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Improving Corporate Governance and Risk Management Systems in the Transformation Processes of State-Owned Banks

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Citation: Tashkazakovich S. I. Improving Corporate Governance and Risk Management Systems in the Transformation Processes of State-Owned Banks. Central Asian Journal of Innovations on Tourism Management and Finance 2026, 7(4), 433-440.

Received: 10th Jun 2026

Revised: 21st Jul 2026

Accepted: 08th Aug 2026

Published: 21st Sept 2026



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Abstract: This article examines the improvement of corporate governance and risk management systems within the transformation processes of state-owned banks. The study focuses on the institutional and organizational challenges associated with the high level of state participation in the banking sector, including the concentration of lending in state-owned enterprises, the prevalence of directed and concessional lending, insufficient diversification of business models, and weaknesses in corporate governance. Particular attention is paid to the role of supervisory boards, risk appetite frameworks, internal control systems, transparency, accountability, and the professional independence of management bodies. The study analyzes recent indicators of state-owned banks in Uzbekistan and develops an integrated transformation framework based on four interrelated components: professional governance, proactive risk management, portfolio diversification, and performance accountability. The results demonstrate that banking transformation should not be limited to technological modernization or changes in ownership structure. Sustainable transformation requires the simultaneous development of corporate governance, risk management, business models, human capital, and organizational culture. The proposed framework can contribute to improving the efficiency, resilience, transparency, and competitiveness of state-owned banks.

Keywords: State-owned banks, banking transformation, corporate governance, risk management, risk appetite, business model diversification, supervisory board, internal control, banking sector, financial stability.

1. Introduction

The transformation of the banking sector has become one of the important directions of structural economic reforms in Uzbekistan. In recent years, significant measures have been implemented to increase the efficiency of banks, strengthen competition, improve corporate governance, introduce modern risk management mechanisms, and gradually reduce the direct participation of the state in banking activities [1]. In this context, the transformation of state-owned banks is particularly important because these institutions continue to occupy a significant position in the banking system [2].

The high level of state participation historically resulted in state-owned banks being actively involved in financing government programs, strategic sectors of the economy, and state-owned enterprises. Although such financing can support the implementation of national development priorities, excessive dependence on directed and concessional lending may weaken market-based resource allocation mechanisms and reduce incentives for banks to develop commercially sustainable business models [3], [4].

According to the statistics of the Central Bank of the Republic of Uzbekistan, as of January 1, 2025, state-owned banks accounted for approximately 65% of total banking sector assets and around 69% of total loans. By July 1, 2026, their share had declined to approximately 62% of total assets and 66% of total loans [5]. These changes indicate a gradual reduction in the relative dominance of state-owned banks, although their role in the banking sector remains substantial.

The transformation process therefore requires not only changes in ownership structure but also fundamental improvements in corporate governance and risk management [6]. Corporate governance determines the quality of strategic decision-making, accountability, transparency, and control, while risk management ensures that strategic objectives are achieved within an acceptable level of financial and operational risk [7].

The purpose of this study is to develop scientific and practical approaches to improving corporate governance and risk management systems in the transformation of state-owned banks.

The main objectives of the research are to:

- analyze the role of state-owned banks in the banking system;
- identify institutional weaknesses in corporate governance;
- assess the importance of integrated risk management during transformation;
- examine the relationship between business model diversification and risk management;
- develop an integrated framework for improving governance and risk management in state-owned banks.

Corporate governance in banks has been extensively studied in international economic and financial literature [6]–[10]. The theoretical foundations of corporate governance emphasize the importance of separating ownership and management functions, establishing accountability mechanisms, and protecting the interests of shareholders and other stakeholders [8], [9].

The OECD Principles of Corporate Governance emphasize the importance of an effective governance framework, transparent decision-making, board responsibilities, shareholder rights, and corporate accountability. These principles are particularly relevant for state-owned banks because the presence of the state as a shareholder creates additional governance requirements related to accountability, independence, and transparency [10], [11].

The Basel Committee on Banking Supervision considers effective corporate governance to be a fundamental component of a sound banking system. According to the Basel approach, boards of directors should provide strategic oversight, monitor senior management, ensure the effectiveness of risk management systems, and establish an appropriate risk culture.

The development of risk management theory has also significantly influenced modern banking practices [12], [13]. The COSO Internal Control – Integrated Framework emphasizes the importance of control environment, risk assessment, control activities, information and communication, and monitoring. The COSO Enterprise Risk Management framework further integrates risk management with strategy and performance.

From the perspective of banking transformation, risk management should not operate as an isolated technical function. Instead, risk considerations should be integrated into strategic planning, budgeting, investment decisions, product development, credit policy, and operational management [14].

An important issue for state-owned banks is the concentration of lending in large corporate borrowers and state-owned enterprises. Excessive concentration increases credit

and sectoral risks and can limit the development of retail banking, small and medium-sized enterprise financing, and fee-based financial services [15].

The literature therefore suggests that sustainable banking transformation requires the simultaneous improvement of governance institutions, risk management systems, business models, transparency, and organizational culture.

2. Research methodology

The study applies a combination of institutional, comparative, statistical, and systemic approaches. The institutional approach is used to analyze the role of corporate governance structures, supervisory boards, management bodies, and internal control mechanisms in the transformation of state-owned banks.

Comparative analysis is used to examine changes in the relative position of state-owned banks within the banking system and to identify changes in their lending and deposit structures. Statistical analysis is applied to selected indicators of bank assets, loans, deposits, and loan-to-deposit ratios.

The systemic approach is used to examine corporate governance and risk management as interconnected elements of a unified transformation process. In particular, the research considers the relationship between strategic objectives, risk appetite, business models, internal controls, and performance indicators.

The methodological framework is based on international principles and standards developed by the Basel Committee on Banking Supervision, the OECD, and COSO, together with the regulatory and institutional framework of Uzbekistan.

The proposed approach assumes that banking transformation should be evaluated through four interconnected dimensions: professional governance, proactive risk management, portfolio diversification, and performance accountability.

3. Results and discussion

1. The Position of State-Owned Banks in the Banking System

The transformation of state-owned banks should be considered in the context of their continuing importance within Uzbekistan's banking sector.

Table 1. Selected indicators of state-owned banks in Uzbekistan.

Indicator	1 January 2025	1 July 2026
Share of state-owned banks in total banking assets, %	65	62
Share of state-owned banks in total banking loans, %	69	66
State-owned banks' assets, trillion UZS	503.2	627.9
State-owned banks' loans, trillion UZS	366.7	422.3
Indicator	1 January 2025	1 July 2026

The data demonstrate that state-owned banks remain the dominant institutional group in terms of assets and lending. At the same time, their relative share has decreased. The decline in the asset share from 65% to 62% and in the loan share from 69% to 66% indicates a gradual change in the structure of the banking sector.

However, the reduction in relative market share does not automatically mean that transformation has been completed. A sustainable transformation requires changes in governance mechanisms, decision-making processes, risk management, customer orientation, and financial performance.

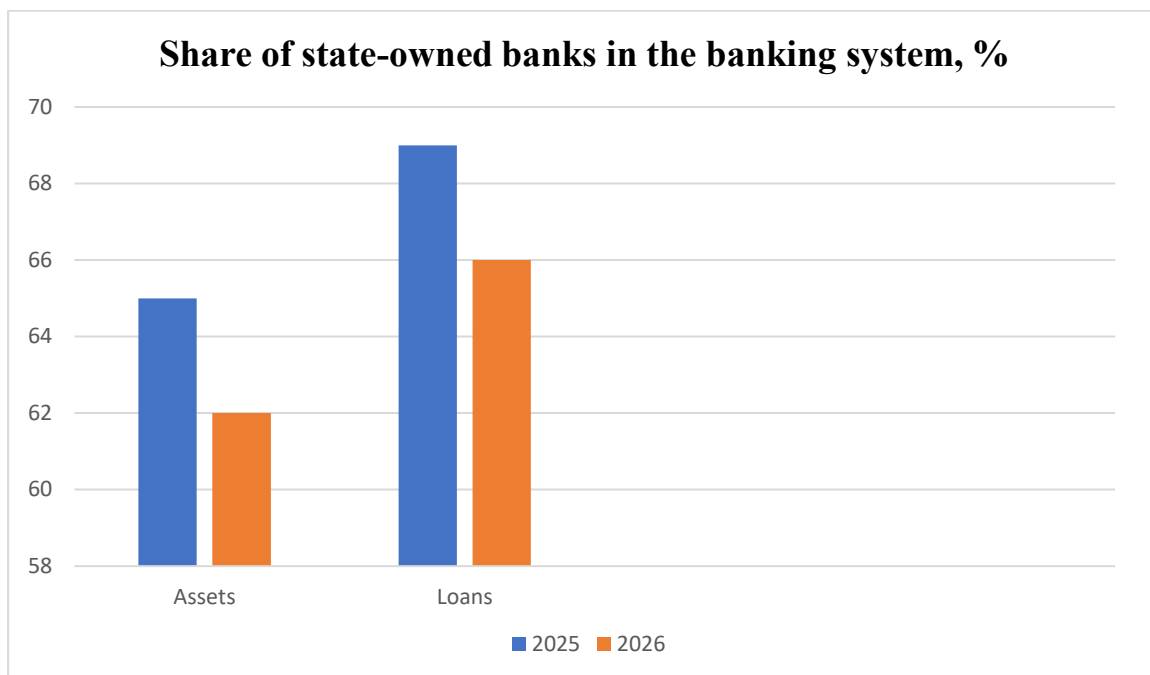


Figure 1. Share of state-owned banks in the banking system, %.

The figure illustrates a moderate reduction in the share of state-owned banks in both assets and loans. This tendency can be associated with the gradual development of private banking institutions and structural reforms aimed at increasing competition.

2. Business Model Transformation and Risk Management

One of the major challenges facing state-owned banks is the concentration of financial resources in large corporate clients and state-owned enterprises. Historically, state-owned banks have played an important role in financing investment projects and government programs. However, excessive concentration of credit resources can increase portfolio risk and reduce the flexibility of banks.

A transformation of the business model should therefore involve greater diversification of revenue sources. In particular, banks should increase the role of:

- retail banking;
- small and medium-sized enterprise financing;
- digital banking services;
- payment services;
- investment and advisory services;
- fee-based financial products.

Business model diversification can reduce dependence on large borrowers and state programs while creating new sources of stable income.

At the same time, diversification itself generates new risks. Expansion into retail and SME lending requires improved credit scoring, data analytics, fraud prevention, cybersecurity, and customer risk assessment. Therefore, business model transformation should proceed simultaneously with improvements in risk management capabilities.

3. Improving Corporate Governance

Corporate governance represents one of the most important institutional components of banking transformation. The supervisory board should not merely perform formal monitoring functions but should actively participate in strategic oversight and ensure effective control over management.

An effective supervisory board should possess:

1. professional competence in banking and finance;
2. sufficient independence;
3. clearly defined responsibilities;
4. effective risk oversight;
5. mechanisms for managing conflicts of interest;
6. access to reliable and timely information;
7. appropriate committees and reporting mechanisms.

The independence and professional competence of board members are particularly important for state-owned banks. When management decisions are strongly influenced by non-commercial objectives, the effectiveness of financial resource allocation may decline.

Therefore, the transformation process should establish a clear separation between ownership functions, strategic oversight, and operational management.

The board should primarily determine strategic objectives, approve the risk appetite framework, monitor major risks, evaluate management performance, and ensure accountability. Operational decisions should remain within the authority of professional executive management.

4. Integration of Risk Appetite with Strategic Planning

A modern risk management system should be integrated with the bank's strategic planning process. Risk appetite should define the level and types of risk that the bank is willing and able to accept in pursuit of its strategic objectives.

The relationship can be represented as follows:

Strategy → Risk Appetite → Business Plan → Budget → Risk Indicators → Performance Monitoring

This approach allows management to connect financial targets with risk limitations.

For example, if a bank intends to increase lending to SMEs, the strategy should be accompanied by clearly defined limits for credit risk, sectoral concentration, non-performing loans, collateral quality, and capital adequacy.

The risk management system should therefore include not only identification of existing risks but also early-warning mechanisms capable of identifying emerging risks.

5. Loan-to-Deposit Ratio as an Indicator of Transformation

The relationship between lending and deposit resources is another important indicator of the financial sustainability of banks.

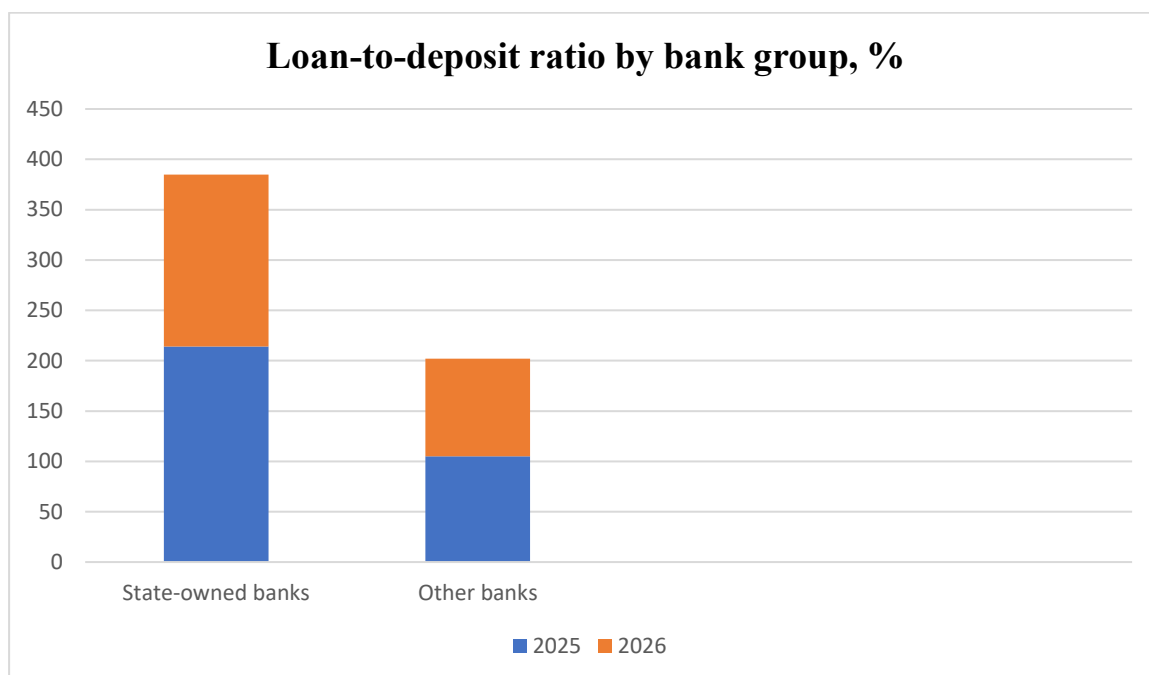


Figure 2. Loan-to-deposit ratio by bank group, %.

The data indicate a decline in the loan-to-deposit ratio of state-owned banks. Nevertheless, the ratio remains significantly higher than that of other banks. This indicates a greater dependence of state-owned banks on funding sources beyond customer deposits.

A high loan-to-deposit ratio may increase liquidity and funding risks if loan growth substantially exceeds the growth of stable deposit resources. Therefore, transformation should include measures aimed at strengthening the deposit base, improving customer services, expanding retail products, and increasing confidence among individual and corporate depositors.

6. An Integrated Model for Banking Transformation

Based on the analysis, an integrated transformation model for state-owned banks can be proposed. The model consists of four interconnected components.

1P – Professional Governance

This component includes strengthening the independence and competence of supervisory boards, improving accountability, establishing effective board committees, and separating ownership from operational management.

2P – Proactive Risk Management

The second component focuses on integrating risk management into strategic planning, establishing risk appetite, developing early-warning systems, improving stress testing, and strengthening internal control.

3P – Portfolio Diversification

This component aims to reduce excessive dependence on large corporate borrowers and state-owned enterprises by expanding retail, SME, digital, and fee-based financial services.

4P – Performance Accountability

The fourth component focuses on establishing measurable performance indicators, transparent reporting, management accountability, and continuous monitoring of transformation results.

The proposed framework can be represented as:

Corporate Governance + Risk Management + Business Model Diversification + Performance Accountability → Sustainable Banking Transformation

The main advantage of this approach is that it treats transformation as an integrated institutional process rather than as an isolated technological or ownership reform.

7. Transformation as an Institutional Process

Banking transformation should cover three interconnected organizational levels:

Head office level – strategic management, governance, risk management, finance, compliance, and internal control.

Business level – credit operations, customer service, product development, sales, digital banking, and relationship management.

Back-office level – accounting, operational processing, data management, reporting, information technology, and administrative functions.

The effectiveness of transformation depends on the consistency between these levels. If technological modernization takes place without changes in governance and risk culture, the overall effect of transformation may remain limited.

Therefore, investment in transformation should cover not only information technologies but also human capital, professional competencies, risk management systems, data quality, internal control, and organizational culture.

4. Conclusion and recommendations

The study demonstrates that the transformation of state-owned banks should be understood as a comprehensive institutional reform rather than merely a process of technological modernization or ownership restructuring.

State-owned banks continue to account for a significant share of the banking system's assets and loans. Although their relative market share has declined, their financial and institutional importance remains substantial. This makes the improvement of their governance and risk management systems an important component of banking sector development.

The research leads to the following conclusions and recommendations:

First, the professional independence and competence of supervisory boards should be strengthened. Board members should possess sufficient expertise in banking, finance, risk management, and corporate governance.

Second, risk management should be fully integrated into strategic planning. Risk appetite should be connected with business plans, budgets, capital management, and performance indicators.

Third, state-owned banks should gradually diversify their business models. Greater attention should be given to SMEs, retail customers, digital financial services, and fee-based products.

Fourth, excessive concentration of lending in state-owned enterprises and individual large borrowers should be monitored through clearly defined concentration limits and risk indicators.

Fifth, transparency and accountability should be strengthened through improved financial and non-financial disclosures, clearer management responsibilities, and regular communication with shareholders and other stakeholders.

Sixth, transformation programs should include investments in human capital and risk culture. Technological modernization alone cannot ensure sustainable transformation unless employees possess the necessary analytical, digital, and risk-management competencies.

Finally, the proposed **4P model — Professional Governance, Proactive Risk Management, Portfolio Diversification, and Performance Accountability** — can serve as a methodological framework for organizing transformation processes in state-owned banks.

Thus, effective transformation requires the simultaneous development of governance institutions, risk management, business models, human capital, digital capabilities, and organizational culture. Such an integrated approach can strengthen the efficiency, resilience, transparency, and competitiveness of state-owned banks and contribute to the sustainable development of the banking sector.

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