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THE IMPORTANCE OF CORPORATE GOVERNANCE IN INCREASING THE INVESTMENT ATTRACTIVENESS OF COMMERCIAL BANKS

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Abstract

This scientific thesis examines the role and importance of corporate governance in increasing the investment attractiveness of commercial banks. The investment attractiveness of banks depends on their financial stability, capital adequacy, asset quality, profitability, transparency, and the efficiency of their management system. In particular, corporate governance is considered an important mechanism that ensures a balance of interests among shareholders, management, customers, and investors. The thesis analyzes the impact of the supervisory board, internal control, risk management, information transparency, and independent audit on the investment attractiveness of banks. It also provides recommendations for improving corporate governance in commercial banks of Uzbekistan.

Keywords: Commercial banks, investment attractiveness, corporate governance, supervisory board, bank capital, financial stability, risk management, internal control, transparency, investor confidence.

In a market economy, commercial banks are an important part of the country's financial system. They attract temporarily free funds from the population and business entities, transform them into credit and investment resources, and financially support economic growth. Therefore, the stable and efficient operation of commercial banks directly affects the investment environment of the country.



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Today, increasing the investment attractiveness of banks is one of the most pressing issues. Before investing in bank capital, investors analyze the bank's financial results, asset quality, risk management system, quality of management, and information transparency. Therefore, an investment-attractive bank should be not only profitable but also a reliable, stable, and transparent financial institution. Corporate governance plays a special role in increasing the investment attractiveness of commercial banks. Corporate governance is a system that regulates relations between bank shareholders, the supervisory board, executive bodies, customers, and investors. Effective corporate governance increases the transparency of bank activities, improves the quality of strategic decisions, reduces risks, and strengthens investor confidence [1].

The importance of corporate governance in the banking system is higher than in many other sectors. This is because banks mainly operate with the funds of customers and depositors. Poor management decisions in a bank may negatively affect not only shareholders but also the entire financial system. Therefore, in international practice, special attention is paid to corporate governance, internal control, and risk management systems in banks [2].

In recent years, Uzbekistan's banking system has also been implementing reforms aimed at improving corporate governance, transforming banks, increasing investor confidence, and improving the quality of banking services [3]. The purpose of this thesis is to analyze the importance of corporate governance in increasing the investment attractiveness of commercial banks and to develop practical recommendations.

The investment attractiveness of commercial banks is a set of financial, organizational, and managerial factors that determine the feasibility of investing in a bank. A bank's investment attractiveness is reflected in investors' interest in



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its shares, its ability to cooperate with international financial institutions, and its potential for long-term sustainable development.

Investment attractiveness cannot be assessed only by a bank's profit or asset volume. A bank may show high profits in the short term, but if these profits are formed through high-risk operations or non-transparent management, such a bank is considered risky for investors. Therefore, investors pay attention not only to financial indicators but also to the quality of corporate governance, the risk control system, and the reliability of reports.

Corporate governance is one of the main factors that increases the investment attractiveness of banks. In a bank with effective corporate governance, decisions are made not based on the interests of certain individuals, but on the long-term interests of shareholders and other stakeholders. In such banks, the powers of governing bodies are clearly distributed, internal control systems operate effectively, risks are regularly assessed, and financial reports are openly published.

The impact of corporate governance on investment attractiveness is reflected in several areas. First, it increases investor confidence. If the bank has an effective supervisory board, strong control over executive bodies, and an independent audit system, investors consider the bank's activities reliable.

Second, corporate governance strengthens the financial stability of the bank. Transparent and responsible management ensures that decisions related to credit policy, capital adequacy, liquidity, and asset quality are made carefully. A financially stable bank is more attractive to investors.

Third, corporate governance reduces risks. Banks face credit risk, liquidity risk, currency risk, interest rate risk, and operational risks. If the risk management system is strong, the bank can identify and reduce possible losses in advance [4].



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Fourth, corporate governance improves the reputation of the bank. Investors and international financial institutions pay great attention to the principles of transparency, responsibility, and legality in banking activities. Banks with well-established corporate governance are recognized in the market as reliable partners.

The central element of the corporate governance system is the supervisory board. The supervisory board determines the bank's strategy, controls the activities of executive bodies, approves risk policy, and protects the interests of shareholders. If the supervisory board is independent and competent, the bank's management becomes more effective.

The institution of independent directors is also important in banks. Independent directors ensure objectivity in decision-making, reduce conflicts of interest, and increase investor confidence. This institution is especially important in banks with state participation, as it helps manage banks based on market principles.

The internal audit and internal control system also affect the investment attractiveness of banks. Internal control ensures the legality and efficiency of banking operations, while internal audit identifies existing shortcomings and provides recommendations for improving the management system.

The relationship between corporate governance and investment attractiveness can be shown in the following table.



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Table 1. The Impact of Corporate Governance Elements on the Investment Attractiveness of Commercial Banks

Corporate governance element	Impact on bank activity	Impact on investment attractiveness
Independence of the supervisory board	Improves the quality of strategic decisions	Increases investor confidence
Internal audit and control	Reduces errors and inefficient expenses	Makes bank activity more reliable
Risk management system	Manages key banking risks	Reduces investment risk
Information transparency	Ensures openness of reports	Helps investors make decisions
Independent directors	Reduces conflicts of interest	Strengthens corporate trust
Compliance system	Ensures compliance with legislation	Reduces legal risks

Source: Developed by the author based on the research findings.

As can be seen from the table, each element of corporate governance directly or indirectly affects the investment attractiveness of a bank. Therefore, corporate governance should be considered not only as a control tool but also as a strategic mechanism that ensures the long-term development of the bank.

Improving corporate governance is especially important for commercial banks in Uzbekistan. This is because the share of state participation in the banking sector remains significant, and transforming such banks, attracting private and foreign capital, and adapting them to international standards are urgent tasks. The banking system reform strategy also identifies the improvement of corporate governance, strengthening competition, and gradually reducing state participation as priority areas [3].

Information transparency is also important in increasing the investment attractiveness of commercial banks. Investors need clear information about the



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bank's financial condition, risks, dividend policy, and development strategy. Therefore, banks should prepare reports based on international financial reporting standards, publish audit conclusions, and maintain regular communication with investors.

Developing the risk management system is another important direction of corporate governance. Risks should be assessed in advance when issuing loans, making investments, concluding major transactions, and introducing new products. In this process, the activity of the risk management committee under the supervisory board plays an important role.

Corporate governance also helps prevent conflicts of interest in banks. Issuing loans to related parties on non-market terms or using bank resources inefficiently may negatively affect the financial stability of the bank. Effective governance reduces such risks.

In the context of digital transformation, corporate governance is gaining new meaning. Today, cybersecurity, data privacy, and the quality of digital services are also important in bank management. Investors also evaluate the technological development level of banks.

In addition, developing corporate culture in banks has a positive impact on investment attractiveness. Values such as honesty, responsibility, respect for customers, and compliance with legislation strengthen the internal environment of the bank and improve its reputation.

Corporate governance plays an important role in increasing the investment attractiveness of commercial banks. For investors, not only the bank's profit or asset size is important, but also how the bank is managed, how risks are controlled, and how openly information is disclosed. Effective corporate governance ensures transparency, responsibility, accountability, and stability in banking activities.



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The analysis shows that corporate governance increases investor confidence, strengthens the financial stability of the bank, reduces risks, improves the quality of management decisions, and expands opportunities to attract capital. Therefore, the development of corporate governance in commercial banks of Uzbekistan based on international standards is an urgent task.

In order to increase the investment attractiveness of commercial banks, the following recommendations can be proposed.

First, it is necessary to strengthen the activities of supervisory boards. They should exercise real control over the bank's strategy, risk policy, and the activities of executive bodies.

Second, the institution of independent directors should be developed. This ensures objectivity in decision-making and increases investor confidence.

Third, the independence of internal audit and compliance systems should be ensured. This reduces errors, abuse, and legal risks in banking activities.

Fourth, the risk management system should be improved. Credit, liquidity, operational, currency, and cybersecurity risks should be regularly assessed.

Fifth, information transparency in commercial banks should be increased. Financial reports, audit conclusions, dividend policy, and development strategy should be open to investors.

Sixth, corporate culture in banks should be developed. Honesty, responsibility, and compliance with legislation should become the main values of bank management.

Seventh, transformation processes should be accelerated in banks with state participation, and management should be organized based on market principles.

In general, corporate governance is not only a control mechanism but also a tool for long-term development and strengthening investor confidence in increasing the investment attractiveness of commercial banks. Therefore, improving



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corporate governance in banks contributes to increasing the competitiveness of the national banking system and expanding the flow of investments into the economy.

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