



## Article

# Ways to Ensure Financial Stability by Improving The Efficiency of Commercial Bank Lending Services

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**Abstract:** The article analyzes the composition of assets and liabilities of Wells Fargo Bank, USA, as well as the bank's return on assets and return on equity indicators achieved over a 10-year period, with the aim of assessing the financial stability of a foreign commercial bank. The theoretical and practical aspects are also covered. Conclusions are formed based on the data obtained from the research results.

**Keywords:** financial stability, return on assets, return on equity, loans, deposits, net profit, average assets.

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## 1. Introduction

When analyzing the efficiency of lending and other activities carried out by commercial banks, it is important to widely study the practices of foreign countries and form conclusions by analyzing relevant indicators [1]. This is because, based on the conclusions formed from such analyses, it becomes possible to develop effective lending mechanisms aimed at ensuring the financial stability of commercial banks and the stability of population incomes, and to develop scientific and practical proposals and recommendations for their improvement.

For this reason, we selected Wells Fargo Bank, USA, to analyze practices related to the activities of commercial banks and their impact on financial stability indicators [2]. This bank was established in 1852, and its headquarters is located in San Francisco. According to the bank's CEO, 2023 was a year of progress for the bank, achieving stronger financial indicators compared to 2022 and continuing to execute strategic priorities. These results were achieved against a backdrop of a strong economic environment, high interest rates, a constant focus on efficiency, and strong credit discipline. As of December 31, 2023, the bank's assets amounted to USD 1,932.5 billion, with bank capital at USD 187.5 billion and liabilities at USD 1,745.0 billion, their respective shares in the bank's liabilities being 9.7% and 90.3%. The bank is considered a large financial and credit institution providing all services related to investment and mortgages [3]. Furthermore, the bank has branches and offices in 31 countries, with over 225.9 thousand bank employees. As of 2023, it ranked second in the US in terms of the number of bank employees, fourth in terms of bank asset size, and third in terms of market capitalization among common stocks.

## 2. Methodology

The main goal of the research is to form scientific conclusions and develop recommendations on implementing effective lending mechanisms based on studying the impact of their dynamics on bank credit activity through analyzing the practical state of commercial banks' financial indicators. As the theoretical, practical, and methodological basis of this article, relevant conclusions, proposals, and recommendations were provided through the analysis of economic literature and scientific articles, the opinions and considerations of economist scholars and experts on commercial bank financial stability and lending mechanisms, observation of processes, a systematic approach to phenomena and processes, expert evaluation, and comparative analysis with the author's economic experiences. During the research process, along with general economic methods, methods such as collection, generalization, comparison, and systematic analysis of statistical data were used.

## 3. Results and Discussion

As emphasized above, we will attempt to form conclusions by studying the credit activities and practices related to ensuring financial stability of Wells Fargo Bank, considered one of the largest commercial banks in the USA.

We begin the analysis of this commercial bank's financial indicators by implementing an analysis of the dynamics of changes in the composition of the bank's assets and liabilities over the last ten years [11].

The data in the table below shows the structural composition of Wells Fargo Bank's assets and their dynamics of change. In the composition of this bank's assets, the share of income-generating assets such as loans, investment securities, and assets earmarked for resale was in the range of 75-81% during the analysis period, indicating their high weight. This expresses that the bank has a high potential to ensure financial stability by implementing an effective lending mechanism in its operations.

**Table 1.** Composition of Wells Fargo Bank Assets for 2014-2023

№	Asset Name	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Diff .
1.	Cash Assets	14,2	13,4	11,5	11,1	9,1	7,3	13,5	12,0	8,5	12,3	-1,9
2.	Assets Earmarked for Resale	4,6	4,3	3,9	4,7	3,7	4,1	3,8	4,5	4,6	5,0	0,4
3.	Investment Securities	20,9	22,2	24,5	25,4	26,1	27,0	25,2	26,5	25,4	24,5	3,6
4.	Loans	51,6	51,7	50,9	49,5	50,7	50,7	46,3	46,5	50,5	48,0	-3,6
5.	Fixed Assets	0,5	0,5	0,4	0,5	0,5	0,5	0,5	0,4	0,4	0,5	0,0
6.	Intangible Assets	1,5	1,4	1,4	1,4	1,4	1,4	1,3	1,3	1,3	1,3	-0,2
7.	Other Assets	6,7	6,4	7,4	7,5	8,5	9,0	9,4	8,7	9,2	8,4	1,7
<b>Total Assets (%)</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>---</b>
<b>Total Assets (billion USD)</b>		<b>168</b>	<b>178</b>	<b>193</b>	<b>195</b>	<b>189</b>	<b>192</b>	<b>195</b>	<b>194</b>	<b>188</b>	<b>193</b>	<b>245</b>

At the same time, the volume of securities in the bank, which are considered both income-generating and liquidity-providing assets, has been around 30% over the last 7 years [12], [13]. This situation indicates that when difficulties related to liquidity arise

during the bank's activities, it has the ability to solve the problem by directly selling these securities quickly. The existence of this opportunity is considered a positive situation for financing demand for loans arising on favorable terms and, in turn, achieving the bank's financial stability.

In the next table, we analyze the structural composition of Wells Fargo Bank's liabilities.

**Table 2 - Composition of Wells Fargo Bank Liabilities for 2014-2023**

No	Liability Name	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Dif f.
1.	Deposits	69,2	68,4	67,7	68,4	67,8	68,6	71,8	76,1	73,6	70,3	1,1
2.	Short-Term Debt	3,8	5,5	5,0	5,3	5,6	5,4	3,0	1,8	2,7	4,6	0,8
3.	Derivatives	1,1	0,8	0,8	0,5	0,4	0,5	0,8	0,5	1,1	1,0	-0,1
4.	Long-Term Debt	10,9	11,2	13,2	11,5	12,1	11,8	10,9	8,2	9,3	10,7	-0,2
5.	Other Liabilities	4,0	3,3	3,0	3,6	3,7	3,9	3,9	3,6	3,7	3,7	-0,3
6.	Shareholders' Equity	11,0	10,8	10,4	10,7	10,4	9,8	9,5	9,8	9,7	9,7	-1,3
<b>Total Liabilities (%)</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>---</b>
<b>Total Liabilities (billion USD)</b>		<b>1687</b>	<b>1788</b>	<b>1930</b>	<b>1952</b>	<b>1896</b>	<b>1928</b>	<b>1955</b>	<b>1948</b>	<b>1881</b>	<b>1932</b>	<b>245</b>

According to Table 2 data, when studying the dynamics of the structural composition of Wells Fargo Bank's liabilities from 2014 to 2023, it is determined that the share of deposits in the bank is quite high. Especially in 2021, this balance sheet item reached its highest point during the analysis period, with its share in liabilities being 76.1%. As of December 31, 2023, its share was 70.3%, an increase of 1.1 percentage points compared to the beginning of the analysis period [14], [15]. This shows that this bank uses the method of widely attracting obligations in the form of deposits for the main part of the resources required to carry out its activities. Also, in the bank's liability composition, the amount of short-term debt increased noticeably in the last year, its share being 4.6%. This situation indicates that the bank's short-term obligations have increased compared to other forms of liabilities. This trend is related to the diversification of funding sources for short-term bank operations (assets) in recent years. This trend is considered a factor that positively impacts ensuring bank liquidity, expanding the scope for implementing short-term lending, and increasing bank financial stability.

As we know, for any business entity operating in the form of a joint-stock company, it is possible to evaluate its financial independence and stability by looking at the volume and share of share capital in its liabilities.

Along with analyzing the composition of Wells Fargo Bank's assets and liabilities, it is also appropriate to study and analyze its profitability indicators, which express the degree of profitability relative to its own funds and the total amount of funds, namely the net profit, which is the final financial result of its annual activity.

According to American economist Joseph Sinkey, the benchmark level for ROA is 1%, while for ROE it is 10% .

These indicators, namely Return on Assets - "ROA" and Return on Equity - "ROE", can be included among the main profitability indicators expressing the performance effectiveness of commercial banks in practice today.

We next analyze these profitability indicators of Wells Fargo Bank for 2014-2023 based on table data.

**Table 3 - Wells Fargo Bank Profitability Indicators for 2014-2023**

No	Indicator	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	+/-
1.	ROA	1,45	1,31	1,16	1,15	1,19	1,02	0,17	1,11	0,70	1,02	- 0,43
2.	ROE	13,41	12,60	11,49	11,35	11,53	10,23	1,00	12,00	7,50	11,00	- 2,41
	Net Profit (billion USD)	23,1	22,9	21,9	22,2	22,4	19,5	3,3	21,5	13,2	19,1	-4,0
	Net Profit Attributable to Common Stock (billion USD)	21,8	21,5	20,4	20,6	20,7	17,9	1,7	20,3	12,1	18,0	-3,8
	Average Assets (billion USD)	1593	1743	1885	1933	1889	1913	1944	1942	1894	1885	+292
	Average Common Shareholders' Equity (billion USD)	162,8	170,5	177,3	181,1	179,4	175,3	164,2	169,5	161,2	163,5	+0,7

Table 3 data presents the 10-year dynamics of Wells Fargo Bank's return on assets and return on equity and the bank indicators forming them. We can see that both of these profitability indicators were at the standard level from 2014 to 2019, although they had a decreasing trend in 2019. However, in 2020, these indicators, especially ROA, decreased by 6 times (disproportionately) from the standard level, and ROE decreased by 10 times. This state of the indicators is explained by the bank's net profit decreasing by almost 6 times (19.5/3.3) due to the impact of the pandemic, the bank's average common shareholders' equity decreasing to 93.7% (164.2/175.3), and the bank's average assets, conversely, increasing to 101.6% (1944/1913), and most importantly, only 51.5% (1.7/3.3) of the net profit earned this year was attributable to common stock.

#### 4. Conclusion

The following conclusions were formed as a result of the research:

- The share of cash assets in the bank decreased by almost half from 2014 to 2019, constituting 7.3%, showing a constant decreasing trend. However, in 2023, its share was 12.3%, a decrease of 1.9 percentage points compared to 2014. This dynamics of changes shows that the bank has reduced non-income generating assets, while on the other hand, we can see that investment in securities has increased at the expense of the decrease in these assets. As we emphasized above, this situation positively contributes to ensuring the bank's financial stability;
- In the bank's liability structure, the bank's share capital is also considered one of the most essential parts. According to the Basel Committee recommendation, the ratio of share capital to total assets in banks is considered a standard of 10%. This indicator at Wells Fargo Bank was not less than the standard level for 5 years of the analysis period (2014-2018), while for the remaining 5-year period, it was slightly below the standard level. In this situation, the beginning of this last five-year period directly coincided with the start of the pandemic period. In turn, the negative financial consequences of the pandemic also affected this bank's indicators;
- There are aspects in the methodology for calculating Wells Fargo Bank's return on equity that differ from the methodology for calculating this indicator in commercial banks of other countries. In particular, when calculating this indicator in this bank, values such as the amount of net profit attributable to common stock and average common shareholders' equity are used.

Based on the research being conducted, the following proposals and recommendations were developed for our local commercial banks:

1. To improve deposit policy by increasing the diversification degree of the commercial banks' deposit base, ensuring quantitative proportionality between deposits and risky assets, and achieving the standard level of the net interest spread indicator: firstly, it is necessary to increase the diversification degree of banks' deposit base by increasing the weight of term deposits attracted from individuals in the gross deposit volume; secondly, it is necessary to improve the transformation of deposits into risky assets by ensuring quantitative proportionality between transaction deposits and non-term cash assets, and between term deposits and high-risk assets; thirdly, to achieve the standard level of the net interest spread indicator, it is essential to ensure the proportionality between the growth rate of interest income from loans and the growth rate of interest expenses on term deposits and interbank loans, while ensuring the sufficiency of deposits.
2. To increase the efficiency of commercial bank credit operations, it is necessary to ensure a high and stable level of the weight of loans in the gross assets volume, ensure proportionality between the growth rate of interest income from loans and the growth rate of gross loans, and increase the amount of interest income from loans by implementing innovative credit products into banks' lending practices.

To ensure that the level of provisions allocated to cover losses on loans is at the internationally accepted standard level in banking practice, it is necessary to prevent the ratio of non-performing loans to gross loans from reaching a critical level; to prevent the weight of substandard and doubtful loans in the classified loans volume from increasing by improving the composition of classified loans; and to prevent the growth rate of the provision amount for loans from exceeding the growth rate of risk-weighted assets.

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