



# **Regulation and supervision in corporate governance of the Russian banking sector: key indicators, contradictions, and efficiencies**

**Case company: PJSC Sberbank**

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**Abstract**

Governance of banking activities in the broadest sense is a multifaceted and complicated process. There are many problems and obstacles to create effective corporate governance systems for any commercial organization, including financial ones. The corporate governance of the financial sector is a very challenging issue. Over the past few years, this topic has deservedly received increased attention worldwide.

The object of the study is the corporate governance system of Sberbank of Russia PJSC and its quality assessment. The subject of the study is a set of external and internal relationships that arise in the process of regulation and supervision in corporate governance.

Many professionals in the field have been studying certain issues of proper corporate governance systems in Russian banks. However, the problem is studied insufficiently. Many of its aspects, including the basic ones, remain debatable and require further, more profound, and comprehensive research. The topic required a comprehensive study and analysis. Considering the significance of the designated topic both for the banking sector and the economy, the relevance of the chosen topic is beyond doubt.

The research purpose is a practical assessment of the regulation and supervision system in a commercial bank's corporate governance system on the example of PJSC Sberbank. To achieve the intended goal, the study was focused on the following tasks: reveal the essence of corporate governance and its features in credit institutions; review the key principles of corporate governance; determine the approaches of the Bank of Russia to the regulation of corporate governance in Russian banks; characterize the corporate governance system at PJSC Sberbank and evaluate its quality; identify problems and areas for improving corporate governance in credit institutions on the example of the selected company.

The research uses general scientific descriptive research methods with content analysis as comparative legal, analytical, economic-statistical, graphic, and others. Namely, the explanatory study with quantitative numbers focusing on the deductive approach is used. The bachelor thesis includes an introduction, literature review, methodology, research result, conclusion, references, and appendices chapters.

The theoretical and methodological basis of the work is licensed educational and scientific literature and periodicals. Data that formed study results were taken from Sberbank's annual report 2020 and the official

## Description

website and video materials from official conferences of the case company. In addition, corporate legislation and corporate governance practice are used for the study.

Within the framework of this study, the most significant problems in the corporate governance of Sberbank were studied and analyzed. Therefore, this research aimed to expand the existing knowledge on successful corporate government practices together with its possible difficulties, specifically for commercial banks operating in Russia. Finally, the study has contributed to the literature of the given topic.

## Keywords/tags (subjects)

corporate governance, supervisory board, regulation, commercial bank, Russian banking sector.

## Miscellaneous (Confidential information)

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# **1 Introduction**

In the economy of any country, the banking sector plays a critical role. Banks are financial institutions that provide services to both individuals and corporations. They play the role of financial institutions that accept deposits, make commercial loans, and provide other services. A range of deposit accounts, such as checking, savings, and time deposit, are available at commercial banks. The majority of banks exist to generate a profit. As a result, commercial banks' principal purpose is to make money. At the same time, banks serve as crucial economic intermediaries. Banking activities aid in the production, distribution, exchange, and consumption of goods and services in the economy. As a result, banks contribute to economic development by offering services ("Financial Institution (FI) Definition with Examples", 2022).

The banking sector's governance system refers to a set of organizations and structures of authority to allocate and manage capital resources and control banking activities in the economy. The banking sector's effective governance improves the company's performance and provides economic stability, strengthening the economy as a whole. This study examines and analyzes the Russian bank PJSC Sberbank's governance system to find its best practices. In this research, the author also aims to identify areas for the improvement of the case company's corporate governance. The study outcomes would be of value for companies in a similar field.

## **1.1 Research background**

Such important missions as ensuring the efficient operation of the company, building in-company relationships by corporate goals, and maintaining a balance between the interests of shareholders, investors, and its stakeholders and managers - all these goals and objectives relate to the area of the corporate governance system. Corporate governance has a significant impact on the efficiency of any company, including commercial banks. It is a vital part of any contemporary business. Successful competitiveness in the banking sector is directly related to the level of efficiency of the corporate governance system. Proper corporate governance system is an essential element of any organization wishing to succeed in its activity. Building a balance in relations between investors, managers, shareholders, company employees, local authorities, partner companies, company customers, and the population of nearby towns is one of the functions of corporate governance. All participants in this relationship share common goals. This authority is also responsible for planning

functions, namely, defining short-term and long-term goals and objectives, and organization, for instance, organizing the structure of a joint-stock company.

Furthermore, company management has a leadership and control function. However, the primary goal of corporate governance is to manage and coordinate the company's activities in the interests of shareholders, who are the primary source of financial resources for the company in many cases (Anheier & Baums, 2020). In particular, shareholders can affect the following aspects of the business:

- ( i ) The prestige of the company;
- ( ii ) Provision of high-quality services;
- ( iii ) Possessing an impeccable reputation;
- ( iv ) An increase in the value of the company's assets, both tangible and intangible;
- ( v ) Growth of the company's shares and ensuring their payment with dividends;
- ( vi ) Job creation and positive impact on economic growth (IFC, n.d.).

In addition to the preceding, corporate conflicts may arise due to competing interests among participants in a company's corporate governance system. For such cases, effective corporate relations imply the existence of structures and processes provided for resolving conflict situations. Many companies use their corporate governance codes to define rules based on which the business is being managed and run. The board of directors of the corporation is in charge of approving it. What is more, they are the ones who allocate the power among the company's shareholders and stakeholders, and they define the level of influence on the business of each party, e.g., shareholders, board of directors, and executive managers. Besides, the board of directors also decides on the amount of reward for each party (IFC, n.d.).

## **1.2 Motivation for the study**

Having a perfectly functioning corporate governance system is undeniable for any modern company that wants competitive power. It supports the business in maintaining effective communication between leaders and shareholders of the company. Corporate governance can also be compared to strategic management in its functions and characteristics. The latter, in turn, is aimed at the effective development of the company. The motivation for choosing the current topic for the research is associated with the recent rebranding and significant successful growth of PJSC Sberbank. Nowadays, clients are waiting to get not just the usual banking service; they are expecting



to get a whole range of services in one place to save such an essential resource of today as their time. To survive in such a highly competitive environment, there is a need to be not just a financial institution but also offer a massive range of services in one place, on one digital platform. At the online conference of Sberbank, the first deputy chairperson of the bank's management Board, Lev Khasis, confirmed the correctness of the decision which was made back in 2017 to approve the strategic development of Sberbank's digital services and to start the implementation process of a digital ecosystem "bank-client" based on various services which PJSC Sberbank offers today (TASS, 2020). During the conference TASS (2020), statistics from the mobile application "Sberbank Online" show that those services were in great demand, especially during the pandemic. Recently PJSC Sberbank of Russia changed its name to PJSC Sber. The company has introduced many services, such as a pharmacy, a taxi aggregator, supermarkets, and educational platforms.

All the recent successful implementations of the company mentioned above motivated the author to analyze the corporate governance of PJSC Sberbank to understand what practices impacted the company's successful growth and development. Determination of the best practices of Sberbank as well as its weak sides concerning corporate governance of the banking sector could be helpful for banking organizations and regulatory agencies to guide the actions of directors and managers to develop their companies.

### **1.3 Research questions and objectives**

Governance of banking activities in the broadest sense is a multidimensional and complex process. In this regard, many components of this process related to more or less serious and acute practical problems require in-depth study. In terms of creating effective management systems for all commercial organizations, including credit ones, one of these urgent problems is the problem of corporate governance that has taken on added importance all over the world. This problem needs a comprehensive study, which can be essential for the stable functioning of the country's entire banking sector and ensuring the growth of its competitiveness and the practical performance of its unique role in the reproduction process. Many aspects of the problem of corporate governance, including the basic ones, remain debatable and, therefore, require further, more profound, and more comprehensive research. Considering the significance of the designated topic both for the banking sector and the economy, the relevance of the chosen topic is beyond doubt. The purpose of the study is an analysis and practical assessment of the system of regulation and supervision in

the corporate management of a commercial bank using the example of PJSC Sberbank. To achieve the intended goal, the following objectives were set for the research:

- ( i ) To explain the essence of corporate governance and its features in credit institutions.
- ( ii ) To determine the approaches of the Bank of Russia to the regulation of corporate governance in Russian banks on the example of PJSC Sberbank.
- ( iii ) To characterize the corporate governance system in PJSC Sberbank of Russia and evaluate its quality.
- ( iv ) To identify problems and directions for improving corporate governance in PJSC Sberbank of Russia.

Nowadays, a significant number of studies about corporate governance practices exist. Furthermore, there are various examples of successful implementation of these practices and information about businesses' obstacles. However, the corporate governance system and board of directors' structure of PJCS Sberbank needs to be studied due to the recent rebranding, renovations, and updates of the case company. To reach the research goal and conduct the analysis of the chosen topic, the paper will focus on the following principal research questions:

- ( i ) What can be learned from the Russian corporate governance system of the banking sector on the example of PJSC Sberbank?
- ( ii ) What are the core characteristics of the corporate governance system of the Russian banking sector?
- ( iii ) What are the strength and weaknesses of the corporate governance system of the Russian banking sector?
- ( iv ) How to prevent the corporate governance sector of the company from possible difficulties?
- ( v ) How can the effectiveness of the corporate governance system of the Russian banking sector be improved?

It is important to note that the primary goal of the thesis is to distinguish the most significant challenges from the whole list of problems, determine the sources of their occurrence, describe their impact on the corporate governance system of PJSC Sberbank and give practical recommendations for further work. The study of problems and weaknesses and the study of successful and innovative corporate governance practices of Sberbank of Russia will be the basis of the work.

## 1.4 Thesis structure

The structure of the current research work is formed to display each stage of the research done step by step. The thesis consists of five chapters. The first chapter of the study is the introduction part. Its main aim is to describe the importance of the chosen topic, interest in it, and discuss reasons for choosing it. The researcher included the background of the research subchapter, motivation for the research, research objectives and question part, and the thesis structure in the first part. Next comes chapter number two, which presents the literature review part of the current study. It plays a significant role in acquainting readers with the theoretical background of the chosen topic. Concepts, definitions, and literature reviews produced previously on this topic have been included in the second chapter in the following subchapters:

- ( i ) Banking system
- ( ii ) Corporate governance
- ( iii ) Corporate governance in the banking sector
- ( iv ) Board of directors
- ( v ) Corporate governance issues for banks

The third chapter is dedicated to the methodology of the thesis. The author describes the methods chosen for data collection, accompanied by the data analysis process and the validity and reliability subchapters. The next chapter is named "Research Results", it reveals the results and findings of the current study and presents the analysis research questions and answers to them. In the fifth and last part, titled "Conclusion," the findings described in previous sections are reviewed and assessed in light of the research questions and objectives.

## 2 Literature Review

This chapter aims to build a theoretical basis for this work. The literature review chapter introduces the reader to the terminology and theories that have been used in the creation of this work. Main concepts are studied and presented in this chapter to further analyze the case company.

The researcher believes it is crucial to introduce concepts of the given topic and settle and define notions related to the research topic. Moreover, the mentioned steps are pivotal for analyzing the unique corporate governance practices of PJSC Sberbank. Additionally, the corporate governance of the Russian banking sector today, in general, is explained.

## 2.1 Banking system

Before going deeper into the research topic, it is crucial to start the theoretical research part by introducing key concepts and notions to readers to acquaint them with these basic concepts and provide a complete picture of the given topic. It is necessary here to clarify exactly what the banking system means.

In one of the financial dictionaries, the term "banking system" is defined as follows:

a network of commercial banks and other more specialized banks (investment banks, savings banks, merchant banks) that accept deposits and savings from the general public, firms, and other institutions, provide money transmission and other financial services for customers, operate loan and credit facilities for borrowers, and invest in corporate and government securities. ("banking system", n.d.)

Classification of banking systems can be carried out according to various criteria. Thus, depending on the type of banking relations in society, it is customary to distinguish between three types of banking systems in international practice: two-level banking system; centralized state banking system (USSR and other previously socialist countries); decentralized banking system (Kazimagomedov, 2010, pp. 57-130). In the two-level banking system, the first level is represented by the Central bank. Veshkin and Avagyan (2004) state that at the second level, the following commercial banks of various types operate: universal and specialized banks, savings banks, mortgage banks, banks consumer credit, industry banks, in-house banks), non-bank credit organizations (investment companies, investment funds, insurance companies, pension funds, pawnbrokers, trust companies).

Even though Central Banks are presented in nearly every country, Balabanov (2016, pp. 401-543) suggests that they all differ significantly by the socio-economic, financial, political, and juridical development of the particular country they belong to. Veshkin and Avagyan (2004) suggest distinguishing Central Bank forms in terms of ownership of capital. As such, the Central Banks are divided into state, joint-stock, and mixed. In State Central Banks, 100% of the capital belongs to the state. In some countries, central banks were created as state banks from the very beginning (German Federal Bank and the Bank of Russia). Another group of central banks was first private, for instance, the Bank of England and Bank of France. Later, they were nationalized. In joint-stock

central banks, the capital is formed from the founders' contributions. To exemplify, the United States Federal Reserve is a joint-stock central bank. In mixed central banks, capital is formed by the private sector together with the state. A prominent representative of this group of central banks is the Bank of Japan, 55% of the authorized capital of the central bank of Japan belongs to the state. The leadership of the Bank of Japan is appointed by the government and approved by the country's parliament (Veshkin & Avagyan, 2004, pp. 9-11).

The main objectives of the central bank (the first level of the system):

- ( i ) protection and stability of the national currency;
- ( ii ) development and strengthening of the national banking system;
- ( iii ) ensuring efficient and uninterrupted operation payment system.

The Russian Federation's banking system is composed of several interconnected components. It consists of credit institutions, such as commercial banks. It also includes the central bank, banking legislation, and infrastructure (Balabanov, 2016).

Ministry of Justice of the Russian Federation (1990) reports that the Russian financial system consists of "the Bank of Russia, credit institutions, as well as branches and representative offices of foreign banks". A considerable amount of literature has been published on the banking system, according to which the Russian banking system consists of two levels. At the first level is the Central Bank of Russia, which is responsible for issuing money, supervising, and monitoring compliance with legal requirements. Commercial banks, credit organizations, and foreign bank representatives offices serve at the second level (Zhukov, 2014). According to Federal Law No. 86-FZ, "On the Central Bank of the Russian Federation (Bank of Russia) ", the functions of the Central Bank are divided into the following categories: Conduct of Monetary policy, Monopoly of issuance of currency, acts as a "the bank of banks", "bank of the government", moreover, there are some external functions, publishes the official foreign exchange rate against Russian ruble, represents Russian interests in international monetary and financial institutions when dealing with central banks from other countries (Ministry of Justice of the Russian Federation, 2002).

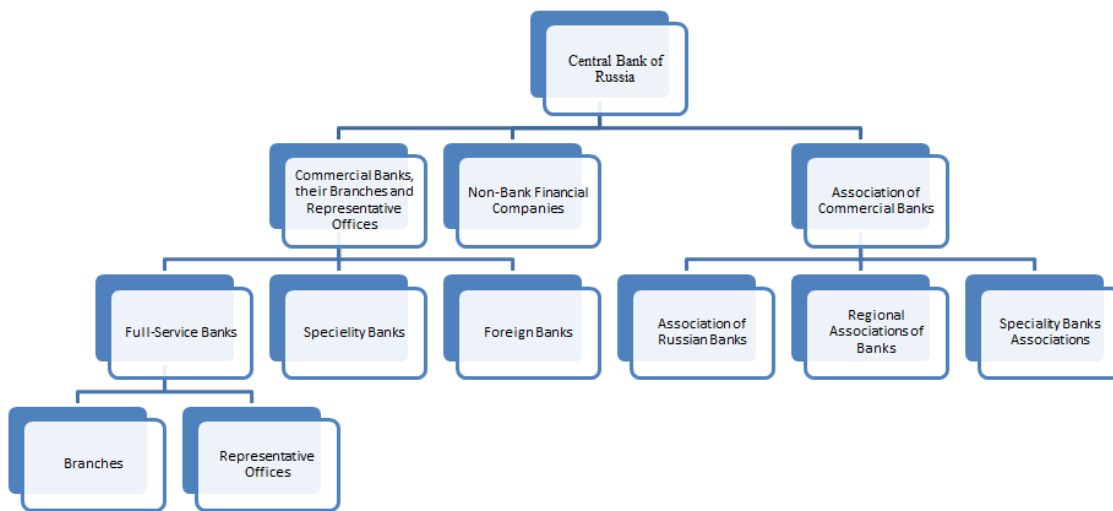


Figure 1 The Structure of the Banking System of the Russian Federation ("The banking system of the Russian Federation", n.d.)

## 2.2 Corporate Governance

Corporate governance is primarily regarded as an integral part of the stable functioning of the country's entire banking sector and ensuring the growth of its competitiveness and the effective implementation of its unique role in the reproductive process. "Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole" ("Corporate governance principles for banks", 2015). Even though modern specialists are widely using the concept of corporate governance in their respective spheres of competence, no official definition has been widely agreed upon. Although, it is significant to indicate that there are numerous definitions of corporate governance in the legal and economic literature. Nevertheless, many experts give their description of this concept, which reflects its essence. Therefore, a renowned expert in trading, investments, and global market strategy, the former director of investing and trading content at Investopedia, James Chen (2021), suggests that the management and control of firms are carried out using the concept of corporate governance. The latter includes examples of practices, processes, and a list of rules. Notably, one of the main objectives for achieving successful and effective corporate governance practices is finding and further building a balance between company stakeholders.

Thus, the balance must be established between a company's investors, shareholders, customers, the government, suppliers, the local community, and senior management executives.

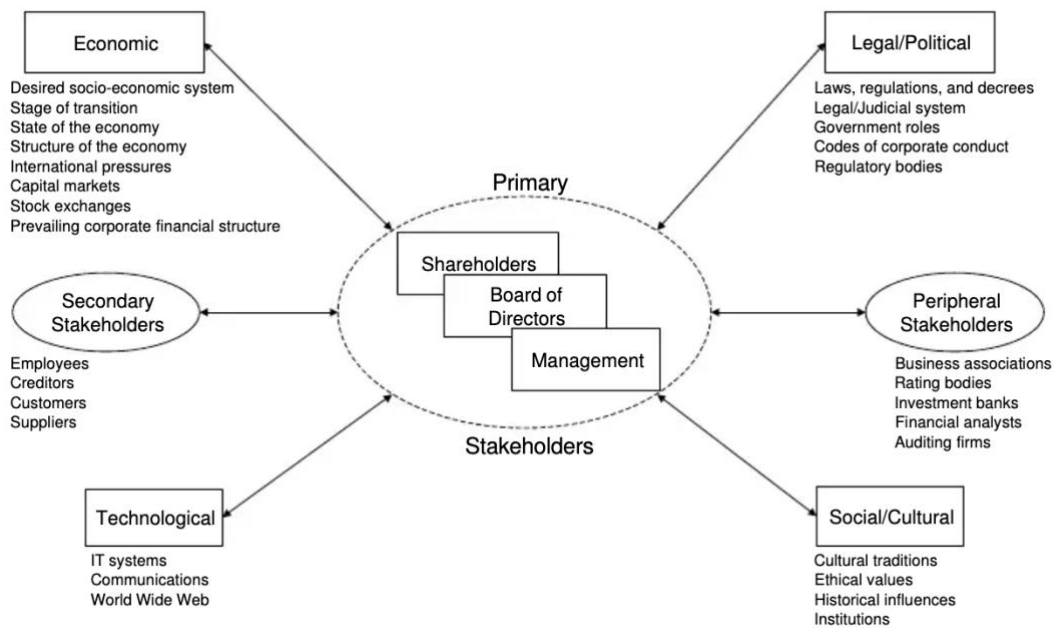


Figure 2 Corporate governance in Russia: an analytical framework (McCarthy & Puffer, 2003)

According to Cadbury (2002), author of research publications in the eponymous field of study, corporate governance is a system of leadership and control over a company's activities. It is believed that the necessity for an effective corporate governance structure has arisen due to the separation of ownership and managerial control. Child and Rodrigues (2004) offer that the corporate governance system is made up of two types of agency relationships: shareholders and management, and employees and management.

Murphy (2003), the president of the corporate governance committee and the securities and exchange commission of India, states that corporate governance is a whole concept or notion rather than a separate instrument. The given idea consists of discussing the company's governance and control structures and the rules for the division of powers between the company owners, its board of directors, the executive body and employees, suppliers, customers, and society at large.

Corporate governance is defined by the Basel committee (2012) on banking supervision as a system of interactions between an organization's senior management, its supervisory board, owners, and other stakeholders that serves as a framework for setting and monitoring the organization's objectives. Such a structure enables the distribution of authorities and responsibilities to be organized. Moreover, it helps the development of a corporate decision-making process.

In 2004, the OECD released an updated list of corporate governance principles. They are mainly based on shareholder values. According to Krafft & Ravix (2005), the latter focused on reconciling information differences between management and shareholders, financial problems depending on how management changes, and generalizing the organizational structure within the company. By following the given principles, companies have the opportunity to improve their corporate governance structure. In addition, Lehmann et al. (2004) suggest that the corporate governance structure can influence the bank's investment, growth, and profitability. Therefore, a firm's productivity will rise due to having a solid corporate governance system.

The OECD and the Moscow Exchange inaugurated the OECD Russia corporate governance Roundtable in December 2011 ("Corporate Governance in Russia - OECD", n.d.). The Roundtable supports Russia's measures to overcome corporate governance concerns and construct a robust legal and regulatory framework, building on a long-standing partnership among both Russia and the OECD. The concepts and guidelines on corporate governance are included in the Bank of Russia's corporate governance code, which was adopted by the board of directors. This code reveals the basic principles of the most successful corporate governance practices and gives recommendations on the behavior of Russian companies to improve their efficiency of companies and achieve sustainable development. It is important to note that adherence to the principles set out in this code is voluntary. Its main task is to attract the interest of existing and potential investors to the company. As for the structure of the code, it contains two parts. The first contains the basic principles of corporate governance, and the second includes recommendations that clarify the mechanisms and methods for the implementation and implementation of the principles of the Code (Consultant Plus, 2014). An efficient corporate governance model must follow the concepts of openness, accountability, fairness, and social responsibility ("Corporate Governance in Russia - OECD", n.d.).

## **2.3 Corporate governance in the banking sector**

Corporate governance has a strong influence on the behavior, performance, and resource allocation within the company. The urgency of the problem of corporate governance in the banking sector has always been of great importance since the future of the country's banking system as an integrated whole depends on its effectiveness. What is more, corporate governance challenges in financial institutions are becoming even more critical in the latest days. All of which have something to do with the nature of corporate governance along with the peculiarities of banking.



In the banking sector, corporate governance refers to the distribution of powers and responsibilities, or how a credit institution's supervisory board and executive bodies manage the business, specifically: whether they determine strategies for the credit institution; whether the interests of depositors are protected by them, and whether obligations to shareholders together with the interests of other stakeholders are being met (Sidorova & Zubrilin, 2016).

The unique nature of banking activities involves a low proportion of own funds in bank liabilities and a considerable proportion of funds raised from other sources, including private depositors. The need to defend their interests justifies discussing the vastly greater importance of bank creditors and depositors as corporate governance subjects when compared to enterprises in other sectors of the economy. A well-structured corporate governance framework improves the bank's economic performance, as well as its ability to raise money for its further development. The following are the primary objectives of corporate governance: (1) Increase the company's capitalization (business value) as a result of an increase in the share price, including through mergers and acquisitions; (2) Maintain a balance of interests among the company's owners, management, and other stakeholders.

Banks' corporate governance practices differ from that of other corporations for various reasons. Government authorities supervise and set specific rules for banks. At the same time, supervision is also exercised by the buyers of these banks' securities. Fiduciary links exist between the bank and its clients, resulting in additional relationships and agency fees. Another distinguishing feature and specificity of a bank is the increase in social costs in the event of bankruptcy, which subsequently affects the behavior of regulators and other banks. At the same time, other types of legal entities do not face these difficulties in bankruptcy. Banking laws and safety net policies influence the behavior of bank owners, managers, and customers significantly; regulations can be counterproductive, resulting in unwanted management behavior (higher risk), putting the bank's stakeholders (particularly depositors and owners) at danger. Furthermore, finally, the number and variety of stakeholders make the process of governance for financial institutions, in particular banks, more complicated.

It is important to take into consideration that the corporate governance model of the bank is determined based on the goals of the bank, which often differ. Thus, there is no single effective corporate governance model equally for all. This provision is also due to the fact that, depending on the goals and objectives, the bank is monitored by different supervision systems.

## 2.4 Board of directors

The board of directors is a crucial element of corporate governance. The relationship between the participants in corporate governance and critical decisions largely depends on it. It is necessary here to clarify the role and functions of the board of directors in corporate governance.

Chen (2021) defines the board of directors as "an elected group of individuals that represent shareholders; A board of directors is elected by shareholders". This authority plays a role of a strategic management body whose main task is to carry out general guiding management of the company's activities and performance of supervisory functions. Calder (2008) states that the main functions of the board of directors are to set the standards and values of the company, as well as to represent the interests of all groups of shareholders, and develop strategic issues for the development of the organization. Furthermore, the board of directors is engaged in determining the priority areas of the company's activities and its strategic goals. It monitors and analyzes the implementation of these tasks to assess and manage risks. In addition, its responsibilities include ensuring the human and financial resources necessary to achieve the company's goals. Providing guidance to the company's management, appointing executives, and approving financial reporting and other statements are also under the board of directors' responsibility (Calder 2008). Another study conducted by Mintzberg (1983) identifies seven roles for which the board of directors is accountable:

- ( i ) selecting the CEO;
- ( ii ) taking control during periods of crisis;
- ( iii ) monitoring management performance;
- ( iv ) co-opting external resources;
- ( v ) raising funds for the organization;
- ( vi ) enhancing the organization's reputation;
- ( vii ) advising the management of the company.

The convenient formula for determining the correct number of directors for the company does not exist. However, some countries have managed to establish a minimum and a maximum number of directors for different types of companies in their jurisdictions' corporate laws. To exemplify, Tesco PLC, a large multinational supermarket chain, has 13 directors ("Board, Board Committees and Executive Committee", 2022). As a rule, there are fewer directors in smaller listed companies - from 6 to 9 persons (ACCA Global, 2021).

There is a generally accepted classification of directors; they are divided into executive and non-executive. The former has two prominent roles and two sets of responsibilities. Therefore, the executive director has the responsibility and care to inform non-executive directors of critical recent developments timely and accurate. They also care about providing shareholders with efficient communication channels (Knell 2006).

Executive directors work in the company in senior positions, usually in the field of policy development or in functional units of strategic importance. They receive the highest compensation in the company, consisting partly of salary and other benefits and partly of performance-based bonuses. In most large companies, executive directors work under fixed-term employment contracts with renewal every 12 months. The CEO and CFO almost always hold the post of executive director (ACCA Global, 2021). Executive directors are the company's top managers elected to the board of directors. They are responsible for the company's day-to-day running, but they are not independent by definition.

By contrast, a non-executive director is a member of the company's board of directors who is not part of the executive team. Non-executive directors are not typically involved in the organization's day-to-day running but are engaged in policy development and planning. In addition, non-executive directors are responsible for overseeing executive directors and acting in the interests of the company's stakeholders. They are appointed to challenge the leadership and performance of the company and its existing team. Because non-executive directors do not hold managerial positions, they are considered to understand the company's interests with greater objectivity than executive directors, which may present an agency problem or conflict of interest between management and shareholders or other stakeholders. In addition, non-executive directors are often appointed to a firm's board of directors for public relations reasons. For example, a particular non-executive director's status in the community, philanthropy, and previous experience can provide positive publicity and symbolic value to the firm (ACCA Global, 2021).

Charkham (2003) highlights the importance of achieving and maintaining an equilibrium between non-executive and executive directors. Thus, it is assumed that the presence of independent directors in the company partially supports this balance. The presence of independent directors is "one of the most important recommendations when forming the structure of the board of directors" ("Composition and structure of the Board of Directors / ConsultantPlus", 2021). Independent directors, as they are often called "outside directors" or "independent non-executive directors",

are usually elected to the board by shareholders. They have not worked for the company and have no commercial ties with it. It is believed that it is independent directors who provide the most objective representation of the interests of minority shareholders. Their role is to prevent possible mismanagement on the part of executive directors and thus make the board of directors' work productive and beneficial for all stakeholders. According to the "Code of the Independent Director" (2021), an independent director must satisfy the following independence criteria of the Corporate Code of Conduct proposed by the Federal Commission for Securities of Russia:

- ( i ) has not been and is not an official, manager or employee of the company, as well as an official or employee of the managing organization of the company during the last three years;
- ( ii ) is not an officer of another company in which any of the company's officers is a member of the HR and remuneration committee of the board of directors;
- ( iii ) is not an affiliate of the company's official (manager) (official of the company's managing organization);
- ( iv ) is not an affiliate of the company, as well as an affiliate of such affiliates;
- ( v ) is not a representative of the state.

In addition, an independent director has to meet the following criteria:

- ( i ) does not own personally, as well as through affiliated persons, an ownership interest in the company sufficient for independent nomination to the board of directors;
- ( ii ) does not receive remuneration for consulting and other services provided by him to the company, except for compensation for his activities on the board of directors;
- ( iii ) does not represent the interests of consultants and contractors working with the company;
- ( iv ) has a good business reputation, adheres to high ethical standards, and possesses the necessary leadership qualities and entrepreneurial experience;
- ( v ) publicly announced his status as an independent director before his election to the board of directors ("Code of the Independent Director", 2021).

To conclude, the board of directors is a company's governing body consisting of experienced professionals who can affect and increase company performance efficiency. This management structure performs three main functions: strategic, control, and expert. The board of directors' activities helps manage the company at a strategic level while focusing on defending shareholders' interests. The board of directors is a working management body that allows evaluating the fateful decisions with a high cost of error from all sides. These are decisions on significant investments, the

acquisition or sale of part of the business, the development of new directions. If this authority works correctly, it increases business efficiency.

## **2.5 Corporate Governance issues for banks**

Effective corporate governance could improve a company's reputation and image in a competitive context, enabling access to capital markets and developing a corporate culture. However, many companies still find it difficult to establish effective corporate governance. Some companies fail in applying corporate governance due to the choice of the wrong approach, which is required due to the specifics of their activities. Other organizations do not respect and follow the established regulations and guidelines due to their disinterest in or old-fashioned, conservative governance model. The peculiarity of corporate governance in banks also determines the existence of specific issues and difficulties that arise in the operation of this system (IFC, n.d.). Generally, the corporate governance of banks has the following aspects, which can be difficult to settle and follow accurately:

- ( i ) Protection and observance of shareholders' rights;
- ( ii ) Compliance and implementation of the concept of transparency are essential to maintain and enhance the confidence of the public;
- ( iii ) Independence of the board of directors;
- ( iv ) Evaluation of executives and their incentive pay;
- ( v ) Responsibility of management and board members;
- ( vi ) Implementation of strategic planning;
- ( vii ) Selection and implementation of the risk management system. (Usoltsev, 2018)

### **Rights of shareholders**

Shareholders play a significant role in the company. They serve as financial investors in the company; therefore, they can contribute to the development and scaling of the business. Also, shareholders help with the market assessment of the business. However, it is crucial to note that sometimes investors make an assessment based on expectations. To exemplify, when they assume that in the coming years, the company will start to make a profit or vice versa, they manipulate the market to reduce the value of shares. Then the company's valuation may be overestimated or underestimated. Also, the motivation for attracting shareholders may be the possibility for founders or investors to sell their share of the business at a market price.

According to Hellwig (2019), an expert in consumer credit and consumer rights, management strategy, and small business, the rights of ownership, the right to transfer ownership, dividends, voting rights, the right to see corporate papers, and the right to sue for unlawful actions all are granted as six basic rights to common shareholders. Additionally, before making investments in a company, its potential shareholder should learn everything they can about a company's corporate governance policies. This step is fundamental for shareholders to comply with since these policies determine how an organization interacts with and treats them (Hellwig, 2019).

It is essential for companies to respect these rights. However, the difficulty of exercising these rights for shareholders themselves can be problematic. Due to the lack of necessary information in the company's annual report, making decisions can be challenging. The problem as regards the protection of interests of shareholders is an indicator of the quality of corporate governance. To avoid these obstacles for shareholders and risks for the company, the latter, in turn, must implement and follow the concept of transparency and accountability.

#### Concept of transparency

Transparency of information is one characteristic that contributes to a credit institution's investment attractiveness and corporate reputation. Information about the bank's operations must be made public in order to support shareholders, potential investors, and other interested parties in making well-informed decisions. Transparency entails providing more information about the company on a website than is required by law. Information on the bank's structure and financial position, its true owners, management, dividend policy, and pay policy for the board of directors and top executives should be available to all interested parties (López-Arceiz et al., 2017).

According to Maher and Andersson (2000), a solid corporate governance structure is associated with increased information disclosure, lower capital costs, higher working productivity, and efficient resource allocation. As for bank transparency, it has multiple aspects. The most critical elements are the transparency of the banking activity and its management, together with the transparency and clarity of the reports on the bank's activities. In turn, the transparency of the latter aspect depends on the corporate governance structure of the bank. Failure to comply with the concept of transparency can entail reputational, legal, and, at the same time, financial risks. Furthermore, this aspect hinders the proper supervision procedure.

Another essential aspect of transparency relates to the comprehensiveness, clarity, and openness of information about the company's financial condition. Compliance with this aspect is the primary condition for the functioning of effective market discipline. It is vital in assessing investment risks in the framework of private monitoring and influences the decision of potential shareholders regarding the purchase of company shares. Moreover, that same aspect of the concept of transparency influences the decisions of customers who buy a company's securities. All dimensions mentioned above affect the bank's activities and contribute to its discipline (FRS Study Group on Disclosure, 2000).

### 3 Methodology

The methodology is one of the most significant aspects of the research. Its primary purpose is to explain the choice of research approach, data collection, and data analysis methods. The "research onion" by Saunders et al. (2009) supports in giving a complete understanding of the methods of data collection and the reasons for choosing one or another method. Hence, the Figure 3 which is provided below will serve as the methodological basis for the research.

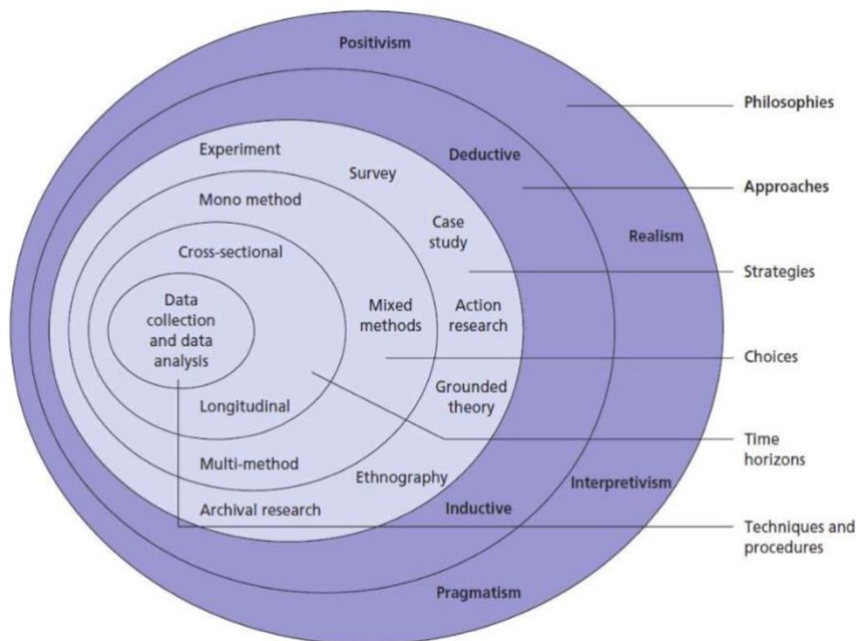


Figure 3 The Research Onion (Saunders et al., 2009, p. 138).

As mentioned in the previous chapters, the main objective of this study is to examine and analyze the corporate governance of the largest commercial bank in Russia today – PJSC Sberbank. The researcher will investigate the critical elements of Sber's corporate governance, its successful practices, and less successful ones. The author intended to define and get a clear understanding of main components of corporate governance of the chosen bank, which are at the heart of its success. The topic was chosen with regards to the Sber's recent development, rapid growth, and extension of its functions with the implementation of a digital ecosystem "bank-client".

This introduction is followed by four main subchapters: Research approach, Data collection, Data Analysis, Validity and reliability part. The purpose of this introduction was mainly descriptive to provide the reader with a background that leads to the description of the data collected and the research approaches used in this study.

### **3.1 Research approach**

Trustworthy results and clear and accurate analysis can be reached if a researcher chooses the most appropriate research method based on the specifications of the selected topic. As a result, it is critical to find the most suitable research technique when doing research. It is essential to mention that there are three most common methods: quantitative (deductive), qualitative (inductive), and a mixed-method approach that combines both quantitative and qualitative research methods (Bryman and Bell, 2011). There is no wrong or good research approach, but there is a right or wrong method, and an appropriate one must be chosen based on the research gap, question, and objectives since some questions require specific approaches and methods. Bryman and Bell (2011, p. 28) suggest that "a mixed-methods approach that combined quantitative and qualitative research enabled a more rounded and complete picture to be drawn."

Quantitative research method presents information numerically. This approach primarily stands for data that is statistically processed and structured. Adams et al. (2014) reports that data sources for the quantitative approach are presented in the forms of databases, government agencies, and reports. In contrast to quantitative research method, the qualitative one is primarily exploratory research. It helps to provide descriptive information on the topic rather than the measurement one. But conversely, his approach is less structured and is useful for collecting information about people's views, attitudes, and experience. The use of qualitative approach involves the collection of secondary data from the following example sources: companies' reports, journal articles together



with books and government papers (Adams et al., 2014). Furthermore, Punch (1998, 4) states that this approach is very productive when analyzing non-numeric data. The Figure 4 provided below presents a comparison of quantitative and qualitative research approaches in more details.

	Quantitative	Qualitative
<b>General framework</b>	<p>Seek to confirm hypotheses about phenomena</p> <p>Instruments use more rigid style of eliciting and categorizing responses to questions</p> <p>Use highly structured methods such as questionnaires, surveys, and structured observation</p>	<p>Seek to explore phenomena</p> <p>Instruments use more flexible, iterative style of eliciting and categorizing responses to questions</p> <p>Use semi-structured methods such as in-depth interviews, focus groups, and participant observation</p>
<b>Analytical objectives</b>	<p>To quantify variation</p> <p>To predict causal relationships</p> <p>To describe characteristics of a population</p>	<p>To describe variation</p> <p>To describe and explain relationships</p> <p>To describe individual experiences</p> <p>To describe group norms</p>
<b>Question format</b>	Closed-ended	Open-ended
<b>Data format</b>	Numerical (obtained by assigning numerical values to responses)	Textual (obtained from audiotapes, videotapes, and field notes)
<b>Flexibility in study design</b>	<p>Study design is stable from beginning to end</p> <p>Participant responses do not influence or determine how and which questions researchers ask next</p> <p>Study design is subject to statistical assumptions and conditions</p>	<p>Some aspects of the study are flexible (for example, the addition, exclusion, or wording of particular interview questions)</p> <p>Participant responses affect how and which questions researchers ask next</p> <p>Study design is iterative, that is, data collection and research questions are adjusted according to what is learned</p>

Figure 4 Qualitative vs. quantitative research (Mack et al., 2005)

Streefkerk (2019) states that quantitative research methods concentrate on numbers and figures, whereas qualitative research methods concentrate on words and meanings. Even though these two research methods do not contradict each other, and on the contrary, they work better together, the author abandoned using a mixed research approach for this study because the research does not imply the use of most qualitative method's elements except for the literature review. "Qualitative methods include interviews with open-ended questions, observations described in words, and literature reviews that explore concepts and theories" (Streefkerk, 2019). Thus, the method that is used for the given research cannot be called the qualitative since it does not include the interviews and other indicators of this approach.

When deciding on a research approach, the first thing to consider is what sort of knowledge the researcher wants to contribute by conducting the study. "Explanatory research aims to explain the causes and consequences of a well-defined problem" (Streefkerk, 2019). To answer research questions and fill the research gap, it was decided to conduct the descriptive research with content

analysis, namely, the explanatory research with quantitative numbers for this study, with a focus on the deductive approach.

### **3.1 Data collection**

This subchapter is devoted to describing the data collection process, which in turn served as the basis for this study. In addition to describing the secondary and primary data types, this section also proves the feasibility and appropriateness of using the secondary data type for the research.

The theoretical part of this study is mainly supported by the use of secondary data collected from trustworthy sources, e.g., Sberbank's annual report, corporate governance reports, the official website of the chosen case company and other relevant management reports. The first stage included a critical review of the sources of secondary data that were related to the chosen topic. Hox and Boeijs (2005, 596) state that secondary data is the type of information that has been previously collected by other researchers with various possible objectives, e.g., statistics, official reports, or journals. It is vital to note that this type of data could be helpful for further researchers even if the topic of their study is not identical to the one for which the data was initially collected. It is also important to remember that secondary data sources can be academic articles and scientific journals (Saunders et al., 2009, 263-265). It should be noted that secondary data must constantly be rechecked for reliability, validity, and relevance. Secondary data collection involves the study of already processed information and ready-made data rather than meetings with persons of interest to the researcher. Smith (2006, 4-5) states that this type of data can be collected from documents, government datasets, and other types of publications.

Modern researchers have an opportunity to access a vast number of valuable sources of secondary data. The critical point is that by choosing to use secondary data, the researcher saves a considerable number of resources and time to gather necessary information (Crossman, 2019). Thus, it is more rational to select this data type instead of collecting the primary one. Besides, secondary data type has one more undoubted and significant advantage – it is multiplicity one, and the appropriate data could be found for almost any topic. At the same time, the use of secondary data types also has its drawbacks. To exemplify, one may fail to find data sources that include a sufficient amount of information that could be applicable to fill the research gap and answer the research question. Therefore, a considerable amount of time is required in order to find information that is relevant to

the research. Moreover, the data needs to be extracted from trustworthy, reliable, and valid sources (Crossman, 2019).

The secondary data which served as the basis for this study was found and collected from the Internet. Therefore, the primary source of information was the company's official website reviewed in this explanatory study - namely, the website of PJSC Sberbank. Also, the author used material found in well-known and reliable research online libraries and scientific forums, such as SSRN, ResearchGate, Google Scholar, Investopedia, Janet library, ECONS, Sberbank Annual report 2020 and others.

### **3.2 Data Analysis**

This section is aimed to describe and explain the secondary data analysis process as well as the approach that was used for the research. Miller and Brewer (2003, 285) claim that when it comes to secondary data analysis, the researcher needs to analyze the data that have been collected by him or her in advance. It is critical to keep in mind that the primary purpose and objective of the data analysis process is to evaluate the collected data. It is important to note that the evaluation can be undertaken using different techniques, methods, and various tools. Interestingly, the researcher can come to new conclusions when analyzing secondary data, which in turn were not identified by the authors of the chosen secondary data sources. This process often takes place with the support of some theoretical framework, the specificity of which determines the new conclusions and findings (Hinde, 1991). Besides, the author's point of view plays an important role here, depending on which, the result may turn out to be a different one. The Figure 5 demonstrates the sequence of the data analysis process.

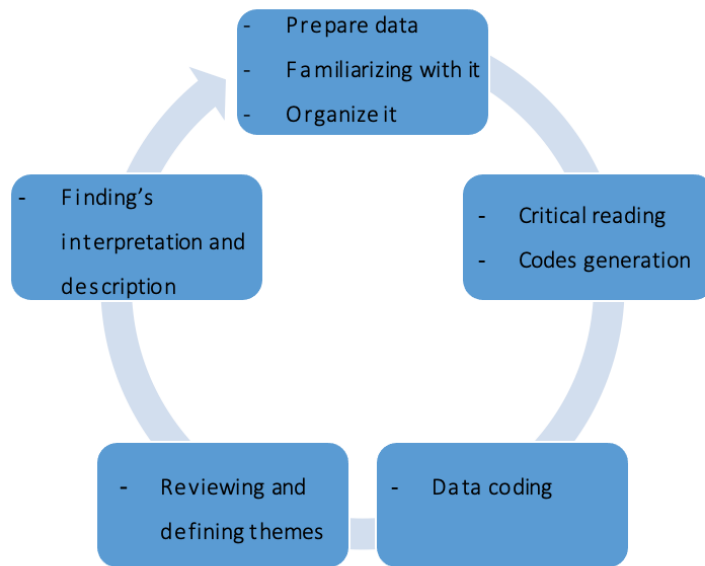


Figure 5 Data analysis process. (Creswell, 2014)

The key to a successful secondary data analysis consists of applying conceptual skills together with theoretical knowledge for processing the gathered data to fill the research gap (Johnston, 2014, p.621). A substantial number of methods, techniques, and approaches for qualitative data analysis are available today. According to Nigatu (2009, 39), there are five main methods of qualitative data analysis such as discourse analysis, narrative analysis, content analysis, framework analysis, and grounded theory. However, Shannon and Hsieh (2005, 1277-1288) state that it is possible separate the content type of analysis into three focused ones: the directed content analysis, the conventional content analysis, and the summative content analysis. In turn, Saunders et al. (2007, 492), define three others than those listed before methods of qualitative data analysis: the template analysis, the data display analysis, and the analytical induction. Additionally, they still recognize approaches that were mentioned above: the discourse analysis, the grounded theory, and the narrative analysis. The difference between all the methods for analyzing quantitative data listed above lies in limitations, coding methods, and techniques, as well as in the purpose of their application.

Real life data has not been structured as required by the researcher. Consequently, it cannot be utilized directly. Before beginning the analytic process, the researcher must organize the relevant data (O'Gorman & MacIntosh 2015, 174.). The qualitative data, namely the data that was used for the literature review for this research, was collected by the author from secondary data sources. The interpretation of it was carried out with the use of data analysis and data display methods. This qualitative data analysis method was developed by Miles & Huberman (1994, p. 10). According to

them, the qualitative approach's data analysis process should consist of "three concurrent flows of activity: data reduction, data display, and conclusion drawing/verification" (Miles & Huberman, 1994, p. 10). The detailed process of this analysis method is illustrated in the Figure 6.

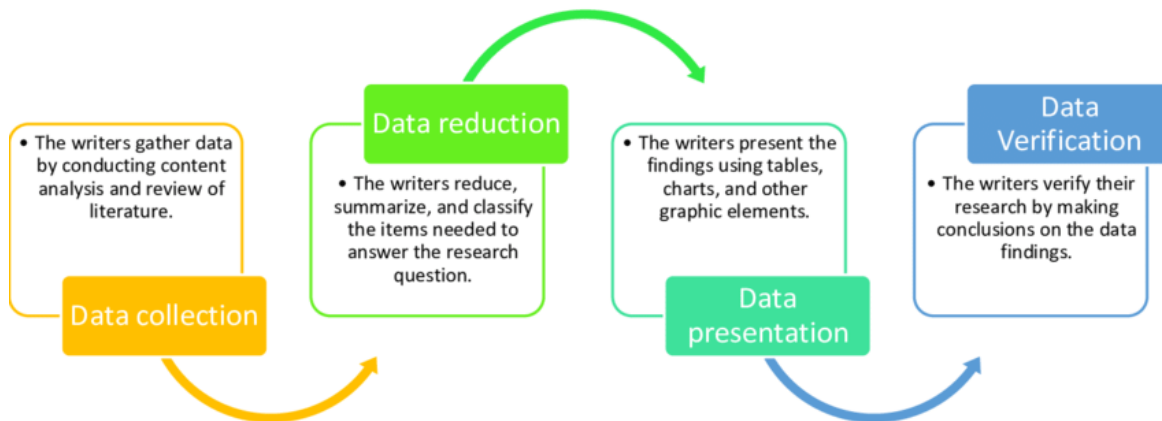


Figure 6 Qualitative Data Analysis Model (Miles & Huberman, 1994)

Another chosen secondary data analysis technique for this thesis is the content analysis technique. Flick et al. (2004, 266) confirm that the chosen approach is beneficial because it can help to efficiently organize and interpret the analysis of material such as pictures, texts, music, etc.

First, the secondary data was gathered by the researcher from the internet with the use of various online trustworthy sources such as online journals, research portals, and e-libraries, along with thesis databases. Secondly, the potential research resources were saved in the bookmark section of the Internet browser. Next, the author got familiar with the secondary data found from numerous data sources. After this step, the most relevant articles were put into different folders based on the theme represented by each piece of writing. Since the deductive research approach was chosen for this research, it was first decided to generate priori codes based on the research question.

Additionally, after the author critically read the gathered data and after direct examinations, inductive codes were developed as well. For data analysis purposes, the MS Excel document was created. The document included two sheets, where the first one included priori codes, and the second one was created for inductive codes.

After that, the author dedicated time for data coding to organize the collected data. This consisted of reading data collected from numerous data sources and its structurization and categorization into various codes that they fit. The last step included analyzing and interpreting every code and its

associated data. Finally, drawn from the results and findings, the author made the conclusion that answered the main research question.

### **3.3 Validity and Reliability**

The process of assessing the reliability of the data used is a significant research stage. According to Altheide et al. (1988, p. 584), this step determines and confirms whether the study itself is trustworthy or not. It is important to note that the researcher conducting the study with the help of secondary data has an advantage (Steward and Kamins, 1993, p. 18). Indeed, this idea makes sense since, under such circumstances, it becomes possible to assess information even at the stage of its reviewing before its de facto use in the study.

Bryman & Bell (2011, p. 720) define validity as "a concern with the integrity of the conclusions that are generated from a piece of research". There are four main types of validity:

- ( i )     criterion validity;
- ( ii )    construct validity;
- ( iii )    content validity;
- ( iv )    face validity.

The content validity aspect plays a significant role in this research. The essence of this aspect helps to test if the content of the chosen variable is appropriate for the measurement of what the researcher aims to study. What matters here is that the researcher is familiarized with the theory of the selected research topic. It is considered necessary since it helps the author of the research define and assess the instruments' process in terms of content validity. The study's limitations and objectives build its validity. The first aspect, in turn, is responsible for defining the corporate governance practices of a particular country, specific financial institution type, and, finally, specific banks. Specifically, there are limitations in terms of analysis of Russian corporate governance only in the banking sector and only for the PJSC Sber.

The last but not most minor element for research quality measurement is reliability. Creswell (2014, p. 251) says that reliability stands for consistency and stability of the study, data analysis approaches, and data collection techniques. One helpful method to check the research in terms of reliability is checking codes for mistakes (Gibbs, 2007). During the conduction of the study, the author has eliminated the contradiction between the codes for the theoretical basis and those that

were developed at the stage of critical reading process. Additionally, a check was made for the correspondence of the codes to different themes in order to exclude duplicate ones. As a supporting tool, there was an MS Excel spreadsheet, which helped the author to avoid confusion and mistakes. Besides, the codes were regularly compared with the data used to ensure a correct match.

## **4 Research Results**

The author presents the study's results and findings in the following chapter. They are based on the analysis of the secondary data from the Annual Report and the official website of the PJSC Sberbank. The chapter is divided into four subchapters: performance and regulatory overview of PJSC Sber, corporate governance in PJSC Sberbank, Critical assessment of corporate governance system in PJSC Sberbank, and Problem and suggestions.

### **4.1 Performance and regulatory overview of PJSC Sberbank**

Sberbank was founded on November 12, 1841. Then the Russian Emperor Nicholas I signed a decree on establishing savings banks in Russia "for the delivery of funds through that to savings surely and profitably." The modern PJSC Sberbank of Russia is the historical descendant of the Savings Banks established by Nicholas I, which were initially two tiny organizations with 20 workers each in St. Petersburg and Moscow. ("История Сбербанка [History of Sberbank]", n.d.).

Today, Sberbank of Russia PJSC possesses a leading position in the financial industry of the Russian Federation in terms of assets, capital, and infrastructure. Sberbank is a contemporary universal bank that provides a vast array of financial services to diverse customer groups. As the largest bank, it belongs to the backbone companies of the Russian Federation. Sberbank is a juridical institution, and its offices (regional banks and departments) and their primary institutional subdivisions constitute the PJSC Sberbank of Russia system. Sberbank has a unique network of branches consisting of 11 regional banks and over 14,000 divisions across 83 component entities of the Russian Federation spread over eleven time zones. It should be mentioned that Sberbank Group's international system consists of affiliate banks, branches, and representative offices in 17 countries worldwide ("О банке — СберБанк [About the bank - SberBank]", 2021).

Sberbank of Russia PJSC accounts for about a third of the assets of the entire Russian banking sector. PJSC Sberbank of Russia is a key creditor of the national economy and holds the largest share in the

deposit market. Accumulating a little less than 50% of deposits of individuals as of April 1, 2021, the bank is the Russian economy's and private clients' primary creditor (Aleshkina, 2021).

PJSC Sber offers a wide range of products and services for individuals and legal entities. According to the official website of SberBank, as of October 2021, Sberbank has about 101.5 million active private clients, as well as more than 2.9 million active corporate clients in 17 countries of the world. Sber has the most extensive branch network in Russia, with more than 14 thousand service points and about 70 thousand self-service points throughout the country. Also, today SberBank is one of the top 5 largest employers in Russia, and its team consists of 276 thousand employees ("О банке — СберБанк [About the bank - SberBank ]", 2021).

Main competitors of PJSC SberBank are VTB24, Gazprombank, Raiffeisenbank, Alfa-Bank, Citibank, Uralsib, Rosbank. Like any commercial company, Sberbank sets its primary goal to make a profit. The new motto of Sberbank reflects the main meaning of the activity of this organization: "Sber, there for you! ". The idea of establishing a technological ecosystem and the implementation of the "strategy 2023" is based on the goal of expanding Sberbank's activities and going beyond the provision of only banking services.

The basis of the bank is its customers, namely their needs and goals. One of the main goals of Sberbank is to become the world's best financial institution. For the bank's clients, in turn, Sberbank is a bank for which clients are highly valued. PJSC Sber positions itself as a companion financial institution, the bank that is prepared to assist clients in all financial matters. It can quickly and conveniently serve its client and help choose and make the best financial decision based on the client's interests. Sberbank is one of those companies that are constantly improving to grow and develop and meet customers' demands ("Миссия банка [Bank Mission]", n.d.).

Sberbank has been a joint-stock company on the Russian financial market since 1991. 13 share issues have occurred during this time period, with international shareholders and Russian ones. The bank's charter capital equals 67.8 billion rubles, which, in turn, contains both preferred and common shares. The charter capital of the bank remained unchanged in 2019 ("Sberbank | Sber Annual Report 2020", 2021). Share capital structure by common and preferred share types of Sberbank of Russia is presented in the table below.



Table 1 Share capital structure (common and preferred share types) ("Sberbank | Sber Annual Report 2020", 2021.)

TYPE OF SHARES	STATE REGISTRATION NUMBER OF THE SHARE ISSUE	NOMINAL VALUE	NUMBER OF ISSUED SHARES
Common shares	10301481B	RUB 3	21 586 948 000
Preferred shares	20301481B	RUB 3	1 000 000 000
The size of the charter capital is RUB 67,760,844,000			

The major shareholder of PJSC Sber is the Russian Federation represented by the Ministry of Finance. It holds 50 per cents of the authorized capital + 1 voting share. The structure of the share capital by the type of shareholders of Sberbank of Russia is presented in the table below.

Table 2 Sber's share capital composition (types of shareholder) ("Sberbank | Sber Annual Report 2020", 2021.)

	2016	2017	2018	2019	2020	CHANGE 2020/2019
Strategic investor (Bank of Russia)	50.0% + 1 share	50.0% + 1 share	50.0% + 1 share	50.0% + 1 share	–	–50,0% + 1 share
Strategic investor (Russian Federation represented by the Russian Ministry of Finance)					50,0% + 1 share	+50,0% + 1 share
Non-resident legal entities	45.6%	45.4%	45.6%	45.0%	43.5%	–1.5 p.p.
Resident legal entities	1.5%	1.9%	1.5%	1.8%	2.3%	+0.5 p.p.
Private investors	2.9%	2.7%	2.8%	3.2%	4.2%	+1.1 p.p.

As of the record date (August 31, 2020), Sberbank had 616,000 shareholders, which include 608,200 private entities and 7,800 corporate persons. The charter capital of PJSC Sber is shared among the Russian Federation, which the Russian Ministry of Finance represents as private investors, legal persons, and strategic investors ("Sberbank | Sber Annual Report 2020", 2021).

The Bank has affiliate banks, departments, and representative offices in the United Kingdom, the United States, the Commonwealth of Independent States, India, Central and Eastern Europe, Turkey, China, and other countries. The branches of PJSC Sber do not have the rights of legal entities. Instead, they operate in accordance with the Regulations accepted by the management board of

Sberbank, have a balance sheet that is included in the balance sheet of Sberbank, and bear the symbols of PJSC Sberbank. The structure of the Sberbank of Russia is shown in Figure 7.

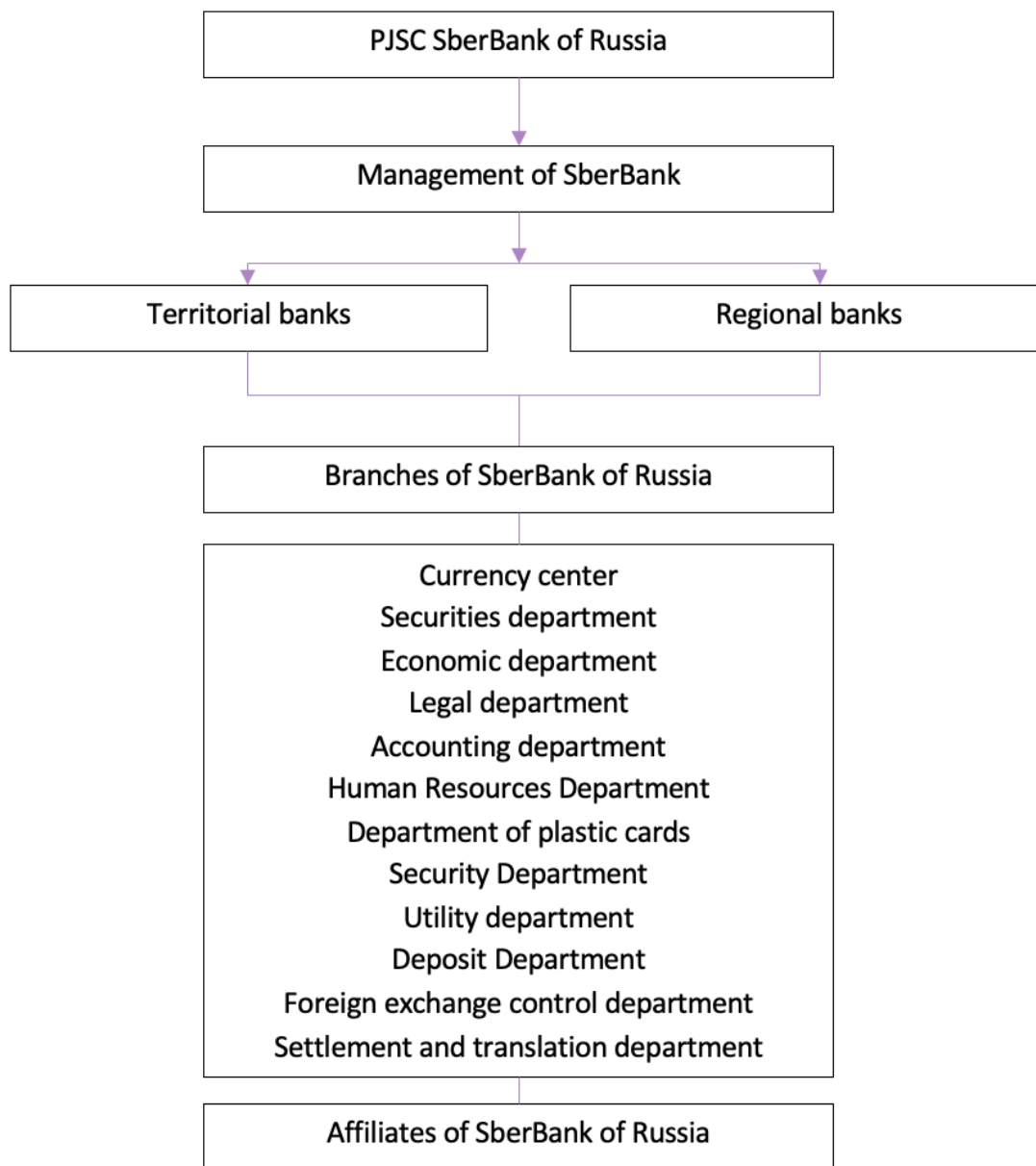


Figure 7 Structure of Sberbank of Russia (Rozanova, 2017); Translated by the author

According to the corporate governance law, the management of Sberbank of Russia is founded on the corporatist concept. The governing bodies of Sberbank of Russia are:

- (i) The ultimate governing body of PJSC Sber is the shareholders' general assembly. At the shareholders' meeting, decisions and actions are made about the most important aspects of the bank's operations.

- (ii) Supervisory board of the bank. Consists of 14 directors, including 6 independent directors, 7 non-executive directors, and 1 executive director.
- (iii) The Sberbank's management board has fourteen representatives. President, chairman of the bank's management committee, presides over the company's management board.

All governing bodies are established based on the Charter of Sberbank of Russia and following the Russian Federation law. Table 3 shows the key performance measures of Sberbank under IFRS for the period 2018-2020.

Table 3 Dynamics of PJSC Sber's key performance indicators. (The author produced this table using data from "Sberbank | Sber Annual Report 2020", 2021.)

<b>Dynamics of Major Performance Indicators of PJSC Sber under IFRS for the period 2019-2020.</b>			
<b>Performance</b>	<b>2019 value in billion RUB</b>	<b>2020 value in billion RUB</b>	<b>% change</b>
Operating income	1863,3	1702,1	-8,65 %
Staff and administrative expenses	724,6	759,8	4,86 %
Net profit	845	760,3	-10,02 %
Total assets	29960	36016	20,21 %
Total liabilities	25473	30970	21,58 %
Total equity	4487	5047	12,48 %

Operating income in 2019 amounted to RUB 1,863.3 billion, in 2020 it amounted to RUB 1,702.1 billion and therefore decreased by 8 per cent compared to 2019, due to changes in both net interest income and net fee and commission income. Operating expenses in 2019 amounted to 724.6 billion rubles and in 2020 operating expenses amounted to 759.8 billion rubles, thus, increased compared to 2019 by 0.7%, which is mainly caused by a change in the methodology for calculating depreciation deductions for fixed assets and costs of information services.

Sberbank's net profit under IFRS in 2019 amounted to 845 billion rubles and in 2020 the net profit amounted to 760.3 billion rubles, which is 10.02% less than in 2019 of the year. This change was due to a decrease in the number of loans issued to companies and individuals.

In 2019, the assets of Sberbank amounted to 29,960 billion rubles, and in 2020 assets increased compared to 2019 by 20.21% amounted to 36,016 billion rubles. The main growth factors are loans to individuals and banks, a portfolio of securities. The structure of Sberbank assets in 2020 is shown in the Figure 8.

### LIQUID AND OTHER ASSETS BREAKDOWN, %

Loans and advances to customers   Liquid assets   Other assets

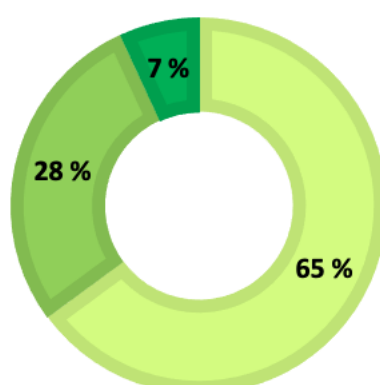


Figure 8 Assets structure PJSC Sber in 2020, % (The author produced this figure using data from "Sberbank | Sber Annual Report 2020", 2021.)

The structure of loans and advances to customers is provided in Table 4.

Table 4 Loans structure PJSC Sber in 2019 and 2020 (The author produced this table using data from "Sberbank | Sber Annual Report 2020", 2021.)

**Loans and Advances to Customers at amortized cost and fair value**

Performance	2019		2020		% change
	RUB BN	% proportion	RUB BN	% proportion	
Commercial loans to legal entities	11564,8	53,2	12239,7	49	6 %
Project finance loans to legal entities	2300,6	10,6	3460,7	13,8	50 %
Mortgage loans to individuals	4291,2	19,7	5219,3	20,9	22 %
Consumer and other loans to individuals	2658,2	12,2	3108	12,4	17 %
Credit cards and overdrafts	794	3,7	828,7	3,3	4 %
Car loans to individuals	140,6	0,6	152,2	0,6	8 %
Total loans and advances to customers before provision for loan impairment	21749,4	100	25008,6	100	15 %

Aggregate loan portfolio of Sberbank before deduction of provisions for depreciation rose by 15% to \$ 25 trillion rubles. In 2020, total loans at amortized and fair value to legal entities had a 13.2 per cent increase, According to management accounting, the real terms went up by 9.3 per cent after currency revaluation. In 2020, their share of the total loan portfolio was 62.8%, a slight decrease from 2019's 62.90%. (in 2019 it amounted 63.8 per cent). Own and government business finance programs were a contributor to the portfolio's growth in 2020.

In 2020, the loan portfolio to people increased by 18.1% to reach 9.3 trillion RUB. In comparison to 36.2 per cent in 2019, these loans constituted 37.2% of the loan portfolio. In 2020, the portfolio of mortgage loans increased by 21.6 per cent, owing primarily to strong demand for state and company-run concession programs. The expansion of digital platforms, such as the real estate website DomClick, whose monthly readership in 2020 increased by 2.6 times and surpassed 11 million individuals, has made a substantial contribution to the increase in mortgage financing. Also, individual consumer loans increased by 16.9 per cent throughout 2020. This was partly owing to the constant growth of sales of consumer loans through digital channels; at the end of the reporting period, the proportion of such sales was close to 70%, up from 56 per cent at the end of the previous year.

Table 5 Structure of customer deposits of PJSC Sberbank of Russia (The author produced this table using data from "Sberbank | Sber Annual Report 2020", 2021.)

Performance	2019		2020	
	RUB BLN	% proportion	RUB BLN	% proportion
	DUE TO INDIVIDUALS			
– Current/demand accounts	3 869,50	18,00	6253,00	24,30
– Term deposits and repo agreements	10 340,10	47.9	10388,00	40,30
<b>Total due to individual</b>	<b>14 209,60</b>	<b>65.9</b>	<b>16641,00</b>	<b>64,60</b>
	DUE TO CORPORATE CUSTOMERS			
– Current/settlement accounts	6 684,00	12,40	3265,1	12,70
– Term deposits and repo agreements	4 680,20	21,70	589,6	22,70
<b>Total due to corporate customers</b>	<b>7 364,80</b>	<b>34,10</b>	<b>9124,7</b>	<b>35,40</b>
<b>Total</b>	<b>21 574,40</b>	<b>100,00</b>	<b>25767,7</b>	<b>100,00</b>

In 2020, the volume of individual and corporate client funds increased by 19.4 per cent to reach 25.8 trillion rubles. Retail deposits grew 17.1 percentage points to almost 17 trillions of roubles (+ approximately 12 per cent after correction for currency re-evaluation according to management accounting), while in 2020 the volume of current accounts increased significantly by 61.6 per cent - their share in the entire structure of individual funds was 37.6%. In 2020, the proportion of individuals' total funds represented by term deposits decreased from 72.8 per cent to 62.4 per cent. In 2020, the proportion of the Group's general structure liabilities owed to individuals decreased from 55.8 to 53.7 per cents. However, physical means individuals continue to be the Group's primary source of financing, accounting for +36.7% of the Group's total liabilities. In 2020, corporate client funds increased by 23.9 per cent to RUB 9.1 trillion (+8.7 per cent when revalued for foreign exchange management accounting purposes). Their percentage of the Group's overall liabilities grew from almost 29 to 29.5 per cents.

Achieving these results was made possible by improving the customer experience, developing new technological solutions, and increasing business efficiency. For clients of large and medium-sized businesses, the credit processes were significantly simplified last year, and now more than half of clients in this segment receive approval for standard transactions in less than 5 days. And in the

category of micro and small firms, approved SMART loans that can be received during the day are now accessible to over half of all Sber clients.

In 2017, Sberbank of Russia PJSC approved a new Development Strategy for the period 2018 - 2020. The main goal of the new strategy was to reach a new level of competitiveness, making it possible to compete with global technology companies while remaining the best bank for the population and business. The key task of Sberbank of Russia was to increase the scale of business, increase profitability and efficiency, and at the same time increase flexibility, speed, and customer focus through the introduction of new technologies and the development of new skills of employees.

In 2017, PJSC Sberbank launched a company-wide change targeted at the expansion of non-banking services ("2020 Стратегия развития Сбербанка [2020 Development strategy of Sberbank]", 2019). On September 24, 2020, Sberbank held the first online conference, "SberConf," with a presentation of new products. The most important large-scale updates of the company, new products, and services were presented there, and the company's rebranding was also announced.

Sberbank announced the launch of the SberX business ecosystem. "Sber" is the name of the new brand. It shows how the company has changed from a pure financial business to one that offers a wide range of services to meet the needs of its customers. The company has been working on developing a strategy to build this business ecosystem for a long time. The ecosystem can be centered around one area of the client's life or penetrate several of them at once. A successful business is the one that develops quickly and, most importantly, efficiently. German Gref, Chairman of the Board of Sberbank of Russia, has repeatedly noted that large banks risk losing the competition to the IT sector if they remain within the traditional banking model (TASS, 2020). Following the global trend, Sberbank began to pay special attention to partnerships with IT giants in the company's development. With this strategy, Gref went to form this business system for Russia. This transformation turned out to be the largest in the history of the existence of the company.

The conference, held by the bank, was attended by the organization's management and show business stars, who were the first to test new services. The rebranding of Sberbank in 2020 is not only a new logo and name but also dozens of unique technological solutions, the introduction of intelligent assistants, and the arrangement of modern offices in an unusual format. The bank's ecosystem has significantly expanded - it has services for schoolchildren, office workers, music lovers, film lovers, and much more (TASS, 2020).

The most discussed change was the comprehensive rebranding of the bank - the ecosystem officially became known as "Sber". It included the credit institution itself and over 40 financial and non-financial companies. Earlier, German Gref has repeatedly stated that Sberbank can no longer remain just a bank. It will turn into a technology company. Sberbank's key goal is to keep up with the times by offering innovative products and services to their clients. During the conference TASS (2020), PJSC Sberbank, for the first time, presented a line of unique services which are outlined in the following Figure:



Figure 9 Set of services represented in Sber's ecosystem ("Sberbank | Sber Annual Report 2020", 2021)

Sberbank has remained a familiar financial brand, but many useful services have appeared in its ecosystem designed to save customers time. Most services are accessed through the Sberbank Online Internet bank. "The more we saturate the client's life with useful services, the more often they turn to us again and again. In general, we want to move from the position of an intermediary to the position of a provider of end services," Mark Zavadsky, head of the directorate for the development of the Sberbank ecosystem, told Vedomosti (Eremina et al., 2019).



## 4.2 Corporate governance in PJSC Sberbank

The corporate governance of PJSC Sberbank of Russia is built on the corporatism concept in compliance with the Corporate Governance Code established on April 20, 2015 by the Bank's supervisory board. The establishment of the Code is motivated by the bank's aim to explain the present Corporate Governance System and provide a technique and mechanism for enhancing its performance. It strives to protect the interests and rights of shareholders and optimize corporate operations, boost the bank's degree of transparency and investment appeal, and conserve and grow the share capital. According to the Corporate Governance Code, Sberbank of Russia adheres to the following corporate governance principles provided in the list below. Notably, the bank creates them in accordance with legal requirements and leading corporate governance practices.

- (i) absolute protection of shareholder rights and legitimate interests;
- (ii) distinction between the powers and responsibilities of the bank's management and executive entities concerning business management;
- (iii) effective operation of the supervisory board;
- (iv) accountability of executive bodies;
- (v) the corporate secretary's efficiency and autonomy;
- (vi) visible and carefully balanced compensation structure for the board of directors and executive bodies;
- (vii) excellent corporate culture and ethical business requirements;
- (viii) efficient and balanced internal control and risk management mechanisms;
- (ix) establishment of competent corporate governance structures and mechanisms in managed businesses;
- (x) information transparency;
- (xi) compliance to global norms and guidelines for environmental sustainability and ESG standards ("Кодекс корпоративного управления ПАО Сбербанк [Sberbank Corporate Governance Code]", 2020).

The Code of Corporate Governance states that corporate governance is evolutionary in nature. Its improvement is based on the examples of best practices and the results that are already achieved. Periodically, the provisions of this Code are updated and clarified as they are refined and applied (Bank of Russia, 2014).

Corporate governance underpins the entire management and control system of Sberbank of Russia. It consists of an organisational model and internal and external control and monitoring systems, and guiding concepts for the company's strategy. The corporate governance of Sberbank of Russia is represented graphically in the Figure below.

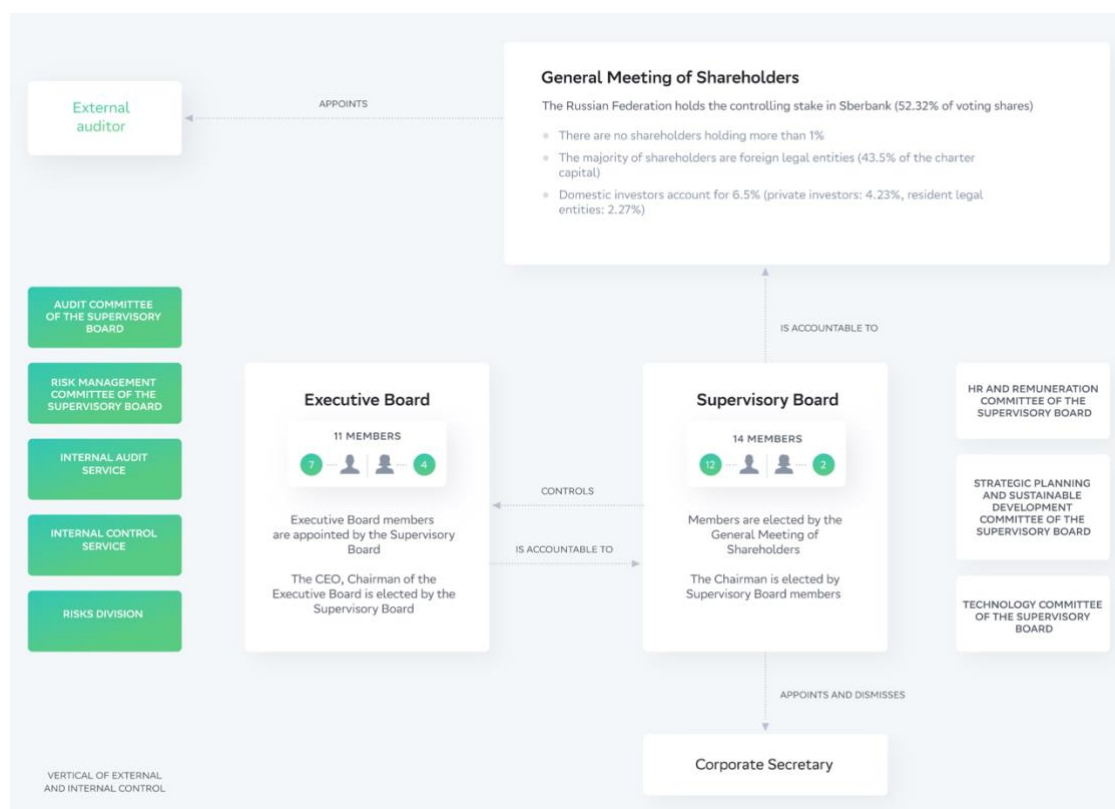


Figure 10 Elements of the Corporate Governance System ("Sberbank | Sber Annual Report 2020", 2021)

The corporate governance system of PJSC Sber is the arrangement of interrelationships between the management, the supervisory board, shareholders (owners), and other stakeholders that establishes the norms and processes for corporate decision-making and provides proper administration and oversight of the bank's operations. According to the "Кодекс корпоративного управления ПАО Сбербанк [Sberbank Corporate Governance Code]" (2020), the primary components of Sberbank's corporate governance structure are as follows:

- (i) general meeting of shareholders;
- (ii) a two-tier governing system with an efficient and fair segment of management among the general management of the bank's activities and the collective executive body, with the potential of the portrayal of the representatives of the management board in the supervisory board and not more of about one-quarter of the board;

- (iii) independent external audit;
- (iv) revision commission;
- (v) multilevel systems of internal control (with accountability to the audit committee of the supervisory board) and risk management (with accountability to the risk committee of the supervisory board);
- (vi) corporate secretary.

The supervisory board carries out general management of the bank's activities, with the exception of resolving issues attributed by legislation and the Sberbank charter to the competence of the general meeting of shareholders. Every year, the general shareholders' meeting elects the supervisory board responsible for the shareholders' meeting. The structure of the supervisory board is shown in the Figure 11.

## STRUCTURE OF THE SUPERVISORY BOARD

■ executive directors (2)   ■ non-executive directors (5)   ■ independent directors (7)

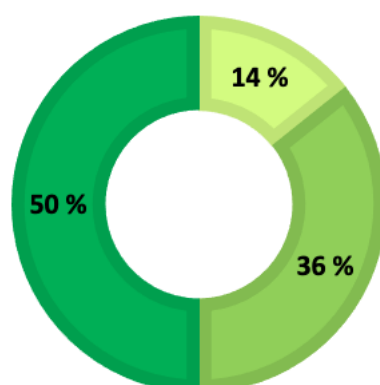


Figure 11 Structure of the supervisory board (The author produced this figure using data from "Sberbank | Sber Annual Report 2020", 2021.)

The chairman of Sber's supervisory board, who organizes and ensures the board's efficient operation, plays a vital role in the board's operations. The chairman of the supervisory board is appointed among supervisory board members and cannot simultaneously serve as the chairman of the executive board (president). The chairman manages the supervisory board's work and organizes the preparation of the board's working plan, authorizes the program for board meetings and maintains control over the bank's shareholders' general assembly. In order to guarantee the efficacy

of decisions and keep the balance of shareholder interests, independent directors are chosen for the supervisory board. Independent directors are those directors who have necessary professional competence, expertise, and autonomy to form their position. They can also make unbiased and conscientious decisions without being influenced by executive bodies, shareholder groups, or other interested parties ("Стратегия развития Сбербанка на период 2014 – 2018 [Development strategy of Sberbank for the period 2014-2018]", n.d.).

By the standards for assessing the objectivity and autonomy of directors and the Moscow Stock Exchange (MSE) listing procedures, a director can be considered independent if he satisfies the following conditions:

- (i) is not associated with the issuer or a significant shareholder of the issuer;
- (ii) is not associated with a significant counterparty or competitor of the issuer;
- (iii) not affiliated with the state or municipality ("Sberbank | Sber Annual Report 2020", 2021.).

Independent directors have a substantial impact on the impartiality, independence and efficacy of judgments. When evaluating the bank's strategy and development directions, reports on their implementation, the activities of executive bodies, the effectiveness of the risk management and internal control system, and the work of the supervisory board and its committees, the opinion of independent directors is crucial. When evaluating the bank's strategy and development directions, reports on their implementation, the activities of executive bodies, the effectiveness of the risk management and internal control system, and the work of the supervisory board and its committees, the opinion of independent directors is crucial.

Starting from 2015, among the independent directors, a senior independent director has been nominated. This director's primary responsibilities include assisting the chairman of the supervisory board, arranging an evaluation of his performance, and managing communication among independent directors. Additionally, if required, (s)he is responsible, for consolidating the perspective of independent directors on the subject under review. The supervisory board analyzes the Board members' impartiality and independence.

In line with the bank Charter, fourteen individuals are being appointed to the supervisory board by the shareholders' general sitting. The bank created the position of corporate secretary in order to guarantee conformity with the requirements of the current bank Charter, legal framework and the bank's internal documents, guaranteeing the exercise of shareholders' rights and legitimate

interests, and assisting with the development and formation of corporate governance practices ("Положение о совете директоров (наблюдательном совете) [Regulations on the Board of Directors (Supervisory Board)]", 2020).

The corporate secretary is nominated to the post by the supervisory board and is responsible to him as well as being overseen in his duties as secretary. The corporate secretary is administratively subordinate to the president (chairman of the bank's management board). The activities of the corporate secretary are regulated by the regulations on the corporate secretary approved by the bank's supervisory board.

Within the organization of the supervisory board, the following committees have been created for preliminary evaluation of the most critical problems within the supervisory board's jurisdiction and development of suggestions for decision-making on such matters:

- (i) audit committee;
- (ii) human resources and remuneration committee;
- (iii) strategic planning and sustainable development committee;
- (iv) risk management committee.

The committees inform the supervisory board of their activities, they are reported to the board. The committees' chairpersons submit to the supervisory board reports on the committees' activity, the content of the problems considered, and the conclusions made. The main tasks of the audit committee are to improve the efficiency of internal control systems, and corporate governance, guarantee the implementation of the control and management responsibilities of the supervisory board in matters of the operation of these systems, monitor the credibility of financial reports, as well as the activities of independent and the inner auditors (Bank of Russia, 2014). The composition of the audit committee is shown in the Figure below.

### STRUCTURE OF COMMITTEES OF THE SUPERVISORY BOARD (AUDIT COMMITTEE)

■ non-executive directors (1) ■ independent directors (4)

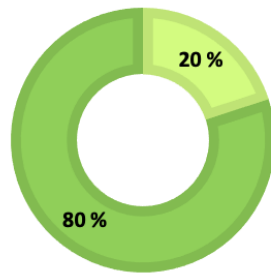


Figure 12 Structure of the audit committee. (The author produced this figure using data from "Sberbank | Sber Annual Report 2020", 2021.)

The human resources and remuneration committee's top priorities are as follows:

- (i) implementing an improved compensation scheme for members of the Bank's executive bodies and members of the bank's supervisory board;
- (ii) preparing ideas for the implementation of an adequate pay scheme for members of the supervisory board of directors;
- (iii) members of the Bank's executive and management committees;
- (iv) other high-ranking officials.

Those who serve on the human resources and compensation committee are shown in Figure 13

### STRUCTURE OF COMMITTEES OF THE SUPERVISORY BOARD (HR AND REMUNERATION COMMITTEE)

■ non-executive directors (2) ■ independent directors (3)

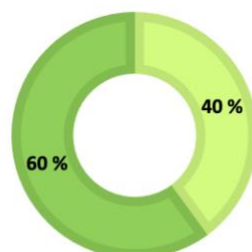


Figure 13 The composition of the human resources and compensation committee. (The author produced this figure using data from "Sberbank | Sber Annual Report 2020", 2021.)

The strategic planning committee conducts a preliminary examination of problems relating to the strategic management of the Sber's activities in an effort to enhance the company's long-term effectiveness (Bank of Russia, 2014). The structure of the strategic planning committee is shown in Figure below.

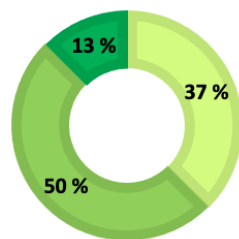


Figure 14 Committee structure for strategic planning and sustainable development. (The author produced this figure using data from "Sberbank | Sber Annual Report 2020", 2021.)

The risk management committee conducts a preliminary review of the risk management strategy of the Bank and its Group, risk appetite, and also monitors the implementation of the risk management strategy (Bank of Russia, 2014). The majority of the risk management committee's members are also hold the post of independent directors. The risk management committee chairperson is an independent director. Figure 15 depicts the risk management committee's members.

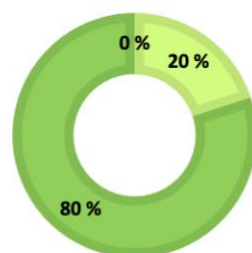


Figure 15 Structure of the risk management committee. (The author produced this figure using data from "Sberbank | Sber Annual Report 2020", 2021.)

The chairman of the management board is the sole executive body, is elected by the general meeting of shareholders for a period of 4 years. This person is accountable for establishing the system for the creation and dependability of the bank's financial statements, the prompt information disclosure, and the provision of data about the Sber's operations to shareholders, customers, and other interested parties.

The Sberbank "management board is a collegial executive management body" headed by the president ("Sberbank | Sber Annual Report 2020", 2021.). At least yearly, the management board reports on the development of the bank's approach and strategies to the supervisory board. The reports are also being given on the implementation of the supervisory board and shareholder decisions, and quarterly on the results of the bank's operational and financial activities and the level of risks has assumed.

The supervisory board is responsible for appointing and dismissing members of the management board. The president heads the management board and directs its work, oversees the operational bank's management, enforces the execution of decisions made by the supervisory board and the shareholders' general gathering, arranges the management board's work, distributes responsibilities to the members of the management board, and chairs over meetings of the management board.

In order to guarantee efficient planning and management of acceptable risks, the duties of risk management are divided between the supervisory board, the president, the management board, the head of the Sberbank's risks block, specialized committees of the management board, divisions of the risks block and other divisions of Sberbank and organizations. Consequently, Sberbank of Russia considers the reform and development of corporate governance standards to be a top priority that must be overseen and controlled by the supervisory board at all times.

### **4.3 Critical assessment of corporate governance system in PJSC Sberbank**

The state of corporate governance has a significant impact on the financial stability and efficiency of the bank. An important tool for monitoring the state of corporate governance is the assessment of the state of corporate governance. Due to the fact that PJSC Sberbank of Russia is a financial establishment and a public corporation at once, the quality of its corporate governance must meet higher standards.



Currently, Sberbank adheres to a substantial portion of the corporate governance code of the Bank of Russia's principles and recommendations, which served as the assessment methodology in this work. When assessing the state of corporate governance of the bank, particular consideration was given to:

- (i) distribution of powers between governing bodies;
- (ii) organization of the activities of the board of directors (supervisory advice);
- (iii) approval of the strategy for the development of the activities of the credit institution and control over its implementation;
- (iv) coordination of bank risk management and internal control;
- (v) Avoidance of conflicting interests between shareholders and members of the supervisory board, and executive bodies of the credit institution, its employees, creditors, and depositors;
- (vi) coordination of disclosure of information about the credit institution.

It was decided to proceed directly to the consideration of the distribution of powers between the governing bodies. The distinction between general management, carried out by the participants (shareholders) and the board of directors (supervisory board), and management of the current activities of the bank, carried out by its executive bodies, is determined by the Charter of Sberbank of Russia and internal documents of the credit institution.

In accordance with chapter 9 of the Charter of PJSC Sber, the competencies of the general assembly of shareholders were approved. The implementation of the functions of owners in the corporate governance system was carried out at general meetings of shareholders. Each shareholder has the possibility to use the power to vote without obstruction at the general meeting of shareholders, and remote participation of Sberbank shareholders in the meeting is also possible.

The powers of the supervisory board are defined by chapter 10 of the Charter of PJSC Sberbank of Russia and the regulations on the supervisory board. They are completely independent from the executive bodies of the financial institution. Questions pertaining to the authority of the board of directors cannot be passed to the executive body. The supervisory board is accountable for the establishment, growth, and inspection of the corporate governance system's efficacy, as well as maintaining the efficiency and transparency of the firm's operations ("Sberbank | Sber Annual Report 2020", 2021.).

The PJSC Sberbank of Russia's charter and internal papers describe the method and problems of executive bodies' responsibility to the supervisory board. the supervisory board, in its work, is endowed with a sufficient degree of independence. Without reasonable excuse, it does not impede or interfere in the executive bodies' daily operations, and it does not limit their ability to promptly resolve issues related to Sberbank's activities.

Under the Charter of PJSC Sberbank of Russia, the distribution of powers of the sole executive body and collegial executive body of PJSC Sberbank of Russia corresponds to the principle of collective decision-making on conducting non-standard (non-standard) banking operations and other transactions. Thus, all of the above indicates that Sberbank of Russia PJSC complies with the principle of distribution of powers between management bodies.

Next, the organization of the activities of the supervisory board will be considered. By the Charter of PJSC Sberbank, the supervisory board is nominated at the shareholders' general assembly, the latter amounts to 14 people. The supervisory board is headed by the Chairman, who has two deputies. The role, rights, and obligations of the chairman of the board of directors are duly defined in internal documents. The supervisory board elects an independent director, executive directors (representative of management) and non-executive directors (non-employees of the PJSC Sber). In contrast, a senior independent director is elected from among the independent directors ("Sberbank | Sber Annual Report 2020", 2021.).

The supervisory board of Sberbank included 7 independent directors, 5 non-executive directors, and 2 executive directors as of 31 December 2020. The composition of the supervisory board after the Annual General Meeting of Shareholders in 2020 did not change significantly. The following new members of the supervisory board were elected:

- (i) Siluanov A.G. - Minister of Finance of the Russian Federation, member of the Security Council of the Russian Federation (non-executive director);
- (ii) Kovalchuk M.V. - Director of the Kurchatov Institute (independent director);
- (iii) Kolychev V.V. - Deputy Minister of Finance of the Russian Federation (non-executive director);
- (iv) Chernyshenko D.N. - Deputy Prime Minister of the Russian Federation (non-executive director) ("Sberbank | Sber Annual Report 2020", 2021.).

Representatives of the board of directors whose authority expired on September 25, 2020:

- (i) Goreglyad V.P. - Chief Auditor of the Bank of Russia, Doctor of Economics (non-executive director),
- (ii) Shvetsov S. A. - First Deputy Chairman of the Bank of Russia, member of the board of directors of the Bank of Russia (non-executive director),
- (iii) Ivanova N. Yu. - Head of the main department of the Bank of Russia for the Central Federal District (non-executive director),
- (iv) Skorobogatova O. N. - First Deputy Chairman of the Bank of Russia (non-executive director) ("Sberbank | Sber Annual Report 2020", 2021.).

The duty of the Chairman of the board of directors is to take the necessary measures to timely provide the members of the supervisory board with the information essential for making decisions on issues of the agenda, which is fixed in the internal documents of the bank.

Under the Charter of Sberbank, the procedure for preparing and holding meetings of the supervisory board is established, which provides its members with the opportunity to properly prepare for its holding. At least five days prior to the date of the meeting, notification must be provided ("Sberbank | Sber Annual Report 2020", 2021.).

The relevance of the agenda topics determines the meeting format of the board of directors. The Company's charter or internal documents stipulate that the most critical issues (according to the list provided in recommendation 168 of the Code) must be considered at the in-person board of directors meetings.

The Company's charter provides that decisions on the most critical problems outlined in suggestion 170 of the Code must be accepted by a qualified majority (no less than 3/4 of the votes) or a majority of all nominated board of directors members is required for passage. ("Sberbank | Sber Annual Report 2020", 2021.).

In 2020, the supervisory board managed to hold 47 meetings. Eleven meetings were arranged in-person, and 36 were held via absentee balloting. The issues that will be considered by the supervisory board in 2020 are depicted in the following Figure.

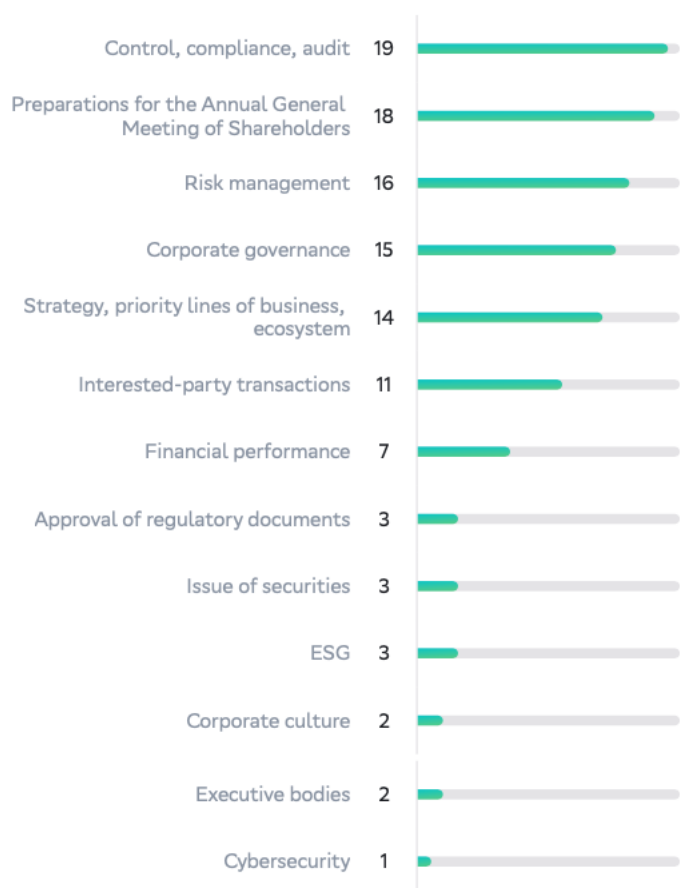


Figure 16 Concerns examined by the supervisory board in 2020. ("Sberbank | Sber Annual Report 2020", 2021.)

There were a total of 114 problems discussed during the sessions. The acceptance of the updated Sber Strategy 2023, which included environmental, social, and governance objectives, took up the majority of the supervisory board's agenda in 2020. Throughout the course of the year, environmental, social, and governance (ESG) problems were an integral part of the supervisory board's agenda. The selection of the Curator for Environmental, Social, and Economic Sustainability and Development from among the Board members was one of the most significant initiatives the board took in the field. For the first time in the history of Sberbank, Nadya Christina Wells (independent director) was elected to the position.

In 2020, the Sber's supervisory board examined the following problems regarding the bank's key lines of business:

- (i) business (retail business projects, SME lending, development of corporate business, wealth management projects, international business and investment business, etc.);
- (ii) internal control;

- (iii) risk and capital management;
- (iv) compliance and audit;
- (v) nomination of incoming Executive Committee members and termination of their authority.
- (vi) Sber's financial results and the acceptance of payments were discussed in management reports.

The supervisory board puts a large emphasis on corporate governance problems, such as arrangements of shareholders annual gathering during the epidemic and the necessity to effectively react and reply to conclusion and operations made by the Russian government, the Bank of Russia, and the president of Russia.

A significant event occurred in the year 2020 when Sberbank's corporate governance code was finally updated and given its final approval. This event served as a marker for the improvements that the firm has already done and is still in the process of implementing. The new edition of the corporate code reflected the many different methods and principles of corporate governance that are used to manage the Sberbank's companies and the bank's ecosystem organizations, as well as the digitalisation of many aspects of corporate life and the start of the company's effort to become more environmentally, socially, and ethically responsible ("Sberbank | Sber Annual Report 2020", 2021.).

Several independent directors have been appointed to serve on an audit committee, which will be responsible for conducting preliminary investigations into concerns relating to the Company's economic and financial activities. The bank's internal documents define its tasks. During the time period being reported on, the audit committee got together for a meeting at least once every three months ("Sberbank | Sber Annual Report 2020", 2021.).

In 2020, the audit committee addressed the following items under its responsibility:

- (i) Assessments undertaken by Sberbank's inside audit department in 2019;
- (ii) Evaluation of the effectiveness and impartiality of the internal auditor;
- (iii) Performance evaluation of the chief of the inner audit department;
- (iv) IFRS-compliant comprehensive financial reports of PJSC Sberbank;
- (v) Assessment of the auditor's report on the 2019 annual financial accounts of PJSC Sberbank;
- (vi) Statement provided by Sberbank's inner auditing for 2019 evaluation of the concept of non services offered to the company by the audit;
- (vii) Profit allocation of Sber and the suggested dividend payment amount for 2019;

- (viii) Sber's auditing department assessment outcomes for the first quarter of 2020;
- (ix) Analyses of the laws guiding the non-audit services given by the auditing to the financial institution ("Sberbank | Sber Annual Report 2020", 2021.)

According to the procedure for evaluating the performance of the supervisory board adopted by Sberbank, involves, along with many other factors, an evaluation of the members' professional credentials.

Members of the supervisory board have a variety of knowledge and experience sufficient to solve long-term strategic objectives of Sberbank's development, however, they cannot be experts in all areas. In some cases, members of the supervisory board need to acquire additional knowledge on certain aspects of the work of the supervisory board.

In this regard, Sberbank provides for the organization of special programs for advanced training, exchange of experience and obtaining the necessary knowledge, taking into account the individual needs of each member of the supervisory board.

Five directors were certified and confirmed as meeting all impartiality requirements established by the Bank of Russia's Corporate Governance Code and the Moscow Exchange's Listing Rules, based on the results of an independent assessment conducted in September 2020: A. Kuleshov, N. C. Wells, L. Boguslavsky, E. T. Aho and G. Melikyan. The results of the independent assessment were released in September 2020.

Following the results of 2020, the supervisory board executed an objective quality and performance assessment of its activities at the start of 2021. The findings of the evaluation revealed the supervisory board's and its committees' high level of organization, internal efficacy, engagement with the bank, and the supervisory board's achievement of the established targets and predetermined goals. The quality of the materials prepared for the supervisory board's consideration was rated positively by members of the supervisory board. The supervisory board's focus of attention was determined based on the appraisal results: controlling and managing the bank's costs, developing the candidate pool, managing and controlling risks/risk appetite, and crisis management. In 2020, a member of the committee, namely a non-executive director N. Ivanova resigned from the supervisory board and the committee, altering the committee's composition and membership. She was not elected at the 25 September 2020 annual general meeting of shareholders. The committee has been appointed by Vladimir Kolychev (non-executive director).

Thus, it can be concluded that PJSC Sberbank of Russia complies with the requirements that relate to the organization of the activities of the supervisory board ("Sberbank | Sber Annual Report 2020", 2021.).

To assess corporate governance of PJSC Sberbank, the work of management bodies in approving the strategy for the development of the bank's activities and monitoring its implementation should be examined.

The supervisory board establishes the strategic objectives and development lines of the Bank and the fundamental principles and strategies for establishing the internal control and risk management system. It monitors the executive bodies' activities, which include conformance with Sberbank's agreed growth plan. The supervisory board defines the strategic priorities of Sberbank's operations. It considers alternatives for strategic development and the most likely scenarios while balancing the possible consequences of decisions made with the magnitude of the absolute risk ("Sberbank | Sber Annual Report 2020", 2021.).

The implementation of the Strategy-2020 (SberX business ecosystem), which the supervisory board approved and authorized in 2017, has already successfully covered a significant part of the key needs of customers. During the years of Strategy-2020 implementation, Sberbank maintained its status as a secure, trustable financial institution for its clients. The bank has significantly improved its client service infrastructure, and assembled a technologically advanced, highly competent group of experts with the expertise and experience to operate the business in poor market conditions. The established goals of the strategy were achieved.

In order to prepare and submit recommendations to the supervisory board on the strategic development of the bank, the Strategic Planning Committee was established within the structure of the supervisory board. The principal purposes of the strategic planning committee are to conduct a preliminary overview and analysis of the problems involved in determining the strategic operating objectives of PJSC Sber. This committee is in charge of monitoring the Bank's Development Strategy implementation. Sberbank's strategic planning committee also provides preliminary suggestions and opinions and suggestions to the supervisory board on how to adapt it and evaluate the Bank's long-term progress.

In 2020, the risk management committee reviewed the following topics and matters under its mandate:

- (i) risk report for the first three months of 2020 from Sberbank Group;
- (ii) outcomes of stress testing in reverse;
- (iii) risk report for the second quarter of 2020 by Sberbank Group;
- (iv) revising the risk tolerance of PJSC Sber and SberGroup;
- (v) confirmation of the 2020–2021 work plan for the supervisory board's risk management committee;
- (vi) the Sberbank Group's risk report for the third quarter of 2020;
- (vii) implemented and planned actions to manage compliance risks;
- (viii) 2020 operations of the internal audit department;
- (ix) report in 2020 on the degree of compliance system development and internal control service operations ("Sberbank | Sber Annual Report 2020", 2021.).

In 2020, Sberbank approved a new Development Strategy for the period 2021-2023, the main goal of which is to reach a new level of competitiveness, making it possible to compete with global technology companies, while remaining the best bank for households and businesses. The next strategy, 2023, is a natural progression from the one that came before it. Building a smooth and pleasant experience for the clients of Sber and developing a differentiated offering for those customers will receive a significant amount of focus under the new strategy of the bank. Sberbank does not consider its operations to be distinct entities; instead, it considers them to be components of an interconnected business model that they refer to as the Ecosystem. The primary objective of the company is to establish itself as a reliable helper and guide in a dynamic environment, catering to the needs of individuals, organizations, and the government. Additionally, the environmental, social, and governance mission is becoming an integral component of Sber's new strategy. The bank creates sustainable products and responsible financial practices. It continues to undertake several environmental and economic projects to make a contribution to the advancement of standard of living and small and medium-sized enterprises in Russian Federation.

Next direction that will be will be examined is the coordination of bank's risk management. The supervisory board of Sberbank determined the principles and approaches to organizing the risk management and internal control system in internal documents and the relevant policy of the company, approved by the supervisory board. This approach enables the division of roles and responsibilities for internal control and risk management among subordinate managers of departments and units ("Sberbank | Sber Annual Report 2020", 2021.).



The bank's risk management and internal control system must ensure an unbiased, transparent, and comprehensive picture of the company's current situation and future prospects. The board of directors of the bank shall verify that the present risk management and internal control system conforms with the corporate principles and methodologies established by the board of directors and performs properly ("Sberbank | Sber Annual Report 2020", 2021.).

The board of directors or its audit committee evaluated the effectiveness of the company's risk management and internal control systems throughout the reporting period. The annual report contains data on the principal outcomes of such an evaluation ("Стратегия развития Сбербанка на период 2018 – 2020 [Development strategy of Sberbank for the period 2018 - 2020]", 2018).

To perform internal audit function, the organization has either formed a separate organizational entity operationally subject to the board of directors or the audit committee, or contracted an independent external organization adhering to the same accountability standard. Internal auditing must evaluate the efficacy of the risk management system, the internal control system, and the corporate governance system ("Sberbank | Sber Annual Report 2020", 2021.).

Sberbank has implemented a risk management system that complies with the requirements of international standards and best practices and is based on the criteria and procedures that are suggested by the Basel Committee on banking supervision. The the chief executive officer of PJSC Sber, the supervisory board of the company, the executive board, the chairman of the risk management service of the bank, specialized committees of the executive board, the head of the risk block of the company, the units of the risk block, and other units of the bank all share responsibility for the risk management functions. This is done to ensure that effective planning and control of the risks that have been done ("Sberbank | Sber Annual Report 2020", 2021.).

Sberbank's risk management system complies with worldwide best practices and is founded on the principles and instruments suggested by the Basel Committee on banking supervisory. To enable successful planning and management of the assumption of risk, the risk management responsibilities are divided between the general director of PJSC Sber, the executive board, the bank's supervisory board, the chairman of the executive board, the head of the risk management service of the bank, units of the risk block, executive board committees with particular responsibilities, and other units of Sberbank.

The major goals of the risk management committee are to perform a critical assessment of the risk management strategy together with the risk appetite of PJSC Sber and its group and to assess the execution of the risk management process and compliance with the risk tolerance ("Sberbank | Sber Annual Report 2020", 2021.).

In 2020, the risk management committee reviewed the following concerns under its mandate:

- (i) risk report for the first three months of 2020 from Sberbank Group;
- (ii) outcomes of stress testing in reverse;
- (iii) risk report for the second quarter of 2020 by Sberbank Group;
- (iv) revising the risk tolerance of PJSC Sber and SberGroup;
- (v) confirmation of the 2020–2021 work plan for the supervisory board's risk management committee;
- (vi) the Sberbank Group's risk report for the third quarter of 2020;
- (vii) report in 2020 on the degree of compliance system development and internal control service operations ("Sberbank | Sber Annual Report 2020", 2021.).

Therefore, it can be stated that the built-in risk management system provides for the distribution of powers and functions of all management bodies in relation to risk management and internal control.

Considering the issue of preventing conflicts of interest of shareholders, members of the supervisory board and executive bodies of a credit institution, its employees, creditors, depositors significant company acts with a potential conflict of interest are evaluated in advance by independent directors without conflicting interests. They, in turn, later report their findings to the board of directors.

The company's internal documents stipulate that the board of directors members are required to inform the board of directors in case they have conflicting interests concerning any step in the process of a meeting of the board of directors or a committee of the board of directors before the appropriate agenda matter is discussed ("Sberbank | Sber Annual Report 2020", 2021.).

Furthermore, the bank's corporate regulations stipulate that the board of directors' members shall refrain from voting on every topic involving potential conflicts of interest. Sber has developed a system allowing the board of directors to acquire expert assistance on matters within its purview at the expense of the bank ("Sberbank | Sber Annual Report 2020", 2021.).

The human resources and remuneration committee is a subcommittee of the supervisory board. Their tasks are outlined in accordance with applicable law on the committees of the supervisory board, which is based on the Code's guidelines. It is not possible to constitute the human resources and remuneration committee entirely of independent directors. The majority of the committee's members (three out of the five members) are independent directors. An independent director who simultaneously serves on the board of directors chairs the committee. In accordance with the Moscow exchange listing rules, the procedure outlined below is acceptable. To be sure, the majority shareholder's willingness to nominate and elect additional independent directors to Sber's supervisory board, as well as its consent in principle to the replacement of its own representatives in the HR and remuneration committee with independent directors, will be critical to the bank's full compliance with this recommendation ("Sberbank | Sber Annual Report 2020", 2021.).

A company internal document states that the amount of compensation and reward paid by the bank to its board of executive bodies, directors and other key executives provides necessary encouragement for their productive and professional functioning. Thereby, it helps the company attract and retain competent and qualified professionals. Achieving this while avoiding excessive compensation and an unduly wide disparity between the pay amounts of such officials and those of the Company's employees is a priority for the Sberbank of Russia. All payments, bonuses, and benefits are governed by the Sber remuneration policy, which includes detailed procedures for determining the amount of compensation to be given to the executive body members, the board of directors, and other senior executives ("Sberbank | Sber Annual Report 2020", 2021.).

A member of the supervisory board receives a basic payment if (s)he attends at least 50 per cent of sessions of the supervisory board held during the payment period, as well as additional compensation for committee activity, committee presiding, senior independent director responsibilities, and chairmanship of the supervisory board. Members of the supervisory board may be compensated for expenses incurred while carrying out their duties as members of the board, according to the regulations ("Sberbank | Sber Annual Report 2020", 2021.).

Next, the implementation of the principle of transparency will be considered. Transparency and timely disclosure of reliable information are one of the main principles of corporate governance in the bank. The purpose of disclosing information about the bank is to bring this information to the attention of all persons interested in receiving it to the extent necessary to make an informed

decision on participation in the company or perform other actions that can affect the financial and economic activities of the company.

The main principles of information disclosure at PJSC Sberbank are the following:

- (i) the regularity and efficiency of its provision;
- (ii) the availability of information for the majority of shareholders and other interested parties;
- (iii) the reliability and completeness of its content;
- (iv) maintaining a reasonable balance between the bank's openness and observance of its commercial interests. ("Sberbank | Sber Annual Report 2020", 2021.)

The Company has provided annual and semiannual financial results that have been produced in accordance with IFRS over the period covered by this report. IFRS-compliant financial statements, which are being issued annually, are included in the annual report submitted by the company for the reporting period. Also included is the auditor's report. In accordance with suggestion 290 of the Code, the financial institution provides comprehensive details regarding the capital structure in both the annual report and on its website ("Sberbank | Sber Annual Report 2020", 2021.).

According to the recommendations of the Bank of Russia Corporate Governance Code, the adopted remuneration policy for executive bodies, board of directors and senior executives should ensure the transparency of all material benefits in the form of a clear explanation of the approaches and principles used, as well as detailed disclosure of information on all types of payments, benefits and privileges, including the amount of individual remuneration at the end of the year for each member of the board, compensation for expenses associated with participation in the board of directors, as well as the company's expenses for liability insurance for directors as members of management bodies (Bank of Russia, 2014).

Information on remuneration of the supervisory board is presented in the Table 6 below.

Table 6 Compensation information for the Sber supervisory board members for 2020, PJSC Sberbank (The author produced this table using data from "Sberbank | Sber Annual Report 2020", 2021.)

Type of remuneration	Sum
Base remuneration	RUB 5.9 million
Additional remuneration for performing the duties of a member of any of the Committees of the Supervisory Board	+20% of the base remuneration
Additional remuneration for performing the duties of Chairman of any of the Committees of the Supervisory Board and performing the duties of senior independent director	+30% of the base remuneration
Additional remuneration for performing the duties of Chairman of the Supervisory Board	+50% of the base remuneration

Thus, it can be concluded that the information on the remuneration of members of the supervisory board, reflected in the annual report and posted on the bank's website, is not fully disclosed, PJSC Sberbank does not fully take into consideration the recommendations of the corporate governance code of the Bank of Russia. A similar situation is observed when disclosing information on the remuneration of members of the Bank's Management Board, which is presented in Table 7.

Table 7 Compensation information for members of the executive board for 2020, PJSC Sberbank (The author produced this table using data from "Sberbank | Sber Annual Report 2020", 2021.)

	Fixed remuneration	Variable remuneration	Long-term remuneration
Remuneration paid to the members of the Executive Board in 2020, RUB bn.	1.2	2.7	2.1
<b>Total:</b>	<b>RUB 6.0 bn</b>		
<b>Goal</b>	Competitive incentive package to attract and retain highly qualified managers	Achieving personal and team performance indicators	Aligning the interests of the Bank's management and shareholders; long-term sustainable value growth
<b>Description</b>	Fixed remuneration paid. Includes salaries, vacation payments, business trips compensation. Set based on the professional experience, the role in managing Sber, and the level of remuneration in the labor market.	Variable remuneration includes quarterly bonuses and year-end bonuses accrued in 2020. Directly depends on achievement of a number of key performance indicators (individual and team, financial and non-financial)	Remuneration paid in the reporting year
<b>Frequency of payments</b>	Monthly	Quarterly / annually, subject to KPI achievement	Annually if Sber's performance is positive

When shareholders make a request, the company shall comply with the terms of its information policy, which outlines an uncomplicated approach to giving shareholders information access, particularly data on the bank's owned legal entities ("Стратегия развития Сбербанка на период 2018 – 2020 [Development strategy of Sberbank for the period 2018 - 2020]", 2018). During the time period covered by the report, the Company either did not refuse to comply with information demands made by shareholders or such refusals were justified. Shareholders are cautioned about the private nature of information and need to affirm that they will keep it a secret when the situation is one that is outlined by the company's information policy.

In 2016, Sberbank obtained an external evaluation of the performance of corporate governance for the first time. Sberbank received a corporate governance grade of 8 from the Russian Institute of Directors. This score equals to the status of best corporate governance practice on a scale of 10 by the NRCG (National Corporate Governance Rating). This is the greatest NCGR score between many Russian firms. A grade of eight on the National Corporate Governance Rating scale indicates that

the firm adheres to a significant number of the Russian corporate governance code's guidelines and complies with Russian corporate governance requirements. The level of corporate governance poses little risks of financial loss for shareholders. Sberbank is the only Russian firm with an NCGR 8+ ("Sberbank | Sber Annual Report 2020", 2021.).

Summarizing these properties, it is possible to conclude that PJSC Sberbank of Russia, being a public company, applies a significant part of the recommendations of the corporate governance code of the Bank of Russia.

At the same time, the considered main components of the bank's corporate governance system allow us to state that certain principles of the Code are not fully observed (information on the amount of individual remuneration for the year for each member of the board, information on remuneration for the year of the sole executive body).

#### **4.4 Problems and suggestions**

To identify problems and directions for improving corporate governance in credit institutions, the opinions of scientific researchers and practical economists studying this topic will be further considered in this chapter.

As noted above, commercial banks are a special type of organization that differs from other entities in the real sector of the economy. First of all, this type of organization is distinguished by a low share of own funds (10 - 20%) in the balance sheet currency in contrast to non-financial organizations. Nevertheless, banks have a sufficient share of own funds to perform the function of financial intermediary, what they really do. Financially interested parties in credit institutions are not only investors, partners, creditors, but also depositors (a special category of creditors), as well as regulatory authorities. In addition, the banking business is associated with increased risk. This uniqueness creates a number of problems.

Thus, according to the doctor of economic sciences Yashin & Komissarov (2006), the latter holds the position of the deputy head of the main department of the Bank of Russia for the Nizhny Novgorod Region, a significant problem, the presence of which serves as an indicator of the quality of corporate governance, is the protection of the interests of shareholders, mainly minority ones. In the field of property rights, the banking system has the same shortcomings as the Russian economy as a whole. There are frequent cases of violation of the shareholders' rights to engage in

management and performance of banks at the stage of holding general meetings. Frequently, this practice does not allow shareholders, particularly those who do not have a controlling stake, to effectively exercise their right to participate in the management of the bank. Shareholders are not provided with proper notice of the dates and place of the general meeting, its agenda, as well as information necessary for the adoption of decisions put to the vote.

One of the aspects that contributes to the investment attractiveness and business reputation of a commercial bank is its level of information openness. Disclosure of information about the bank's activities is necessary for shareholders, potential investors and other stakeholder to make informed and considered decisions.

Transparency means posting on the website not only standard information about a credit institution. All stakeholder and interested parties should have access to information about the structure and financial position of the bank, its real owners, management, dividend policy, remuneration policy for the board of directors and top managers.

From a formal point of view, existing legislation in the Russian Federation defines a significant amount of rights that shareholders have in relation to business entities. However, the owner can exercise these rights only when he has sufficient information about the activities of the credit institution. Without the realization of the right to information, the provision of other rights becomes practically impossible. The shareholder must have information on the procedure for familiarization with accounting and other information, on candidates for the board of directors and executive bodies of the credit institution. This information allows shareholders to receive the necessary data for more active actions and making appropriate decisions. and, above all, these are issues relating specifically to the competence of the general meeting of shareholders, such as changing the charter, changing the size of the authorized capital, forming the board of directors, forming and forming the executive bodies of the company, electing members of the audit commission, appointing an auditor and approving the annual report. Often, annual reports on the activities of Russian banks do not contain information that a qualified investor needs to make decisions (Yashin & Komissarov 2006).

In order to assess their risks, potential investors need to know the features of the functioning of a credit institution, its transparency (how the interests of shareholders, including minority shareholders, are taken into account), the methods of work of the board of directors and managers.



Another problem is related to the fact that risk management is coming to the forefront in the banking business. It is becoming an essential element of the internal control system in banks. The complexity of the situation with risk management in banks is primarily due to the low level of corporate governance: serious conflicts of interest and their ineffective resolution within the framework of an underdeveloped law enforcement system, inadequate attitude of boards of directors to the problem of risk management within the internal control system (a superficial understanding of the essence of the issue and weak oversight of the work of managers who ensure the functioning of the relevant services), the small number of national firms capable of conducting a qualified and independent external audit.

Poor corporate governance in a bank means an increase in its inherent credit, operational and reputational risks and therefore leads to a decrease in the value of its securities. When assessing the solvency of a company wishing to receive a loan, it is necessary to take into account not only the financial performance of the applicant, but also the level of its corporate governance. If a bank fails to ensure that proper principles are observed within its organization, it will not be able to correctly determine the likelihood that, due to a violation of these principles by the borrower, the loan issued to him will be inactive. Consequently, credit risk increases.

The growth of operational risk in a bank with weak corporate governance is associated with the absence or unsatisfactory functioning of the internal control system, the audit committee of the board of directors, and the internal audit service. According to a study conducted among Russian companies and banks in 2017 by CJSC KPMG (audit firm) together with the National Council for Corporate Governance (NSCU), 88% of the surveyed experts the most pressing problem in areas of corporate governance consider the lack of an effective system risk management in Russian companies (Usoltsev, 2018). The main aspects of corporate governance that should undergo priority changes are illustrated in Figure 17.



Figure 17 Key aspects of corporate governance that need improvements (Usoltsev, 2018);  
Translated by the author

The results of the study showed that 90% of the representatives of the surveyed companies identify the "risk management system" and 42% - the "strategic planning process" as the main and priority changes that corporate governance practices in Russia should undergo.

The solution of the above problems requires significant efforts of both the banks themselves and the Bank of Russia. At the same time, in the letters of the Bank of Russia, which are advisory in nature, the presence of requirements (in particular, to the supervisory board, to the functioning of the risk management service) creates uncertainty both for banks in terms of their mandatory execution, and for the regulator on the application of prudential enforcement measures in the event their non-compliance.

According to Storozhilova (2012), a specialist in the field of corporate business development, The Bank of Russia, in its Letter No. 14-T dated 06.02.2012 On the recommendations of the Basel Committee on Banking Supervision "Principles for Improving Corporate Governance", secured the right of supervisory authorities to apply enforcement measures in case of detection of shortcomings in corporate governance, does not indicate specific measures and the procedure for their application, while the document assumes the use of the provisions enshrined in it during the current supervision. In this case, the general rules of supervisory response will apply.

The situation is similar with letters from the Bank of Russia dated September 13, 2005 No 119-T "On modern approaches to the organization of corporate governance in credit institutions", dated

February 7, 2007 No 11-T "On the list of issues for credit institutions to assess the state of corporate governance". These letters regulate the legal issues of organizing corporate governance in credit institutions, however, the mechanism for implementing the instructions set forth in them does not provide for the possibility of applying coercive measures in case of non-compliance with them (Bank of Russia, 2005; Bank of Russia, 2007).

In addition, it should be noted that "letters" are not the form in which Bank of Russia regulations can be issued. Bank of Russia Regulation No. 602-P, dated September 22, 2017, "On the Rules for Preparing Bank of Russia Regulations" (clause 1.4) defines such a list of forms, which include instructions, regulations, and instructions from the Bank of Russia. The requirements contained in the listed normative legal acts are mandatory. In accordance with clause 1.3 of the Regulations, the following documents are not Bank of Russia regulations:

- ( i ) official explanations of the Bank of Russia;
- ( ii ) administrative acts of the Bank of Russia;
- ( iii ) methodical recommendations of the Bank of Russia;
- ( iv ) regulations on structural subdivisions;
- ( v ) acts containing exclusively technical formats;
- ( vi ) other acts that do not meet the features of the Bank's regulatory act (Bank of Russia, 2017).

Accordingly, in order to give legal significance to the principles improvement of corporate governance, it is necessary to adopt at least a regulatory legal act of the Bank of Russia (Storozhilova, 2012).

Since the board of directors and executive bodies accountable to shareholders are responsible for the management of a credit institution, the final results of its activities, it is necessary to introduce at the legislative level measures of responsibility of members of the board of directors and top managers for the quality of management decisions made, the reliability of information submitted to supervisory authorities. According to Sergey Shvetsov, First Deputy Chairman of the Bank of Russia, at the All-Russian Forum on Corporate Governance, "if a company suffers from an inefficient board of directors, from wrong strategic decisions, if shareholders lose money, and the state loses taxes, people must answer, at least with their business reputation" (Shvetsov, 2017).

Based on the results of considering a set of opinions of scientific researchers studying this topic, as well as practicing economists, the author identified the problems of corporate governance both in

credit institutions and the problems of regulating banking supervision in this area. Problems in credit institutions are insufficient measures to protect the rights and interests of shareholders, mainly minority shareholders, on the part of the Board of Directors; non-transparency of banks (difficulties in identifying the ultimate owners of the bank, low disclosure of material information); inadequate risk management (inadequate attitude of the board of directors to the problem of risk management within the framework of the internal control system).

Problems of regulation and banking supervision that were discovered: the presence in letters of the Bank of Russia, which are advisory in nature, of requirements (in particular, to the supervisory board, to the functioning of the risk management service), which in turn creates uncertainty as for the regulator on the application of prudential measures of influence in case of non-compliance.

To solve these problems, it is necessary to strengthen the influence of the supervisory authority on the formation of the best corporate governance practices in banks, which will require:

- ( i ) Adoption of at least a regulatory legal act of the Bank of Russia to give legal significance to the principles of improving corporate governance in credit institutions;
- ( ii ) introduction at the legislative level of responsibility for the members of the Board of Directors for the results of their work.

## 5 Conclusion

Corporate governance constitutes the structures and processes by which companies are being directed and controlled. Corporate governance implies a system of interaction between the company's management, the board of directors, the holders of a controlling stake, minority shareholders and other interested parties. Good corporate governance contributes to sustainable economic development by improving the performance of companies and provides companies with greater access to outside capital.

The principles of corporate governance formulated by the OECD and defining the organizational foundations of corporate governance were taken as the basis for developing the concept of banking corporate governance. The Basel Principles serve as an important document for national supervisors, which, in turn, are called upon to assist credit institutions in the implementation of best corporate governance practices. The Bank of Russia, guided by the recommendations of the Basel Committee, has repeatedly paid attention to corporate governance in credit institutions, as evidenced by the variety of regulations adopted by it and letters of recommendation.

The object of the study was the examination of the corporate governance system of PJSC "Sberbank of Russia" and the assessment of its quality. As a result of the conducted research, it was established that corporate governance underlies the entire management and control system of Sberbank of Russia and consists of an organisational model and internal and external mechanisms for monitoring and control and corporate values guiding principles. The primary components of Sberbank's corporate governance structure are as follows:

- (i) general meeting of shareholders;
- (ii) a two-tier governing system with an efficient and fair segment of management among the general management of the bank's activities and the collective executive body, with the potential of the portrayal of the representatives of the management board in the supervisory board and not more of about one-quarter of the board;
- (iii) independent external audit;
- (iv) revision commission;
- (v) multilevel structures of internal control (reporting to the supervisory's board auditors) and risk management (reporting to the supervisory's board risk committee of the board of directors);
- (vi) corporate secretary. ("Sberbank | Sber Annual Report 2020", 2021.)

After assessing the core elements of Sberbank of Russia's corporate governance system for adherence to the guidelines of the Corporate Governance Code of the Bank of Russia, it can be concluded that the bank satisfies the requirements of Russian law and applies a significant portion of the advice of the Bank of Russia's corporate governance code and the Basel corporate governance principles for banks. The risks of loss of owners associated with the quality of corporate governance are insignificant. However, during the assessment, a drawback was identified - the bank does not fully disclose information on the payment of remuneration to the supervisory board and members of the management board (there is no information on the amount of individual remuneration for the year-end for each member of the board, as well as information on remuneration for the year of the sole executive body).

The development and advancement of corporate governance processes are the primary focus of PJSC Sberbank. The supervisory board provides it with special attention and control. Having considered the opinions of scientific researchers, as well as practical economists studying this topic, the researcher identified the problems of corporate governance both in credit institutions and the problems of regulating banking supervision in this area. The following problems were identified in credit institutions:

- ( i ) Insufficient measures to protect the rights and interests of shareholders, mainly minority shareholders, by the Board of Directors;
- ( ii ) non-transparency of the ownership structure (difficulties in identifying the final owners of the bank);
- ( iii ) poor risk management.

The problem of regulation and banking supervision lies in the presence of a letter from the Bank of Russia. Having a recommendation character only, the letters include the requirements, in particular, to the supervisory board, to the functioning of the risk management service. This, in turn, creates uncertainty for the regulator on the application of prudential enforcement measures in case of their non-compliance. To solve these problems, it is necessary to strengthen the influence of the supervisory authority on the formation of the best corporate governance practices in banks, which will require:

- ( i ) Adoption of at least a regulatory legal act of the Bank of Russia to give legal significance to the principles of improving corporate governance in credit institutions.
- ( ii ) introduction of responsibility for the members of the Board of Directors for their work.

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## Appendix

**Appendix 1. Original Figure by Usoltsev (2018). "Key aspects of corporate governance that need improvements [Основные аспекты корпоративного управления, которые должны подвергнуться первоочередным изменениям]."**

