

“Agreed”

by the supervisory board of protocol
of the “Ipoteka-bank” JSCMB
No. 73 dated November 21, 2016

“Approved”

by decision of the general
meeting of shareholders of the
“Ipoteka-bank” JSCMB
No. 23 dated December, 2016

**REGULATION
OF INTERNAL CONTROL
OF «IPOTEKA-BANK» JSCMB**

Tashkent-2016

I. GENERAL PROVISIONS

1. This Regulation on internal control (hereinafter - the Regulation) of the joint-stock commercial mortgage bank "Ipoteka-bank" (hereinafter - the Bank) is developed in accordance with the current legislation of the Republic of Uzbekistan, the Bank's charter, the Corporate Governance Code, approved by the minutes of the meeting of the Commission on improving the efficiency of joint stock companies and improving the corporate governance system and internal documents of the Bank.
2. These Regulations determine the goals and objectives of the internal control system, the principles of its functioning, as well as the bodies of the Bank and the persons responsible for internal control.

II. DEFINITION AND OBJECTIVES OF THE INTERNAL CONTROL SYSTEM

3. Internal control is a continuously operating process built into the Bank's activities and aimed at improving the effectiveness of risk management, control and corporate governance processes in order to obtain reasonable and sufficient confirmation of the achievement of the Bank's goals in the following areas:
 - the effectiveness of activities, including the degree of efficiency of operation, making a profit, protecting assets and deposits;
 - reliability and reliability of financial statements;
 - Compliance with the legislation and legal norms that govern the activities of the Bank.
4. The internal control system is a combination of the organizational structure, control measures, procedures and methods of internal control regulated by internal documents, organized and implemented by the Bank by the Audit Commission, Supervisory Board, Internal Audit Service, executive body, banking risk management and internal control units, and also by other employees at all levels (hereinafter referred to as the subjects of internal control) and for all functions.

The main internal control bodies of the Bank are the Revision Commission and the Internal Audit Service.

Subsidiary bodies of internal control of the Bank are a unit of internal control (this also includes internal control to counteract the legalization of proceeds from crime) and a unit for managing bank risks.

5. Internal control procedures are a set of measures carried out by the Bank's Supervisory Board, the Audit Committee of the Bank's Supervisory Board (hereinafter referred to as the Audit Committee), the Bank's Management Board, internal control bodies, as well as the Bank's divisions authorized to carry out internal control in certain areas of the Bank's activities, and aimed at identifying violations of the law and internal documents of the Bank in the implementation of financial and economic activities, to assess the effectiveness of the Bank's goals as well as the interaction between the internal control subjects in the implementation of an internal control procedures.
6. The main goal of internal control is to ensure the protection of the rights and legitimate interests of all shareholders, including minority shareholders.

7. Internal control is designed to provide online:

- preservation of assets, economical and efficient use of Bank resources;
- compliance with applicable laws and internal documents of the Bank;
- implementation of the bank's development strategy 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;
- identification, identification and analysis of risks at the time of their occurrence in the activities of the Bank;
- planning and risk management in the Bank's activities, including the adoption of timely and appropriate risk management decisions;
- the adequacy, transparency and objectivity of the payment of remuneration and compensation, including its size, to members of the executive body, the supervisory board and the audit commission.

III. PRINCIPLES OF FUNCTIONING THE INTERNAL CONTROL SYSTEM

8. The internal control system at the Bank is based on the following principles:

- adequate functioning - the internal control system in the Bank should be adequate to the management system, the complexity of its organizational structure, volumes and types of operations performed;
- uninterrupted functioning - the 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 in the internal control system - the quality of the implementation of control functions by each person is controlled by another participant in the internal control system;
- segregation of duties - the Bank seeks to avoid 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 associated with approving transactions with certain assets, taking into account operations, ensuring the safety of assets and conducting their inventory In order to avoid abuse and for effective monitoring, these functions should be distributed among several persons;
- proper approval and approval of operations - the Bank must establish a procedure for approving all financial and business operations by authorized persons within their respective powers. The procedure for approving financial, business and client operations of a bank is established by internal documents of the Bank (unless otherwise provided in regulatory documents);
- responsibility of all internal control entities operating in the Bank for the proper performance of control functions;
- exercising internal control on the basis of clear interaction between all divisions of the Bank;

- continuous development and improvement - the Bank seeks to provide conditions for flexible adjustment of the internal control system so that it can be adapted to meet the need to solve new problems, expand and improve the system itself;

- timely transmission of deviation messages - information on deviations should be provided to persons authorized to make decisions on the corresponding deviations as soon as possible. If the message is late, the undesirable consequences of deviations are aggravated, the object goes into another state (action), which makes the control itself meaningless.

When exercising control functions, it is necessary to reasonably distribute the available forces, focusing on the most difficult areas of the Bank's activity, where significant losses are possible.

IV. COMPONENTS OF THE INTERNAL CONTROL SYSTEM

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

- the control environment, which includes the ethical values and competence of the Bank's employees, management policies, how management distributes authority and responsibility, organization structure and staff development, as well as leadership and management by the supervisory board;

- risk assessment - which is the identification and analysis of relevant risks when achieving certain tasks related to each other at various levels and internally consistent;

- control activities that summarize policies and procedures that help ensure that management decisions are implemented and includes a wide variety of actions, such as issuing approvals, sanctions, confirmations, conducting inspections, monitoring ongoing activities, guaranteeing the safety of assets and separation of powers;

- information support and information exchange activities aimed at the timely and effective identification of data, their registration and exchange of information, including the creation of effective information exchange channels in order to create an understanding among all internal control entities of the Bank's internal control policies and procedures and ensure their execution. The Bank takes measures to protect against unauthorized access to information;

- monitoring - a process that includes management and supervision functions, during which the quality of the system's performance over time is evaluated. An assessment of the internal control system is carried out to determine the probability of errors that affect the reliability of the financial statements, to clarify the materiality of these errors, and to determine the ability of the internal control system to ensure the fulfillment of tasks.

In order to evaluate the effectiveness of the internal control system in the Bank by the decision of the general meeting of shareholders on the basis of the proposal of the Supervisory Board, an independent professional consultant organization may be involved. The Audit Committee organizes the selection of an independent professional organization - a consultant to assess the effectiveness of the Bank's internal control system.

V. BODIES AND PERSONS RESPONSIBLE FOR INTERNAL CONTROL

10. Internal control is carried out by the Audit Commission, the Audit Committee, the Supervisory Board of the Bank, the Board of the Bank, the internal audit service, internal control and banking risk management departments, as well as other employees of the Bank at all levels, and each one is responsible for internal control in the established manner .
11. In order to ensure the systemic nature of control over the financial and economic activities of the Bank, the internal control procedures are carried out by internal control bodies, the Management Board, in cooperation with other bodies and divisions of the Bank.
12. The functions of the Bank's Supervisory Board include:
 - determining the direction of development and approval of certain operations and strategies of the internal control system;
 - annual report at the annual general meeting of shareholders of the Bank on the results of the analysis and assessment of the reliability and effectiveness of the internal control system, based on regular reports of the Chairman of the Management Board of the Bank, internal and external auditors, the audit commission, information from other sources and own observations on all aspects of internal control including: financial control, operational control, control over compliance with the law, control of internal policies and procedures;
 - determination of the structure and composition of the Audit Committee and the internal audit service, responsible for monitoring the state of internal control;
 - continuous improvement of internal control procedures.
13. The responsibility for the organization of control over the reliability and completeness of the financial statements, the reliability and effectiveness of the Bank's internal control system lies with the Audit Committee, whose role, goals, tasks and powers are reflected in the Regulation on the Bank's Audit Committee.

Qualification requirements for members of the Audit Committee are established in the Regulation on the Audit Committee of the Bank.
14. The Management Board of the Bank implements the procedures of the internal control system and ensures its effective functioning, timely informing the supervisory board about all risks of the Bank, significant shortcomings of the internal control system, as well as plans and results of measures to eliminate them.
15. Employees (including managers) of departments of any level within their competence are directly involved in the detailed development of strategies and procedures for monitoring. It is their responsibility to deal with non-standard situations and problems as they arise. Employees report significant issues or risks arising from a particular transaction to senior management of the Bank.
16. The Revision Commission, which oversees the financial and economic activities of the bank, is elected by the general meeting of shareholders in accordance with the Bank's charter for a period of one year.

The procedure for the activities of the Bank's audit commission is determined by the regulations approved by the general meeting of shareholders. Members of the Bank's audit

commission cannot simultaneously be members of the Bank's Supervisory Board, and also work under an employment agreement (contract) in the same Bank. Qualification requirements for members of the Bank's audit commission are established in the regulation on the audit commission of the bank.

An audit of the financial and economic activities of the Bank is carried out based on the results of activities for a year or another period at the initiative of the Audit Commission, the General Meeting of Shareholders, the Supervisory Board of the Bank or at the request of a shareholder (shareholders) owning at least five percent of the bank's voting shares by prior notice to the Supervisory Board bank council.

The Revision Commission quarterly submits to the meeting of the Bank's Supervisory Board a conclusion on the existence of transactions with affiliates or major transactions in the bank, as well as compliance with legal requirements and internal documents of the bank for such transactions.

The procedure and amount of payment of remuneration to members of the Audit Commission is established by the General Meeting of Shareholders of the bank.

17. Responsibility for exercising regular control over the implementation of internal control procedures, namely for assessing the compliance of the Bank's financial and business 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 the accounting and financial statements lies with the internal audit service , goals, tasks, the powers of which are reflected in the Regulation on the Internal Audit Service. The regulation on the internal audit service is approved by the Supervisory Board of the Bank.
18. The Bank's Internal Audit Service reports to the Bank's Supervisory Board and the Audit Committee on the results of the Bank's internal audit and monitoring of the internal control system. The Bank's Internal Audit Service reports to the Bank's Supervisory Board and the Audit Committee.
19. Requirements for employees of the internal audit service, the procedure and amount of payment of remuneration to employees of the internal audit service are established in the Regulation on the internal audit service or by a separate decision of the Bank's Supervisory Board. At the same time, the following persons are not entitled to occupy positions in the Bank's internal audit service:
 - Persons with an outstanding conviction for economic crimes or for crimes against order;
 - persons who are members of the Management Board of the Bankю
20. The qualifications of members of other internal control bodies of the Bank, as well as the goals, functions and reporting of these bodies are established in the Regulations on their activities.
21. The proper functioning of the internal control system also depends on the professionalism of employees. The Bank should make efforts to ensure that the system of selection, hiring, training, training and promotion of employees ensures their high qualifications and their observance of high ethical standards.

Ethical standards of conduct (at least in relations with customers, employees of other departments, with the property of the bank, and official duties) of the Bank's employees

are provided for in the Bank's internal documents.

22. Functions, rights and obligations, responsibility, the procedure for calculating compensations and remuneration paid, operating in the Bank units, are provided for in the Bank's internal documents. These documents, as well as other documents directly or indirectly affecting internal control issues, may not contradict this Regulation.

VI. INTERACTION BETWEEN INTERNAL CONTROL BODIES AND GOVERNANCE BODIES

23. In order to ensure the effective functioning of the Bank's internal control system as a whole and to comply with internal control procedures, the internal control bodies interact with the Bank's management bodies, the Bank's shareholders, as well as the Bank's officials and employees in the process of internal control.

24. The interaction of the Bank's internal control bodies with the management bodies - the General Meeting of Shareholders and the Supervisory Board and shareholders of the Bank is carried out:

- a) by introducing information on the state of the internal control system by the bodies of internal control for consideration by the management bodies of the Bank;

- b) through regular hearing of reports of internal control bodies by the Supervisory Board and the General Meeting of Shareholders;

- c) by conducting unscheduled inspections of the financial and economic activities of the Bank by decision of the General Meeting of Shareholders, the requirement of the Supervisory Board, a written request of a shareholder (s) who own at least 5 (five) percent of the Company's voting shares;

- d) when considering appeals (applications, proposals and complaints) of shareholders, including minority shareholders, concerning internal control and violation of their legal rights.

25. The Revision Commission reports to the General Meeting of Shareholders based on the results of the audit of the financial and economic activities of the bank.

At the written request of the audit commission of the bank, persons holding positions in the executive body of the bank are required to submit documents on the financial and economic activities of the bank to it.

When checking the financial and economic activities of the Bank, the audit commission has the right to use materials and reports of other internal control bodies.

26. The Internal Audit Service reports: monthly to the Audit Committee, quarterly to the Audit Committee and the Supervisory Board of the Bank based on the results of audits of financial and economic activities and monitoring the status of internal control.

The audit report, which contains at least the objectives and objects of the audit, the scope of the internal audit, the identified problems and shortcomings, as well as recommendations for each problem area, should be prepared immediately after the audit.

27. The Supervisory Board and the Management Board of the Bank should strengthen the effectiveness of the results of the work of the internal audit service and other internal control bodies by using, in a timely and efficient manner, information from internal audit

(other internal control bodies) and should ensure that employees comply with the recommendations of the internal audit (other internal control bodies) and create conditions for their implementation.

28. Monitoring of the Bank's internal control system is carried out in order to assess the quality of work of internal control bodies, determine the ability of the internal control system to ensure the fulfillment of its tasks, and to clarify the materiality of identified errors. Periodic evaluation of the work of internal control bodies is carried out: by the General Meeting of Shareholders (Revision Commission), the Supervisory Board (Internal Audit Service, bank risk management unit), the Management Board (internal control unit) by reviewing the submitted reports.

VII. PROCEDURES AND METHODS OF INTERNAL CONTROL

29. The Bank's internal control procedures include:
- determination of interrelated and consistent goals and objectives at various levels of the Bank's management;
- identification and analysis of potential and existing operational, financial, strategic and other risks that may impede the achievement of the Bank's goals;
 - assessment of the essential components of internal control;
 - assessment of the effectiveness of the internal control system of business processes, structural units;
 - consideration of financial and other information in comparison with comparable information for previous periods or with the expected results of operations;
 - the use of adequate methods of accounting for events, operations and transactions;
 - verification of the safety of assets;
 - proper documentation of internal control procedures;
 - regular quality assessments of the internal control system;
 - communicating to all Bank employees their responsibilities in the field of internal control;
 - distribution of key responsibilities between Bank employees (including responsibilities for approving and approving transactions, accounting for transactions, issuing, storing and receiving resources, analysis and verification of transactions);
 - approval and execution of operations only by those persons who are vested with the relevant authority;
 - other procedures necessary to achieve the goals of internal control.
30. When conducting internal control procedures, methods of inspection, observation, confirmation, recounting, as well as other methods necessary for the implementation of internal control procedures are applied.
31. Control over the distribution of powers is carried out in order to prevent the occurrence of a conflict of interest in transactions and transactions. In order to balance and minimize risks when making banking operations and other transactions, it is necessary to observe the "four eyes" principle, which consists in the following:

separation of duties, excluding the possibility of making a decision and carrying out the operation by one person;
conducting cross-checks of operations;
double control of active operations;
acceptance for execution of documents containing two signatures (executive and control).

32. Internal control over automated information systems and technical means consists of general control and program control.

The general control of automated information systems provides for the control of computer systems (control of the main computer, client-server system and workplaces of end users, etc.), which is carried out in order to ensure uninterrupted and continuous operation.

General control consists of procedures for backing up (copying) data and procedures for restoring the functions of automated information systems, providing support over time for using automated information systems, including determining the rules for acquiring, developing and maintaining (maintaining) software, and the procedure for monitoring the security of physical access.

Program control is carried out by automated procedures built into the application programs, as well as manual procedures that control the processing of banking operations and other transactions (control editing, logical access control, internal data backup and recovery procedures, etc.).

Management bodies The Bank establishes in internal documents the procedure and rules for managing information activities, including the procedure for protecting against unauthorized access and the distribution and use of confidential information.

VIII. FINAL PROVISIONS

33. These Regulations, as well as amendments to it, are approved by the decision of the General Meeting of Shareholders.
34. Additions and changes to these Regulations are made at the proposal of the members of the Bank's Supervisory Board, the Bank's External Auditor, the Bank's Audit Commission, the Bank's Internal Audit Service, and the Chairman of the Management Board.
35. If, as a result of changes in the legislation and regulatory acts of the Republic of Uzbekistan, certain articles of this Regulation conflict with them, these articles shall cease to be valid, and until the amendment of the Regulations is made, the Bank shall be governed by the legislation and regulations of the Republic of Uzbekistan.