

## 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 has adopted an internationally accepted Internal Control COSO Framework, with the assistance of a reputable advisory firm in accordance with guidelines on Internal Controls from the State Bank of Pakistan. Allied Bank has completed the first four stages of the internal control program as per these guidelines, which include mapping and documentation of AS-IS processes and controls in the form of detailed process flow charts, identification of gaps and requisite recommendations, development of remediation plans and management testing plans. In addition, the management testing framework and entity selection criteria have also been developed for ensuring an on-going operating effectiveness of the key controls. Currently the Bank is in the phase of implementing the management testing plans and project initiatives, as planned. This will be followed by quality assurance and validation of the initiatives completed.

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.

**Khalid A. Sherwani**  
Chief Executive Officer  
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