



Association of Banks of Georgia

Corporate Governance Code for Commercial Banks

September, 2009

Foreword

There is no universal definition of corporate governance. However, most frequently, corporate governance refers to a company's governance and control system, which facilitates transparency and accountability and determines relations among shareholders, supervisory board, management, and other stakeholders.

Because good corporate governance raises the level of trust between the company, its present shareholders and its potential investors, it helps companies better perform their activities and increase competitiveness. Given the role and importance of commercial banks in a country's economy, their corporate governance is especially important.

To eliminate deficiencies in commercial bank corporate governance and bring the existing corporate governance level closer to best international standards, the Association of Banks of Georgia has decided to issue a Corporate Governance Code for Commercial Banks (hereinafter the Code).

It should be noted that the basic principles of corporate governance are already reflected in legislation on entrepreneurs, the securities market, and the activities of commercial banks, as well as in other Georgian laws and normative acts. The purpose of the present Code is not to reiterate or collect the corporate governance norms presented in various laws, but to set standards of corporate governance that are higher than those that Georgian legislation provides for and thus help commercial banks raise their corporate governance standards and bring them closer to those that international best practice envisages.

In drafting the Code, the Association of Banks of Georgia took into account the OECD¹ (Organization for Economic Cooperation and Development) document *Principles of Corporate Governance*, the Basel Committee on Banking Supervision² document *Enhancing Corporate Governance in Banking Organizations*, the experience of other countries, and current Georgian legislation. The Association of Banks of Georgia expresses its special gratitude to IFC (International Finance Corporation) and the Georgian Stock Exchange for their support and collective work.

We hope that this document will facilitate raising the level of corporate governance and implementing international best practice, which in turn will increase confidence in banks and contribute to the stability of the entire banking sector.

¹ OECD Principles of Corporate Governance
http://www.oecd.org/document/49/0,3343,en_2649_34813_31530865_1_1_1_37439,00.html

² Basel Committee on Banking Supervision – Enhancing Corporate Governance for Banking Organizations
<http://www.bis.org/publ/bcbs122.pdf?noframes=1>

Table of Contents

1. Introduction
2. Basic Concepts
3. Shareholders' Rights
4. Governing Bodies
 - (a) Supervisory Board*
 - (b) Management Board*
 - (c) Combined Supervisory Board*
5. Corporate Secretary
6. Internal Control and Risk Management
7. Information Disclosure and Transparency
8. Evaluation and Remuneration of Supervisory Board Members
9. Conflicts of Interest
10. Corporate Governance for a Holding Company
11. Corporate Governance and Related Parties

1. Introduction

The purpose of this Code is to help banks to implement effective corporate governance mechanisms characterized by separation of responsibilities, effective decision making, protection of shareholders' rights, effective treatment of conflicts of interest, public disclosure of information, checks and balances and so on, in order to ensure effective protection of shareholder, depositor, creditor, investor, and public interests.

Application of the Code by commercial banks implies considering the recommendations this document provides on matters pertaining to a bank's charter, internal by-laws, regulations, policies, and procedures. It also implies implementing practices that comply with these documents.

The Code recommends that all banks operating in Georgia take into account the content of the norms the Code establishes and prepare corporate governance reports on an annual basis. In such reports, each bank would assert its compliance with the Code's requirements or else explain the reasons why it did not comply with them.

A corporate governance report may be prepared as a separate document or may represent a part of a bank's annual report. It is recommended that this document be prepared concomitantly with the preparation of the annual report and be presented to the general meeting of shareholders for review on an annual basis.

It is recommended that each bank draft internal by-laws with respect to management boards, supervisory board and its committees. Each by-law should address the structure, composition, authority, obligations, and accountability of each body, as well as any procedural issue related to the body's functioning.

2. Basic Concepts

a) Corporate Governance

Corporate governance is the unified system of a company's management and control that determines the allocation of rights and responsibilities among governing bodies, executive bodies, shareholders, and stakeholders. Corporate governance covers rules and procedures for decision making and for monitoring the efficiency of a company's performance.

b) Fiduciary Duties

Fiduciary duties are fundamental to corporate governance. A person assumes them after being elected or appointed to a bank's governing or executive bodies to perform certain activities. They are generally imposed on members of a bank's governing and executive bodies.

According to the current Georgian legislation, company (including banks) managers are bound to perform their activities with due diligence and care. They must behave as a reasonably prudent person would act in similar circumstances and believe that such behavior is in the best interests of the company (bank).

The Supervisory Board's fiduciary duty also includes making sure the bank's activities are carried out in observance of current Georgian legislation and normative acts. Members of the bank's governing bodies are authorized to rely on information provided by members of the bank's executive bodies and by hired external consultants. However, they have to make independent business decisions.

c) Independence

All members of the bank's governing and executive bodies should act independently when making decisions. It should not be permitted to take into consideration the private interests of a shareholder, client, contractor, investor, or other related party when making business decisions. Independent action implies using information available to the person further to the bank's interests.

e) Independent Member of the Supervisory Board

Member of the Bank's Supervisory Board will not be considered as an independent member if he/she, or his/her first and second class of heir:

- (1) Was the member of the management board or held other key positions in the bank or in bank's daughter, parent or sister organizations, for the last 5 years;

- (2) Earns compensations in any form from the bank or from bank's daughter, parent or sister organizations, besides the remunerations for being the member of the supervisory board and shareholder's dividends;
- (3) Is in significant commercial relationship³ with the bank in person;
- (4) Owns significant⁴ stake in the legal entity, that has significant commercial relationship with the bank;
- (5) Is a director of the company, where one of the bank's directors is the member of the supervisory board;
- (6) Owns 5 or more percent of bank's shares;
- (7) Is the director, member of the supervisory board or representative of the company that owns 5 or more percent of bank's shares.

f) Combined Supervisory Board

Pursuant to amendments introduced to the Law of Georgia on Entrepreneurs, companies can elect the members of the Management Board into the Supervisory Board, if their charter permits so. Although this form of governance more closely resembles the one-tier governance system inherent to Anglo-Saxon law, these two different mechanisms cannot be identified with each other, as in the Georgian case it is mandatory to have both a Supervisory Board and a Management Board.

g) Holding company

Company, owner of sufficient number shares of the other company (companies) to control the management and operations of that company (companies) by the way of electing or influencing the decision making of the management bodies, is considered to be the Holding Company.

³ Commercial relationships shall be considered important, if it can significantly influence bank's financial position.

⁴ Determined by the acting legislation.

3. Shareholders' Rights

By holding a general meeting of shareholders, the Supervisory Board and Management Board ensure effective and fair relations with shareholders. They should facilitate the participation of as many shareholders as possible in the general meeting's work.

1. The general meeting makes decisions on the bank's most important issues. Shareholders are informed about the venue and date of the general meeting as well as about registration and voting procedures.
2. A notice about the holding of the general meeting as well as an agenda and Supervisory Board and Management Board recommendations on agenda issues should be provided to shareholders in advance so that they can adequately prepare. General meeting discuss only those issues included in the agenda that was sent out together with the invitation.
3. The general meeting shall be conducted in such a way that all shareholders have an opportunity to express their own opinions. Vote-counting shall be transparent and each decision shall be appropriately reflected in the general meeting's minutes.

The Supervisory Board and Management Board shall ensure equitable treatment of all shareholders, including minority and foreign shareholders, and are responsible for protection of their rights.

4. Shareholders of the same share class have the same rights, taking into account the number of shares held and regardless of whether they are local or foreign shareholders⁵. Information about holders of separate share classes should be available to all interested parties.
5. Shareholders should be able⁶ to obtain necessary information from members of the Supervisory and Management Boards, as well as call an extraordinary general meeting of shareholders according to the acting law.
6. Shareholders should be able to cast votes directly or by proxy. Nothing should impede shareholders from voting from abroad or by means of power of attorney issued to another person, nor should it be unduly expensive or cumbersome for them to do so. The SB should adopt internal guidelines facilitating shareholders to vote.

⁵ In interpreting this approach, it should be taken into consideration that some rights are linked to the quantity of votes or shares a shareholder possesses.

⁶ **Repeating Footnote N5** (in interpreting this approach, it should be taken into consideration that some rights are linked to the quantity of votes or shares a shareholder possesses).

7. Shareholders should be able to protect their own rights and, in circumstances considered by the law, claim for compensation of damages.

4. Governing Bodies

(a) *Supervisory Board*

The bank should have an effective Supervisory Boards that determine company strategy and vision. Supervisory Board appoints and monitors the activities of Management Board.

1. Good corporate governance depends on effective and successful Supervisory Board work. The Supervisory Board appoints directors and ensures that the bank's executive bodies function and operate duly and in conformity with the set norms.
2. When determining the Supervisory Board's structure and composition it is essential to consider the bank's size, development perspectives, and risk level. The number of Supervisory Board members should depend on the above considerations and not on the number of shareholders.
3. A number of Supervisory Board members should be independent and an adequate balance should be maintained between representatives of shareholders and independent board members, in order to avoid a specific member's or small group of members', as well and specific shareholder's or small group of shareholders' inadequate dominating influence during the decision-making process.⁷
4. Notwithstanding the Supervisory Board's collective responsibility for all matters within its remit, the Supervisory Board may divide functions and duties among board members with a view of the adequate exercise of its functions. Independent Supervisory Board members should by nature be particularly attentive to objectivity and impartiality regarding the rights of all shareholders and the supervision of executive management.
5. Apart from the functions determined by legislation and by the bank's charter, the Supervisory Board's functions are developing and approving internal by-laws and regulations and instructions related to the bank's activities, succession of supervisory and management board members, remuneration, and information disclosure policies. Also, Supervisory Board should insure the adequacy of its risk management and consents on the bank's annual budget and financial statements to be presented on the general meeting of shareholders.
6. A Supervisory Board member should realize his or her role in the bank's corporate governance and the responsibilities inherent in the board membership. Every member should:
 - a) Perform his/her fiduciary duties with due diligence;

⁷ According to international best practice it is desirable that an independent member of the board be appointed Chairman.

- b) Abstain from decision-making on issues with the conflict of interests and related party transactions;
 - c) Allocate sufficient time and efforts to carry out of his/her duties;
 - d) Avoid involvement in the day-to-day management of the bank.
7. Members of the Management Board attend, upon invitation, Supervisory Board meetings.

(b) Management Board

The Management Board is the bank's executive body, responsible for its day-to-day activities and accountable to the Supervisory Board and the general meeting of shareholders.

1. The Supervisory Board should define the number of Management Board members and the general meeting should approve it. Management Board members are appointed and dismissed by the Supervisory Board.
2. The bank's internal by-laws should enumerate the detailed terms of reference, the rights and responsibilities and the remuneration policy of the Management Board.
3. For the Management Board to operate productively and effectively, it is recommended that:
 - a) All members of the Management Board are given the opportunity to add issues to the agenda for discussion;
 - b) All documents or any other information related to an agenda issue be sent to all Management Board members in full and in a timely manner;
 - c) When an issue is discussed, information about the interests of a related shareholder, Supervisory Board member, Management Board member, or other related person be considered;
 - d) An important decision not be made unless the issue has been reviewed in full and the opinions of all Board members are taken into account.
4. All Management Board members should have free access at any time to information, that would be helpful in a decision-making process.
5. When invited, representatives of other management levels may attend Management Board meetings.
6. Within the framework of values, policies and strategies set by the Supervisory board, Management Board should act in the best interests of all shareholders, beneficiaries, creditors and of the bank itself.

7. It is recommended that a succession policy for directors' exists in the bank; as such a policy would contribute to the smooth replacement of people who hold important positions. A succession policy is important for protecting a bank, its shareholders and other stakeholders from such a state of affairs as unexpected death or resignation of a director.

(c) Combined Supervisory Board

When the Supervisory Board includes directors, the powers and duties of directors (executive members) and other Board members (non-executive members) should be segregated. No director should be elected Chairman of the Combined Supervisory Board.

1. In the case of a Combined Supervisory Board, the availability of an adequate number of independent members becomes very important.
2. It is necessary, in the charter of the bank and internal by-laws, clearly to distinguish between the duties and responsibilities of the executives on the Supervisory Board and those of its other members.
3. Non-executive members of the Supervisory Board should play a major role in supervising executive bodies, approving their reports, and evaluating their performance. Executive members of the Supervisory Board may participate in the review of overall strategy and other procedural issues related to the bank's activities.
4. The bank ensures the appropriate use of the authorities granted to the Management Board and avoids confusion in matters of powers, when the Combined Supervisory Board is in place, between the Management and Supervisory Boards, duplication of functions, inefficient supervision and control of the activities of the bank's executive bodies, and so on.

5. Corporate Secretary

The institution of Corporate Secretary in a bank contributes to the correct and effective working of the bank and its governing bodies.

1. The Corporate Secretary reports to the Supervisory Board and provides informational and administrative support to the bank's governing bodies as well as to shareholders and other stakeholders.
2. The Supervisory Board adopts an internal by-law relating to the Corporate Secretary, providing for a detailed description of his rights and responsibilities, the list of his or her functions, the required background, and qualifications.
3. The Supervisory Board appoints the Corporate Secretary and agrees on contract conditions with him/her.
4. The Corporate Secretary should not be a member of any governing body of the bank, have a decision-making role within it or be otherwise associated with it in a manner that may impede him or her from performing his or her duties in an unbiased way.
5. The Corporate Secretary's main functions include:
 - a) Assist the general meeting, the Supervisory Board (including committees) and Management Board to perform their activities by providing informational and administrative support;
 - b) Produce minutes of the Supervisory Board and Management Board meetings;
 - c) Provide the Supervisory Board and Management Board with advice on corporate documents and procedural issues;
 - d) Cooperate closely with the Supervisory Board and Management Board in preparing and distributing the agenda, organizing meetings, and sending respective notices;
 - e) Plan required training sessions and induction procedures for existing or newly appointed/elected members of the Supervisory Board and Management Board;
 - f) Produce and/or keep all corporate documents, minutes of meetings, and any other important documentation and information;
 - g) Be the connecting unit among shareholders, the Supervisory Board, and the Management Board;
 - h) Organize the general meeting of shareholders. Ensure that all required deadlines and procedures are met for holding the meeting. Ensure to provide responsible person for sending out official invitations with comprehensive information on those issues to be included in the agenda

that are requested by shareholders, members of Supervisory Board or Management Board;

- i) Monitors compliance with legal and regulatory standards relating to corporate governance issued by regulatory bodies or those codes adopted by the bank;
- j) Perform secretarial functions at meetings.

6. Internal Control and Risk Management

The Supervisory Board should ensure the establishment of reliable and effective internal control and risk management systems.

1. At least once a year the Supervisory Board should evaluate the bank's internal control and risk management systems and report about it to the general meeting of shareholders.
2. For purposes of exercising its supervisory function, the Supervisory Board should establish committees from its members. When committees are being established, a bank's size, complexity of business and risks are taken into consideration. However, a committee normally consists of at least three members.
3. At a minimum, the Supervisory Board should contain Audit and Risk Management Committees.
4. In case of Combined Supervisory Board only non-executive members should be the members of Audit Committee. As for other committees, non executives should represent the majority of the members. Committees should include at least one independent member of the Supervisory Board. The Chairman of the Supervisory Board may be a committee member, but not a committee Chairman. When needed a committee may invite independent experts to provide information and advice to committees.
5. Committee activities are regulated by the respective committee by-laws, which are approved by the Supervisory Board.
6. To be effective, committees periodically hold meetings. The committee Chairman approves the frequency and timing of meetings after consultation with other members. The meeting agenda should be prepared in advance and sent to committee members.
7. A committee meeting is validly constituted if more than half of the committee members attend and if at least one of the attendees is an independent member of the Supervisory Board. The results of a committee meeting are reflected in meeting minutes and signed by the Chairman and the Corporate Secretary, if he is prevented, by or another person designated by him.
8. To fulfill their duties effectively, but without disturbing the normal functioning of the bank, committee members should have unlimited access to all internal information and bank documentation. They should closely cooperate with the bank's executive bodies to obtain information about its financial position and risk level and to learn if it effectively fulfills its duties.

9. Committee members should possess appropriate financial backgrounds and work experience in the financial sector. Members that do not have appropriate knowledge and work experience in banking must be adequately trained.
10. The head of the Internal Audit Department and the External Auditor's Representative may attend audit and risk management committee meetings, in addition to members. When certain issues are being discussed, representatives of the bank's executive bodies may be invited.
11. The Audit Committee shall:
 - a) Ensure that the bank's financial statements are reliable. Review the bank's accounting policy and produce respective recommendations;
 - b) Submit recommendations to the Supervisory Board about appointment, replacement, and remuneration of the External Auditor. Ensure the independence, objectivity, and effectiveness of the External Auditor;
 - c) Develop policies and procedures related to the External Auditor's rendering of non-audit services;
 - d) Review the bank's internal control system and evaluate its objectivity and correctness;
 - e) Review and control the efficiency of the bank's Internal Audit Department and develop appropriate recommendations;
 - f) Review the bank's risk management policy and evaluate the adequacy of its risk management systems (when the bank lacks a Risk Management Committee).
12. The bank should have a complete risk management process that identifies, measures, monitors, and controls all major risks. The Risk Management Committee shall define risk management policy and the Supervisory Board shall approve it.
13. The Risk Management Committee shall:
 - a) Contribute to setting risk-related limits;
 - b) Facilitate establishment of risk management systems;
 - c) Monitor risk management systems;
14. The Risk Management Committee should ensure achievement of the following goals:
 - a) The bank's executive bodies should be aware of risks they face;

- b) Risk should be taken within limits the Supervisory Board has approved;
- c) Decisions about taking certain risks should correspond to the bank's strategic goals;
- d) Expected return (profit) should compensate for risk undertaken;
- e) The bank's capital should be adequate in respect of the risks taken.

15. Effective risk management requires the following:

- a) Defining responsibility levels;
- b) Precise risk management strategy and policies that correspond to the bank's goals;
- c) Establishing decision-making parameters for each of the bank's organizational levels;
- d) Decision making on the basis of strict quantitative and qualitative analysis;
- e) Collecting, maintaining, and using comprehensive, timely, and adequate data (information);
- f) Designing a system that gives the bank the opportunity to analyze and/or simulate the impact of changes in economic, business, and market conditions on the bank's liquidity, profitability, and capital.

16. Separation of responsibilities with respect to risk management may be defined as follows:

- a) The Supervisory Board sets risk management policy through the Risk Management Committee;
- b) The Management Board is responsible for implementing risk management policy;
- c) The Risk Management Committee and the Audit Committee (with the help of Internal Audit) examine compliance with the policy the Supervisory Board sets and with corporate governance principles. They also monitor the compliance of risk management processes with the control system;
- d) To make opinion about financial statements, External Auditors evaluate risk management policy and procedures and their practical application (implementation).

17. The bank should have an Internal Audit Department that monitors efficient risk management and evaluates internal control and governance processes in order to help the bank accomplish its set objectives.

18. The Internal Audit Department's main functions are to:
- a) Verify compliance with control measures in place to protect of the bank's assets;
 - b) Reveal deficiencies in the bank's operations and procedures and in its internal control system;
 - c) Analyze compliance with internal policies and procedures and provide for the effective implementation of these policies and procedures;
 - d) Review the External Auditor's scope of work to ensure provision of optimal audit services;
 - e) Prepare periodic reports for the bank's Management Board and Audit Committee that summarize the audit results;
 - f) Provide the bank with consultation and recommendations.
19. To fulfill its functions, an Internal Audit Department should have full, direct, and unlimited access to all structural units, bank records, bank property, and bank information systems.
20. The Internal Audit Department should be objective and independent in its activities. It should be accountable to the bank's Audit Committee, which shall limit interference of management in the activities of the Internal Audit Department.
21. The Internal Audit by-law should define the Internal Audit Department's functions, authorities, and responsibilities. This by-law should be agreed with the Audit Committee and approved by the bank's Supervisory Board.
22. Internal Audit Department employees should have the appropriate knowledge, experience, and skills and should be willing constantly to improve those in order to fulfill their duties.
23. The Internal Audit Department's size and structure should be appropriate for complexity of Internal Audit's goals, the control environment, and the risks the bank faces. The bank's Audit Committee should allow the Internal Audit Department to receive legal, technical, statistical, or other advice and services from external experts.
24. The Audit Committee should prepare recommendations with respect to candidates for the External Auditor and submit them to the Supervisory Board, which should review the proposed candidates and present its choice to the general meeting of shareholders for approval. If the Supervisory Board does not agree with the candidate the Audit Committee proposes it should justify its decision to the general meeting of shareholders.

25. The following criteria should be considered in selecting an Internal Auditor: professional qualifications and experience, resources, independence, compliance with effective legislation and International Standards on Auditing, and remuneration issues.
26. The Audit Committee provides recommendations regarding remuneration for the External Auditor. Remuneration terms and amounts should not depend on the content of the Auditor's opinion.
27. In clarifying and solving various issues the External Auditor should be entitled to contact the bank's Audit Committee without interference from the bank's executive bodies.
28. The External Auditor and leading partner should periodically be rotated in order to maintain the Auditor's independence .
29. The audit opinion's form, content, and submission procedure should comply with the International Standards on Auditing.

7. Information Disclosure and Transparency

Public disclosure of information contributes to market discipline and sound corporate governance. Banks should in a timely manner disclose complete, accurate, and material information about their activities to stakeholders.

1. Information that a bank discloses about its own financial or commercial position should be complete. That is, it should contain all information about the actual and potential outcomes of operations as well as about events that may have impact on the decisions made based on such information.
2. A bank should not disclose inaccurate information, that is, information that contain errors or distorted figures that may have impact on an information user.
3. Information that a bank discloses should be material, meaning that its omission or misrepresentation may influence the decisions of information users and stakeholders.
4. A bank should disclose information in a regular and timely manner so that investors, depositors, clients, shareholders, creditors, and other stakeholders can formulate an informed point of view about its activities, including bank's risk profile and the efficiency of the risk management process.
5. Information policy should contribute to the protection of a bank's confidential information. A bank should undertake all necessary measures to protect its confidential information by establishing procedures for using and retaining such information. It should develop a list of confidential information for the purpose of balancing transparency with its commercial interests and should have an effective information policy approved by the Supervisory Board. This policy should establish principles, procedures, and basic elements of information transparency.
6. A bank should determine which officials or units are entitled to disclose information to investors, depositors, clients, shareholders, creditors, and other stakeholders.
7. For the purpose of disclosing information a bank should use means of communication that are convenient for depositors, clients, creditors, investors, shareholders, and other stakeholders, and that will ensure equal, timely, and cheap access to information. The Supervisory Board with the assistance of the Audit Committee should oversee fulfillment of the bank's information transparency procedures.
8. Information disclosure should be proportional to the bank's size, complexity of business, ownership structure, and risk profile. Information that should regularly be disclosed includes the following:
 - a) The bank's goals, values, and strategy;

- b) Ownership structure (owners of controlling shares, voting rights, beneficiary owners, shareholdings of members of the Supervisory Board and Management Board, holding structure, and cross-holdings of shares within the holding structure);
 - c) The full package of audited annual financial statements;
 - d) Quarterly reports;
 - e) Information about the Supervisory Board and Management Board (members, their experience and qualifications, their material interests in the bank's important transactions, their remuneration);
 - f) The bank's organizational structure (its general organizational chart, including business relations, the Supervisory Board and its committees, the Management Board, bank subsidiaries, and structural units);
 - g) The content and scope of transactions with related parties;
 - h) Information related to the general meeting of shareholders (including the next meeting and its agenda);
 - i) Information on internal documents (such as the charter and documents pertaining to the general meeting of shareholders, the composition and qualifications of the Management Board, the Supervisory Board and its committees, the Corporate Secretary, dividend policy, and conflicts of interest and transactions with related parties, as well as the relevant Code of Corporate Governance, if such exists, and documents pertaining to information policy, risk management policy, the Code of Business Conduct or/and Ethics, and so on).
9. If any of the below-listed events occur during a year, they have to be publicly disclosed:
- a) Increase or decrease of share capital;
 - b) Issuance of bonds or other securities;
 - c) Purchase of a bank's own shares;
 - d) Significant changes in ownership structure;
 - e) Transactions that may have a significant impact on market price of shares;
 - f) Any significant legal proceedings likely to affect the future of the bank (including those related to bankruptcy or seizure of assets);
 - g) Change of the securities registrar or depository;

- h) Introduction or removal of securities respectively to or from public trading;
- i) Rating assigned to the bank by an independent rating company.

8. Evaluation and Remuneration of Governing Bodies Members

(a) Evaluation

Evaluating the bank's governing bodies is one of the most important ways of improving corporate governance. The Supervisory Board should establish evaluation methods and criteria and how frequently the evaluation is to occur.

1. The Supervisory Board may evaluate board members individually, or assess the board as a whole. Evaluation shall assess whether the interests of governing body members are aligned with the bank's long-term interests.
2. When evaluating governing bodies the following criteria may be used: whether they accomplish the objectives the bank sets itself, the experience and background of the members, whether members participate in meetings and in the decision-making process, the level of protection of shareholders' rights, and so on.
3. All members of governing bodies should participate in the evaluation process, including independent members of the Supervisory Board, although none of them shall take part in self-evaluation.
4. The Supervisory Board shall develop a by-law or instruction regarding evaluation. The process of evaluation, including its results, shall be confidential.
5. Evaluation of governing bodies should be performed on an annual basis.

(b) Remuneration

Remuneration of members of the bank's governing bodies should be sufficient, but not unjustifiably high, in order to attract, maintain and motivate them. Remuneration of the governing bodies' members shall be based on the bank's long term results as well as on members' individual performances.

1. Remuneration of governing body members shall be determined in conformity with remuneration policy. When determining remuneration of members their duties and responsibilities should be taken into account as well as the bank's financial position and the positions of its competitors.
2. When setting remuneration policy pertaining to governing body members, the bank's corporate culture, long-term goals, strategy, and control environment should be taken into account.

3. The Supervisory Board develops remuneration policy and submits it for discussion to the general meeting of shareholders. The meeting shall also be informed about significant recent changes to remuneration policy and all those cases when deviations from the policy took place, indicating the reasons for the deviations.
4. That portion of the remuneration policy that relates to remuneration of governing body members with bank shares and/or stock options shall be submitted to the general meeting of shareholders for approval. General remuneration principles and not the remuneration of individual members is subject to approval.
5. Remuneration policy shall cover or include the following information:
 - a) An explanation of the fixed and variable components of remuneration;
 - b) The maximum limit set for each remuneration component.
 - c) Criteria for determining the performance of governing body members;
 - d) Links between remuneration and short term/long term performance;
 - e) The terms and parameters of the annual bonus system;
 - f) Other non-monetary remuneration (shares, stock options, insurance, pension schemes, severance arrangements, and so on)
6. Remuneration policy pertaining to governing body members shall be clear, transparent, and disclosed to the bank's shareholders and other stakeholders.
7. For the purpose of information disclosure, a separate report may be prepared or the information can be disclosed as part of the annual report and posted on the bank's website.
8. Remuneration Committee may be established within the Supervisory Board. It will be responsible for evaluating the bank's governing bodies and making sure that effective and transparent policy is followed. The Committee shall be created and shall function according to the principles set forth for other committees described in this Code.

9. Conflicts of Interest

Members of the bank's governing bodies should insure that adequate policies and procedures are in place to avoid conflicts of interest in their activities, and if conflict of interests arises governing body members should disclose it and abstain from participation in the relevant decision-making process.

1. A conflict of interest is a situation in which a person or corporation occupies a position by means of which it is possible to gain personal or corporate benefit beyond normal contractual resulting from engagement with the bank. Transactions with related parties should be considered as conflicts of interest.
2. A conflict of interest arises when a bank employee makes a decision with respect to a specific transaction even as that employee or a related person is counterparty to that transaction. Personal interests should not be considered when business decisions are being made. Members of bank governing bodies should in cases of conflicts of interest fully disclose all required information to the relevant governing body.
3. Conflicts of interest should be disclosed in a public annual report. Transactions among members of a holding company to which the company belongs should also be disclosed. The bank should also disclose those internal by-laws or instructions that apply to conflicts of interest.

10. Corporate Governance for a Holding Company

A holding company should be structured so that the interrelationships between constituent companies and owners are clear to all shareholders, partners, and other stakeholders.

1. A holding company requires more complex corporate governance mechanism in order to ensure that the holding organization functions in a transparent and organized manner.
2. Setting and enforcing a general policy for a holding company and affiliated companies of holding group as a whole is appropriate if the holding company's Supervisory Board (or Management Board if the holding company does not have a Supervisory Board) is assigned to fulfill this function with the assistance of the Supervisory Boards (or Management Boards if companies do not have Supervisory Boards) of the companies constituting the holding group.
3. The holding company's Supervisory Board (or Management Board if the company does not have a Supervisory Board) is authorized to request at any time all the documents and information that may be related to a member company of a holding company and the resolution of potential problems.
4. A holding company to which a bank belongs should be especially transparent, so that any shareholder, partner, or other stakeholder is able to understand:
 - a) The holding company's main business directions;
 - b) The holding company's beneficiary owners;
 - c) The ownership structures of the holding company and its member companies, plus information on shareholders and their interrelationships;
 - d) The financial position and financial interrelationships of the holding company and its members;
 - e) The risk profiles of the holding company and its member companies;
 - f) The control and risk management mechanisms of the holding company and its member companies;
 - g) The business, financial, and other interrelationships among the holding company's members;
5. The bank's membership in the group should not impede the bank's Supervisory Board from exercising the powers and duties assigned to it by the law and by the bank's corporate documents or from protecting the interests of its shareholders, partners, clients, and other beneficiaries. The bank's Supervisory Board should be responsible for making sure the bank's participation in the group is legal. Its participation in the group should not restrain it from exercising its authority over its assets and liabilities, and its revenues and expenses, or from defining its own risk profile separately from the group's general risk profile.

6. The bank's membership in the holding company should not impede the bank supervising authorities from exercising their activities with respect to the bank.

11. Corporate Governance and Stakeholders

The governing bodies shall ensure that the bank has an effective relationship with its stakeholders, one consistent with principles of transparency and accountability and with business ethics.

1. Certain interested persons or groups of them are directly influenced by the bank and can influence it in turn. Among them are: the bank's depositors, creditors, customer, employees, and suppliers, plus various public groups, regulator and so on.
2. The Supervisory Board or Management Board shall develop policy that takes into account the interests of stakeholders and ensures adequate degree of disclosure.