

SPF/UM/TW

INDEPENDENT ASSURANCE REPORT
TO THE MANAGEMENT OF MCB BANK LIMITED – SRI LANKA BRANCH

Report on the Management's Statement on Internal Control

We were engaged by the Management of MCB Bank Limited – Sri Lanka Branch ("Bank") to provide assurance on the Management Statement on Internal Control over Financial Reporting ("Statement") for the year ended 31 December 2021.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for management and appropriately reflects the process the management have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for management; and appropriately reflected the process the management have adopted in reviewing the system of internal control over financial reporting of the Bank.

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Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCA FCCA

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The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Management.

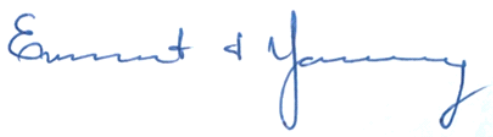
SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Management Statement is inconsistent with our understanding of the process the Management has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.



10 August 2022
Colombo



**MCB BANK LIMITED
SRI LANKA OPERATIONS
MANAGEMENT STATEMENT ON INTERNAL CONTROL**

RESPONSIBILITY

The MCB Bank Limited – Sri Lanka Branch (“the Bank”) is registered in Sri Lanka as a branch of the MCB Bank Limited. MCB Bank Limited incorporated in Pakistan is the ultimate holding company of MCB Sri Lanka.

In line with the Banking Act Directions No. 11 of 2007, Section 3(8)(ii)(b), and the subsequent circular 02/17/550/002/002 dated 3rd January 2011, Head of Operations & IT and Country General Manager, who are supervising Sri Lankan operations, present this Report on Internal Control.

Management of MCB Bank Limited – Sri Lanka is responsible for the adequacy and effectiveness of the system of internal controls at MCB Sri Lanka. The system is designed to manage the Bank’s key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Bank. Therefore, the system of internal controls can only provide reasonable not absolute assurance against material misstatements of financial information and records or against financial losses or fraud.

The Management has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines.

The Country General Manager and the Head of Operations & Information Technology of the Bank; with the assistance of MCB Bank Limited – Pakistan, implement policies and procedures on risk and control by assessing and identifying the shortcomings in the design and operation and implementing suitable mitigants to control these risks.

The process is regularly reviewed by the Management in accordance with the guidance for Directors of Banks on the “Director’s Statement of Internal Control” issued by the Institute of Chartered Accountants of Sri Lanka. As per the said guidance, significant processes affecting significant accounts of the Bank were assessed along with the key risk areas of the Bank.

MCB Bank Limited – Sri Lanka is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Due to the COVID 19 pandemic, related travel restrictions and limited working hours, part of Q3 and Q4 related testing for the financial year 2021 was performed subsequently in 2022.



MCB Bank Limited

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KEY INTERNAL CONTROL PROCESSES ADOPTED AND APPLIED IN REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls over the financial reporting include the following:

- MCB Sri Lanka has established committees such as Asset and Liability Committee, Management Committee, Credit Committee, IT Steering Committee, HR Committee and Integrated Risk Management Committee to ensure effectiveness of the Bank's daily operations and ensuring that they are in accordance with the corporate objectives, strategies and the budgetary targets as well as the policies and business directions that have been approved.
- The Internal Audit Unit of Sri Lanka follows a risk based audit approach and carries out audits for Branches and Non-Branch Entities, according to periodic instructions of Audit & RAR Group of MCB – Pakistan. The Internal Audit Unit of Sri Lanka is directly reporting to the Audit & RAR Group of MCB – Pakistan and findings of the audits are reported to the Audit & RAR Group of MCB.

The Internal Audit Unit of Sri Lanka, independent from the management, reviews compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Internal audits are carried out for branches and non-branch entities, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these branches and non-branch entities.

- The Audit Committee of the MCB Bank Limited – Pakistan reviews the significant/material internal control issues identified by the Internal Audit Unit of the Bank, external auditors, regulatory authorities and management and evaluates the adequacy and the effectiveness of the internal control systems.
- Management has established the Policy and Process Development Unit to ensure that internal control procedures of all Banking and Non-Banking activities are properly documented and to review, and analyze the effectiveness and efficiency of existing processes and develop strategies for enhancing or further leveraging these processes.
- Recommendations of the external auditors in connection with the internal control system will be considered for implementation.

Bank has quantified manually the impact of SLFRSs and LKASs separately from the accounting systems of the Bank and made the adjustments in the year-end Financial Statements. However, the Bank has the intention of integrating the SLFRS requirements of recognition, measurement, classification and disclosures into the Core Banking System. The Bank further strengthened its internal control processes to ensure that the impact on COVID 19 moratorium on interest income and impairment provisions were timely and accurately captured in the financial reporting. The Management also ensured that all key controls were performed without interruption during the lockdown periods.



MCB BANK LIMITED
SRI LANKA OPERATIONS
MANAGEMENT STATEMENT ON INTERNAL CONTROL

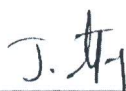
In assessing the internal control system, identified Key Management Officers of the Bank have collated all procedures and controls, which are connected to the significant accounts and disclosures of the financial statements of the Bank. Additionally, the Bank also conducts a risk and control self-assessment for all branches and non-branch entities on given testing frequencies of which the results are being submitted to Head Office on a periodic basis.

CONFIRMATION,


Based on the above processes, MCB Bank Limited – Sri Lanka Operations, confirms that the financial reporting system of the Bank has been designed and implemented to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes is in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Management's Statement on Internal Control of the Bank for the year ended 31st December 2021 and reported to the Bank that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Management in the review of the design and effectiveness of the internal controls system over financial reporting of the Bank.



Apiramy Jeyarajah
Department Head Finance



Ahmed Azar
Head of Operations and IT



Bandula Herath
Assistant General Manager



Tahir Riaz
Country General Manager – Sri Lanka



Syed Sikender Zulquernain
Group Head - International Banking

10th August 2022

