

“APPROVED”

By the Decision of OJSCB “Hamkorbank” Council
Protocol No 19 dd. 18th of October, 2012

Chairman of the Bank Council

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REGULATIONS ON INTERNAL AUDIT SERVICE OF THE OJSCB “HAMKORBANK”

I. GENERAL REGULATIONS

- 1.1. These Regulations have been developed in accordance with the “Requirements of the Central Bank of the Republic of Uzbekistan for internal audit of commercial banks” registered by the Ministry of Justice on 27.04.2011 as No 992-3.
- 1.2. Internal Audit Service is an independent structural unit directly subordinate to the Bank Council. Internal Audit Service is accountable to the Audit Committee under the Bank Council and acts in accordance with the laws of the Republic of Uzbekistan in force and the regulations of the Central Bank, Charter of OJSCB “Hamkorbank” and these Regulations.

II. OBJECTIVES OF THE INTERNAL AUDIT SERVICE

- 2.1. Internal Audit Service is established to monitor internal control and assist the bank’s management bodies in ensuring effective functioning of the bank by providing bank management with an objective analysis, assessment, recommendations and information on the control and business results of the bank.
- 2.2. Internal Audit Service has the tasks as follows:
 - Providing the Bank Council with reliable and independent information about actual state of the bank and the effectiveness of the internal control system based on the results of the internal audit;
 - Selective verification of the implementation of established regulations and requirements of legislation, decisions of governmental bodies;
 - Analysis and evaluation of the effectiveness and adequacy of the internal control system and the effectiveness of the adopted procedures for conducting internal audit;
 - Identification of areas of potential conflict of interests;
 - Testing of plans adopted by the bank for system recovery in emergency situations;
 - Review of the effectiveness of administrative and operational procedures to achieve the objectives of the bank;
 - Review of the effectiveness and application of risk management procedures and risk assessment methodologies;
 - Review of the financial information system including the electronic information system and electronic banking services;
 - Review of accounts and financial statements for accuracy, precision and reliability;

- Conducting or assisting in conducting special inspections in accordance with the requests of the Bank Council.

2.3. In order to perform the tasks assigned to it, the Internal Audit Service conducts systematic scheduled inspections of the activities of all structural units in the OJSCB “Hamkorbank” system.

III. FUNCTIONS OF THE INTERNAL AUDIT SERVICE

3.1. Internal Audit Service has the functions as follows:

- conduction of an ongoing audit of financial statements;
- assessment of the adequacy of accounting, operational and administrative control systems;
- interaction with bank management;
- assistance to bank employees in the effective performance of their duties;
- preparation of the bank for external audit.

3.2. Internal Audit Service has additional the functions as follows:

- participation in the development of internal regulations, instructions, procedures and other documents;
- cooperation with similar services of commercial banks of the Republic of Uzbekistan and other institutions for advanced training, exchange of experience;
- assisting external auditors by exchanging information and every facilitating work of external auditors;
- compilation of audit materials and provision of information on audit results to the Audit Committee and bank management;
- making proposals to the Audit Committee and the management of the bank to take measures to eliminate the deficiencies identified in the result of audit.

IV. STRUCTURE AND STAFF SIZE

4.1. Internal Audit Service is headed by the Head of the Service (Chief Auditor) who has the status of department director or the head of the General Directorate of the bank.

4.2. Internal Audit Service consists of the following three sectors: Risk Sector from Active Operations, Sector of Operational Risks and Sector of Risks from Retail Services. Each sector is headed by a Sector Head.

4.3. Staff size of the Internal Audit Service is approved by the Bank Council in the number which is sufficient to fulfill the tasks assigned to it.

4.4. Chief Auditor is appointed and dismissed by the decision of the Bank Council, the rest of the employees of the audit service are approved by the Audit Committee on the proposal of the Chief Auditor.

V. INTERACTION OF THE INTERNAL AUDIT SERVICE WITH OTHER STRUCTURAL DIVISIONS OF THE BANK AND EXTERNAL OVERSIGHT BODIES

5.1. Interaction of the Internal Audit Service with other departments of the bank is carried out by:

- obtaining additional information about the audit entity before conducting audit from the Parent bank which from time to time monitors and inspects;
- exchange of information and opinions with the Directors of the Departments, Legal Service, Security Service, Risk Management and Internal Control and other structural units of the bank;
- providing the results of the audit with recommendations for their elimination to the Bank Board.

5.2. Bank employees responsible for specific areas should inform Internal Audit Service about all known deviations from established procedures as well as about changes in their procedures or in areas of their activity including those related to significant changes in legislation and regulatory acts.

5.3. Bank employees who have become aware of violations of the law, rules of operations as well as damage to the Bank, shareholders, depositors and customers are obliged to bring these facts to the attention of the Internal Audit Service through their direct supervisor.

5.4. Internal Audit Service is actively involved in the selection process of the external audit organization, of its work and elimination of identified deficiencies.

5.5. Internal auditors should gain knowledge and relevant skills through closer cooperation with External Auditors.

5.6. The Internal Audit Service periodically informs the Bank Council on the status of implementation of the measure taken by the Board to eliminate the identified deficiencies from the External Audit, Inspection of the Central Bank, Taxation and other supervisory authorities.

VI. RIGHTS AND POWERS OF INTERNAL AUDITORS

6.1. All administrative matters are solved by the Chief Auditor with the Chairman of the Bank Board, and he has free and independent access to him/her as well as to other representatives of senior management.

6.2. Employees of The Internal Audit Service have unrestricted access to all areas of the bank as well as to all financial, accounting and other documents, assets, and structural divisions of the bank and can contact any of the bank employees with questions for the sake of effective performance of their duties.

6.3. In order to ensure effective performance of its duties, the Internal Audit Service should not be involved in the implementation or management of other activities which it is intended to check and evaluate. its responsibilities do not include the development and implementation of procedures, preparation of documentation or performance of others work the quality of which the auditors should check and evaluate, as well as any actions that can be interpreted as violation of its status as an independent and objective side.

6.4. The internal audit service, without prejudice to its objective observer status, may make recommendations regarding the standards of control systems to be followed when developing new systems and procedures, or assess existing or planned improvements that aim to improve the reliability of control systems or the efficiency of operational and financial systems and related procedures.

6.5. Employees of the Internal Audit Service have the right to issue temporary orders (until the decision of the bank management) to prevent actions that may result in violation of laws, regulations, standards of professional activity and professional ethics, and taking excessive risks on the bank.

6.6. When carrying out the audit, employees of the Audit Service has the following powers:

- require all the necessary documents related to the activities of the bank, or documents that are the subject of an audit from the management and employees of the bank;
- during the internal audit, receive explanations from the managers and employees of the bank on emerging issues. If necessary, an employee of the Audit Service has the right to request written explanations on matters of interest to him;
- receive copies of the required documents;
- if necessary, in the manner prescribed by the bank, withdraw original documents the further safety of which is in doubt;
- for verification purposes, have unlimited access to all premises as well as electronic and paper archives of the bank;
- after the audit, monitor the implementation of measures to eliminate violations found during the audit.

VII. DUTIES OF INTERNAL AUDITORS

7.1. Responsibilities of the HEAD of the Internal Audit Service include informing the bank management of significant shortcomings and other important problems identified during the audit, and providing recommendations on their solving.

7.2. It is the responsibility of the auditors to document the nature, causes and mechanism of deficiencies and violations appearance which are identified in the subdivision of the Bank being audited, the amount of material damage caused to the Bank and other negative consequences as well as conditions conducive to the violations and employees responsible for this.

7.3. In the necessary scope, ensure the documentation of the results of inspections of each area of work being checked as well as a description of the verification procedure in full compliance with the inspection program.

7.4. If any facts of wasting, embezzlement, illegal spending of money and other abuses are revealed, immediately inform the head of the SEA and the management of the Bank.

7.5. Objectively include into the inspection materials all revealed facts of violations of financial, accounting and executive discipline, abuse, distortion of accounting and reporting data, give them a principled assessment so that deficiencies and violations are promptly and fully eliminated.

7.6. In the course of inspections, promptly inform the heads of the inspected units of the Bank about the identified significant violations in order to take immediate measures to eliminate them.

7.7. To exercise control over the implementation of measures to eliminate the deficiencies and violations found out in the results of previous inspections.

- 7.8. Always be guided by the interests of the Bank, the current legislation of the Republic of Uzbekistan, normative acts of the Central Bank of the Republic of Uzbekistan, internal regulatory documents of OJSCB "Hamkorbank".
- 7.9. Constantly improve their skills, know and correctly apply the current legislation of the Republic of Uzbekistan, regulations of the Central Bank and internal documents of the Bank in their work, and adhere to professional ethics.
- 7.10. If, in the opinion of the Chief Auditor, bank management or heads of departments assume the risk that is unacceptable to the bank, or the control measures are inadequate to the level of risk, the Chief Auditor must *immediately* inform the Bank Council about it in written.

VIII. CONDUCTING INTERNAL AUDIT

- 8.1. Internal audit is carried out only by the employees of the Audit Service.
- 8.2. Internal audit is carried out in accordance with the Audit Plan approved by the Bank Council. Based on the Audit Plan, a detailed audit program is prepared. Responsibility for the development of the Audit Plan rests with the Audit Committee, and for the development and execution of the audit program - with the Chief of the Internal Audit Service. The draft annual audit plan should be annexed by a note to the Bank Council with expiation of the method of its preparation.
- 8.3. The audit plan should be reviewed and approved by the Bank Council at least once a year until January 1 of the relevant year in order to ensure the efficiency and adequacy of the work of the Audit Service.
- 8.4. The audit plan should clearly define and describe the objectives of the audit and also include a detailed work plan, schedule of audits, and description of the necessary procedures for each area considered.
- 8.5. Internal auditing at bank departments should be carried out at least once a year.
- 8.6. In specific cases, in order to conduct an audit of individual divisions of the bank, experts or outside consultants (outsourcing, cosourcing) may be involved.
- 8.7. Internal audit results should contain a Audit Report and a complete set of working documents supporting the Report. Audit working documentation is prepared by an employee of the Audit Service and checked by sector heads of the Internal Audit Service.
- 8.8. Audit Report should be prepared immediately after the audit has been completed.
- 8.9. Audit Report should contain at least the objectives and items of the audit, the scope of the internal audit, the identified problems and shortcomings, as well as detailed recommendations for each problem area.
- 8.10. Reports of the Audit Service should be submitted directly to the Bank Council and the Audit Committee with their subsequent approval by the Bank Council. The Report should include information on audits carried out in the reporting period as well as information on monitoring the implementation of IAS recommendations (information on activities implementation period of which falls on the reporting period). This information is presented in the form of a summary

of the recommendations implemented and detailed information but as recommendations that have not been implemented. Copies of these Reports must be submitted to the Bank Board.

- 8.11. The management of the bank or a branch is obliged to take measures to eliminate the deficiencies revealed by the audit conducted in connection with which a schedule is drawn up to eliminate these shortcomings.
- 8.12. The main observations and recommendations of the employees of the Audit Service should be commented on in writing by the management of the department being inspected. If necessary, these explanations can be included in the Report before submitting it to the Bank Council and the Audit Committee.
- 8.13. Internal Audit Service along with the department being audited should develop follow-up actions to eliminate deficiencies and implement audit recommendations.
- 8.14. Internal Audit Service should establish post-audit control over timely and appropriate execution of measures to eliminate violations found during the audit. Responsibility for conducting post-audit monitoring should be defined in a written statement of the Internal Audit Service.

IX. INDEPENDENCE OF INTERNAL AUDIT SERVICE AND CONTROL OVER ITS ACTIVITIES

- 9.1. Internal Audit Service is independent and directly subordinates to the Bank Council and its Audit Committee.
- 9.2. Employees of the Internal Audit Service should be independent of those audited (inspected).
- 9.3. All employees of the Internal Audit Service should be directly subordinate to the Head of the Service.
- 9.4. The chairman of the bank should be immediately informed of any attempt to put pressure on the Chief Auditor or employees of the Internal Audit Service of the bank.
- 9.5. Chief Auditor is appointed and dismissed by the Decision of the Bank Board. The employees of the Internal Audit Service are approved by the Audit Committee after the suggestion of the Head of the Service.
- 9.6. In order to assure independence of the Internal Audit Service, the salary, social benefits as well as any financial encouragement of the employees of the Internal Audit Service are appointed by the Bank Council.
- 9.7. Control and evaluation of the Internal Audit Service is carried out directly by the Bank Board. Chief Auditor of the Bank makes quarterly reports to the Audit Committee of the Bank Board on the operation of the Internal Audit Service during the report period.

X. RESPONSIBILITIES OF THE INTERNAL AUDITORS

- 10.1. Employees of the Internal Audit Service are responsible for:
- misstatement of the audit results;
 - not keeping the confidentiality of any information contributing to the Bank secrecy under the law in power.

- non-provision of safety and return of the documents received from corresponding departments.