;
- identify the issues that commercial banks in Uzbekistan face when assessing credit risk based on the quality of financial disclosures; and
- examine how disclosure weaknesses limit alignment with Basel III requirements and identify priority areas for policy improvement.

Research questions

The research questions of the study are determined as follows:

- What is the effect of the quality and transparency of corporate financial reporting in Uzbekistan on the ability of banks to assess the riskiness of loan applicants?
- How does the adoption of IFRS in the banking sector of Uzbekistan affect the quality of financial disclosure?
- What practical challenges do banks encounter when assessing borrowers with weak or incomplete financial disclosures?
- How do disclosure limitations constrain the effectiveness of Basel III-aligned credit risk measurement and supervisory expectations?

Structure of the paper

The paper is organized as follows: the first part introduces the topic and provides the background of the research, the objectives, and the research questions that have to be answered. The second part reviews the existing literature on disclosure quality, IFRS adoption, SME reporting capacity, digitalization, and Basel III requirements. The third section outlines the conceptual mixed-method approach and discusses data limitations. The fourth

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part presents the key findings while discussing implications for banks and policymakers. The last section concludes with recommendations and areas for future research.

Literature Review

The quality of corporate financial disclosure is of vital importance for banks' ability to assess the riskiness of their loan applicants, especially in emerging markets. The importance of financial disclosures in banks' risk assessment is reinforced by the fact that emerging economies face difficulties in harmonizing their financial reporting principles with international standards. This literature review discusses corporate financial reporting and banks' risk assessment practices in relation to the development of Uzbekistan's financial system, the adoption of IFRS, and the overall efficiency of the risk management system in the banking industry.

The corporate financial disclosures and risk assessment in banks

Corporate financial disclosures are highly significant to banks as a source of information because they help in assessing the financial standing of 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 many cases, the financial reports prepared by companies are neither fully accurate nor comprehensive, which increases the likelihood of incorrect risk-related decisions.

Lending decisions taken by banks require high-quality and transparent financial information (Khasanovich, 2025). In emerging markets where financial reporting practices are still in their formative years, the absence of clear and accurate disclosure makes banks more subjective in their evaluation of risks. Such practices can include overreliance on collateral or personal guarantees, which are not always reliable indicators that a borrower is financially sound. This dependency on unreliable financial data could contribute to financial instability and loan defaults within the banking system.

IFRS adoption and financial reporting quality

The implementation of IFRS has been regarded as one of the main measures for enhancing the quality and comparability of corporate financial reporting in emerging economies. 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

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has, however, been a gradual process, with the main setbacks being a lack of trained personnel, which has led to resistance to change by the businesses. The mandatory use of the 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.

Similarly, in Uzbekistan, the adoption of IFRS is essential for enhancing the credibility of corporate financial disclosures, which can strengthen the reliability of banks' risk assessments. 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 Uzbek economy, but they face many difficulties in accessing funding. As Tadjibaeva (2019) points out, SMEs typically lack the resources and expertise to prepare high-quality financial reports, which hampers their chances of attracting investment or securing bank loans. Such challenges are compounded by the fact that international financial reporting standards are difficult for many SMEs to adopt because of the high costs of compliance and the limited 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 addressed, at least in part, 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 tools can help banks assess a wider range of risk factors, which is particularly important when financial data are limited or unreliable, including market conditions and borrower behavior. Empirical evidence shows that structured, standardized financial statements significantly improve the predictive accuracy of credit risk models, which underscores the importance of reliable financial disclosures for SME lending (Altman & Sabato, 2007).

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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, but effective regulation and enforcement remain challenging. Khasanovich (2025) notes that these reforms lack a proper approach to enforcement and do not have a unified framework to regulate financial disclosures. This weakness in regulatory control undermines banks' ability to properly evaluate risk based on the financial data presented by loan applicants.

Kurtbedinov (2009) explains that the reforms of corporate governance in transition economies such as Uzbekistan play an important role in enhancing the quality of financial reporting. He says that robust governing systems with the backing of good regulatory systems can make financial disclosures 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 in financial disclosures. For instance, recent government policy will require all Public Interest Entities to adopt IFRS from 2026, which is expected to expand the share of standardized and audited reporting in key sectors of the economy (PwC Uzbekistan, 2024). This dual framework results in structural differences in disclosure quality, where larger and regulated firms tend to produce more comprehensive and comparable information, while SMEs typically operate under simplified or capacity-constrained reporting systems. Such a regulatory structure creates heterogeneous reporting practices across the corporate sector and affects the availability, depth, and reliability of financial information accessible to banks for credit risk assessment.

Functions of digitalization in risk assessment

Besides enhancing financial reporting, the digitalization of banking services is regarded as a means of improving 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 disclosure markets. These online applications may combine information about a loan applicant from multiple sources (such as transaction history and non-financial data) to provide 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 turn, this can enhance the effectiveness of the risk evaluation process and accelerate loan provision. Yet, to make digital risk assessment

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tools successful in Uzbekistan, substantial investments in technology and infrastructure will be required, along with training for bank employees (Khamdamov et al., 2024).

The literature review indicates that the relationship between corporate financial disclosure and banks' risk assessment practices in Uzbekistan is complex. 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 the 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.

Academic insights on Basel III data requirements and credit risk measurement

The effectiveness of Basel III credit risk measurement depends fundamentally on the quality, consistency, and reliability of borrower-level financial information. Capital regulation under Basel frameworks requires banks to calculate risk-weighted assets using either standardized risk weights or internal ratings-based (IRB) models, both of which rely on accurate estimates of key credit risk parameters. The theoretical foundation for these models demonstrates that banks cannot produce reliable probability of default (PD), loss given default (LGD), or exposure at default (EAD) estimates without standardized and verifiable financial disclosure from borrowers. Blundell-Wignall and Atkinson (2010) argue that Basel III capital and liquidity standards cannot function effectively without improvements in financial reporting transparency, especially in emerging markets.

Further evidence connects disclosure quality with the credibility of internal risk models. Gordy (2003) shows that the mathematical foundation of IRB capital rules assumes high-integrity borrower-level data. When disclosures are inaccurate or incomplete, internal risk weight calculations lose reliability, causing incorrect capital allocation. In the SME context, Altman and Sabato (2007) show that PD modeling requires structured and consistent financial information; otherwise, banks' estimated risk levels become systematically biased.

Disclosure quality is also central to Basel III Pillar 3 market discipline. Nicolò and Pelizzon (2008) highlight that Pillar-3 disclosures only produce effective market discipline when backed by credible borrower information feeding into banks' own reported risk indicators. Studies of emerging markets further emphasize that weak accounting infrastructure limits Basel III implementation capacity (Adesina, 2019; Barth et al., 2013).

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Taken together, the academic literature reinforces the core argument of this study: weak corporate disclosure quality undermines Basel III risk measurement, capital adequacy, and market transparency, making disclosure reform essential for risk governance in Uzbekistan.

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 the banking sector of Uzbekistan.
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	Relevant for understanding the role of corporate governance and

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			management, particularly in transitioning economies.	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 the banking sector of Uzbekistan.
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.
Blundell-Wignall & Atkinson	2010	Global critique of Basel III	Basel III cannot function without reliable, transparent financial data.	Demonstrates need for data quality for Basel governance.
Gordy, M. B.	2003	Foundations of IRB models	PD/LGD/EAD models require high-integrity borrower data.	Establishes a mathematical link between disclosure and capital rules.
Altman & Sabato	2007	SME credit risk modeling	SME PD estimation requires structured financial information.	Shows poor SME reporting undermines risk modeling accuracy.
Nicolò & Pelizzon	2008	Pillar 3 disclosure effectiveness	Pillar 3 is only credible when backed by accurate underlying borrower data.	Supports the argument that weak disclosure reduces market discipline.
Adesina, K.	2019	Basel III implementation in emerging markets	Weak reporting and low enforcement reduce Basel III effectiveness.	Provides emerging-market evidence similar to Uzbekistan's context.
Barth, Caprio & Levine	2013	Global bank regulation effectiveness	Supervisory strength and reporting accuracy drive risk outcomes.	Reinforces the importance of data quality for prudential oversight.

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Methodology

This study adopts a qualitative mixed-method design that integrates multiple qualitative analytical techniques to examine how corporate financial disclosure quality affects banks' credit risk assessment in Uzbekistan. This approach is consistent with the original research framework and addresses reviewers' recommendations to clarify methodological structure while avoiding unsupported quantitative claims. A qualitative mixed-method design is appropriate because Uzbekistan does not have publicly available borrower-level financial datasets or standardized credit risk indicators (such as PD, LGD, or EAD) that would allow for robust econometric modelling. As a result, the analysis relies on triangulating evidence from regulatory documents, academic literature, and institutional practices to generate a contextually grounded understanding of disclosure-related challenges in the banking sector. The qualitative design ensures methodological coherence while enabling the study to capture the institutional, regulatory, and conceptual dimensions of disclosure quality and credit risk assessment.

Research design and rationale

The qualitative mixed-method approach used in this study consists of three integrated components:

1. Regulatory and institutional document analysis, examining financial reporting requirements (IFRS, NAS), corporate governance rules, and Basel III supervisory expectations relevant to credit risk measurement. Document analysis is a well-established qualitative method for extracting structured meaning from policy and regulatory texts (Bowen, 2009).
2. Thematic synthesis of academic literature.
   Peer-reviewed studies on disclosure quality, IFRS implementation, SME reporting capacity, and Basel-aligned credit risk assessment are reviewed and coded to identify recurring theoretical and empirical patterns. This follows structured literature review practices used to build conceptual frameworks in management and finance research (Webster & Watson, 2002).
3. Comparative analytical evaluation.
   Findings from the regulatory and literature analyses are benchmarked against international reporting and supervisory expectations to identify gaps between formal standards and practical disclosure realities. Triangulation across these methods strengthens validity and reduces reliance on any single source stream (Denzin, 2012).

A qualitative approach is methodologically justified because the data required for empirical modelling, such as borrower-level financial statements, financial coefficients, and comparable SME disclosures, are not publicly available in Uzbekistan. Any attempt to construct econometric models would therefore produce unreliable or non-generalizable findings. A qualitative mixed-method design allows the study to maintain analytical depth through triangulation of documentary sources and scholarly literature, while remaining consistent with resource and data constraints inherent to the regional financial context (Denzin, 2012; Miles, Huberman, & Saldaña, 2014).

Data collection methods

The study relies exclusively on secondary qualitative data, collected through three structured channels: regulatory and institutional documents, academic literature, and publicly available sectoral analyses. This data collection strategy is consistent with the qualitative mixed-method design and reflects the limited availability of standardized borrower-level financial information in Uzbekistan.

First, regulatory and institutional documents form the core dataset. These include:

- IFRS and related implementation guidance;
- National accounting standards of Uzbekistan;
- Financial reporting and audit regulations issued by the Ministry of Finance and the Agency for State Assets Management;
- Prudential and supervisory documents published by the Central Bank of Uzbekistan, including Basel III-related guidelines;
- IFRS Foundation jurisdictional profiles and official communications related to mandatory IFRS adoption.

These sources provide authoritative evidence on reporting obligations and the institutional drivers of disclosure quality. Collection and use of such materials are consistent with qualitative document-analysis protocols (Bowen, 2009).

Second, academic literature was collected systematically from peer-reviewed journals, conference papers, and recognized academic databases. The review focused on research addressing disclosure quality, corporate transparency, IFRS implementation in emerging markets, SME reporting constraints, and the dependence of credit risk modelling frameworks on reliable financial data. The search and selection process follows structured literature-review logic emphasizing conceptual relevance and synthesis (Webster & Watson, 2002). Foundational theoretical studies, such as Gordy (2003), and empirical SME credit risk research, such as Altman and Sabato (2007), were included to inform the conceptual framework.

Third, supplementary sectoral analyses and professional publications, such as reports by international audit firms, financial institutions, and

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multilateral organizations, were included to obtain additional insights into Uzbekistan's reporting landscape and its alignment with global standards.

Across all three categories, documents were selected through purposive sampling to ensure relevance to disclosure quality, financial reporting regulation, and credit risk assessment practices. No primary data collection (e.g., interviews or surveys) was conducted, reflecting the study's reliance on documented institutional sources and established academic evidence.

Data analysis techniques

The analysis follows a structured qualitative analytical framework combining thematic coding, regulatory analysis, and comparative evaluation. This approach aligns with the qualitative mixed-method design of the study and enables systematic interpretation of regulatory texts, academic research, and institutional documents.

First, a thematic analysis was conducted to identify patterns and themes in the data based on their relevance to the research questions. Documents were read iteratively, and themes were coded into categories such as "transparency", "completeness", "comparability", "timeliness", "audit reliability", "SME reporting constraints", and "Basel III data dependencies". These codes were then grouped into higher-order themes to develop a structured understanding of how disclosure practices influence credit risk assessment. This follows established thematic analysis procedures (Braun & Clarke, 2006) and qualitative coding guidance for analytical rigor (Miles et al., 2014). Thematic analysis, according to Khamdamov et al. (2024), is particularly helpful when financial decision-making is complex in emerging markets and banks face multiple challenges in interpreting financial information.

Second, a regulatory content analysis was applied to financial reporting standards and supervisory documents. Document interpretation followed systematic qualitative document-analysis practices (Bowen, 2009). This involved examining consistency between Uzbekistan's National accounting standards, IFRS adoption requirements, and Basel III supervisory expectations. Attention was given to areas of convergence and divergence, such as mandatory IFRS use among regulated entities versus simplified reporting practices among SMEs. This analysis helped clarify how institutional rules shape the availability and quality of financial information used by banks.

Third, a comparative analytical technique was used to benchmark Uzbekistan's disclosure environment against international norms. By comparing local practices to the expectations embedded in IFRS and Basel III credit risk frameworks, the study identified structural gaps that impact the

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validity of bank risk assessments. This comparative approach strengthened the conceptual link between reporting practices and credit risk measurement, particularly in the context of borrowers that do not produce standardized disclosures.

Finally, triangulation was used across themes and all analytical components to enhance credibility and internal consistency of interpretations (Denzin, 2012). Findings from the thematic literature review were compared with insights derived from regulatory documents and benchmarking analysis. Areas of convergence increased confidence in the validity of interpretations, while discrepancies highlighted institutional constraints and areas requiring reform.

Together, these analytical techniques provided a rigorous, multi-layered qualitative assessment of how financial disclosure quality affects credit risk evaluation in the banking sector of Uzbekistan, aligning with the objectives of the paper.

Ethical considerations

This study is based exclusively on secondary sources, including regulatory documents and peer-reviewed academic literature. No primary data were collected, and no human participants were involved. Accordingly, the research does not raise issues of informed consent, privacy, or confidentiality associated with interviews or surveys. Ethical compliance in this context focuses on responsible use of documentary evidence, transparency in interpretation, and accurate attribution of all sources (Flick, 2014; Patton, 2015). The analysis remains strictly within the boundaries of publicly available information and does not claim access to confidential bank or borrower data. Citations and references are provided in accordance with academic integrity standards and APA guidelines (Creswell & Plano Clark, 2018).

Limitations of methodology

This research faces limitations typical of qualitative studies in data-constrained emerging markets. First, Uzbekistan does not provide publicly accessible, standardized borrower-level disclosure datasets, particularly for SMEs, nor open access to internal bank risk parameters (PD, LGD, EAD) or supervisory credit risk files. These constraints prevent robust econometric testing and justify reliance on qualitative triangulation (Creswell & Plano Clark, 2018; Patton, 2015). Second, the national reporting environment remains heterogeneous: IFRS is compulsory only for specific categories of entities, while most SMEs report under NAS (IFRS Foundation, 2024). This dual system reduces cross-firm comparability and limits the feasibility of uniform risk-measurement validation. Third, recent regulatory changes expanding IFRS coverage to Public Interest Entities from 2026 may alter disclosure practices over time, meaning current conclusions should be interpreted as reflective of the present transition stage (PwC Uzbekistan, 2024). Finally, because credible Basel-aligned credit risk estimation depends on high-integrity borrower financial data, weaknesses in disclosure quality constrain model-based verification of risk classifications (Gordy, 2003; Altman & Sabato, 2007).

Despite these limitations, the study's multi-source qualitative design remains appropriate for identifying institutional mechanisms and policy-relevant implications in settings where reliable quantitative datasets are unavailable (Flick, 2014; Miles, Huberman, & Saldaña, 2014).

Results

Corporate disclosure quality and banks' loan risk assessment

Among the fundamental results of the research is the substantial role of high-quality, accurate, and transparent financial disclosures in banks' capacity 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 Tadjibaeva's (2019) claim that financial reporting in Uzbekistan, especially for SMEs, has a significant impact on banks' lending decisions and tends to make them more prudent in their credit risk evaluations.

Conversely, weak, inconsistent, or inaccurate 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. Banks are often forced to rely on proxies and judgmental assessments, such as collateral values, personal guarantees, or qualitative impressions of management, rather than analysis of the financial performance of borrowers (Khushnud & Qingjie, 2020; Tadjibaeva, 2019).

This pattern leads to two interrelated problems. First, it increases misclassification risk: viable borrowers may be treated as high risk due to information gaps, while financially weak firms may appear acceptable if they can pledge collateral. Second, it reinforces conservative and collateral-

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dominant lending, which restricts credit access for firms that lack collateral but have solid business models. According to Burkhanov (2023), the misrepresentation of financial data is common among SMEs in Uzbekistan, which makes it difficult for banks to effectively assess credit risk.

IFRS adoption and disclosure quality in Uzbekistan

Improving the quality of corporate financial disclosures in Uzbekistan critically depends on the adoption of International Financial Reporting Standards. 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 (Mamadiyarov et al., 2024; Kadirovich & Rabbimovich, 2021).

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. The findings also indicate that commercial banks in Uzbekistan that base their reporting on IFRS achieve better outcomes in terms of the quality and consistency 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.

Nevertheless, the research also reveals considerable problems associated with the complete adoption of the IFRS in Uzbekistan. The disclosure environment remains structurally uneven because IFRS applies only to specific categories of firms, while most SMEs continue reporting under national standards (IFRS Foundation, 2024). This dual system produces persistent differences in disclosure depth and comparability across borrower groups, limiting banks' ability to apply uniform analytical criteria in risk assessment (Tadjibaeva, 2019; Khushnud & Qingjie, 2020). These obstacles include the cost of switching to IFRS, inexperienced accountants, and 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. The paper indicates that, in most cases, banks can enhance their risk management procedure in the event that loan applicants comply with IFRS.

This point is directly relevant to Uzbekistan, where SMEs face similar barriers, including high transition costs, limited IFRS expertise, and weak audit coverage (Kadirovich & Rabbimovich, 2021; Tadjibaeva, 2019).

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Practical challenges for banks under weak borrower disclosure

The research finds that many SMEs in Uzbekistan fail to provide financial disclosures that enable proper risk assessment. The article by Tadjibaeva (2019) addresses the current obstacles encountered by SMEs in producing high-quality financial reports and states that many SMEs lack the financial skills and resources to prepare detailed financial statements. This leads to the lack of completeness or thoroughness in reporting, and banks find it hard to gauge the actual financial status of applicant.

The results indicate that banks are more likely to use less reliable risk assessment practices, such as relying on collateral or third-party guarantees, when they receive poor financial disclosures from SMEs, and such collateral or guarantees are less reliable predictors of financial stability, even if the common minimum required collateral coverage is 125% of the loan amount (Hamkorbank, 2025).

Another recurring constraint is the partial informality of SME operations, where financial reporting may not fully capture revenue cycles, cost structures, or contingent obligations. When disclosures fail to reflect operational realities, stress testing and forward-looking evaluation become significantly less reliable (Khushnud & Qingjie, 2020; Burkhanov, 2023). International evidence reinforces that SME PD estimation becomes systematically biased when statements lack structure or consistency, implying that disclosure gaps translate directly into higher assessment error risk in SME portfolios (Altman & Sabato, 2007).

There is also a problem of a lack of standardization in financial reporting practices across various sectors. Lack of standardized accounting practice challenges banks in comparing financial disclosures made by various applicants, making it hard to establish the level of risk. According to Khasanovich (2025), financial reporting standardization plays a critical role in enhancing an accurate and consistent risk assessment. 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.

These disclosure constraints have clear operational consequences for bank lending. First, banks respond to informational uncertainty by shifting toward collateral-dominant credit evaluation, using guarantees and asset coverage to compensate for weak cash-flow evidence (Khushnud & Qingjie, 2020; Burkhanov, 2023). While collateral reduces loss severity, it does not resolve uncertainty about repayment capacity, so credit grading remains conservative and may exclude economically viable borrowers (Tadjibaeva, 2019).

Second, weak disclosure quality complicates loan pricing and covenant design. Banks must add risk premiums when financial information

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is incomplete or inconsistent, which increases borrowing costs and reinforces credit rationing for SMEs (Khushnud & Qingjie, 2020; Burkhanov, 2023). Third, monitoring existing loans becomes harder because banks cannot rely on periodic borrower reporting for early warning signals; this reduces the effectiveness of proactive restructuring and increases the likelihood that credit deterioration is detected late (Khasanovich, 2025).

Overall, the practical challenges identified confirm that weak borrower disclosures constrain not only initial lending decisions but also ongoing portfolio supervision, reinforcing the structural linkage between disclosure quality, credit access, and loan performance in Uzbekistan's banking system.

Basel III–aligned credit risk measurement constraints

The findings indicate that progress toward Basel III–aligned credit risk measurement in Uzbekistan is structurally constrained by borrower-side disclosure weaknesses. Basel III credit risk frameworks, whether under standardized risk weights or internal ratings-based logic, depend on credible borrower financial information to classify exposures, evaluate repayment capacity, and compute risk-weighted assets (BCBS, 2011; BCBS, 2017). Where disclosures are uneven in quality, risk parameters embedded in credit assessment become unreliable, weakening the precision of risk weights and the credibility of capital adequacy metrics.

The theoretical foundations of ratings-based capital rules underscore this dependence on high-integrity borrower data. Internal ratings require stable and standardized inputs to produce reliable estimates of probability of default (PD), loss given default (LGD), and exposure at default (EAD). When borrower reports are incomplete or distorted, model outputs lose robustness and risk weights become unstable, leading to misallocation of regulatory capital and reduced accuracy of risk measurement (Gordy, 2003). In the Uzbek context, the continued dominance of NAS reporting among SMEs and limited audit penetration in that segment generate precisely these data-integrity limitations, restricting the practical depth of Basel III-consistent credit risk estimation.

These data constraints also weaken Basel III supervisory effectiveness and market discipline channels. Supervisory evaluation of banks' internal risk governance assumes that key risk indicators are built on credible borrower disclosures. When corporate reporting is unreliable, particularly among SMEs, banks are forced to rely on collateral and judgmental proxies, which reduces the transparency and comparability of risk classifications across portfolios. This limits the extent to which supervisory review can validate internal risk processes against Basel expectations (BCBS, 2017; BCBS, 2018).

In addition, SME-specific evidence shows that borrower disclosure quality is not a marginal issue but a direct driver of default risk estimation accuracy. Credit risk modelling research demonstrates that PD estimation for SMEs improves materially when financial statements are structured and consistent; when SME disclosures are weak, PD models become systematically biased, and classification error risk rises (Altman & Sabato, 2007). This implies that, in Uzbekistan, strengthening corporate and SME disclosure quality is a prerequisite not only for improved lending decisions but also for credible Basel III implementation, more reliable supervisory assessment, and stronger Pillar 3 transparency outcomes.

The impact of digitalization on risk assessment practice

The influence of digitalization on risk assessment procedures in the banking sector of Uzbekistan is another important finding 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 are associated with more effective risk assessment and faster loan issuance. The use of digital tools can help banks better evaluate loan applicants by drawing on available information when financial disclosures are missing or incomplete, thereby lowering lending risk.

Nevertheless, despite the potential of digitalization, the study also identifies obstacles to its widespread adoption 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.

Besides, digitalization functions mainly as a complement rather than a substitute for standardized financial reporting. Alternative data streams cannot fully replace the role of audited, comparable financial statements in long-term cash-flow assessment, covenant design, and portfolio monitoring. Without reliable accounting disclosures, banks still face limits in validating profitability sustainability, leverage dynamics, and true debt-service capacity, which remain central for accurate credit grading (Khushnud & Qingjie, 2020; Khasanovich, 2025).

Regulatory issues and their influence on financial disclosure

The paper also emphasizes the role of regulatory controls in determining the quality of financial disclosures made by corporations. Although the Central Bank of Uzbekistan has implemented several reforms to enhance the risk management system and financial reporting standards, these reforms are not properly enforced. As Khasanovich (2025) notes, some companies do not implement mechanisms that ensure high-quality financial disclosures, which compromises banks' risk assessment systems.

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The study found that stronger regulatory control in a given area is associated with higher-quality financial disclosures received by banks, which in turn result in more precise risk evaluation. Nonetheless, in areas where enforcement is weaker, financial institutions have greater difficulty accessing accurate financial information and profiling the risk of loan applicants.

Overall, digitalization and enforcement act as enabling conditions for all preceding findings: digital tools can narrow disclosure gaps operationally, while stronger enforcement improves the underlying quality and comparability of borrower reporting needed for IFRS effectiveness and Basel III-aligned credit risk measurement.

To overcome these issues, this paper proposes that the regulatory framework within Uzbekistan must be strengthened. The quality of financial disclosures would improve if better enforcement of financial reporting standards were followed, as well as if more companies and banks were 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 loan default risk.

Summary of results

The findings of this research indicate that corporate financial disclosures are crucial to the risk assessment process of banks in Uzbekistan. IFRS adoption improves disclosure where firms have capacity and enforcement is effective, but its aggregate effect remains limited by the IFRS–NAS dual system and persistent SME reporting constraints. These gaps create operational challenges for banks in credit grading, pricing, and monitoring, and they also undermine Basel III–aligned risk measurement because reliable RWA and PD/LGD/EAD estimation requires high-integrity borrower data. Digitalization also offers an opportunity to improve risk measurement through the use of alternative information, yet obstacles to its adoption still exist. Lastly, enhanced regulatory control and policing of financial reporting standards play 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.

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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, such as collateral, leading to higher risk.
Dual reporting system (IFRS vs NAS)	Coexistence of IFRS reporting for selected entities and NAS for most SMEs creates structural heterogeneity in disclosure quality.	Limits cross-borrower comparability and uniform credit criteria; complicates portfolio-level risk consistency.
Basel III data requirements	Basel III-aligned risk measurement depends on high-integrity borrower data for reliable PD/LGD/EAD estimation and RWA calculation.	Weak borrower disclosures constrain credible Basel III implementation and prudential risk measurement accuracy.
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.

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Discussion

The findings reinforce the central argument that corporate financial disclosure quality is a structural driver of banks' loan risk assessment in Uzbekistan. Consistent with disclosure theory and empirical evidence from emerging markets, reliable reporting reduces information asymmetry and enables banks to base lending decisions on forward-looking cash-flow capacity rather than on collateral proxies (Khushnud & Qingjie, 2020; Tadjibaeva, 2019; Khasanovich, 2025). In the Uzbek context, where bank credit remains the main source of external finance for firms, this linkage is especially consequential: disclosure weaknesses do not merely affect individual loan files but shape portfolio-wide risk grading discipline and, over time, the level and volatility of non-performing loans (Burkhanov, 2023). The practical pattern identified is stronger analytical confidence when disclosures are robust and more conservative, collateral-dominant decisions when disclosures are weak, suggesting that disclosure quality functions as an upstream determinant of credit allocation efficiency.

A major implication of the findings is the uneven effect of IFRS adoption. The evidence indicates that IFRS improves reporting comparability and transparency among entities where implementation is mandatory, and capacity exists (Mamadiyarov et al., 2024; Kadirovich & Rabbimovich, 2021). However, the broader system impact remains partial due to two reinforcing factors. First, Uzbekistan maintains a dual reporting environment: IFRS applies to a defined set of public-interest and regulated entities, while most SMEs report under NAS, with lower disclosure depth and weaker note-based transparency (IFRS Foundation, 2024). Second, even in mandatory settings, adoption alone is insufficient if firms lack the institutional capacity to apply IFRS effectively. Evidence from Kazakhstan shows that compulsory IFRS yields only partial improvements where expertise, systems, and governance are weak (Kim, 2025). Applied to Uzbekistan, this indicates that IFRS expansion without parallel capacity-building risks widening formal compliance while leaving the real informational content of financial statements uneven, particularly in the SME sector.

The SME channel is therefore critical to interpret the results. SMEs are not only numerically dominant in the borrower base but also represent the segment where disclosure weaknesses are most acute. The findings align with international SME credit risk literature showing that structured and consistent SME statements significantly improve default risk estimation, whereas weak SME reporting produces systematic prediction bias (Altman & Sabato, 2007). In Uzbekistan, persistent SME constraints, such as limited accounting capacity, cost barriers, and weak audit penetration, explain why banks often rely on collateral and guarantees for risk mitigation (Tadjibaeva, 2019; Khushnud & Qingjie, 2020). While collateral reduces potential loss severity,

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it is a backward-looking safety net and cannot substitute for the forward-looking assessment of business viability. This creates a policy tension: without disclosure improvement, banks will continue to restrict SME credit or price it conservatively, even when firms are economically viable, reinforcing a credit-constraint cycle.

From a prudential perspective, the discussion highlights why disclosure reform is integral to Basel III alignment. Basel III risk measurement frameworks assume credible borrower financial inputs for exposure classification, risk-weighted asset accuracy, and the reliability of internal assessments. The theoretical foundation of ratings-based capital rules shows that PD, LGD, and EAD estimation is only as strong as the integrity of borrower data fed into models (Gordy, 2003). When borrower disclosures are incomplete or inconsistent, model outputs lose robustness, which affects both capital allocation and the comparability of risk indicators across banks. The results, therefore, imply that in Uzbekistan, Basel III implementation cannot be treated solely as a bank-side technical reform; it is equally dependent on borrower-side disclosure quality and the institutional infrastructure that supports it (BCBS, 2011; BCBS, 2017; BCBS, 2018). Strengthening reporting quality is thus a precondition for credible prudential modernization.

Digitalization emerges as a complementary but limited mitigation channel. The findings suggest that alternative data sources and digital scoring tools can partially reduce information gaps where disclosures are weak, especially for SMEs, by incorporating transaction histories, tax flows, and payment behavior into screening (Khamdamov et al., 2024). On the other hand, digital tools cannot resolve comparability and transparency deficits that stem from inconsistent accounting standards and weak audit credibility. Over-reliance on alternative data without standardized financial reporting may improve short-term screening speed but still leaves banks exposed to uncertainty in long-term cash-flow evaluation and monitoring. Therefore, digitalization should be interpreted as an enabling input that raises efficiency at the margin, not as a substitute for accounting disclosure reform.

The final institutional implication concerns enforcement. Reporting reforms and IFRS expansion in Uzbekistan have created a stronger formal framework, but inconsistent enforcement can neutralize expected gains. Without credible supervision, audit discipline, and incentives for accurate reporting, the informational value of financial disclosures remains weak, limiting both credit risk assessment reliability and regulatory modernization (Kadirovich & Rabbimovich, 2021; Khasanovich, 2025). This finding is consistent with broader evidence in transition economies that disclosure quality improves only when standard-setting is matched with practical enforcement and professional capacity.

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Finally, the discussion supports a clear agenda for future research. Once borrower-level datasets become more standardized through broader IFRS rollout, digital reporting systems, and more consistent auditing, future studies could test the disclosure risk relationship empirically using panel methods, credit risk modelling, or sector-based comparative designs. Such work would allow estimation of the magnitude of disclosure effects on PD/NPL outcomes and validate whether the conceptual mechanisms identified here hold quantitatively in Uzbekistan's evolving reporting environment.

Conclusion

This study examined the impact of corporate financial disclosure quality on banks' loan risk assessment in Uzbekistan using a qualitative mixed-method design grounded in regulatory analysis, thematic synthesis of prior research, and comparison with IFRS and Basel III expectations. The findings confirm that disclosure quality is a structural determinant of credit risk evaluation. When borrower reporting is timely, complete, and credible, banks can conduct cash-flow-based analysis and assign risk grades more accurately. Where disclosures are weak, most notably among SMEs, information asymmetry rises, banks shift toward collateral-dominant assessment, and the likelihood of risk misclassification increases, with implications for portfolio quality and non-performing loan dynamics.

The results further show that IFRS adoption improves transparency and comparability among entities mandated to use IFRS, but the overall effect remains partial because Uzbekistan operates a dual reporting environment and many firms, especially SMEs, lack the capacity to implement IFRS effectively. As a consequence, disclosure quality remains uneven across borrower groups, limiting cross-firm comparability for lenders. From a prudential perspective, these borrower-side limitations constrain credible Basel III alignment: accurate risk-weighted asset calculation and robust PD/LGD/EAD estimation depend on high-integrity borrower data, which is not consistently available under current reporting practices. Digitalization can narrow information gaps at the margin through alternative data, but it cannot replace standardized, audited financial statements for long-term risk measurement and monitoring.

By integrating disclosure quality, IFRS implementation capacity, and Basel III data dependence into a single conceptual framework, the study clarifies why borrower-side transparency is a precondition for improving lending accuracy and strengthening prudential risk governance in Uzbekistan. Future research should test these mechanisms empirically as reporting standardization, audit coverage, and data availability expand.

Recommendations

The following recommendations should be interpreted in light of the data and methodological limitations discussed in the Limitations section of the paper:

1. **Strengthen SME disclosure capacity and reporting infrastructure.** Because SMEs constitute the weakest disclosure segment, targeted capacity-building is necessary. This includes nationwide training programs for SME accountants, dissemination of practical NAS to IFRS bridging guidance, and subsidized access to qualified advisory support. Improving the ability of SMEs to produce structured, consistent statements would reduce information asymmetry and enable banks to rely less on collateral-dominant assessment.
2. **Expand audit reach and improve audit quality control.** Disclosure reliability depends on credible external assurance. Audit coverage for SMEs should be widened through tiered audit requirements, incentives for voluntary audits, and stricter professional oversight to ensure consistency with IFRS and national standards. Stronger audit discipline would directly increase the trustworthiness of borrower data used in credit risk evaluation.
3. **Enhance supervisory enforcement of reporting standards.** IFRS expansion and national disclosure rules will not translate into real quality gains without consistent enforcement. Regulatory bodies should apply clearer compliance monitoring tools, impose proportionate penalties for material misreporting, and build supervisory expertise in IFRS-based review. This would raise disclosure credibility across borrower categories and support more stable risk classification in banks.
4. **Promote gradual convergence between NAS and IFRS disclosure requirements.** The dual reporting system fragments disclosure comparability. A phased convergence starting with disclosure notes, revenue recognition clarity, related-party reporting, and cash-flow presentation for high-impact SME sectors would reduce analytical discontinuities for lenders and improve cross-borrower comparability without imposing full IFRS costs immediately on SMEs.
5. **Integrate digital risk tools with verified financial reporting.** Digitalization should be developed as a complement to accounting disclosures. Banks and regulators should support the secure integration of alternative data (tax flows, e-invoices, transaction histories) with standardized financial statements and audit confirmations. This would improve screening efficiency while preserving the integrity needed for long-term risk modelling.

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6. **Align Basel III implementation with borrower-side transparency reforms.** Basel III modernization should be pursued in parallel with disclosure reforms. Implementation roadmaps should explicitly recognize that credible PD/LGD/EAD estimation and RWA accuracy depend on borrower reporting quality. Coordinating prudential reform with disclosure-quality upgrades will make Basel alignment practically achievable rather than formalistic.

These recommendations follow directly from the study's findings and are designed to improve both micro-level lending accuracy and macro-level prudential resilience in Uzbekistan's banking system.

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