

*Appendix No. 7  
to the decision of the sole shareholder  
of JSCB “ASIA ALLIANCE BANK”*

APPROVED  
by the decision of the sole shareholder  
of JSCB “ASIA ALLIANCE BANK”  
No. AC-1/2020 as of February 27, 2020

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

**new wording**

## **I. GENERAL PROVISIONS**

1. This Regulation on Policy of Internal Control is developed in accordance with law, Code of Corporate Governance approved by the minutes of the meetings of the Commission on increase of effectiveness of activity of joint-stock companies and improvement the corporate governance system as December 31, 2015 No. 9 (registration dated 11.02.2016 No.02-02/1-187), the Charter and internal documents of JSCB “ASIA ALLIANCE BANK” (hereinafter – the Bank).

2. This Regulation determines goals and objectives of internal control policy, the principles of its functioning, as well as bodies of the Bank and persons responsible for internal control.

3. This Regulation is mandatory for observance by employees of the Bank, by members of its management and control bodies.

## **II. DEFINITION AND OBJECTIVES OF THE INTERNAL CONTROL POLICY**

4. Internal control is a continuously operating process built into the Bank's activities and aimed at improving the efficiency of risk management, control and corporate governance processes in order to obtain reasonable and sufficient confirmation in relation to the achievement of the Bank's objectives in the following areas:

- efficiency and productivity of activities, including the degree of operational efficiency, profit making and asset protection;

- reliability and trustworthiness of financial statements;

- compliance with law and rules of law that regulate the Bank's activities.

5. Internal control system is a set of organizational structure, control measures, procedures and methods of internal control, regulated by internal documents, organized and carried out in the Bank by the Revision Commission, internal audit service, the Supervisory Board and employees (subjects of internal control) in all functions.

6. Internal control procedures are a set of measures implemented by subjects of internal control and aimed at identifying violations of law and internal documents of the Bank in implementation of financial and economic activities, at assessing effectiveness of the Bank's achievement of its goals, as well as interaction of subjects of internal control among themselves in the process of implementing procedures of internal control.

7. The main goal of organizing internal control is to ensure protection of rights and legitimate interests of all shareholders, including minority shareholders.

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

- safety of assets, economical and efficient use of resources of the Bank;

- compliance with requirements of the current law and internal regulatory documents of the Bank;
- implementation of development strategy of the Bank for the medium and long term, business plans of the Bank;
- completeness and reliability of accounting documents, financial statements and management information of the Bank;
- detection, identification and analysis of risks at the time of their occurrence in the Bank's activities;
- planning and managing risks in the Bank's activities, including making timely and adequate decisions on risk management;
- adequacy, transparency and objectivity of payment of remuneration and compensation, including its size, to the Chairman and members of the Management Board, members of the Supervisory Board and the Revision Commission.

### **III. PRINCIPLES OF POLICY OF INTERNAL CONTROL**

9. Policy of internal control in the Bank is based on the following principles:

uninterrupted functioning – constant and proper functioning of the internal control system allows the Bank to timely identify any deviations from the norm and prevent their occurrence in the future;

accountability of all participants of the internal control system – quality of performance of control functions by each person is controlled by another participant of the internal control system;

separation of duties – the Bank strive to avoid duplication of control functions, and these functions must be distributed among employees in such a way that the same person does not combine functions related to the approval of transactions with certain assets, with accountability of operations, ensuring the safety of assets and conducting their inventory;

proper endorsement and approval of transactions – financial and economic transactions are carried out by authorized persons within the limits of their respective powers;

ensuring the organizational isolation of division of the Bank that carries out daily internal control, and its functional accountability directly to the Supervisory Board;

responsibility of all subjects of internal control working in the Bank for the proper performance of control functions;

implementation of internal control based on clear interaction of all divisions of the Bank;

continuous development and improvement – the Bank strives to provide conditions for flexible adjustment of the internal control system so that it can be adapted taking into account necessity to solve new tasks, expand and improve the system itself;

timeliness of transmission of messages on deviations – the Bank has established the shortest possible terms for the transfer of relevant information to persons authorized to make decisions on elimination of deviations;

identification of prioritization of areas of activity of the Bank in which control is being established – select strategic directions covered by the internal control system, even if the effectiveness of their functioning (the ratio of “costs - economic effect”) is difficult to measure.

10. The internal control system includes the following components:

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

#### **IV. BODIES OF INTERNAL CONTROL**

11. Internal control is carried out by the Supervisory Board of the Bank, the internal audit service, the Revision Commission, the Management Board, as well as by other employees of the Bank at all levels, and each is responsible for internal control in accordance with the established procedure.

12. Functions, rights and obligations, responsibility, procedure for calculating remuneration paid, requirements for composition and qualifications of divisions functioning in the Bank are provided for by internal regulatory documents of the Bank. These documents, as well as other documents directly or indirectly affecting issues of internal control, cannot contradict this Regulation.

13. The functions of the Supervisory Board include:

- determination of direction of development and approval of certain operations and strategies of the internal control system;
- annual announcement at the annual General Meeting of Shareholders of the Bank on the results of analysis and assessment of reliability and efficiency of the internal control system based on the data of regular reports of the Chairman of the Management Board of the Bank, internal and external audits, the Revision Commission, information from other sources and our own observations on all aspects of internal control, including: financial control, operational control, control over compliance with law, control of internal policies and procedures;

- continuous improvement of internal control procedures.

14. Responsibility for implementation of functions of internal financial, economic and legal control over activities of the Bank and its separate divisions is assigned to the permanent internal control body - the Revision Commission, tasks and powers of which are reflected in the Regulation on the Revision Commission.

15. Responsibility for implementation of regular control, namely for the compliance of the financial and economic operations of the Bank and its separate divisions with law of the Republic of Uzbekistan, as well as for completeness and reliability of accounting and financial statements, lies with the internal audit service, tasks and powers of which are reflected in the Regulation on the internal audit service, in case of absence of such service, the Revision Commission of the Bank, responsible for internal control of the Bank.

16. Responsibility for functioning of the internal control system lies with the Chairman of the Management Board. The Chairman of the Management Board of the Bank introduce the procedures of the internal control system and ensures its effective functioning, timely informing the Supervisory Board about all risks of the Bank, significant deficiencies in the internal control system, as well as plans and results of measures to eliminate them.

17. Proper functioning of the internal control system also depends on the professionalism of the employees. The Bank is making efforts to ensure that the system of selection, recruitment, education, training of personnel provides their high qualifications and compliance with high ethical standards.

18. The following persons are not entitled to hold positions in the internal audit service or be a member of the Revision Commission of the Bank:

- persons who have an outstanding conviction for crimes in the sphere of economics or for crimes against order;

- persons who are the Chairman and members of the Management Board of the Bank;

- persons who are founders (shareholders, participants), head or members of the executive body, or employees of another legal entity that is a competitor to the Bank.

Other requirements for persons who are members of the internal audit service and the Revision Commission are prescribed by internal regulations governing their activities.

## **V. PROCEDURES OF INTERNAL CONTROL**

19. Procedures of internal control may be:

Warning – allowing to prevent the occurrence of an undesirable event;

revealing (detecting) – to identify occurred an undesirable event;

directive – contributing to occurrence of the desired event;  
corrective – neutralizing the consequences of an undesirable event;  
compensating – compensating for the weaknesses of existing control means.

20. Procedures of internal control are carried out at all management levels in accordance with the rules prescribed by internal regulatory documents of the Bank.

21. Procedures of internal control in the Bank include:

concordance – endorsement of documents by employees of various divisions and management levels, endowed with appropriate powers;

authorization – obtaining by employees permission to perform an operation;

revise – checking the completeness, accuracy, consistency and correctness of information obtained from different sources, including control of absence of discrepancies between accounting items, accounting systems, accounting data of the Bank and its counterparties;

arithmetic control – checking the arithmetic correctness of calculations, including the calculation of checksums, in financial, accounting and other documents;

deviation analysis – assessment of the degree of achievement of the set goals and the implementation of plans based on a comparison of actual performance indicators with planned indicators, forecasts, data from previous periods, the results of competitors;

physical control of the safety of assets – limitation of physical access to assets, premises, documents, proper equipment of places where assets are stored, conclusion of material liability agreements;

inventory – identification and description of the actual availability and quality characteristics of assets and liabilities in order to ensure the reliability of accounting and the safety of assets of the Bank;

general and specialized control procedures of information technologies (computer controls) – control of access, data integrity, changes in information systems.

22. Content of specific control procedures depends on the level of management and functional direction, is developed by structural divisions in accordance with the goals of the Bank and the objectives of the structural division, and is prescribed by internal regulatory documents of the Bank.

## **VI. MECHANISM OF MONITORING OF WORK OF INTERNAL CONTROL BODIES**

23. The purpose of monitoring is to assess the effectiveness of the internal control system of the Bank, including its ability to ensure the fulfillment of its

goals and objectives, as well as to clarify the materiality of deficiencies of the system.

24. Internal control bodies of the Bank quarterly report to the Supervisory Board of the Bank on the results of audits carried out in accordance with their functional responsibilities.

25. Based on the results of audit of financial and economic activities of the Bank for the year, the Revision Commission of the Bank draws up conclusion, which is heard at the annual General Meeting of Shareholders of the Bank.

26. During inspection of the internal control system, the external auditor considers the current internal control system, assesses feasibility of control mechanisms, and checks effectiveness of the internal control system. Examining and evaluating internal control procedures, special attention is paid to authorizing business transactions, assigning responsibilities, documenting and recording control procedures.

27. Involvement of independent professional organizations to assess the effectiveness of the internal control system of the Bank is carried out on a competitive basis by decision of the Supervisory Board of the Bank.

28. The Supervisory Board of the Bank, as part of its annual report, provides shareholders with information on the results of analysis and assessment of reliability and efficiency of the internal control system based on reporting data of internal and external audits, the Revision Commission, information from other sources and its own observations on all aspects of internal control, including: financial control, operational control, control over legal compliance, control of internal policies and procedures.

29. Monitoring of the internal control system is aimed at timely identification of deficiencies and their elimination.

## **VII. FINAL PROVISIONS**

30. This Regulation is mandatory for the employees of the Bank, members of its management and control bodies.

31. This Regulation, as well as amendments and additions to it, are approved by the General Meeting of Shareholders by a simple majority of votes.

32. This Regulation comes into force from the date of registration of the Charter of the Bank in new wording in the Central Bank of the Republic of Uzbekistan.