

«APPROVED»

**by General Meeting of Shareholders
of « Kapitalbank » JSCB
December 30, 2019
(Protocol № 4/2019)**

Chairman of the meeting

_____ M.A. Abdusamadov

**REGULATION
ON INTERNAL CONTROL OF
«KAPITALBANK» JSCB**

Tashkent – 2020

I. GENERAL PROVISIONS AND TERMS

1. This Regulation on Internal Control of Kapitalbank (Further - Regulation) has been developed in accordance with the laws of the Republic of Uzbekistan "On Banks and Banking Activities" (new version), "On joint stock companies and protection of shareholder rights" (new version), decree of the President of the Republic of Uzbekistan of April 24, 2015 № UP-4720 «On measures to introduce modern corporate governance methods in joint stock companies», Regulation on Corporate Governance in Commercial Banks, approved by the Central Bank of the Republic of Uzbekistan from June 24, 2000 № 472, registered with the Ministry of Justice of the Republic of Uzbekistan on July 5, 2000 № 943, Corporate Governance Code, approved by the protocol of the Commission for improvement of joint stock companies performance and improvement of corporate governance system from December 31, 2015 № 9, as well as the Charter of «Kapitalbank » JSCB.

2. The Regulation defines the objectives and tasks of the internal control system, principles of its functioning, as well as the bodies and persons, responsible for internal control in the bank

3. Definitions, used in this Regulation:

Internal control – it is an ongoing process, carried out by the bank (its governing bodies, divisions and employees) and aimed at improving risk management, control and corporate governance in order to achieve the following goals:

efficiency and effectiveness of financial and economic activities in banking and other transactions, efficiency of assets and liabilities management, including provision of assets safeguard, bank risks management;

reliability, completeness, objectivity and timeliness of the compilation and presentation of financial, accounting, statistical and other reporting (for external and internal users), as well as information security;

compliance with regulations, constituent and local bank documents;

excluding involvement of the bank and participation of its employees in the conduct of illegal activities, including legalization of revenues, received from criminal activity, and financing of terrorism, and also timely submission of information to the Central Bank of Uzbekistan and the state authorities in accordance with the law;

Internal control system – organizational structure, control measures, procedures and internal control methods, ensuring compliance with the implementation order and achievement of the goals, set by the legislation of the Republic of Uzbekistan, Charter and local bank documents;

System of internal control bodies –totality of governing bodies, identified by the local documents of the bank, as well as divisions and employees (responsible employees), performing functions within the internal control system;

Department of Internal Audit –structural division of the bank, conducting objective analysis, assessments, giving recommendations and information on the monitoring and results of the bank activities;

Audit Commission of the bank –the body of the bank, which carries out internal control over financial and economic activities of the bank, its divisions and services, as well as its branches.

Branch – OPERU (Operations department), COD, BSC and all th branches of the bank.

4. The requirements of the Regulation are mandatory and are a guide for each employee of the bank, taking into account functions, assigned to the employee in the internal control sphere.

II. THE OBJECTIVES OF THE INTERNAL CONTROL SYSTEM. PRINCIPLES OF ITS FUNCTIONING.

5. The main purpose of the organization of the internal control system of the bank is to ensure the protection of the rights and legal interests of the bank's shareholders, including minority shareholders.

6. Internal control shall provide on an on-going basis:

Safeguard of assets, cost-effective and efficient use of the bank resources;

Compliance with the requirements of the current legislation and local documents of the bank; implementation of the development strategy of the bank for the medium and long term period, business plans of the bank;

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

detection, identification and analysis of risks at the time of their appearance in the bank activities;

planning and management of risks in the bank operations,

including making timely and adequate decisions on risk management;

establishing and maintaining good reputation of the bank in business circles and with customers;

adequacy, transparency and objectivity in the payment of remunerations and compensation, including their size, to the Audit commission, members of the Supervisory Board and the Bank Board of Directors.

7. The internal control system in the bank is based on the following principles:

smooth operation –constant and proper operation of the internal control system allows the bank to detect any deviations from the norm in a timely manner and prevent their occurring in the future;

accountability of all members of the internal control system –quality of control functions execution by each person is controlled by another member of the internal control system;

distribution of responsibilities –the bank seeks to prevent duplication of control functions, and these functions should be distributed among employees in such a way that the same person does not combine the functions, connected with approving transactions with certain assets, taking into account operations, ensuring safeguard of assets and their inventory;

appropriate acceptance and approval of operations –the Bank seeks to establish the approval procedure of all financial and economic transactions by authorized persons within their respective powers;

ensuring the organizational isolation of the Department of Internal Audit, exercising daily internal control and its functional accountability directly to the Supervisory Board of the Bank through the Audit Committee at the Supervisory Board of the Bank;

responsibility of all internal control actors, working at the bank, for the proper performance of control functions;

Internal control implementation, based on the clear interaction of all the bank divisions;

continuous development and improvement –the bank seeks to provide conditions for flexible set-up of the internal control system so that it can be adapted to meet new challenges, expand and improve the system itself;

timeliness of reporting deviations –information about deviations should be provided to persons, authorized to make decisions on the relevant deviations as soon as possible;

Principle of responsibility –in order to build effective internal control, each individual control function shall be assigned to only one control entity (at that, several control functions may be assigned to one control entity). Every bank employee must be economically, administratively and disciplinarily responsible for the improper performance of his functions. In this case, the responsibility should be established for the performance of each specific function and assigned to a specific employee of the bank. Quality of control functions performance is monitored by a senior member of the internal control system.

III. ACTIVITY PROCEDURE OF INTERNAL CONTROL SYSTEM BODIES OF THE BANK

8. Internal control in accordance with the powers, defined by the Charter and local documents of the bank, is carried out by:

a) Governing bodies of the Bank:

General meeting of shareholders;

Supervisory board of the bank;

The Board of the Bank.

б) Chief accountant of the bank;

в) Directors of the bank's departments and their deputies;

г) managers and chief accountants (their deputies) of the bank branches;

д) divisions and employees of the bank, exercising internal control in accordance with the powers, defined by the local documents of the bank.

9. The following issues are within the purview of the Shareholders' General Meeting of the Bank in the implementation of internal control:

determining the quantitative composition of the Bank Supervisory Board, electing its members and early termination of their powers;

creation and definition of the quantitative composition of the Minority Shareholders Committee, election of its members and early termination of their powers;

approval of the organizational structure of the bank;

making decision on the definition of an auditing organization for mandatory audit, on the maximum payment for its services and conclusion (termination) of the contract with it;

election of members of the Audit Commission of the Bank and early termination of their powers, as well as approval of the provision on the Bank Audit Commission, insertion of additions and changes to it;

review of the Reports of the Supervisory Board of the Bank and the Board of the Bank on the measures, taken to achieve development strategy of the bank;

solving of other issues, related to the jurisdiction of the General Meeting of Shareholders by legislation, Regulation about the General Meeting of Shareholders and other local acts of the bank.

10. Competence of the Supervisory Board of the Bank in part of internal control implementation includes the following questions:

Hearing to the reports of the Board of the Bank on measures for achieving development strategy of the bank, implementing modern methods of corporate governance, based on analysis of international experience, improving the efficiency of the use of investment, logistical, financial resources and workforce, and other issues, related to the Board of the Bank;

assignment, extension and early termination of the powers of the bank's Board members;

establishment of the Department of Internal Audit, Bank Risk Management Department, as well as appointment and dismissal of their staff, appointment of a corporate consultant, his dismissal from office, approval of the regulations, governing their activities, as well as hearing to their reports;

determining the procedure of development and approval of the local acts of the bank, approval of the local acts of the bank, excluding local acts of the bank, approval of which is within the purview of the General Meeting of Shareholders in accordance with the law and this Charter;

gaining access to any documents, related to the activities of the Board of the Bank and obtaining them from the Board or on its behalf from the responsible persons to fulfill the duties,

assigned to the Supervisory Board of the Bank. The obtained documents can only be used by the Supervisory Board of the Bank for official purposes;

development and approval of the organizational structures of the Head Office, bank branches and other separate branches of the bank;

preventing and eliminating conflicts of interest, arising from disagreements between the bank and/or its structural divisions, and/or employees, property and other interests of its clients, causing unpleasant consequences for the bank and/or its clients, in the manner, established by the local acts of the bank;

solving of other issues, related to the competence of the Supervisory Board of the Bank by legislation, the Regulation on the Supervisory Board of the Bank and other local acts of the bank.

11. Competence of the Board of the Bank in part of internal control implementation includes the following questions:

organizes implementation of the decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank;

coordinates the work of the bank structural divisions, introduces modern corporate governance techniques, based on in-depth analysis of international experience, improves the efficiency of investment, logistical, financial resources and workforce; creates favorable environment for wide attraction of foreign investments to the bank, organizes training and professional development for managerial staff, based on cooperation with leading foreign educational institutions, and can also attract highly qualified managers of foreign countries to senior positions in the bank;

develops and approves the local acts of the bank, excluding local bank acts, approval of which is within the purview of the General Meeting of Shareholders and the Bank Supervisory Board, Chairman of the Board of the Bank;

implements strategic goals, corporate governance policy, other internal local acts and policies of the bank, including identifying, managing, monitoring risks and informing about risks, keeping capital adequacy at the proper level;

provides an appropriate and transparent organizational management structure for the bank, including distribution of powers and responsibilities among bank employees within their powers;

oversees activities of the bank employees;

solves other issues, related to the competence of the Bank Board of Directors by legislation, the Regulation on the Board of the Bank and other local acts of the bank.

12. Competence of the chief accountant of the bank in part of internal control implementation includes the following questions:

formation and implementation of accounting policy of the bank;

accounting, provision of timely submission of full and reliable accounting and financial statements;

controlling the movement of the bank's property.

The functions and powers of the Chief Accountant of the bank are determined by the job description.

13. Competence of the Directors of the Bank Department and their deputies in part of internal control implementation includes the following questions:

Keeping documents in the bank in due course and order;

Ensuring compliance with applicable law in banking operations and transactions;

Ensuring compliance with the requirements of the bank local acts and existing legislation in part of implementation of internal control.

The functions and powers of the directors of the bank departments and their deputies are determined by job descriptions.

14. Competence of the branch managers and chief accountants (their deputies) in part of internal control implementation includes the following questions:

conduct of branch accounting, timely reflection in the accounting of operations and transactions, ensuring the possibility of forming full and reliable accounting of the branch;

monitoring the movement and safety of property, monitoring the performance of obligations.

The functions and powers of the branch managers and chief accountants and their deputies are determined by job descriptions.

15. Competence of the Department of Internal Audit of the Bank in part of internal control implementation includes the following questions:

providing the Bank Supervisory Board with reliable and independent information on the real state of the bank and effectiveness of the internal control system, based on the results of the internal audit;

overview of accounts and financial statements to determine their accuracy, correctness and reliability;

review of the banking capital valuation system, related to its risk assessment;

review of the effectiveness and application of risk management procedures and risk assessment methodology;

Assessing the effectiveness of the internal control system to implement the decisions of the governing bodies of the bank (General Shareholders' Meeting, Supervisory Board and the Board of the Bank);

Implementation of internal control, including transactions with legal entities, more than 50% of the share capital of which belongs to the bank;

Check in due course of the activity of the Department of Internal Control, Department of Risk Management and Securities Management, Department of Coordination and Monitoring of investment activity.

The functions and powers of the Department of the Bank internal audit are determined by the Regulation of the Department of Internal Audit, approved by the Supervisory Board of the Bank, and job descriptions of internal audit officials.

16. Competence of the Bank Audit Commission includes the following questions:

implementation of the audit (revision) of the financial and economic activities of the bank at the request of shareholders and governing bodies of the bank in accordance with the law and local acts of the bank;

verification of the legality of the contracts, concluded on behalf of the bank, of transactions, settlements with counterparties

verification of compliance of the financial and economic, production activities with established standards, regulations, etc..;

analysis of the financial situation of the bank, its solvency, liquidity of assets, ratio of own and borrowed funds, identification of reserves to improve economic condition and making recommendations for the governing bodies of the bank;

analysis of compliance of accounting and statistical accounting with existing regulations, if necessary, with access to primary accounting documents.

verification of the correctness of the decisions, taken by the Supervisory Board of the Bank or the Board of the Bank, their compliance with the Charter of the Bank, provisions on the Supervisory Board of the Bank and the Board of the Bank as well as decisions of the General Meeting of Shareholders;

analysis of the decisions of the General Meetings of Shareholders, proposals to change them in case of divergence with the law and other regulations of the Republic of Uzbekistan.

IV. AREAS OF INTERNAL CONTROL

17. The internal control system of the bank comprehensively covers all the bank activities and includes the following areas of control:

- control over the organization of the bank activities by the governing bodies;
- monitoring the operation of the banking risk management system and assessing bank risks;
- control over the distribution of powers in banking transactions and other transactions;
- control of information flows management (receiving and transmitting information) and provision of information security;

- monitoring the compliance of the bank activity in the securities market as a professional participant;

- control of functioning system, preventing laundering money, received from criminal activity, and financing of terrorism;

- monitoring of functioning of the internal control system for evaluation of extent of its compliance with the tasks of the bank activity, identifying flaws, proposals development and overseeing the implementation of decisions to improve internal control system of the bank.

18. Control by the governing bodies over the organization of the bank activities is carried out in accordance with the powers, defined by the Charter and local documents of the bank, and takes into account the delineation of competence and areas of control of the bank activities in accordance with the Code of Corporate Governance of «Kapitalbank» JSCB.

19. The governing bodies of the bank within their competence:

- assess the risks that influence achieving goals, and take measures to respond to changing circumstances and conditions to ensure effectiveness of the bank risks assessment. To effectively identify and monitor new or previously uncontrolled banking risks, the organization of the internal control system of the bank should be reviewed in a timely manner;

- ensure participation in internal control of all bank employees in accordance with their job responsibilities;

- set the order, in which employees inform governing bodies and heads of the bank structural divisions about all violations of the current legislation, founding and local documents, cases of abuse, non-compliance with professional ethics norms;

- accept documents on the interactions of the internal audit department with the bank divisions and employees and monitor their compliance;

- exclude adoption of rules and/or implementation of practices that may cause actions, contrary to existing legislation, objectives of internal control.

20. The bank controls the operation of the bank system of risk management and assesses bank risks on a permanent basis in the manner, established by the internal documents of the bank, and the control is based on:

- identification of the main, inherent risks, associated with the bank core activities;

- implementation of the necessary procedures and processes to identify, track changes in risks;

- establishing acceptable levels of risk that the bank and its divisions can take to achieve their goals;

- determining basic control methods and control structures that do not allow exceeding established risk levels.

21. The assessment of bank risks involves identification and analysis of internal (complexity of organizational structure, skill level of the bank employees, organizational changes, employees turnover, etc.) and external (changing the economic conditions of the bank activity, used technologies, etc..) factors, influencing activities of the bank.

22. Control of powers distribution is performed in order to prevent conflict of interests when making operations and transactions.

23. For risk leverage and minimization in banking transactions and other transactions, the bank organizes internal control, which consists of the following:

primary control – control to determine the legality of operations before their execution;

current control – repeated control, the purpose of which is to determine compliance with legality of all banking operations, approved at the primary control stage;

final control – control, carried out after the end of the operating day, no later than the next banking day, to confirm the legality and designated purpose of all banking operations.

24. Procedure of distribution of powers between the bank divisions and employees in the banking transactions and other transactions is established by the current legislation and local documents of the bank, which include, among other things, forms (methods) of control, such as:

Checks, carried out by the governing bodies by requesting reports and information on the performance of structural divisions, clarifications from the heads of the relevant divisions in order to detect weaknesses in control, violations, errors;

control, carried out by division managers, by verifying reports about work of their subordinated employees (on a daily and (or) weekly and (or) monthly basis);

material (physical) control, carried out by checks on restrictions on access to material values, recalculation of material values (cash, securities in documentary form, etc.), distribution of responsibility for the storage and use of property, ensuring protection of premises for storage of material values;

checking compliance with the set limits for banking and other transactions by obtaining relevant reports and verification with the primary documents data;

system of harmonization (approval) of operations (transactions) and distribution of powers in banking and other transactions, exceeding set limits, providing timely informing of the relevant bank executives (bank divisions) about such operations (transactions) or existing situation and their proper reflection in accounting and reporting

verification of compliance with the order (procedures) of banking and other transactions, verification of accounts, informing the relevant leaders about detected violations, errors and flaws.

25. The official duties of the Bank employees should be distributed in such a way that to avoid a conflict of interest and conditions for its occurrence, committing crimes and other unlawful acts in banking and other transactions.

In particular, it is not permissible to grant the right to the same division or bank employee:

To commit banking and other transactions and register them and (or) reflect in the reports;

to authorize payment of funds and make (accomplish) their actual payment;

to implement transactions on accounts of bank customers and accounts, reflecting own financial and economic activities of the bank;

to provide advisory and information services to the bank clients and make transactions with the same clients;

to assess reliability and completeness of the documents, submitted at the issuance of the loan, and monitor the financial condition of the borrower;

to take actions in any other areas where there may be a conflict of interest.

26. Internal control over the distribution of powers in banking and other transactions should provide with a sufficient degree of reliability:

access to the bank's property and implementation of transactions on the accounts of clients to strictly authorized bank employees;

reflecting operations in accounting in accordance with the requirements, set by the Central Bank of the Republic of Uzbekistan;

reflecting the real state of the bank assets and liabilities and compiling of established reporting forms;

confirmation of accounting data of assets and liabilities of the bank, both in terms of their coverage and in terms of the frequency of compliance checks;

taking the necessary actions, aimed at eliminating discrepancies in accounting data, if any.

27. Control of information flows management (receiving and transmitting information) and ensuring information security is implemented to provide concerned parties with complete and reliable information about the bank activities and to prevent using of available in the bank information by individuals, having access to such information, in the personal interests or interests of the bank's competitors, and by those who do not have access to such information.

28. To control the management of information activities, including procedure of protection from unauthorized access and dissemination of confidential information, and from the use of confidential information for personal purposes, the bank, as far as possible:

a) provides:

targeting and speeding up of bringing the necessary information to the relevant employees;

information systems security, carries out their periodic check;

control of automated information systems (control of the database server and end-users' work places), performed with the aim of ensuring smooth and continuous operation;

б) sets:

procedure of reserving data and restoring the functions of automated information systems, performs support in the course of use of automated information systems;

acquisition, development and maintenance rules (maintenance) of software, procedure of control for the safety of physical access;

automated procedures, controlling the bank transactions processing (control editing, logical access control, data recovery, etc..).

29. Internal control over automated information systems and technical tools consists of general control and software control:

General control of automated information systems involves monitoring of computer systems (control of the main computer, Client-server system and end-users' work places, etc.), conducted to ensure smooth and continuous work. General control consists of data backup (copying) procedures and procedures of restoration of the functions of automated information systems, rendering support during the time of use of automated information systems, including determining the rules of acquisition, development and service (maintenance) of support, procedure of control for the safety of physical access;

software control is carried out by automated procedures, built into applied programs, as well as manual procedures, controlling the processing of bank transactions and other transactions (edit check, logical access control, internal reservation and data recovery procedures, etc.).

30. The bank sets the order and rules of information activity management in local documents, including the order of protection from unauthorized access and dissemination and use of confidential information.

V. MONITORING OF INTERNAL CONTROL SYSTEM

31. Monitoring of the internal control system – it is an ongoing monitoring of risk management to assess the likelihood of their increasing, evaluation of effectiveness and detection of shortcomings of used methods of risk management, proposals development and execution of control over implementation of made decisions on improving risk management, based on the formation of an information base about the occurrence of events (circumstances) of risk, as well as analysis of the causes of these events (circumstances).

32. The Bank monitors the internal control system on an ongoing basis.

33. Monitoring of the internal control system includes:

Check and assessing the adequacy and effectiveness of the internal control system;

Check of the use and effectiveness of risk management procedures and risk assessment methodology;

checking the management system and financial information, including the electronic information system and electronic bank services;

verifying accuracy and reliability of accounting records and financial statements;

Check

Assessing the cost-effectiveness and efficiency of operations;

testing of both transactions and functioning of specific internal control;

Check of systems, established to ensure compliance with legal and regulatory requirements, codes of conduct, techniques and procedures;

Conducting special investigations.

34. Monitoring of the internal control system is carried out by the bank management and employees of different divisions, including divisions, executing banking operations and other transactions, and their reflection in accounting and reporting, and by the internal audit department of the bank.

35. In order to monitor the internal control system, management and employees of the bank in the course of banking operations and other transactions should assess:

compliance with internal methods, programs, rules, orders and procedures, as well as set limits;

reliability, completeness and objectivity of systems of accounting and reporting, collection, processing and storage of other information;

Reliability of certain set and used in the bank ways (methods) of control in part of organization of Internal Control System in relation to operations and transactions, performed by the bank.

36. Continuous monitoring of the internal control system operation, identifying and analyzing problems, related to its operation, as well as proposals to improve the control system and to increase its efficiency is entrusted to the Bank Department of Internal Audit, which, through inspections of different areas of activity and divisions of the bank provides an independent assessment of adequacy of established rules and procedures, as well as the fullness of their compliance. The activities of the Bank Internal Audit Department are regulated by applicable law, Regulation of Department of Internal Audit, local documents of the bank on the procedure of inspections implementation.

37. Requirements to elimination of deficiencies, identified as a result of internal control monitoring:

Information about internal control deficiencies, identified by the bank's management and staff, the Department of Internal Audit or other control units of the bank should be reported to the managers of relevant level in a timely manner and promptly addressed;

system of prompt elimination of identified deficiencies of internal control through the interaction of the Directors of the Internal audit department of the bank with the Chairman of the Board of the Bank, who takes effective operational measures to address identified deficiencies. Responsibility for timely elimination of identified deficiencies is entrusted to the management of the bank and the heads of certain structural divisions of the bank.

VI. BODIES AND PERSONS, RESPONSIBLE FOR INTERNAL CONTROL

38. Compliance with this Regulation is monitored by the Supervisory Board of the Bank, which is also obliged to perform:

Determination of the direction and approval of internal control strategies;

implementation of annual statement at the annual general meeting of shareholders of the bank about the results of the analysis and assessing the reliability and effectiveness of the internal control system, based on data of regular reports of the Board of the Bank, internal and external audits, Audit Commission, information from other sources and own observations on all aspects of internal control, including: financial control, operational control, control of compliance with legislation, control of internal policies and procedures;

continuous improvement in internal control procedures.

39. Responsibility for the exercise of control over the financial and economic activities of the bank and its separate divisions is entrusted to the permanent internal control body - the Audit Commission of the Bank

40. Responsibility for control of veracity and completeness of financial statements, reliability and efficiency of the internal control system of the bank is entrusted to the Audit Committee at the Supervisory Board of the Bank.

41. Responsibility for functioning policy in the area of internal control of the bank is entrusted to the Bank Board. Chairman of the Bank Board introduces procedures of internal control system and ensures its effective functioning, informing the Supervisory Board of the Bank in a timely manner about all the risks of the bank, significant flaws in the internal control system, as well as plans and results of events for their elimination.

42. Employees (including managers) of divisions of any level within their purview participate directly in detailed development of strategies and procedures for control implementation. Their responsibilities include coping with non-standard situations and problems as they occur. Employees report to the higher management of the bank on significant issues or risks, arising from a particular transaction.

43. Responsibility for the exercise of regular control over internal control procedures implementation, namely, the compliance of the bank financial and economic operations with the legislation of the Republic of Uzbekistan and the Charter of the bank as a whole, its separate divisions, as well as the completeness and reliability of accounting and financial statements is entrusted to the Internal Audit Department of the Bank

VII. FINAL PROVISIONS

44. Any local documents of the bank, directly or indirectly affecting internal control issues, may not contradict to this Regulation.

45. Regulation, as well as any changes and additions to it, come into force after approval by the General meeting of the shareholders of the bank. When the new version of the Regulation comes into force, the previous version of the Regulation is no longer valid.

46. If, as a result of changes in the laws and regulations of the Republic of Uzbekistan, separate articles of this Regulation conflict with them, these articles lose force, and until amending the Regulation, the bank is governed by the laws and regulations of the Republic of Uzbekistan.

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