

Approved by the decision of the
Management Board of the Central Bank of
the Republic of Azerbaijan
dated “__” _____ 2024
Protocol № ____

Recommendations on Corporate Governance Standards in banks

1. General provisions

1.1. These Recommendations have been developed in accordance with the Principles for Enhancing Corporate Governance issued by the Basel Committee considering international corporate governance practice in addition to the corporate governance standards specified in the legislation.

1.2. The main objective of these Recommendations is to enhance corporate governance in banks and further align banks' corporate governance frameworks to international standards to support effective functioning and stability of the banking sector.

1.3. The definitions used in these Recommendations bear the meanings specified in the Standards.

2. Composition of the Supervisory Board

2.1. In systemically important banks the chairperson of the Supervisory Board is appointed from among independent members of the Board.

2.2. In banks other than systemically important banks, if the chairperson of the Supervisory Board is not an independent member of the Board, then the bank:

2.2.1. designates a lead independent member from among independent members of the Supervisory Board (if the number of such members is more than one).

2.2.2. appoints the lead independent member (or, if there is only one independent member, that member) as the deputy chairperson of the Supervisory Board.

2.2.3. in the event of a conflict of interest involving the chairperson of the Supervisory Board, delegates the powers of the chairperson to the lead independent member (or, if there is only one independent member, to that member) by the decision of the general meeting of shareholders.

2.3. In all subsequent and extraordinary Supervisory Board meetings, the independent member(s) of the Supervisory Board should participate in the discussion of agenda items, except in cases of justified absence.

2.4. In addition to the requirement of Item 6.2 of the Standards, the Supervisory Board is composed of members from various age groups. At least a quarter of the members of the Supervisory Board (at least one person) should be from the opposite gender.

2.5. Supervisory Board members should have professional expertise in one or more of the following areas, depending on activities of the committee(s) to which they belong: auditing, risk management, financial management, strategic planning, remuneration, corporate governance, information technologies, information and cybersecurity, sustainable finance, and other relevant fields.

3. Performance evaluation

3.1. The Supervisory Board regularly evaluates its composition and that of its committees to support new perspectives and the achievement of bank's strategic objectives, as well as to ensure the alignment of members with activities of the Board and its committees.

3.2. The bank should have self-assessment procedures in place for the evaluation. These procedures outline the requirements for the Supervisory Board, its committees, and individual members to conduct self-assessments at least once a year, as well as undergo evaluation by an independent external expert at least once every three years, including the criteria for selecting the external expert.

3.3. In banks where the chairperson of the Supervisory Board is an independent member, the self-assessment is conducted by the chairperson of the Supervisory Board; in other banks, by the lead independent member (or, if there is only one independent member, by that member).

3.4. As a result of the evaluation, the Supervisory Board rotates chairpersons and members of its committees as necessary.

3.5. Evaluation results are used to support the continuous development of Supervisory Board's activities. The Supervisory Board approves an action plan to address any deficiencies identified in evaluation results. This plan also includes training aimed at enhancing professional knowledge and skills of Board members, including their capacity building in bank management and banking supervision.

4. The Audit Committee and internal audit unit

4.1. The chairperson of the Audit Committee is appointed from among independent members of the Supervisory Board (except for members who hold up to 2% of the bank's preferred shares).

4.2. At least 2 (two) members of the Audit Committee should have a minimum of 5 (five) years of work experience in auditing.

4.3. The head of the internal audit unit and its staff should hold an international internal audit certification. The timelines, levels, and types of international certification are determined by the bank in accordance with its internal rules, staff profiles, and audit plan.

4.4. The head of the internal audit unit and other staff members submit an independence declaration to the Audit Committee once a year. The declaration states whether there are any circumstances that could impair the material and non-material independence of the staff, any conflicts of interest with individuals in senior management positions at the bank, as well as any instances of bias during the audit.

5. Oversight of structural units and the compliance function

5.1. The same member of the Management Board does not oversee structural units related to different lines of defense.

5.2. Systemically important banks establish a Compliance Committee and appoint a Chief Compliance Officer.

5.3. In accordance with the requirements of sub-items 13.1-1 and 13.7.2 of the Standards, the structural unit engaged in the compliance function may not simultaneously carry out executive tasks (e.g. court proceedings, etc.).

6. Data publication

6.1. In accordance with the requirements of sub-item 19.3.2 of the Standards, the general information disclosed about the bank and its activities also takes into account the requirements of the "Sustainable Finance Principles" approved by the Central Bank.

6.2. In accordance with the requirements of Item 2.4 of Annex 1 of the Standards, the disclosed information additionally includes the selection criteria for bank's governing bodies and officials, substitution procedures, and the training and development policies related to them.

6.2. By July 15 of each subsequent year, the bank discloses on its website the information on remuneration for the previous financial year as specified in Annex 1 of these Recommendations.

Annex 1 to the 'Recommendations on corporate governance standards in banks'

№	Form of remuneration	Supervisory Board	Independent external member of Supervisory Board committees	Management Board	Other special category staff
1	Number of staff				
2	Fixed reward			X	X
3	Variable reward (3.1+3.2)	X	X		
3.1	In the form of cash, including	X	X		
3.1.1	<i>deferred portion</i>	X	X		
3.2	In the form of stocks and other financial instruments, including	X	X		
3.2.2	<i>deferred portion</i>	X	X		