

APPROVED
by the General Meeting of Shareholders
of JSCB “Asia Alliance Bank”
September 30, 2016
(Protocol No.AC-2/2016
dated October 7, 2016)

**REGULATION
ON INTERNAL CONTROL
OF THE JOINT-STOCK COMMERCIAL BANK
“ASIA ALLIANCE BANK”**

I. GENERAL PROVISIONS

1.1. This Regulation on Internal Control was developed in accordance with the legislation, Code of Corporate Management approved with the protocol of the meeting of Commission to Increase Effectiveness of Activity of Joint-Stock Companies and Improvement of Corporate Management System dated 31.12.2015 No. 9 (registration dated 11.02.2016r. No.02-02/1-187), the charter and internal documents of JSCB "Asia Alliance Bank" (hereinafter referred to as the Bank).

1.2. This Regulation shall determine purposes and tasks of internal control system, principles of functioning thereof as well as organs of the bank and persons who are responsible for internal control.

1.3. This Regulation shall be mandatory for observance by employees of the bank, by members of management and control organs thereof.

II. DETERMINATION AND PURPOSES OF INTERNAL CONTROL SYSTEM

2.1. Internal Control is a continuously functioning process built in activity of the bank and aimed at increase of effectiveness of processes to manage risks, control and corporate management in order to ensure substantiated and sufficient achievement of the purposes of the bank of confirmation in the following fields:

- effectiveness and productivity of activity including degree of effectiveness of functioning, earning profit and protection of assets;
- security and reliability of financial reporting;
- conformance to the legislation and rules of law which regulate activity of the bank.

2.2. Internal Control System is totality of organizational structure, of controlling measures, procedures and methods of internal control regulated by internal documents organized and implemented in the bank by the Revision Commission, internal audit service, the Supervisory Board and employees (by internal control subjects) in respect to all functions.

2.3. Internal Control Procedures are totality of measures implemented by internal control subjects which are aimed at identification of violations of the legislation and internal documents of the bank in implementation of financial and economic activity, at assessment of effectiveness of achievement by the bank of the installed purposes as well as interaction of internal control subjects between each other in due process of implementation of internal control procedures.

2.4. The main purpose of organization of internal control shall be to ensure protection of rights and lawful interests of all shareholders including of minority shareholders.

2.5. Internal control is designed to ensure in operative regime:

- integrity of assets, economical and effective usage of resources of the bank;
- observance of requirements of the current legislation and internal documents of the bank;

- implementation of development strategy of the bank for medium-term and long-term period, and business plans of the bank;
- completeness and reliability of accounting documents, financial reporting and managerial information of the bank;
- determination, identification and analysis of risks at the moment of emergence thereof in activity of the bank;
- planning and management of risks in activity of the bank including adoption of timely and adequate of decisions on risk management;
- adequacy, transparency and impartiality in payment of remunerations and compensations including sizes thereof, to members of the executive body, the Supervisory Board and the Revision Commission.

III. PRINCIPLES OF FUNCTIONING AND COMPONENTS OF INTERNAL CONTROL SYSTEM

3.1. Internal control system in the bank rests on the following principles:

3.1.1. Uninterrupted Functioning: permanent and proper functioning of internal control system enables the bank to detect, on timely basis, any deviations from rules and to prevent emergence thereof in future;

3.1.2. Accountability of All Participants of Internal Control System: quality of implementation of controlling functions by each person shall be controlled by other participant of internal control system;

3.1.3. Segregation of Duties: the bank strives not to allow duplication of controlling functions and these functions must be distributed between employees in such manner that one person does not concentrate functions related to approval of operations with certain assets, taking into account operations ensuring integrity of assets and holding inventory thereof;

3.1.4. Proper Endorsement and Approval of Operations: financial and economic operations shall be carried out by authorized persons within their respective powers;

3.1.5. Ensuring organizational separation of a subdivision of the bank which carries out daily internal control and its functional accountability directly to the Supervisory Board;

3.1.6. Responsibility of all internal control subjects working in the bank for proper implementation of controlling functions;

3.1.7. Implementation of internal control based on clear interaction of all subdivisions of the bank;

3.1.8. Permanent Development and Improvement: the bank strives to ensure conditions for flexible adjustment of internal control system such that it could be adapted taking into account of necessity to solve new tasks, to expand and improve the system;

3.1.9. Timeliness of transmission of messages about deviations: in the bank there are established utmost short periods for transmission of respective information to persons authorized to take decisions to eliminate deviations;

3.1.10. Determination of priority fields of bank's activity in which control is installed: there are identified strategic directions covered by internal control system, even if effectiveness of their functioning ("costs to economic effect" ratio) is difficult to measure.

3.1.11. Internal control system shall include the following components:

- controlling environment;
- process of risk assessment;
- information system including respective business processes related to financial reporting and information exchange;
- actions related to control;
- monitoring of control means.

IV. ORGANS OF INTERNAL CONTROL

4.1. Internal control shall be carried out by the Supervisory Board of the Bank, internal audit service, the Revision Commission, executive body as well as other employees of the bank at all levels and, at the same time, each shall bear responsibility for internal control according to established procedures.

4.2. Functions, rights and duties, responsibility, procedures for calculation of paid remunerations, requirements for composition and qualification of subdivisions, functioning in the bank shall be provided for with internal documents of the bank. None of these documents as well as other documents which directly or indirectly affect internal control matters may contradict this Regulation.

4.3. The following shall be included to functions of the Supervisory Board:

- determination of directions for development and endorsement of certain operations and strategies of internal control system;
- annual announcement about results of analysis and assessment of reliability and effectiveness of internal control system at the annual general meeting of shareholders of the bank based on data from regular reports of manager of the executive body of the bank, internal and external audits, the Revision Commission, information from other sources and own observations on all aspects of internal control including: financial control, operational control, control over observance of the legislation, control of internal policies and procedures;
- permanent improvement of internal control procedures.

4.4. Responsibility for implementation of functions of internal financial and economic and legal control over activity of the bank and its separate subdivisions shall be vested to permanent operating body of internal control or the Revision Commission, tasks and powers of which are specified in Regulation on the Revision Commission.

4.5. Responsibility for implementation of regular control, specifically for conformance of implemented financial and economic operations of the bank and its separate subdivisions to the legislation of the Republic of Uzbekistan as well as for

completeness and reliability of accounting and financial reporting shall be vested to the internal audit service, tasks and powers of which are specified in Regulation on Internal Audit Service, and if there is no such service, shall be vested to the Revision Commission of the bank which is responsible for internal control of the bank.

4.6. Responsibility for functioning of internal control system shall be vested to the manager of the executive body. The manager of the executive body of the bank shall implement procedures of internal control system and shall ensure its effective functioning, timely informing the Supervisory Board about all risks of the bank, substantial deficiencies of internal control system as well as about plans and results of measures to eliminate thereof.

4.7. Proper functioning of internal control system shall also depend on professionalism of employees. The Bank shall take efforts so that the system of selection, employment, training, preparation of personnel ensures their high qualification and observance of high ethical standards thereby.

4.8. The following persons shall not be entitled to occupy positions in the internal audit service or be a member of the Revision Commission of the Bank:

- persons who have outstanding criminal record for crimes in sphere of economy or for crimes against law;

- persons who are managers or members of the executive body of the bank;

- persons who are founders (shareholders, participants), managers or members of the executive body or employees of other legal entity which is a competitor to the bank.

Other requirements for persons included to the internal audit service and the Revision Commission shall be established by internal regulations which govern activity thereof.

V. INTERNAL CONTROL PROCEDURES

5.1. Internal control procedures may be:

- preventive enabling not to permit occurrence of an undesirable event;

- detecting for identification of an occurred undesirable event;

- directive to promote occurrence of a desirable event;

- correcting to neutralize consequences of occurrence of an undesirable event;

- compensating to compensate weak aspects of available means of control.

5.2. Internal control procedures shall be carried out at all levels of management in accordance with rules established by internal documents of the bank.

5.3. Internal control procedures in the bank shall include:

- endorsement is approval of documents by employees of various subdivisions and levels of management vested with respective powers;

authorization is acquisition of permissions by employees for accomplishment of operations;

verification is check of completeness, exactness, consistency and correctness of information received from of various sources including control for absence of discrepancies between accounting items, accounting systems, accounting data of the bank and contracting parties thereof;

arithmetical control is check of arithmetical correctness of calculations including computation of controlling sums in financial, accounting and other documents;

analysis of deviations is assessment of extent of achievement of the installed purposes and implementation of plans based on comparison actual of performance indicators with target indicators, projections, data from previous periods, results of competitors' activity;

physical control for integrity of assets is restriction of physical of access to assets, premises, documents, proper equipment of locations where assets are kept, conclusion of agreements for material responsibility;

inventorization is identification and description of factual existence and quality of characteristics of assets and liabilities in order to ensure reliability of accounting and integrity of assets of the bank;

general and special controlling procedures of information technologies (computer controls) are control over access and integrity of data, implementation of changes into information systems.

5.4. Content of specific controlling procedures shall depend on the level of management and functional direction, shall be developed by structural subdivisions in accordance with purposes of the bank and tasks of a structural subdivision and shall be established in internal documents of the bank.

VI. MECHANISM OF MONITORING OF WORK OF INTERNAL CONTROL ORGANS

6.1. The purpose of monitoring shall be assessment for effectiveness of internal control system of the bank including its ability to ensure implementation of the purposes and tasks installed therefore as well as clarification of essentiality of system deficiencies.

6.2. Internal control organs of the bank shall be accountable on quarterly basis to the Council of the bank in respect to results of accomplished inspections in accordance with their functional duties.

6.3. According to results of inspections of financial and economic activity of the bank for a year, the Revision Commission of the bank shall draw a conclusion which is heard at the annual general meeting of shareholders of the bank.

6.4. In due course of inspection of internal control system, an external auditor shall examine the current system of internal control, shall carry out assessment of

expediency of controlling mechanisms, and shall perform inspection of effectiveness of internal control system. When examining and assessing internal control procedures, special attention shall be paid to authorization of economic operations, distribution of duties, documenting and records in due course of controlling procedures.

6.5. Attraction of independent of professional organizations for assessment of effectiveness of internal control system of the bank shall be carried out on competitive basis under decision of the Supervisory Board of the Bank.

6.6. The Supervisory Board of the Bank shall, within its annual report, submit to shareholders information on results of the accomplished analysis and assessment of reliability and effectiveness of internal control system based on reporting data of internal and external audits, the Revision Commission, information from other sources and own observations on all aspects of internal control including: financial control, operational control, control over observance of the legislation, control of internal policies and procedures.

6.7. Monitoring of internal control system is aimed at timely identification of deficiencies and elimination thereof.

VII. FINAL PROVISIONS

7.1. This Regulation shall be mandatory for observance by employees of the bank, and members of its management and control organs.

7.2. This Regulation as well as amendments and supplements thereto shall be approved by the General Meeting of Shareholders with simple majority of votes.