

# Statement of Internal Controls

The Bank's management is responsible to establish and maintain an adequate and effective system of internal controls and procedures. The management is also responsible for evaluating the effectiveness of the bank's internal control system that covers material matters by identifying control objective and reviewing significant policies and procedures.

The scope of Audit and Credit Risk Review Group (A & CRRG), independent from line management, inter-alia includes, review and assessment of the adequacy and effectiveness of the control activities across the bank as well as to ensure implementation of and compliance with all the prescribed policies and procedures. All significant and material findings of the internal audit reviews are reported to the Audit Committee of the Board of Directors. The Audit Committee actively monitors implementations to ensure that identified risks are mitigated to safeguard the interest of the bank.

The Internal Controls Division under the ambit of Operations Group is entrusted with the responsibility of expediting rectification of irregularities and control lapses in branches' operations and various controlling offices pointed out through audit reviews. Vigorous efforts are made by Operations Group to improve the Control Environment at grass root level by continuous review & streamlining of procedures to prevent & rectify control lapses as well as imparting training at various levels. The Compliance Group, through its regional offices, ensures adherence to the regulatory requirements and bank's internal policies and procedures, with specific emphasis on KYC/AML.

The Bank's internal control system has been designed to provide reasonable assurance to the Bank's management and Board of Directors. All Internal Control Systems, no matter how well designed, have inherent limitations that they may not entirely eliminate misstatements. Also projections of evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. However, control activities are ongoing process that includes identification, evaluation and management of significant risks faced by the Bank.

Recognizing it to be an ongoing process, the management of Allied Bank is in the process of adopting an internationally accepted COSO (Internal Control – Integrated) Framework with the assistance of a reputable advisory firm in accordance with SBP Guidelines on Internal Controls. The bank has already completed the detailed documentation of the existing processes and controls, together with a comprehensive gap analysis of the control design. The bank has addressed some of the major gaps identified during the exercise and is at an advanced stage of developing and implementing remediation plans for the remaining gaps. In addition, comprehensive management testing plans and framework are being developed for ensuring on-going operating effectiveness of key controls.



Allied Bank expects the complete various stages of its Internal Control Programme and achieve external auditors' certification on internal controls over financial reporting in 2010.

The Board of Directors being ultimately responsible for the internal control system endorses the management evaluation and efforts to adopt above mentioned internationally accepted standards in improving controls and processes to ensure better risk mitigation.

Mohammad Aftab Manzoor  
Chief Executive Officer

Dated: February 17, 2010