



## INTERNAL CONTROL PROVISION

Approved by:  
Mellat Bank CJSC Board's Resolution  
No. \_\_\_\_\_ of 30.12.2014

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## INTERNAL CONTROL PROVISION

### 1. THE PURPOSE AND APPLICATION AREA

This order (provision) is aimed at regulating the process of arrangement of internal control of Mellat Bank CJSC, specifying main purpose and objectives, arrangement methods and basic structures of the internal control (supervision).

Main purposes of internal control are as follows:

- 1) disclosing and managing of the risks specific to banking activity, efficient arrangement of the Bank's operations and effective management of the Bank staff (operative goal);
- 2) reliability, integrity and timely submission of the accounting, financial and other statements, as well as ensuring of internal flow of information within the Bank, required for decision making in the Bank (information purpose);
- 3) ensuring of the compliance of the Bank's activities to the requirements of the laws of the Republic of Armenia (RA), other regulatory legal documents, internal legal acts (provisions, regulations, procedures, instructions, guides, etc.), approved by the Bank's competent authorities (legal compliance goal).

Internal control system is a complex of the Bank's internal organizational structures, business activities, reporting requirements (accountability), as well as measures of supervision over those activities. Internal control system is aimed at maintaining of the Bank's assets, ensuring the continuity of its activities, timely disclosing, assessment and continuous management of the risks specific to the Bank's operations, ensuring compliance of the accounting and financial statements to the applicable standards, enhancement of the effectiveness of the performed operations, ensuring the compliance of the Bank's activity to the applicable legislation and the bank's internal legal acts.

### 2. RESPONSIBILITY CENTERS

The Board of the Bank (hereinafter to be referred as Board), the Bank's executive body, the persons carrying out supervision (control) activity, Internal Audit Unit, Information System Safety Management Department, all employees of the Bank within the scope of their duties, stipulated under the Law and/or specified by other legal acts shall be responsible for establishment and operation of a duly internal control system in the Bank, carrying out of continuous monitoring of its effectiveness, as well as for implementation of this provision.

Bank shall ensure that its internal control system satisfies at least the requirements specified in the Regulations 4 of the Central Bank of the RA

### 3. RELATED DOCUMENTS

Internal control provision was developed in accordance with the following documents:

- Regulations 4 "Minimum Requirements for Implementation of Internal Control System of Banks", established by Resolution No. 102N of the RA Central Bank;
- Law of the Republic of Armenia "On making amendments in the RA Law on Combating Money Laundering and Terrorism Financing" (adopted on 21 June, 2014);
- ISO 27001:2005 standard.

### 4. BASIC CONCEPTS AND ABBREVIATIONS

4.1	<b>Bank</b>	Mellat Bank CJSC
4.2	<b>Bodies performing control functions</b>	Bank's Internal Audit, Risk Management and Methodology Department, Compliance Ensuring Department
4.3	<b>Internal compliance unit (ICU)</b>	A structural subdivision of the Bank, carrying out functions of



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		preventing money laundering and financing of terrorism
4.4	<b>Governing body</b>	Board of the Bank
4.5	<b>Executive body</b>	Executive Director, Deputy Executive Director of the Bank
4.6	<b>Information System Safety Management Department</b>	A structural subdivision of the Bank, carrying out management of the information system safety (security)

### 5. APPENDICES

None.

### 6. RESPONSIBILITY

6.1 Governing body of the Bank shall be responsible for the following activities:

6.1.1 establishment of an efficient internal system of preventing money laundering and terrorism financing and implementation of its day-to-day activity and supervision;

6.1.2 establishment and operation of control functions system, and ensuring of continuous monitoring of its effectiveness;

6.1.3 operation of the internal control (supervision) system.

6.2 Executive body of the Bank shall be responsible for the following activities:

6.2.1 implementation of the policy and strategy adopted by the Board of the Bank;

6.2.2 efficient application of the risk management and compliance assurance systems, as well as effective circulation within the Bank the policies, procedures and other legal acts adopted by the Board of the Bank;

6.2.3 establishment of an efficient internal system preventing money laundering and terrorism financing and implementation of its day-to-day activity and supervision, introduction, ensuring full and effective application of internal legal acts for combating money laundering and terrorism financing;

6.2.4 effective continuous (consistent) monitoring of the internal control system;

6.2.5 timely and comprehensive consideration of detected (identified) problems, and making decisions regarding their solutions;

6.2.6 establishment of a culture of control (supervision), as well as trainings regarding the arrangement and objectives of internal control aimed at elimination of obstacles by staff to functioning of the control system;

6.2.7 arrangement of trustworthy and complete internal information and effective communication to ensure responsiveness of internal control;

6.2.8 reliable implementation of the information system safety management system, ensuring reliability of assessment system of completeness, security and confidentiality of information;

6.2.9 consideration and elimination at the shortest possible time of any failure or fault within the communication system, existing in the Bank;

6.2.10 Executive director shall submit a report regarding the day-to-day management of the activity and internal control of the Bank once in a quarter to the Board of the Bank.

6.3 Internal Compliance Unit

6.3.1 carries out supervision over the fulfillment by the Bank's structural subdivisions employees the requirements of the RA Law "On Combating Money Laundering and Terrorism Financing" and legal documents developed by the Central Bank of the Republic of Armenia in the field of preventing money laundering and terrorism financing and the internal legal acts of the Bank.

6.4 Bodies, performing control functions

6.4.1 Risk Management and Methodology Department shall ensure timely disclosure and assessment of the risks, as well as their inspection (control) and prevention;



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- 6.4.2 Compliance Ensuring Department ensures the compliance of the Bank's activities to the legislation, other legal acts, ethics and corporate culture behavioral codes;
- 6.4.3 Internal Audit carries out supervision over day-to-day activities and weighting (evaluation) of operational risks of the Bank, as well as post-audit inspection (control).
- 6.5 Information System Safety Management Department
- 6.5.1 Information system safety management department ensures control of the compliance of the information resources and the processes of the Bank to the information security practices.

### 7. DESCRIPTION

7.1 Internal control system of the banks is described in the Bank's internal legal acts, expressed in the forms of provisions, procedures, regulations, instructions and other acts.

Internal control system, including its components shall be evaluated and revised, if required, by the Board of the Bank at least once in a year, while within a reasonable period of time in case the business environment changes, also when essential risks are disclosed, that are new or remained out of control in the past, as well as when significant shortcomings in the existing system were found. Documents regarding essential amendments made and their substantiations, as well as the substantiations for absence of necessity for such amendments shall be properly prepared and logged.

### 8. GENERAL PROVISIONS

8.1 This provision cannot hinder normal activities of the Bank. However, this shall not assume that such preventing may be referred to as an argument by any official or employee as to restrict the operation of the internal control system.

8.1.1 This provision shall be binding for all subdivisions of the Bank

8.1.2 This provision can be amended or considered invalid only upon resolution of the Board of Bank

8.1.3 Internal control system of banks ensures reliable and normal implementation of banking activities by taking into account nature of the Bank's activity, existing and potential risks, requirements of laws and other legal acts, good business practice and the Bank's business environment.

8.1.4 The shortcomings and deficiencies of the control system, disclosed by the Bank's Executive Body, persons performing control functions, internal compliance unit, shall be submitted to the Board of the Bank in an order and within the terms (periods), established by the Bank's internal legal acts.

8.1.5 Bank shall ensure accessibility of the electronic versions of the internal legal acts describing the internal control system by the Bank's staff. Bank shall ensure awareness of the Bank's staff members, regarding the provisions of the internal legal acts describing the internal control system of the Bank, within the scope of the activities carried out by those members.

### 8.5 BASIC GOALS AND OBJECTIVES OF INTERNAL CONTROL IN THE BANK

8.5.1 Internal control in the Bank is arranged in such a manner as to ensure supervision over the implementation of the applicable legislation of the RA, normative acts and internal bank regulations adopted by the RA Central Bank, following of the strategy approved by the Board of the Bank and maintaining the level of risks, application and implementation of the adopted internal legal acts in the field of combating money laundering and terrorism financing, supervision over the implementation process of operations, maintaining of the Bank's material and financial resources, analysis (evaluation) and regulation of the Bank's activity.

8.5.2 Basic goals of the internal control of the bank are:

8.5.2.1 assistance in achieving the maximum efficiency in banking operations;

8.5.2.2 reduction of the risk of the currently carried out operations to the possible extent;



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8.5.2.3 fulfillment of the requirements of the effective management of the risks related to banking operations;

8.5.2.4 implementation of ensuring of compliance of the Bank's activity to the laws and other legal acts, ethics and corporate culture behavioral codes;

8.5.2.5 reduction of the potential risks of money laundering and terrorism financing;

8.5.2.6 ensuring of accurate and complete financial and management information, required for making decisions;

8.5.3 Basic objectives of the internal control of the bank are:

8.5.3.1 timely detection of the faults and deficiencies possible during day-to-day activity of the Bank, as well as identification of the ways (methods) for their elimination (correction);

8.5.3.2 ensuring of compliance of the activities carried out by the employees of the structural subdivisions of the Bank to the requirements of the RA Law "On Combating Money Laundering and Terrorism Financing", legal documents developed by the Central Bank of the Republic of Armenia in the field of preventing money laundering and terrorism financing and the internal legal acts of the Bank, as well as minimum requirements and standards for ensuring information security;

8.5.3.3 faithful and adequate reflection of activity of the Bank in accounting, financial and tax statements;

8.5.3.4 taking measures required for enhancement of the customer service level in the Bank;

8.5.3.5 maintaining Bank's assets;

8.5.3.6 controlling the Bank's commitments (liabilities);

8.5.3.7 ensuring duplicate control (cross check);

8.5.3.8 ensuring computer (network) supervision (control);

8.5.3.9 appropriate control facilities are applied in the Bank for each essential business activity of the Bank. Such control facilities include preventing (aimed at prevention of adverse effects), disclosing (aimed at detection of undesirable activities), as well as eliminating adverse effects (aimed at rectification of undesirable consequences). The following are the facilities for detection, prevention and elimination of undesirable results / activities:

- 1) periodic examination (inspection) and evaluation of the Bank's activity by management bodies of the Bank (by requesting the employees to provide reports regarding their actual activities, of giving questions and receiving the Bank's employees answers, clarifications and explanations regarding the actual completed work performed by them, as well as by other means);
- 2) ensuring of physical protection of the property owing by the Bank and most important documents (including credit and deposit contracts), which assumes that the property of the Bank and the most important documents are protected against loss, unauthorized take away or use;
- 3) defining and maintaining of internal limits, allowable deviations from those limits (for example, regarding particular transactions, indicators of activity, etc);
- 4) making decisions in case of exceeding defined limits, approval and/or permission of transactions by duly authorized higher officials;
- 5) duly segregation of working duties and assigning the employees with duties, that do not contain conflict of interests;
- 6) joint storage of property and records, when two or more persons are equally responsible for particular transactions (for example, when each of the two or more locks or passwords, that to be used for accessing a money storage facility, repository (file of documents) or other storage, are entrusted to various individuals);
- 7) double check (inspection);
- 8) following up (comparing) of data and records;
- 9) arranging periodic inventory;



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- 10) requesting double or multiple signatures;
- 11) giving orders (directions) regarding elimination of disclosed violations and faults, as well as their adverse effects and controlling (supervision) over their proper and timely fulfillment, and if required, using proper remedies;
- 12) using other control facilities at the Bank's choice.