Controls and Procedures relating to Disclosure and Internal Control over Financial Reporting

Introduction

1. (a) The system of banking corporations' and credit card companies' (henceforth referred to jointly as "banking corporations") reporting to the public is based on proper and full disclosure. For the system to operate as effectively as possible, those using the reports to the public must have access to disclosure that is clear, exact, and timely.

   (b) The overall object of internal control of a banking corporation's financial reporting is to ensure that there is a proper process for preparing reliable financial statements. Reliable financial statements must be accurate in every material aspect.

   (c) This directive incorporates what is required of the management of a banking corporation with regard to controls and procedures related to disclosure and internal control over financial reporting. The directive is based on the directives of the US Securities and Exchange Commission as directed by the Sarbanes-Oxley Act of 2002 (Sections 302 and 404).

Definitions

2. **Controls and procedures regarding disclosure -** Controls ands other procedures of the banking corporation designed to ensure that information that the banking corporation is required to disclose in its reports is recorded, processed, summarized and reported in accordance with the Supervisor of Banks' directives on preparing reports to the public. Controls and procedures regarding disclosure include, *inter alia*, controls and procedures designed to ensure that the information required to be disclosed by the banking corporation in accordance with the Supervisor of Banks' directives on preparing reports to the public is accumulated and communicated to the banking corporation's management, including the CEO and Chief Accountant, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting - A process designed by, or under the supervision of, the CEO and Chief Accountant, or person performing that function, and effected by the board of directors of the banking corporation, its management and other personnel, intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with the generally accepted accounting principles, the directives of the Supervisor of Banks and his guidelines, and including the policies and procedures which:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect, the transactions and dispositions of the banking corporation's assets;

(b) provide reasonable assurance degree that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks and his guidelines, and that receipts and expenditures of the banking corporation are being made only in accordance with the authorization of the banking corporation's management and board of directors, and

(c) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the banking corporation's assets, that could have a material effect on the financial statements.

Material weakness - A deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a materially misleading presentation in the annual or quarterly financial statements of the banking corporation will not be prevented or discovered in time.

Significant deficiency - A deficiency, or combination of deficiencies, in internal control of financial reporting, less serious than a material weakness, but still important enough to be brought to the attention of those responsible for supervising the financial report of the banking corporation.

Controls and procedures regarding disclosure and internal control over financial statements

3. Banking corporations shall exercise controls and procedures with regard to disclosure and internal control over financial reporting.

4. The management of a banking corporation shall evaluate, in cooperation with the CEO and Chief Accountant or person performing that function, the effectiveness of the controls and procedures regarding the disclosure of the banking corporation at the end of each quarter.

5. The management of a banking corporation shall evaluate, in cooperation with the CEO and Chief Accountant or person performing that function, the effectiveness of the internal controls over financial reporting at the end of each year. The framework on which the management's evaluation of the internal control over financial reporting is based shall be a suitable and recognized framework, created by a body carrying out the due-process procedures, including an extensive publication of the framework for public comment. Although there are many ways to perform an assessment of the effectiveness of internal control of financial reports that meet the requirements stated in this section, an assessment carried out in accordance with the interpretive guidance published by US Securities and Exchange Commission (Release No. 34–55929) will satisfy the evaluation required in this section.

6. The management of a banking corporation shall evaluate, in cooperation with the CEO and Chief Accountant or person performing that function, any change in the banking corporation's internal control over financial reporting that occurred in any quarter that materially affects or is expected to materially affect the banking corporation's internal control over financial reporting.

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