**«REGISTERED»**

**№ 499**

**"26" August 2016.**

**POSITION**

**"ON INTERNAL CONTROL" OF JOINT-STOCK COMMERCIAL BANK TURONBANK"**

**«Approved»**

**Based on the decision**

**General Meeting of Shareholders of**

**the bank dated June 25, 2016 No. AS-1 Chairman of the Reporting**

**General Meeting of Shareholders**

**O. Olimjonov**

**Tashkent-2016**

**Chapter 1. General Rules.**

1. This regulation on internal control of the Commercial Bank of the Republic of Uzbekistan (hereinafter referred to as the regulation) has been developed in accordance with the requirements of the current legislation of the Republic of Uzbekistan, the" Corporate Governance Code", approved on December 9, 2015 at the meeting of the Commission for improving the corporate governance system and other regulatory documents.

2. These regulations define the goals and objectives of the internal control system, the principles of its functioning, and the powers of banking divisions responsible for internal control.

**Chapter 2. Defining the internal control system and its objectives.**

3. Internal control is a continuous process of banking activity and consists of all agreed methods and measures aimed at improving the effectiveness of risk management, control and corporate governance in order to achieve the bank's goals.

4. The internal control system consists of a set of organizational structures that control internal control measures and methods, which are regulated by the bank's internal documents, organized and implemented by the bank's Audit Commission, the Internal Audit Service, the Bank's Board of Directors, the Bank's management and other employees of all ranks (in subsequent positions - subjects of internal control).

5. Internal control procedures - a set of measures carried out by the Audit Commission, the Audit Committee, the Bank's Board, the Bank's Management Board and the Bank's divisions authorized to exercise internal control, aimed at identifying violations of the Bank's legislation and internal documents in the course of financial and economic activities, assessing the effectiveness of the Bank's achievement of its goals, and evaluating the interaction of internal control entities in the process of performing internal control procedures.

6. The main purpose of internal control is to ensure the protection of the rights and legitimate interests of all shareholders, including minority shareholders.

7. The internal control system is aimed at ensuring that::

integrity of the bank's assets, economical and efficient use of the bank's resources;

compliance with the requirements of the current legislation and internal regulations of the bank;

implementation of the bank's medium - and long-term development strategy and business plans;

ensuring completeness and reliability of accounting documents, financial statements and management information of the Bank;

identify, identify and analyze banking risks as soon as they arise;

adoption of prompt and adequate (adequate) measures for planning and managing risks in banking activities, including risk management:

gaining and maintaining the reputation of entrepreneurs and clients;

ensuring sufficiency, transparency and impartiality (objectivity)in the payment of salaries and compensation payments to members of the bank's management Board, the Bank's Board of Directors and the Audit Commission, including in relation to their amounts.

**Chapter 3. Principles of functioning of the internal control system.**

8. The bank's internal control system is based on the following principles:

continuity of operation-continuous and proper functioning of the internal control system, which makes it possible to detect any violations in a timely manner and prevent their further recurrence;

accountability of all members of the internal control system-the quality of performance of control functions by each person is controlled by the head of the internal control unit;

distribution of responsibilities-the bank strives to avoid duplication of supervisory functions, and these functions should be distributed among employees in such a way that tasks related to confirming transactions related to certain assets, registering assets, and ensuring asset integrity cannot be assigned to one employee;

proper approval and approval of transactions-seeks to establish a procedure for approval of all financial and economic transactions by authorized persons within the limits of the powers that they have over them;

ensuring organizational independence and accountability of the bank's daily internal control unit;

responsibility for the proper performance of control functions by all internal control entities in the bank;

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

continuous development and improvement - the bank strives to create conditions for adapting the system to elasticity, taking into account the need to meet new tasks, expand and improve the internal control system;

timely communication of information about deviations from the legislation-setting short deadlines in the bank for communicating information about deviations from the legislation to the persons authorized to eliminate them;

determining the priorities of the bank's internal control areas-strategic areas covered by the internal control system-is highlighted even when the effectiveness of their implementation is difficult to measure.

**Chapter 4. Structure of the internal control system.**

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

Control environment. It includes the ethical values and professional skills of the bank's employees, the management policy, the style of distribution of authority and responsibility on the part of the management, the organizational structure and professional development of employees, as well as the management and management of the bank's board;

risk assessment - identification (identification) and analysis of relevant risks that are interrelated and are in internal consistency at different stages of achieving specific tasks;

a control-related activity that summarizes policies and procedures that help ensure the implementation of management decisions and includes various activities such as granting approval, notifying and approving, conducting audits, monitoring ongoing activities, guaranteeing asset security, and allocating authority;

creation of effective ways of information exchange for timely and effective identification, registration and exchange of information, information support and exchange of information, including on the policy and principles of internal control adopted by the bank, between all internal control entities and ensuring their implementation, taking measures to ensure the security and protection of banking information;

Monitoring is a process that includes management and control functions, in which the quality of the system is evaluated over time. The internal control system is evaluated to identify errors that affect the accuracy of the financial statements, determine the severity of such errors, and determine the ability of the internal control system to meet its assigned objectives. To assess the effectiveness of the bank's internal control system, an independent qualified consulting organization may be engaged on the basis of a proposal from the bank's Board of Directors in accordance with the decision of the general meeting of Shareholders.

**Chapter 5.Bodies and persons responsible for internal control.**

10. Internal control is carried out by the Bank's Audit Commission, Audit Committee, Board of Directors, Chairman of the Management Board, employees of the Internal Audit Service and all independent structural divisions of the bank, each of which is responsible for internal control in accordance with the established procedure.

11. The functions, rights and obligations of independent structural divisions in the bank, the procedure for calculating compensation and salary payments are provided for in the bank's internal documents.

12.In order to ensure the systematic nature of the bank's financial and economic control, the internal control processes are reviewed and monitored by the bank's authorized division, the Internal Audit Service, in cooperation with other exclusive structural divisions of the bank.

This requirement does not exempt structural divisions directly involved in the bank's financial and economic activities from responsibility and ensuring internal control over operations in their areas of activity.

13. The functions of the Bank's Board of Directors include::

defining the development directions of specific practices and strategies of the internal control system and approving them;

present annually at the annual General Meeting of Shareholders of the bank information on the results of analysis and evaluation of the reliability and effectiveness of the internal control system based on reports of the head of the bank's executive body( the bank's management board), information received from the internal and external audit commission, audit, other sources and own observations in all areas of internal audit, including financial control, operational control, control over compliance with legislation, control of internal policy;

Determining the structure and composition of the Bank's Internal Audit Service;

Systematic improvement of internal control principles.

14. Internal control system of the bank the organization of control over the correctness and completeness, reliability and effectiveness of financial statements is entrusted to the audit committee of the bank. The significance, objectives and powers of this committee are reflected in the Regulations on the Bank's Audit Committee.

15. The Chairman of the Management Board of the bank implements the principles of the internal control system and ensures its effective operation by providing the bank's Board with information on all risks in the bank, on serious deficiencies in the internal control system, as well as on plans and results of measures to eliminate them.

16. All employees of the Bank (including managers), within the limits of their competence, are directly involved in the development of detailed control strategies and principles.

Their duties include the task of timely solving emerging non-standard situations and problems. Employees should inform the bank's management about important issues or risks associated with a particular transaction.

17.The Audit Commission of the Bank is responsible for monitoring the activities of the bank and its separate subdivisions in the financial and economic sphere.

18. The Internal audit service is responsible for checking and monitoring the state of internal control processes, that is, monitoring compliance of the bank's financial and economic activities with the legislation of the Republic of Uzbekistan and the charters of the bank and its individual structural divisions, as well as the completeness and reliability of accounting and financial statements. At the same time, independent structural divisions of the bank that exercise and ensure internal control over the financial and economic activities of the bank and are directly involved in these processes bear constant responsibility in their areas of activity.

19. The Bank's Internal Audit Service is accountable to the Bank's Audit Committee. The Bank's Internal Audit Service reports to the Bank's Board of Directors and its "Audit Committee".

20. The following persons are not eligible to hold positions in the Bank's Internal Audit Service:

persons who have incomplete criminal records for economic crimes or crimes against the management order;

- persons who are the chairman or members of the management board of the bank;

- persons who are the founders (shareholders, participants) of the bank, the chairman or a member of the management board of the bank, or an employee of another legal entity competing with the bank;

Other requirements imposed on persons who are members of the Internal Audit Service may be established by the Bank's Audit Committee.

21. The proper functioning of the internal control system also depends on the qualification of personnel. The Bank strives to ensure that the system of recruitment, recruitment, training, training and promotion of staff ensures that they are highly qualified and adhere to high ethical standards.

**Chapter 6. Internal control procedures-principles and methods.**

22. The Bank's internal control procedures include::

identification of interrelated and consistent goals and objectives at different levels of the bank's operations;

identification and analysis of potential and existing operational, financial, strategic and other risks that may hinder the achievement of banking objectives;

assessment of critical components of internal control;

evaluating the effectiveness of the internal control system for business processes;

setting standards and evaluating the effectiveness of the Bank's structural divisions, officials and other employees;

review financial and other information by comparing it with comparable data related to past periods or expected results of operations;

application of adequate (decent) accounting methods for events, operations and transactions;

checking the integrity of assets;

proper documentation of internal control procedures; systematic assessment of the quality of the internal control system;

informing all employees of the bank about their responsibilities in the field of internal control;

distribution of key responsibilities (including those related to approval and approval of transactions, registration of transactions, provision, storage and receipt of resources, analysis and verification of transactions) among the bank's employees;

approval and execution of operations only by authorized persons;

other procedures are principles necessary for achieving internal control objectives.

23. When performing internal control procedures, audit, monitoring, approval, recalculation, as well as other methods necessary for performing internal control procedures are used.

**Chapter 7. Final rules.**

24. These Regulations and any amendments and additions made to them are approved by the General Meeting of Shareholders.

25.If, as a result of changes in the legislation and legislative acts of the Republic of Uzbekistan, certain articles of these regulations contradict them, such articles are not valid and until changes are made to the Regulations, the bank is guided by legislative documents and the legislation of the Republic of Uzbekistan.