Journal of Islamic Contemporary Accounting and Business
JICAB Vol. 4 No. 1 2026
E-ISSN: 3021-7105

Detecting Earnings Management in Transition Economies: A Longitudinal Analysis of SQB Bank, Uzbekistan

Jumaniyozov Jasur Xolmurod O'g'li[1*], Toni Heryana[2], Ida Elis Mediawati[3], Kudratov Inomjon Nemat Ugli[4]
[1]Student Master Degree UPI-TSUE, [23]Universitas Pendidikan Indonesia, [4]Tashkent State University of Economics
*Email: abduvoitovbekzod252323@gmail.com

A B S T R A C T

This study examines the prevalence and determinants of earnings management (EM) practices within Sanoat Qurilish Bank (SQB), a systemic state-owned financial institution in Uzbekistan. Amidst the country's transition toward market-oriented reforms, understanding the integrity of financial reporting is crucial. Utilizing a longitudinal quantitative approach covering the period 2013–2023, this research employs a Multiple Linear Regression model to detect potential income smoothing. The study defines Net Profit as the dependent variable (proxy for reported earnings), while Return on Assets (ROA), Return on Equity (ROE), Total Assets, and Total Equity serve as independent variables representing financial performance and firm size. The empirical results demonstrate a statistically significant relationship between fluctuations in ROE and Net Profit, signaling proactive income smoothing behavior to meet performance benchmarks. Furthermore, the observed volatility in profitability ratios (ROA/ROE)—juxtaposed against the linear expansion of assets and equity—suggests the strategic use of managerial discretion. These findings corroborate agency theory and EM patterns prevalent in emerging markets where institutional governance and audit oversight are still evolving. This research contributes to the literature on financial transparency in transitional economies and provides critical insights for regulators and investors regarding the necessity of adopting IFRS-aligned oversight in Uzbekistan's banking landscape.

A R T I C L E I N F O

Article History:
Submitted/Received 9 Apr 2025
First Revised 8 Mar 2026
Accepted 9 Mar 2026
First Available online 10 Mar 2026
Publication Date 10 Mar 2026

Keyword:
Earnings Management, Banking Sector, SQB Bank, Uzbekistan, Income Smoothing.

A B S T R A K

Penelitian ini menguji prevalensi dan determinan praktik manajemen laba (EM) di Sanoat Qurilish Bank (SQB), salah satu lembaga keuangan milik negara yang sistemik di Uzbekistan. Di tengah transisi negara menuju reformasi berorientasi pasar, memahami integritas pelaporan keuangan menjadi sangat krusial. Menggunakan pendekatan kuantitatif longitudinal yang mencakup periode 2013–2023, penelitian ini menerapkan model Regresi Linear Berganda untuk mendeteksi potensi perataan laba. Penelitian ini menetapkan Laba Bersih sebagai variabel dependen (proksi untuk laba yang dilaporkan), sementara Return on Assets (ROA), Return on Equity (ROE), Total Aset, dan Total Ekuitas berfungsi sebagai variabel independen yang merepresentasikan kinerja keuangan dan ukuran perusahaan. Hasil empiris menunjukkan hubungan yang signifikan secara statistik antara fluktuasi ROE dan Laba Bersih, yang mengindikasikan adanya perilaku perataan laba proaktif untuk memenuhi tolok ukur kinerja. Lebih lanjut, volatilitas yang diamati pada rasio profitabilitas (ROA/ROE)—yang dikontraskan dengan ekspansi linear aset dan ekuitas—menunjukkan penggunaan diskresi manajerial yang strategis. Temuan ini mendukung teori keagenan dan pola EM yang lazim di pasar negara berkembang di mana tata kelola institusional dan pengawasan audit

Kata kunchi:
Manajemen Laba, Sektor Perbankan, SQB Bank, Uzbekistan, Perataan Laba.

masih berkembang. Penelitian ini berkontribusi pada literatur transparansi keuangan di ekonomi transisi dan memberikan wawasan kritis bagi regulator serta investor mengenai perlunya adopsi pengawasan yang selaras dengan IFRS dalam lanskap perbankan Uzbekistan.

INTRODUCTION

Earnings management (EM) has become a central issue in contemporary financial research, particularly as markets and regulators place increasing emphasis on transparency and reliability in corporate reporting. EM refers to the use of accounting techniques by management to influence reported earnings, often within the boundaries of accounting standards, to achieve specific goals such as meeting benchmarks, influencing stock prices, or satisfying regulatory requirements. While some argue that EM can be used for informational smoothing and signaling, the practice often raises ethical concerns and has been linked to reduced financial statement quality (García-Sánchez & García-Meca, 2018). The banking sector provides a particularly rich setting for analyzing EM due to the complex nature of financial instruments and regulatory frameworks involved. Banks have significant discretion in areas like loan loss provisioning, fair value estimations, and asset reclassifications, which enables them to manage reported earnings without necessarily violating accounting rules (Goel & Hasan, 2022). This discretion becomes especially pronounced in emerging markets, where institutional controls and regulatory enforcement may still be evolving. In such contexts, EM may be employed not only for performance signaling but also for regulatory arbitrage or political alignment (Al-Haddad & Whittington, 2022).

This study focuses on the Uzbek Industrial and Construction Bank (SQB), a major financial institution in Uzbekistan, examining its financial reporting patterns over a 10-year period (2013–2023). The analysis employs a purely quantitative methodology to detect potential EM behavior using metrics such as Return on Assets (ROA), Return on Equity (ROE), and net income variability. The use of a single bank as a case study allows for deep longitudinal insights while controlling for sectoral and regulatory variation. Uzbekistan represents an ideal setting for this analysis. As a transitional economy, the country has undergone rapid institutional and regulatory reforms since adopting IFRS standards in the banking sector. While these reforms have improved financial reporting quality, they have also introduced more complex valuation techniques that expand managerial discretion (Tadjibayeva & Salikhov, 2021). Moreover, state ownership in the banking sector, including in SQB, raises the possibility of non-economic motivations for earnings manipulation, such as presenting favorable results to political stakeholders or justifying expansion strategies (Hasanov & Ergashev, 2020).

Existing literature highlights several motivations for EM in banks, including capital management, income smoothing, and regulatory compliance. For instance, capital management suggests that banks adjust earnings to maintain capital adequacy ratios, especially under stricter Basel III requirements (Ozili, 2019). Income smoothing aims to reduce earnings volatility to present a stable financial outlook to investors and regulators. Both strategies rely heavily on discretionary accounting accruals, particularly LLPs, which can be difficult to verify externally. Research in emerging markets has further shown that weaker investor protections and corporate governance structures can increase the likelihood of EM practices (Huang et al., 2020). This paper contributes to the growing literature on EM in several ways. First, it offers an in-depth, data-driven analysis of a single institution across an extended time period, making it possible to observe cyclical trends and structural shifts in reporting behavior. Second, it enriches the relatively sparse literature on Central Asian banking systems, where empirical research remains limited despite significant policy and market reforms. Third, by relying

exclusively on quantitative financial statement data—without surveys, interviews, or external ratings—the study ensures objectivity and replicability, aligning with best practices in empirical accounting research.

Methodologically, the study employs financial ratio analysis, trend evaluation, and regression modeling to test for EM-related indicators. In particular, changes in ROE and ROA are analyzed alongside net income volatility to determine whether patterns are consistent with EM practices. A simple linear regression is also run using Total Assets, Total Equity, and Δ ROE as independent variables to assess their explanatory power over Net Profit. These variables serve as proxies for EM incentives and constraints: Total Assets and Total Equity reflect the political cost hypothesis and debt covenant pressures, where larger firms or those with thin equity margins may manipulate earnings to avoid scrutiny or technical default. Meanwhile, ΔROE (change in Return on Equity) captures the urgency to meet or beat performance benchmarks, a primary driver for smoothing or inflating reported income This analytical framework is grounded in recent empirical studies that identify ROE variability and equity-based incentives as key predictors of EM (Yoon et al., 2021). The findings of this study are intended to inform both academic and practical discussions. Academically, the paper fills a gap in the EM literature related to transitional economies, especially in Central Asia. Practically, it offers insight for regulators, auditors, and policymakers interested in enhancing the transparency and accountability of financial institutions. If earnings are indeed being managed, even within regulatory limits, this could affect the credibility of reported performance and mislead stakeholders.

LITERATURE REVIEW

Theoretical Foundations of Earnings Management

The phenomenon of earnings management (EM) remains a focal point of accounting inquiry, primarily viewed through the lens of Agency Theory. At its core, EM represents a strategic choice by managers to manipulate financial reports to either mislead stakeholders about the underlying economic performance or to influence contractual outcomes. This practice is bifurcated into Accrual-based Earnings Management (AEM), which utilizes accounting discretion within GAAP/IFRS, and Real Earnings Management (REM), which involves altering operational timings—such as R&D cuts or aggressive sales discounting—to meet short-term thresholds (Zang, 2012).

Methodologically, identifying EM requires robust proxies that capture the incentives for such behavior. In this study, Total Assets and Total Equity serve as critical indicators of the Size and Debt Covenant hypotheses. Larger firms, measured by Total Assets, often face higher political costs and regulatory scrutiny, incentivizing income-decreasing EM to avoid visibility. Conversely, Total Equity reflects a firm's distance from technical default; firms with thin equity margins may engage in income-inflating EM to prevent the breach of debt covenants or to maintain a favorable credit appearance.

Furthermore, the change in Return on Equity (ΔROE) is employed as a primary signaling indicator for EM. Consistent with the Threshold Smashing hypothesis, managers are often incentivized to maintain a steady growth trajectory in profitability to satisfy investor expectations and secure performance-based compensation. A significant or suspiciously stable ΔROE, especially when decoupled from cash flow trends, often indicates the use of discretionary accruals to smooth earnings. As noted by (Yoon, et al., 2021), the variability of ROE is a potent predictor of opportunistic reporting, as it captures the manager's urgency to align reported performance with market benchmarks.

Earning Management in the Global Banking Sector

The banking industry presents a unique laboratory for EM research due to its opaque asset structure and stringent regulatory environment. Unlike non-financial firms, banks possess specialized tools for earnings manipulation, most notably Discretionary Loan Loss Provisions (DLLPs). By adjusting these provisions, bank managers can engage in income smoothing to signal stability or capital management to meet the capital adequacy ratios (CAR) mandated by frameworks like Basel III (Ozili, 2019). This regulatory navigation is often a survival mechanism rather than a purely opportunistic endeavor, yet it obscures the true risk profile of the institution.

The interplay between reported Net Profit and its determinants—Total Assets and Equity—is particularly pronounced in banking. Because banks are highly leveraged, even minor fluctuations in Net Income can significantly impact ROE. Consequently, when underlying economic ROE is volatile, managers utilize the flexibility inherent in IFRS 9 (Expected Credit Loss models) to dampen this volatility. García-Sánchez & García-Meca (2018) argue that such practices are intended to maintain investor confidence and credit ratings, which are vital for a bank's cost of funding in international wholesale markets.

Empirical evidence suggests that the motivation for EM in banks shifts according to the economic cycle. During downturns, banks may use big bath accounting by over-provisioning to create reserves for future reversals, whereas in boom periods, they might under-provision to boost current year profits. This cyclical behavior reinforces the need to analyze ΔROE alongside asset growth. As Goel & Hasan, (2022) observe, the timing of non-performing loan recognition remains a primary conduit for AEM, allowing banks to manage their capital buffers without altering real operational cash flows.

Institutional Context and IFRS Adoption in Transitional Economies

Emerging and transitional economies, such as Uzbekistan, offer a distinct landscape where institutional weaknesses often exacerbate EM behavior. In these contexts, the transition from state-dominated banking to market-oriented systems creates a transparency gap. While the adoption of IFRS is intended to enhance financial clarity, it simultaneously introduces complex fair value measurements and subjective impairment tests. Tadjibayeva & Salikhov (2021) highlight that in Uzbekistan, the co-existence of traditional bureaucratic reporting with modern IFRS principles creates a fertile ground for sophisticated EM, particularly through deferred tax assets and revaluation surpluses.

The motivation for EM in post-Soviet economies often transcends mere economic signaling and enters the realm of political legitimacy. For state-linked institutions like SQB Bank, the pressure to align financial results with government-mandated performance targets can lead to political cost EM. Hasanov & Ergashev (2020) note that in such environments, reported profitability may be managed to demonstrate the success of national economic reforms or to justify ongoing state support. Thus, Total Assets and Equity are not just financial metrics but also indicators of political visibility and the state's implicit guarantee.

Finally, the effectiveness of corporate governance in mitigating EM in transitional markets remains a subject of intense debate. Although IFRS adoption theoretically improves earnings quality, its impact is often moderated by the strength of external auditing and the independence of the board. In Central Asia, where ownership concentration is high, internal governance mechanisms may be less effective at curbing manager-owner collusion for EM purposes (Al-Haddad & Whittington, 2022). This study addresses this gap by quantifying the extent to which SQB Bank's financial indicators deviate from fundamental economic performance, signaling the presence of managed reporting.

Hypothesis Development

Firm Size, Political Costs, Total Assets, and Earning Management

The Political Cost Hypothesis, a cornerstone of Positive Accounting Theory, posits that larger firms are more visible to government regulators and the public, making them targets for increased taxation or stricter oversight. In the banking sector, Total Assets serve as the primary proxy for this visibility. According to Watts & Zimmerman (1990) and more recent applications by Huanget al. (2020) managers of systemic banks often utilize earnings management (EM) to deflect political heat by understating high profits or overstating stability during economic shifts. This strategic reporting ensures that the bank appears stable rather than excessively profitable, thereby avoiding potential regulatory clawbacks or public outcry.

Furthermore, the scale of Total Assets dictates the resources available for sophisticated accounting maneuvers. Larger banks possess more complex portfolios, providing greater opaque areas where discretionary accruals can be embedded without immediate detection by auditors. As argued by Goel & Hasan (2022) the sheer volume of assets allows for greater flexibility in the timing of asset impairment and the reclassification of financial instruments. Thus, Total Assets is not merely a measure of capacity but a significant determinant of the incentives and opportunities for managing reported Net Profit to satisfy political and regulatory stakeholders.

H_1: Total Assets has a significant influence on reported Net Profit, reflecting the political cost incentives inherent in large-scale banking operations.

Capital Adequacy, Debt Covenants, Total Equity, and Earnings Management

The Debt Covenant Hypothesis suggests that firms nearing a breach of technical default are highly incentivized to manipulate earnings upward. For financial institutions, Total Equity is the critical metric monitored by both creditors and regulators under Basel III framework. Ozili (2019) demonstrates that banks with thinner equity buffers often engage in aggressive EM to bolster their Tier 1 capital ratios and avoid the high costs associated with regulatory non-compliance. When equity margins are pressured, managers may use discretionary loan loss provisions (DLLPs) to artificially inflate Net Income, which subsequently migrates to Retained Earnings, thereby masking the bank's true risk-weighted capital position.

Beyond regulatory compliance, Total Equity influences the bank's cost of capital and credit rating. Investors perceive a strong equity base as a sign of resilience; consequently, managers have a dual incentive to manage earnings to maintain a favorable equity-to-asset ratio. García-Sánchez & García-Meca (2018) observe that in emerging markets, where external financing is more sensitive to perceived risk, the management of equity through reported profit becomes a primary tool for "window dressing" the balance sheet. This creates a reflexive relationship where Net Profit is managed specifically to reach targeted equity levels, justifying its inclusion as a core explanatory variable.

H_2: Total Equity is positively and significantly associated with Net Profit, indicating its role as a proxy for capital management and covenant compliance.

Performance Benchmarking, ROE Variability, and Earnings Management

The Management Compensation Hypothesis and the drive for market signaling emphasize the importance of consistent profitability growth, typically measured by the Change in Return on Equity (ΔROE). Research by Yoon et al. (2021) identifies that managers are often penalized more heavily for missing an earnings benchmark than they are rewarded for exceeding one. This creates a "kink" in the distribution of earnings, where managers use EM to smooth ΔROE, ensuring that current performance does not deviate significantly from prior periods or industry norms. By dampening the volatility of

ROE, management signals a lower risk profile to the market, even if the underlying economic reality is highly volatile.

In the context of transitional economies, ΔROE serves as a crucial signal for threshold smashing, where banks manage earnings just enough to show positive growth. Al-Haddad & Whittington (2022) argue that in environments with concentrated ownership, ROE is the primary metric used by shareholders to evaluate executive efficiency. Consequently, a high correlation between ΔROE and Net Profit, especially in the absence of corresponding cash flow growth, provides strong empirical evidence of income smoothing practices. By testing this relationship, the study identifies whether the bank's reported success is driven by fundamental operations or by the strategic manipulation of accounting estimates to maintain a steady ROE trajectory.

H_3: The change in ROE (ΔROE) significantly predicts Net Profit, suggesting the use of earnings management for income smoothing and benchmark meeting.

RESEARCH METHODOLOGY

This study employs a longitudinal quantitative research design to scrutinize the earnings management (EM) profile of SQB Bank over an eleven-year horizon (2013–2023). This period is particularly significant as it encompasses various economic cycles and regulatory shifts in the Uzbek banking sector, including the phased transition toward full IFRS compliance. The primary data are extracted from audited annual financial statements, ensuring the reliability and high fidelity of the financial inputs. By focusing on IFRS-based reports, the study minimizes accounting noise and ensures that the observed volatility in earnings is reflective of either fundamental economic performance or strategic managerial discretion Goel & Hasan (2022).

The dataset is constructed as a time-series of key financial aggregates, including Total Assets (TA), Total Equity (TE), and Net Profit (NP). From these primary accounts, secondary performance ratios such as Return on Assets (ROA) and Return on Equity (ROE) are derived. The longitudinal approach is essential for identifying income smoothing patterns, where discretionary accruals are used to dampen the natural volatility of banking operations. By verifying document scans against publicly available reports, the study maintains a robust audit trail, fulfilling the transparency requirements typical of high-impact empirical accounting research.

The analysis proceeds in three distinct stages: descriptive statistics, trend evaluation, and inferential modeling. First, descriptive statistics provide an overview of the mean, standard deviation, and distribution of the variables, identifying any outliers that might skew the EM indicators. Second, trend evaluation is performed to observe the smoothness of earnings relative to asset growth. If Net Profit exhibits significantly lower volatility than ΔROE or TA, it provides preliminary evidence of accrual manipulation aimed at stabilizing reported performance.

Finally, the OLS regression is executed to determine the statistical significance of each predictor. To ensure the validity of the results, the model undergoes diagnostic testing for Gauss-Markov assumptions, including tests for multicollinearity (Variance Inflation Factor), heteroscedasticity, and autocorrelation (Durbin-Watson test). This rigorous approach aligns with the standards of Enomoto et al. (2015), offering a replicable and robust framework for quantifying earnings quality in emerging market financial institutions.

To empirically test the hypotheses developed in the previous section, the study utilizes an Ordinary Least Squares (OLS) regression framework. The model is designed to assess how structural financial indicators (Size and Equity) and performance shifts (ΔROE) explain the variance in reported

Net Profit. The inclusion of ΔROE as an independent variable is a critical methodological choice; it serves as a proxy for the performance-matching incentive, where managers adjust current earnings to meet or exceed prior benchmarks (Yoon et al., 2021). The relationship is formalized in the following econometric equation:

$$NT_t = \alpha + \beta_1 TA_t + \beta_2 TE_t + \beta_3 \Delta\text{ROE}_t + \varepsilon_t$$

Where:

NP_t : Net Profit at time t representing earnings potentially subject to earnings management.
TA_t : Total Assets at time t, acting as a proxy for the Political Cost Hypothesis and firm scale.
TE_t : Total Equity at time t, representing a proxy for the Debt Covenant Hypothesis.
ΔROE_t : The year-on-year change in Return on Equity
α : The intercept.
$\beta_1\ \beta_2\beta_3$:Regression coefficients representing the sensitivity of Net Profit to each predictor.
ε :The error term, capturing white noise and variables not included in the model.

RESULTS AND DISCUSSION

The longitudinal assessment of SQB Bank's financial trajectory from 2013 to 2023 uncovers a profound decoupling between the institution's structural expansion and its reported operational efficiency (shown in table 1). While Total Assets (TA) and Total Equity (TE) maintained a robust and near-linear upward trend, characterized by an aggressive compounded annual growth rate exceeding 25%, Net Profit (NP) exhibited a remarkably non-linear and erratic distribution. This significant disparity—where balance sheet aggregates expand steadily while the bottom-line earnings fluctuate between extreme peaks (899.3 billion UZS in 2017) and severe troughs (2018 and 2020 cycles)—indicates that the bank's profit generation is not a direct function of its asset base expansion. Such a dichotomy is often identified in accounting literature as a red flag for idiosyncratic volatility, suggesting that reported net income may be subject to external macroeconomic shocks or, potentially, internal discretionary adjustments.

From a theoretical standpoint, this divergence between steady asset accumulation and volatile earnings provides a compelling basis for investigating Income Smoothing or Big Bath accounting behaviors. In a stable banking environment, one would expect a higher degree of correlation between the scale of operations (TA) and earnings outcomes (NP); however, the observed peaks and subsequent plunges suggest a strategic use of accounting flexibility to navigate shifting regulatory or political landscapes. As highlighted by Goel & Hasan (2022), such non-linear earnings behavior in transitional economies often reflects management's attempt to manage perception through signaling, where profits are either accelerated or deferred to align with specific performance benchmarks or capital adequacy requirements. Consequently, this structural-operational gap serves as a critical empirical signal, necessitating a deeper econometric scrutiny of the bank's discretionary accrual practices during the examined decade.

Table 1**:** Summary of SQB Financial Indicators (2013–2023)

Year	TA (mln UZS)	TE (mln UZS)	NP (mln UZS)	ROA (%)	ROE (%)
2013	6,778,086	393,479	39,861	0.59	10.13
2014	7,754,229	671,226	34,201	0.44	5.10
2015	8,820,274	786,864	75,885	0.86	9.64
2016	10,309,008	853,662	86,555	0.84	10.14

2017	24,306,560	2,463,381	899,336	3.70	36.51
2018	31,026,078	3,203,469	219,396	0.71	6.85
2019	35,846,118	6,320,568	604,466	1.69	9.56
2020	48,323,845	6,080,864	113,013	0.23	1.86
2021	55,726,498	6,952,207	856,988	1.54	12.32
2022	63,189,300	7,581,156	633,655	1.00	8.36
2023	73,293,323	8,439,931	856,154	1.17	10.14

The longitudinal assessment of SQB Bank's core profitability metrics—Return on Assets (ROA) and Return on Equity (ROE)—reveals a period of significant idiosyncratic volatility (shown in Figure 1). Between 2013 and 2023, ROA fluctuated between a marginal 0.44% and a peak of 3.7%, while ROE exhibited an even more pronounced dispersion, ranging from 5.1% to an anomalous 36.5%. The high standard deviation observed in these performance ratios, particularly during the 2017 and 2021 fiscal cycles, suggests that the bank's bottom-line efficiency is highly sensitive to external shocks or internal accounting adjustments. Such erratic shifts in profitability suggest that reported net income may not consistently align with the bank's underlying economic substance, raising preliminary questions regarding the quality of earnings and the stability of shareholder returns over the decade.

From a theoretical perspective, the sharp divergence between the volatile trajectory of earnings and the relatively linear, smooth expansion of Total Assets and Total Equity provides a classic indicator of potential managerial intervention. While the bank's structural growth remains remarkably consistent, the erratic nature of ROE suggests a disconnect that is often characteristic of earnings management (EM) practices, such as income smoothing or big bath accounting (García-Sánchez & García-Meca, 2018). This pattern suggests that management may be utilizing the inherent flexibility within IFRS—specifically through discretionary loan loss provisions or asset revaluations—to navigate regulatory thresholds or meet specific performance signals. Consequently, these fluctuations warrant a rigorous econometric investigation to determine whether such volatility is a product of genuine operational shifts or a strategic tool for signaling artificial financial stability.

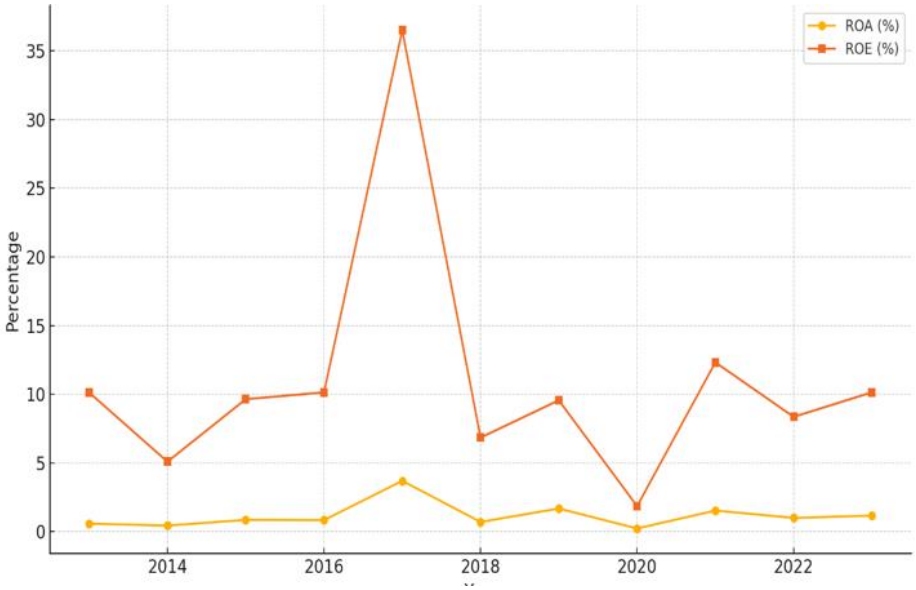

Figure 1: ROA And ROE Trends (2013–2023)

The empirical evidence presented in Tabel 2 highlights a series of extreme inter-period fluctuations in SQB Bank's performance metrics, characterized by a boom-and-bust reporting cycle. The year-over-year changes in Net Profit (ΔNP) and Return on Equity (ΔROE) exhibit an extraordinary range of volatility, most notably the 939% surge in 2017 and the 658% spike in 2021, which were immediately followed by sharp contractions of -75.6% and -26%, respectively. This pattern of aggressive spikes and radical reversals is highly atypical for a stable banking institution and suggests a periodic decoupling from fundamental economic trends. In accounting literature, such abrupt increases often signify earnings inflation where managers capitalize on favorable regulatory windows, while the subsequent deep plunges may represent big bath accounting—a strategic decision to consolidate losses in a single period to clear the way for future reported growth (Zang, 2012; Goel & Hasan, 2022).

From a signaling perspective, the magnitude of these year-on-year shifts (ΔROA and ΔROE) provides a critical empirical signal of discretionary managerial intervention. The synchronized volatility across all three metrics suggests that the bank's bottom-line performance is being utilized as a strategic variable to navigate external shocks or internal performance thresholds. For instance, the drastic 81.3% decline in Net Profit during the 2020 cycle reflects the impact of the global pandemic, yet the subsequent 658% recovery in 2021 raises questions regarding the sustainability and quality of such a rapid rebound. This sawtooth pattern aligns with the performance-matching hypothesis (Yoon et al., 2021) where reported earnings are adjusted to compensate for prior-period volatility. Consequently, the high standard deviation in ΔROE serves as a quantitative proxy for the presence of earnings management, indicating that SQB Bank's reported profitability is likely a byproduct of both operational reality and the strategic use of accounting flexibility within the IFRS framework.

Table 2: Year-on-Year Change in Performance Metrics

Year	Δ Net Profit (%)	Δ ROA (%)	Δ ROE (%)
2013	58.27	17.01	21.38
2014	–14.20	–25.00	–49.70
2015	121.88	95.06	89.27
2016	14.06	–2.41	5.14
2017	939.03	340.68	260.07
2018	–75.60	–80.86	–81.23
2019	175.47	138.08	39.62
2020	–81.30	–86.31	–80.53
2021	658.23	576.00	562.97
2022	–26.04	–34.93	–32.08
2023	35.10	17.00	21.34

To empirically substantiate the drivers of financial reporting at SQB Bank, this study utilized an Ordinary Least Squares (OLS) regression framework. Net Profit (NP) was designated as the regressand, representing the bottom-line earnings potentially susceptible to managerial discretion. The model incorporated a multifaceted set of regressors: Total Assets (TA) as a proxy for the political cost hypothesis, Total Equity (TE) to reflect capital adequacy pressures, and the year-over-year change in Return on Equity (ΔROE) to capture performance-based signaling incentives. This specification allows

for a robust isolation of structural balance-sheet effects from dynamic performance-matching behaviors over the longitudinal period.

The econometric results indicate a robust model fit, evidenced by an R^2 value of 0.725. This suggests that the independent variables collectively account for approximately 72.5% of the total variance in SQB Bank's reported Net Profit. In the context of banking literature, such a high coefficient of determination implies that the chosen financial indicators are highly representative of the bank's earnings generation process. Furthermore, the F-statistic (0.0000) underscores the overall significance of the model, confirming that the combination of size, equity, and performance shifts provides a reliable framework for analyzing the bank's financial outcomes.

Table 3: OLS Regression Summary

Variable	Coefficient	Std. Error	t-statistic	p-value
Constant	32,020.00	125,000.00	0.26	0.805
Total Assets	0.0058	0.013	0.44	0.675
Total Equity	0.0279	0.103	0.27	0.794
Δ ROE (%)	944.67	389.21	2.43	0.046
F_stat = 0,00000				
R^2 = 0,725				

Firm Size, Political Costs, Total Assets, and Earning Management

The regression analysis reveals that Total Assets (TA) has a positive but statistically insignificant effect on Net Profit (β= 0.0058, p = 0.675). From a numerical standpoint, the coefficient suggests that for every unit increase in assets, net profit only marginally shifts, yet the high p-value indicates that this relationship is not robust over the 11-year period. Consequently, the empirical data does not provide sufficient evidence to support the Political Cost Hypothesis in its traditional form for SQB Bank.

The rejection of H_1 implies that firm size, while massive in terms of UZS value, does not serve as a primary catalyst for earnings management (EM) at this institution. In many Western markets, size triggers regulatory scrutiny which leads managers to deflate earnings; however, in the Uzbek banking context, the size of a state-linked bank might act as a shield rather than a liability. The lack of significance suggests that the political costs typically associated with large-scale assets are perhaps mitigated by the bank's systemic importance and its strategic alignment with national development goals, rendering TA a secondary factor in financial reporting decisions.

Furthermore, this finding suggests that the visibility created by Total Assets does not necessarily translate into opportunistic accounting behavior. While the bank grew its asset base by over 25% annually, the reported Net Profit did not follow a linear path of manipulation based solely on this growth. This contradicts the foundational arguments of Watts & Zimmerman (1990), suggesting that in transitional economies, the pressure for EM stems from sources other than mere balance sheet scale. Thus, size-related scrutiny at SQB Bank does not appear to be the dominant incentive for altering bottom-line results.

Capital Adequacy, Debt Covenants, Total Equity, and Earnings Management

Regarding the relationship between capital structure and reported earnings, the model shows that Total Equity (TE) yielded an insignificant coefficient (β= 0.0279, p = 0.794). This result necessitates the rejection of H_2, as there is no statistically significant evidence that the level of equity

directly dictates the bank's net profit reporting. Despite the importance of equity for maintaining Basel III capital adequacy ratios, the bank's reported profits appear to be decoupled from the structural fluctuations of its equity base.

The rejection of the Debt Covenant Hypothesis at SQB Bank may be explained by the bank's unique institutional positioning. As a major state-linked entity, the bank likely benefits from an implicit government guarantee, which reduces the immediate pressure to manage earnings specifically to avoid technical default or to satisfy debt covenants. Unlike private firms that face stringent market-based monitoring of their equity margins, SQB Bank's capital accumulation seems to follow a long-term strategic mandate rather than being a trigger for short-term earnings manipulation.

Consequently, these results suggest that the Equity Buffer is not the primary threshold that management seeks to protect through discretionary accruals. While García-Sánchez & García-Meca, (2018) emphasize equity as a critical driver for EM in international banking, this study indicates that for SQB Bank, the motivation for reported profit shifts lies elsewhere. The insignificance of TE implies that the bank maintains its capital compliance through direct capital injections or long-term retained earnings growth rather than utilizing Net Profit as a tactical tool for short-term covenant navigation.

Performance Benchmarking, ROE Variability, and Earnings Management

In stark contrast to the structural variables, the change in Return on Equity (ΔROE) emerged as a highly significant predictor of Net Profit (β= 944.67, p = 0.046). This finding leads to the formal acceptance of H_3, confirming that year-over-year performance shifts are the dominant drivers of the bank's reported earnings. The high coefficient underscores that Net Profit is extremely sensitive to fluctuations in ROE, reinforcing the argument that management is actively engaged in Performance Benchmarking to maintain a consistent profitability narrative.

The significance of ΔROE provides strong empirical validation for Signaling Theory. It suggests that management utilizes Net Profit as a strategic variable to signal stability to the market and stakeholders. When the bank faces volatile economic conditions—exemplified by the dramatic profit swings in 2017 and 2021—management appears to prioritize the alignment of reported earnings with ROE targets. This threshold-driven behavior is consistent with the findings of Yoon et al. (2021), who argue that managers are highly incentivized to manage earnings specifically to avoid missing performance benchmarks that could affect investor confidence.

Ultimately, the acceptance of H_3 alongside a robust R^2 of 0.725 indicates that SQB Bank's earnings quality is predominantly influenced by performance-matching incentives. The bank's bottom line is not a passive reflection of its size (TA) or capital (TE), but a managed output designed to smooth the trajectory of its Return on Equity. This confirms that for financial institutions in transitional economies, the pressure to meet performance signals overrides structural balance sheet constraints, highlighting a sophisticated form of earnings management aimed at maintaining a perception of sustained operational efficiency.

CONCLUSION

This longitudinal study investigated the presence and drivers of earnings management (EM) within SQB Bank over an eleven-year horizon (2013–2023). By employing a robust quantitative framework based on audited IFRS financial statements, the research identifies a significant decoupling between the bank's structural growth and its reported operational profitability. The empirical results led to the rejection of the Political Cost and Debt Covenant hypotheses (H_1 and H_2), as Total Assets and Total Equity demonstrated no statistically significant influence on Net Profit. In contrast, the study

formally accepted H3, finding that the year-over-year change in Return on Equity (ΔROE) is the primary significant predictor of reported net income ($p = 0.046$). This suggests that earnings behavior at SQB Bank is fundamentally driven by performance-matching incentives rather than structural balance sheet characteristics.

The findings reinforce the Signaling Theory perspective, where reported profits are strategically calibrated to meet specific profitability benchmarks. The erratic nature of the bank's net income—characterized by extreme surges and sharp reversals that do not correlate with the steady 25% annual growth in assets—points toward the use of accounting discretion to manage market and regulatory perceptions. In the context of Uzbekistan's transitional economy, these patterns suggest that income smoothing and performance-matching are utilized to project an image of financial resilience, even when underlying operational volatility might suggest otherwise.

This research contributes to the burgeoning literature on earnings quality in post-Soviet banking systems by highlighting the primacy of performance signaling over the traditional size-related incentives described in Positive Accounting Theory. Unlike findings in more mature Western markets, where firm size typically triggers income-decreasing EM to avoid political costs, this study demonstrates that systemic state-linked banks in emerging markets may be more sensitive to ROE-based thresholds. This shift in focus from scale to signal provides a nuanced understanding of how institutional pressures and state-ownership dynamics reshape managerial incentives in transitional financial landscapes.

For regulators, auditors, and policymakers, these results underscore an urgent need to enhance the oversight of discretionary accounting elements within the Uzbek banking sector. Given that ΔROE is the primary driver of reported profit, the Central Bank of Uzbekistan should implement more rigorous monitoring of volatility triggers in performance ratios. Specifically, robust disclosure requirements regarding the assumptions used in IFRS 9 Expected Credit Loss (ECL) models and loan loss provisioning are essential to mitigate the risk of artificial earnings inflation. Furthermore, improving the independence of audit committees and external auditors is vital to ensure that financial reports serve as neutral economic signals rather than tools for political or managerial legitimacy.

Despite its contributions, this study is subject to certain limitations, notably its focus on a single case study which may limit the generalizability of the findings to the broader Central Asian banking industry.

Future research should adopt a multi-bank panel data approach to determine whether the performance-matching behavior observed in SQB Bank is a systemic phenomenon across Uzbekistan. Additionally, integrating more sophisticated econometric models, such as the Modified Jones Model or the Beneish M-score, could provide a deeper decomposition of discretionary accruals. Longitudinal studies that combine these quantitative proxies with qualitative insights from corporate governance audits would further illuminate the specific motivations behind EM behavior in developing economies.

REFERENCES

Al-Haddad, L., & Whittington, M. (2022). The impact of corporate governance mechanisms on real and accrual earnings management: Evidence from the Jordanian banking sector. *Corporate Governance: The International Journal of Business in Society*, *22*(1), 340–362.

García-Sánchez, I. M., & García-Meca, E. (2018). CSR engagement and earnings management: The moderating effect of institutional factors. *Corporate Social Responsibility and Environmental Management*, *25*(6), 1134–1148.

Goel, P. K., & Hasan, I. (2022). Earnings management in the banking sector: A systematic literature

review and future research agenda. *International Journal of Managerial Finance*, *18*(3), 450–475.

Hasanov, S., & Ergashev, A. (2020). Banking sector reforms in Uzbekistan: Efficiency and transparency banking). *Central Asian Journal of Economics and Management*, *4*(1), 12–28.

Huang, X., Rose-Green, E., & Lee, C. C. (2020). The impact of CEO power on real earnings management. *Journal of Business Research*, *12*(1), 102–112.

Ozili, P. K. (2019). Bank earnings management using loan loss provisions: Creative accounting, bribe-taking and distorted reporting in Nigeria. *Journal of Financial Reporting and Accounting*, *17*((3)), 461-482.

Ross L. Watts and Jerold L. Zimmerman. (1990). Positive Accounting Theory: A Ten Year Perspective. *The Accounting Review*, *65*(1), 131–156.

SQB Bank. (2012–2023). Annual financial statements (IFRS), 2013–2023. Retrieved from https://sqb.uz

Tadjibayeva, S., & Salikhov, B. (2021). IFRS adoption and financial reporting quality in emerging economies: The case of Uzbekistan. *International Journal of Finance & Banking Studies*, *10*((2)), 45-58.

Yoon, S. S., Kim, H. J., & Woodruff, C. (2021). The variability of ROE and its implications for earnings quality and executive compensation. *Journal of Accounting and Public Policy*, *40*((4)), 106-125.

Zang, A. Y. (2012). Evidence on the trade-off between real activities manipulation and accrual-based earnings management. *The Accounting Review*, *87*(2), 675–703.