



PRIVATE COMMERCIAL JOINT-STOCK BANK ``TURKISTON``

**CONFIRMED BY THE DECISION
OF THE ASSEMBLY OF STOCK-BROKERS
OF PCJSB ``TURKISTON``
FROM 17TH JUNE,2016
PROTOCOL №_____**

Provisions on internal control of PCJSB ``Turkiston``

Tashkent – 2016

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I. CONTENT

1. The current dividend policy provisions of PCJSB `` Turkiston`` (later in the passage The provisions) was worked out in accordance with the existing legislative chamber of the republic of Uzbekistan, `` Rules of the inner control against the legalization of incomes, obtained from criminal activity, and from subsidizing terrorism in commercial banks`` (registered by the Department of Justice of the republic of Uzbekistan 21.11.2013 № 2528) by the law of PCJSB `` Turkiston`` (later in the passage bank) by Corporate governance principles, confirmed by the protocol of the assembly for the improvement of effectiveness and activity of joint-stock companies as well as modification of the corporate governance from the date 31.12.2016 №9 and other different documentations of the bank.

2. This provision is aimed at designating aims and issues of the system of internal control, principles of its functioning, also authorities and officials of the Bank responsible for internal control.

II. DEFINITIONS AND AIMS OF THE SYSTEM OF INTERNAL CONTROL

3. Internal control is an instantly working process in the activity of the Bank aimed at increasing effectiveness of the process of risk management, control and corporate governance in order to reach relative and efficient results in the following spheres of the Bank:

- Reliability and validity of financial reporting;
- Effectiveness and productivity of the activity, including the degree of effectiveness of functioning, having incomes and protection of assets;
- Correspondence to the norms of law and legislature, which regulate the activity of the bank;

4. System of internal control is a compilation of organizational structure, measures of control, methods and procedures taken for internal control, fixed by legal internal documents, fulfilled by the Revision Committee of the bank, Audit Committee, The Board of Supervisors, executive chamber and other employees (later subjects of internal control). Qualification of the members of internal control authorities may be fixed by the Provisions on their activity in the bank.

5. Procedures of internal control are measures of control, methods and procedures taken for internal control, fixed fulfilled by the Revision Committee of the bank, Audit Committee, The Board of Supervisors, executive chamber and other departments responsible (later in the contract-departments) aimed at finding out violations of legislature if any and other inaccuracies in internal documentation in time of realization of financial-economic activity, assessment of the degree of effectiveness of goals achievement by the Bank, and also the cooperation of subjects of internal control in the process of fulfilling the responsibilities of control.

6. The primary aim of the internal control is provision of all the shareholders including minor shareholders with the protection of their rights and legal interests

7. Internal control is to provide the following in operational manner:

Conserving the stocks, economical and effective usage of the resources of the bank;

Compliance with the existing legislature and internal documentation of the Bank;

The short term and long term strategies of development and business plans of the Bank;

Provide full and valid accounting documents, financial recording and other information connected with governance of the bank;

Identifying and analyzing risks if any appear in the course of activity of the bank;

Planning and managing risks in the course of the activity of the bank, including taking timely and adequate decisions;

Creation and sustaining good reputation of the bank in the working society and amid consumers;

Adequacy, transparency and objectivity in payment of remunerations and reimbursements, including the definition of their amount to the members of executive chamber, the Board of supervisors and Revision Committee.

III. PRINCIPLES OF FUNCTIONING OF THE SYSTEM OF INTERNAL CONTROL

8. The system of internal control in the bank is fulfilled according to the following principles:

Permanent functioning- constant and proper functioning of the system of internal control provides a bank with an opportunity to find out risks timely and prevention of future risks;

Supervision of all members of internal control- the quality of accomplishment of control functions of one of the members is revised by another member of the system;

dividing responsibilities-bank attempts to avoid repetition of one action several times, and that`s why the responsibilities must be divided between workers so that not one employee will be responsible for operations connected with certain assets, provision of soundness of assets and inventory;

Proper consent and confirmation of operations- Bank attempts to establish order in confirming all the financial and economic operations by the defined authorities in accordance with their responsibilities;

Provision of organizational unity of department responsible for daily internal control of the bank, and functional records given to the Board of supervisors through audit Committee;

Responsibility of all the subjects of internal control working in the bank, fulfillment of all the control tasks;

Accomplishment of internal control on the basis of full cooperation of all the departments of the bank;

Constant development and perfection- bank attempts to provide system of internal control with flexibility so that this system will adapt to solve new issues and risks, expand and develop the system itself;

Timely notification about existing problems- the bank sets shortest deadline possible for the notification of designated authorities so that they will start responding to the problem on time;

Defining priority spheres of activity of the bank, which require control- strategic priorities of internal control are defined even if the effectiveness of these priorities (relation between expenditure and economic benefits) are difficult to calculate.

IV. Components of the system of internal control

9. The system of internal control includes the following components:

control environment which includes ethical values and competence of the workers of the bank, policy of governance, methods of dividing responsibilities among the authorities of the bank, structure of organization and upgrading qualification of the employees, and also governance by the board of Supervisors;

Assessment of the risks—identification and analysis of the risks on the way toward reaching goals and plans consecutive in their achievement and interlinked ;

control of the policy and procedures which guarantee that the decisions are abided by the authorities including announcement of consents, sanctions, confirmations, conducting control, control of current activity, guarantee of protection of stocks, and dividing responsibilities among workers ;

Informational provision and exchange of information, which pursues the aim of timely and effective finding of data necessary for registration or exchange, including the creation of favorable effective channels of informational exchange to understand the policy and procedures of internal control of the bank and their accomplishment. Bank takes measures to provide protection against not sanctioned access to information;

Monitoring- process of controlling and supervising, in the course of which the quality of the system is defined by the passage of time. The assessment of the internal control is done in order to identify possibility of mistakes, influencing on the validity of financial recording, the importance of these mistakes and designating how well the system of internal control can cope with the tasks put ahead. Independent professional organization of supervisors-consultant may be invited to assess the effectiveness of the system of internal control in the bank with the consent of the assembly of shareholders and suggestion of the Board of Supervisors.

V. AUTHORITIES RESPONSIBLE FOR INTERNAL CONTROL

3. 10. The internal control is accomplished by Revision Committee, Board of Supervisors of the Bank, Audit Commission, internal audit service of the bank, heads of executive branch of the bank and other employees of the bank in all levels and each of them is responsible for internal control.

11. Functions, rights and responsibilities, obligations, the order of paying reimbursement and remuneration of the existing subdivisions of the bank are fixed in the internal documents of the bank. These documents including all the other documents connected with internal control of the bank cannot contradict the current Provisions.

12. The designated subdivisions of the bank accomplish internal control with the aim of providing systematic control of financial and economic activity of the bank- internal audit service of the bank, if this service isn't established, then the internal control is regulated by the authority designated in cooperation with other subdivisions .

13. The functions of the Board of Supervisors include:

Identifying the ways of development and approving certain operations and strategic systems of internal control;

Annual revision in the yearly meeting of shareholders of the Bank about the results of the analysis and assessment of liability and effectiveness of the system of internal control based on the records provided by the head of the executive chamber of the bank, internal and external audit, revision committee, information and other aspects noticed including: financial control, operational control, control of compliance with legislature, control of internal policy and procedures ;

Defining structures and the list of workers in subdivisions of the bank, responsible for internal control;

Constant improvement of procedures of internal control.

14. The responsibility for the organization of control on the validity and fullness of financial records, liability and effectiveness of the system of internal control is put on the Audit committee of the Board of Supervisors, the role, whose tasks and aims are defined in the provisions about Audit committee of the Board of Supervisors of the bank.

15. The head of the executive chamber is responsible for the functioning in accordance with the confirmed by audit committee policy. He also lobbies procedures of the system of internal control and provides its effective functioning, informing audit committee about all the possible risks on time, plans and results of the measures taken.

16. Employees (including heads of subdivisions) of subdivisions of all levels have to partake in the working out strategies and procedures of the internal control within the scope of their responsibilities. Coping with unusual situations

and problems is also included into their tasks. Employees have to inform the heads of the bank about the risks or misunderstandings on particular pacts.

17. The responsibility for the control on the financial and economic activity of the bank and its subdivisions is put on permanently working internal governing bodies- Revision Commission, whose aims and tasks are reflected in the Provisions about Revision Commission;

18. The service of internal audit, whose aims and tasks are reflected in the provisions about the service of internal audit is responsible for regular control on the execution of the procedures of internal control, to be exact correspondence of certain financial and economic operations of the bank to the legislature of the republic of Uzbekistan and the chamber of the bank as a whole, its separate subdivisions, also the service is responsible for fullness and validity of accounting and financial records.

The provisions about the service of internal audit are confirmed by the Board of Supervisors of the bank.

19. The service of internal audit of the bank reports to the Committee of supervisors on auditing about the results of internal auditing of the system of internal control. The service of internal audit of the bank subdues to the Board of Supervisors of the bank.

20. The following individuals cannot occupy the position in the service of internal audit:

- Individuals, with crime record in the sphere of economics or crime against order ;
- Individuals, who are the heads or members of executive chamber of the bank;
- Individuals, who are the founders(shareholders, participants) heads or members of executive chamber of the bank or employees of legal entity-competitor to the bank ;

All the other conditions to the individuals involved in the service of internal audit of the bank may be defined by the Board of Supervisors of the bank, who work with internal audit.

21. Proper functioning of the system of internal control also depends on the professionalism of employees. Bank attempts to put absolute emphasis on correct selection, recruitment, teaching, and preparation of employees and their career prospects so that it will provide service with highest qualification and compliance with the highest ethical standards.

VI. Methods and procedures of system of internal control

22. Procedures of internal control of the bank involve:

Identifying interlinked and not contradictory aims and tasks in different levels of the bank;

Банка analyzing and managing existing operational, financial, strategic and other risks;

Assessment of important components of internal control;

Assessment of effectiveness of the system of internal control and business processes;

Defining criteria and assessment of efficiency of structural subdivisions, authorities and other employees of the bank;

Comparing current financial and other information with results for the previous periods or expected results of the activity of the bank;

Correctly assessing certain events, operations and transactions;

Check of the soundness of the assets;

Proper documentation of the procedures of internal control;

Constant assessment of the quality of the system of internal control;

Delivering the information about their responsibilities in the bank to all the employees in the sphere of internal control;

Dividing primary responsibilities among the employees of the bank (responsibilities include approval and confirmation of the operations, distribution, conservation and receiving resources, analysis and supervising operations) ;

Confirmation and fulfillment of tasks only by the designated authorities

And other necessary procedures to achieve the goals of internal control.

23. The methods of inspecting, observing, confirming, recalculation and other methods necessary may be applied in the course of accomplishing tasks of internal control.

VII. Final provision

4. 24. These provisions, together with modifications and amendments to the summary are confirmed by the decision of the assembly of stock-brokers.

5. 25. Changes and amendments to the current Provisions can be included according to the suggestions of Board of Supervisors of the Bank, Audit Commission, internal audit service of the bank, heads of executive branch of the bank.

6. 26. Should individual articles of the current provisions become contradictory to the legislature of the Republic of Uzbekistan/ Bank`s Charter, these articles will be considered legally invalid and the issues regulated by these articles will lose their legal validity as long as new amendments will be included into the current Summary.