

Introduction to Corporate Governance standards for banks in Ukraine



What is corporate governance?

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

OECD

Corporate governance is a system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

Investopedia

Corporate governance is a system of relations between shareholders, the council, the board and other stakeholders, which provides an organizational structure and mechanisms through which the bank's goals are determined, ways to achieve these goals, and their implementation is monitored. Corporate governance determines the method of distribution of powers and responsibilities between management bodies, as well as the methods of decision-making by these bodies.

*Guidelines on organization of corporate governance in banks of Ukraine**

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mechanism to define and achieve company's goals

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What do we check?




business reputation

compliance with the law and public order,
fulfillment of financial obligations, past
professional activity, previous holding of positions
or ownership of a significant share in financial
institutions




professional suitability

presence of high education, a set of knowledge,
professional and managerial experience,
sufficient time to perform duties




collective suitability

the availability of collective knowledge, skills and
experience in management bodies, the
sufficiency of the number of members of the
management body




conflict of interest

circumstances that may indicate obstacles in the
proper performance of duties

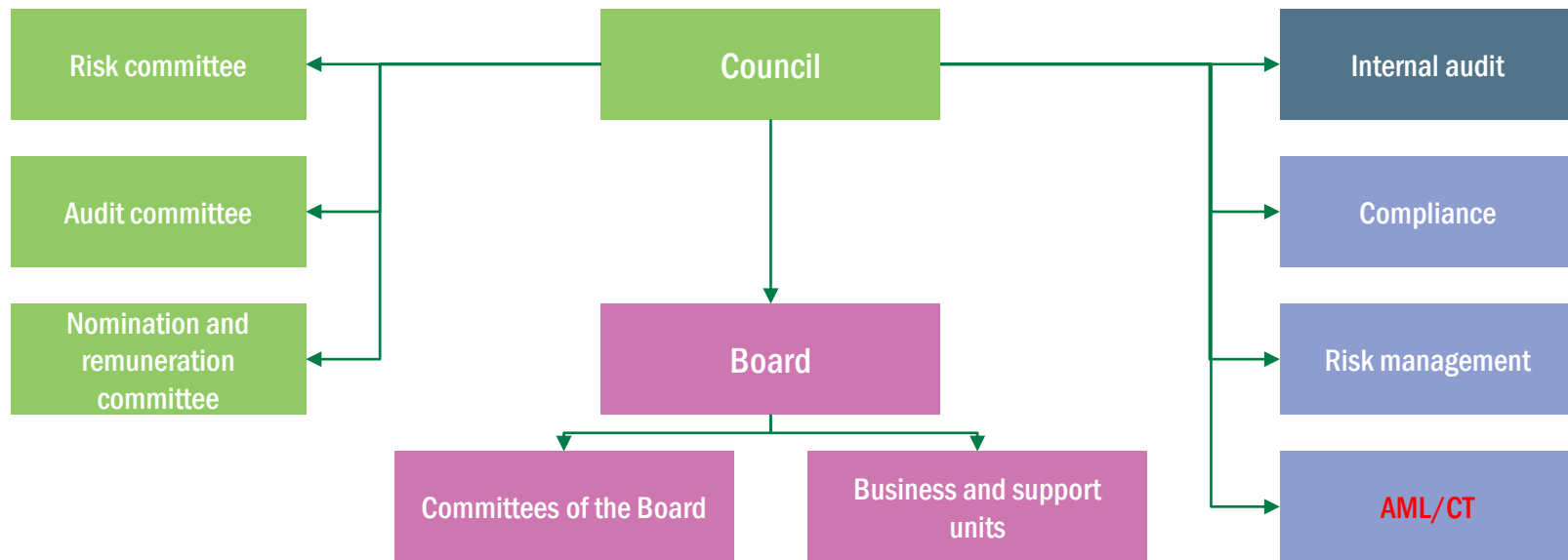


independence

compliance by an independent member of the
supervisory board with the requirements for
independence (at least 1/3, not less than 3
members of the council have to be independent)



What do we check?



1st line of defense

initiate, conduct or reflect operations, accept risks in the course of their activities

2nd line of defense

ensure that 1st-line controls and risk management safeguards have been designed and are functioning properly

3rd line of defense

carries out an independent assessment of effectiveness of the 1st and 2nd lines of defense and a general assessment of effectiveness of the ICS

What do we check?

1st line of defense

Subordination and reporting of these units to the board

Have to be separated from units of the second line of defense

Have to be separated from each other and report to different board members



What do we check?

2nd line of defense

Subordination and reporting of these units to the council

Have to be separated from units of the first line of defense

Providing a direct and unlimited access to discuss issues with the council with no need to inform the board

The reward should not depend on the results of the units of the first line of defense

The access to information necessary for effective work

Preventing employees of these units from exercising the control over those activities for which they were previously directly responsible



What do we check?

3rd line of defense

Subordination and reporting of these units to the council

Employees of the unit should not be members of other structural units

Empowerment to initiate communication with managers, employees, units

Approval of the conditions of remuneration of the head and employees of the unit by the council

Providing the opportunity to address the council and the board and access to information


Exclusion from the audit of activities for which the auditor was responsible during the last year



What do we check?



Positioning in a business environment



Correspondence of the strategy to the main areas of activity



Availability of human resources



The level of understanding of financial costs

The realism of the strategy in view of the level of organization of corporate governance

Reputation and quality of management

How do we supervise corporate governance?



Managers' approval

We review the package of documents submitted by the financial institution, conduct interviews and tests with managers, investigate professional suitability and business reputation



Monitoring

We may request the provision of information, documents, explanations regarding the manager and/or management and control bodies of the bank in order to assess their compliance with established requirements



SREP

We constantly carry out supervisory checks and evaluation of the business model and the level of organization of corporate management and internal control

In 2021 we have included ESG aspects to our CG Guidelines

- The bank provides support for adequate knowledge of bank managers on environmental, social and management issues.
- **Corporate governance of the bank should be aimed at sustainable development.**
- A necessary component of ensuring the bank's sustainable development is a system of **Environmental and Social (ES) risk management**. The bank's council ensures its integration into bank's risk management system based on the best international practices.
- **The bank's strategy** should include assessment of the Environmental, Social and Governance (ESG) factors impact on the **long-term sustainability of the bank**, as well as determine the needs to **minimize the negative impact** of these factors on the bank's activities.

