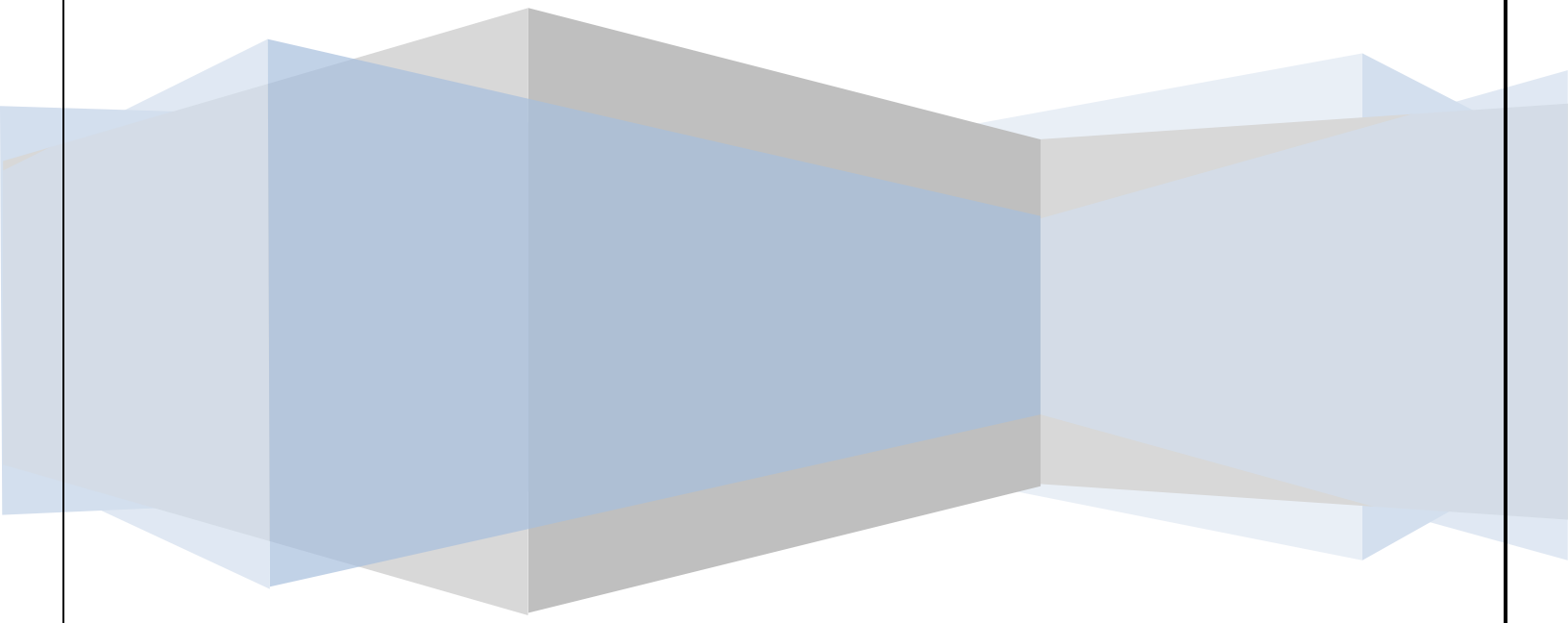
ADAM SECURITIES LIMITED

INTERNAL CONTROL & COMPLIANCE FUNCTION

POLICY & PROCEDURES



Policy Compliance

Consistent compliance with this policy is essential to its effectiveness. The Company including all Staff, Management and Executives are expected to adhere to this policy. Internal Audit and Compliance Dept. will monitor and assess the compliance of all Branches and report quarterly to the Board of Directors. Non-compliance or breach of this policy may result in disciplinary action.

Policy Revision

The Internal Control policy is reviewed every two years or at planned intervals whenever material changes occur to reflect the company's requirements.

POLICY STATEMENT

The Board of Directors is ultimately accountable for the management of risk in the company and are responsible for ensuring adequate and effective internal controls exist. The ASL Management & Staff enables the Board to meet these responsibilities by implementing standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the financial statements in terms of IFRS and to adequately safeguard, verify and maintain accountability for the assets as well as ensuring the sustainability of the organization.

Based on the information and explanations given by Management Staff and the assurance Providers, the board is able to provide an opinion on the internal controls and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the assets and liabilities. In addition the board is required to confirm that nothing has come to their attention to indicate that a breakdown in the functioning of these controls, resulting in material loss to the company.

This policy therefore sets out the Key Internal Control objectives and principles as well as duties of the Board, Audit and Risk Committee, Management and Staff, Risk Assurance, Compliance, Internal Audit, External Audit and other Internal Control Functions at ASL.

DEFINITION

Internal Control:

Internal control is a process, affected by an entity's board of directors, management and other personnel, designed to reasonably manage risk affecting the achievement of objectives in the following categories.

- Effectiveness, efficiency, economy and accuracy of operations.
- Reliability and relevance of reporting.

- Compliance with applicable laws and regulations.
- Safeguarding of assets and resources and
- Appropriate governance.

POLICY OBJECTIVES

Implementing a system of internal control allows the organization to stay focused on the strategic and business objectives while operating within the confines of relevant policies, laws and regulation thereby minimizing any surprises or risk along the way. Internal Control enables the organization to deal more effectively with changing economic environments, leadership, priorities and evolving business models. It promotes efficiency and effectiveness of operations and supports reliable reporting and compliance with laws and regulations.

The Internal Control Policy is intended to strengthen the governance of ASL Internal Control Processes and in its operations. The objectives of the policy are to provide reasonable assurance to the ASL Board that.

- Data and information published either internally or externally is accurate, reliable and timely;
- The actions of the ASL Board, Management and Staff are in compliance with the policies, standards, procedures and all relevant laws and regulations.
- The Assets and resources including its people, systems and data/information bases are adequately protected.
- The Organization's strategic and business objectives plans and programs are achieved.

- The exposures to loss which relate to their particular area of operations have been identified and evaluated; and
- Practical controlling processes have been established that require and encourage the board, Management and Employees to carry out their duties and responsibilities in an efficient and effective manner.

SCOPE OF POLICY

The Internal Control Policy applies to all Staff (Permanent, part time and contractors) Management and the Board of ASL and its subsidiaries (if any) or Branches.

KEY POLICY PRINCIPLES

The Overall objective of the Internal Control Policy is to ensure that adequate and effective internal controls are in place and that these controls are applied consistently throughout the company in order to protect the ASL and its stakeholders from potential losses. In this context the Internal Control Policy will be managed within the following Key Principles.

DETAILED CONTROLS

A. BROKRAGE OPERATIONS (BOTH AT HEAD OFFICE AND BRANCHES, WHERE APPLICABLE)

1. Account Opening, KYC/AML Procedures and Processes

- An account opening department should maintain a list of all new and existing customers and also keep a record of their account opening forms.

- Effective *Know Your Customer (KYC*) and *Customer Due Diligence (CDD)* policies and procedures should be developed by the Departments covering:

  - Customer Identification;
  - Sources of Income (In case of Individuals/ Sole proprietorship);
  - Risk Assessment of Customers;
  - Circumstances where enhanced due diligence is required;
  - Circumstances where simplified due diligence can be adopted;

Data Retention;

- Compliance function with suitable human resource;
- MIS reporting capability;
- Training of employees.

➢ KYC and CDD policies and procedures should contain the following information and documents:

Individual/ Sole proprietorship	Partnership	Institutions/ Corporates
▪ Copy of CNIC of Principal and Joint holders/ NICOP for Non-Residential Pakistanis ▪ Passport for Foreign Nationals ▪ Evidence of sources of Income ▪ Business/ Employment Proof ▪ NTN Certificate (If available) ▪ Nominee details (Not in case of Joint holders) ▪ Proof of ownership of mobile number in the name of investor.	▪ Name of Partnership and Partners ▪ Copy of CNIC/NICOP of all Partners ▪ Partnership Deed ▪ Copy of Latest Financials ▪ Certificate of Registration (If registered partnership firm) ▪ NTN Certificate	▪ Name of Directors and Officers ▪ Registered Address ▪ Copy of CNIC/NICOP of all Directors and Authorized Signatories ▪ Certificate of Incorporation ▪ Certificate of Commencement of Business ▪ Certified copy of Board Resolution ▪ Memorandum & Articles of Association/ Bye Laws/ Trust Deed ▪ Audited Accounts of the Institutions/ Corporates
Trust	**Club Societies and Associations**	**Executors/ Administrations**
▪ Copy of CNIC of all Trustees ▪ Certified copy of Trust Deed ▪ Copy of Latest Financials of the Trust ▪ Document Evidence of Tax Exemption (If any)	▪ List of Members of Governing Body ▪ Copy of CNIC/ NICOP of Members of Governing Body	▪ Copy of CNIC of all Executors/ Administrators ▪ Certified Copy of Letter of Administration
▪ Trustee/ Governing Body Resolution	▪ Certified Copy of Certificate of Registration ▪ Certified Copy of by-laws/ Rules and Regulations ▪ Copy of Latest Financials of Society/Association	

- The relevant department should have a control to ensure the retention of the records of the customer's
- identification their updation on a timely basis.
- Senior personnel of compliance function; preferably the Compliance officer should give approval of the opening of account of the customers and should prepare a checklist for all the relevant supporting documents. The approval should be based on a checklist which covers the major areas of KYC guidelines.
- Total number of accounts opened/ client codes should be matched by the compliance officer with the account opening forms and the checklist attached on regular intervals.
- Sufficient information as referred above should be obtained and documented on the intended nature of the account to be opened/ maintained.
- Reasonable steps/checks should be taken by the account opening department to assess the correctness of information, provided by customer at the time of opening account.
- All the updation in client's profile should be supported by reasonable evidence and retained by Account Opening Department.
- All departmental Heads should arrange Orientations & training sessions for their departments regarding compliance of all relevant laws and other anti-money laundering obligations.
- Account Opening Department should provide the customer with a risk disclosure document in accordance with the specimen provided by the securities exchange containing basic risks involved in trading in securities.
- Written acknowledgement should be obtained from the customer confirming that he/she has understood the nature/ contents of the risk disclosure document.
- Client should be provided the CDC setup report for signatures. Copy of complete set of Account Opening form should be provided to the client for his record.
- The Compliance Department should follow the policy and programs for reporting suspicious transactions and suspicious accounts as per requirements of KYC guidelines.

2. Periodic Reporting to Customers

- The adherence of reporting framework with regulatory requirements should be ensured by the Compliance Department / compliance function in terms of frequency and comprehensiveness. This may include compliance with CDC regulatory requirement for sending securities balance reports and with Pakistan Stock Exchange (PSX) rule book for account statements.

- The compliance officer should check adherence with reporting framework including maintenance of evidence of sending the reports to customers.

3. Account Closing

- Account Opening Department should maintain the details of accounts closed during the year and also ensure that it is in compliance with the regulatory requirements.
- Compliance Department should check that:

  a. There is no balance / securities outstanding against the customers;

  b. Customer's money has been transferred/ settled;

  c. No transaction was carried subsequent to account closing date.

- There should be clear policies for account closing for:

  d. Settlement of outstanding balance in the client's regular bank account (money and shares/ Securities held on client's behalf);

  e. Criteria for account closing date; whether after settlement or the date of application of account closing.

Adherence with the above policies should be checked by the compliance function.

4. Controls over order acceptance and execution to ensure compliance with regulatory Requirements.

- Equity Dealers, Traders, Kats Operators, agents or any other person performing regulated activity by whatsoever name should not deal in securities on account of customer without instructions of such Customer.
- Compliance department assures this objective including maintenance of evidence of instructions by the customers and matching the trades executed on behalf of customer with the instructions by compliance function on a test basis.

- Authorized personnel should take reasonable measures to execute the orders placed by the customers on the most advantageous terms as expeditiously as practical in the prevailing market conditions.
- All orders placed by customers through telephone should be recorded by IT Department authorized personnel over dedicated telephone lines.
- Orders received in-person from visiting customers should be adequately recorded and acknowledgement should also be obtained from the customers. Priority should be given to outstanding customer orders.
- The chronological register should be maintained in electronic form including the logs generated from the system and telephone recording.
- Records pertaining to all orders received from customers in writing or through any other document, fax, email, or through any other means should be preserved.

❖ **CORE FINANCIAL TRANSACTIONS CONTROLS.**

Account opening/ closing

Approval for opening of bank accounts along with name of signatories authorized to operate should be obtained from the Board. The finance department is responsible to fulfill necessary requirements which are reviewed and approved the by the company CFO. It is the sole responsibility of the finance department to obtain prior approval from the Board before closing any Bank Account.

Bank reconciliations

The finance department shall prepare bank reconciliation of all bank accounts which are later reviewed and approved by the Chief Financial Officer (CFO). All unusual items in bank reconciliation should be investigated by the approver.

Payment / receipts of funds

Payment vouchers are prepared by the finance department personal after the invoices or bills are received. Payment shall only be processed after the Payment Voucher is approved by the relevant authority. The finance department maintains all necessary documents in order to make relevant entries in the finance software.

Moreover, the company has clearly defined on receipts and payments from clients through cross cheques only. The company does not deal in any sort of cash receipts exceeding Rs. 25000/- which if exceeds are to be reported to the stock exchange

Petty cash

The Chief Financial Officer (CFO) will authorize finance personal to maintain cash in means of petty cash to run the daily expenditures of the company. Periodic physical count should be performed by the relevant person in presence of Chief Financial Officer (CFO). No petty cash will be disbursed without the prior approval of the head of departs with supporting documents.

Profit computation on savings/ PLS accounts

It is the sole responsibility of the finance department to compute the profit on different accounts using applicable rates which are by approved by the CFO. Once the profit is credited in the bank account by the respective bank, a receipt voucher shall be prepared by the finance department personnel and an entry for the receipt will be recorded in the system. Any difference between such amounts shall be recorded in the system after the approval of CFO.

- **EXPENSES**

A purchase order should be prepared/controlled for all the expenditure incurred by the company above the threshold specified by the board or senior management. Approval of the purchase order is to be signed by the relevant authorized person before being processed. Invoices are compared with the purchase order for proper verification. Payment disbursement vouchers should be prepared and authorized by a relevant individual. All expense transactions and other cash disbursement are to be recorded in separate head in the system. All the employee related expense reimbursements are separately maintained which carries a valid voucher with approval of the personal

INFORMATION TECHNOLOGY GENERAL CONTROLS (ITGCS)

Access Security

The company has approved the nature and extent of user-access privileges for new and modified user access. Certain individuals are provided with authorized software which carry rights defined by the management for department wise need. User accounts are terminated or transferred in a timely manner in accordance with the documented securities broker policy. A master user has been created with privileged access. The relevant individual periodically reviews the user access in accordance with the established requirements in the policy. Separate log recording is maintained to detect unauthorized or inappropriate activity. Certain password parameters are well defined keeping up with the professional policies and standards including complexity of password, idle log out and password expiration.

Data center and network operations

Physical security mechanisms and environment controls are established to protect its IT assets in I.T. department from intentional or unintentional damage. Financial data is backed up on daily basis with a backup stored in an appropriately secure location. Furthermore, backup processes are monitored for successful execution and failures are escalated and corrected to ensure data is usable and available for retrieval and restoration if needed. Restoration testing of backups are performed on frequent basis to determine the usability and integrity of the files.

Application Acquisition, Development & Maintenance

A guideline to acquire, develop, modify and run periodic maintenance of application systems, databases, Network/Domain controller and communication software, systems software, and hardware to establish consistency of development and maintenance activities within the entity management of the company is done with proper approval of the management

IT Governance

The company has enforced as strict IT strategic Plan which address towards both long and short term IT related projects. An I.T committee is formed to govern all I.T related matters. Moreover an IT risk management framework is established that is aligned to the organization's risk management framework. A disaster recovery plan has been developed, approved and tested on a regular basis. IT policies and procedures are formally documented, approved and update on periodic basis. Security awareness training programs are conducted on periodic basis in order to enable the users to understand applicable security policies and the measures are taken to safeguard organizational assets. Furthermore, the Internal Audit function is overlooked and reviewed relating to IT related matters.

Network

Unique user IDs and passwords or other such methods are placed as a method mechanism for validating that users are authorized to gain access to the system. Password parameters are also followed using industry standards. Certain scans of the network parameter should be performed by the network management team who also investigate potential vulnerabilities. The department issues certain notifications of threats if identified by the intrusion detection systems. Network firewalls are placed appropriately and reviewed to secure the company's network.

Disaster recovery planning / Business Continuity Plan

Business Continuity and Disaster recovery plan are in place duly approved by the Board of Directors, having capability of restoring both the IT operations and business processes.

Coordinated strategy should be developed that involves plan, procedures and technical measures to enable the recovery of systems, operations and data after a disruption .Disaster recovery plan is tested on periodic basis and proper documentation of the same

COMPLIANCE DEPARTMENT

Structure

The company designated or appointed compliance officer, which fulfills the fit and proper criteria specified in the Regulations, is in place. Appointment of compliance officer is done by the CEO subject to the approval of Audit Committee/ BOD. Compliance officer is held responsible for monitoring compliance of the company with the applicable regulatory regime. The compliance officer is to report findings directly to the Audit Committee/ BOD for the actions.

- **BOARD OF DIRECTORS**

The board of directors are ultimately accountable for the management of risk in the ASL and are responsible for ensuring adequate and effective internal control exist within the company. The Board shall, under the direction of the Chairperson of the Board of the company. Be responsible to:

- Provide oversight on the general conduct of the operating of the company.
- Providing oversight on the maintenance of internal controls to minimize risk and financial loss to the company: and
- Ensure the fair presentation of interim and annual financial statement.

- **AUDIT COMMITTEE**

The Audit Committee is a sub-committee of the Board and provides assurance to the Board on the adequacy and effectiveness of the internal controls. The Audit Committee is responsible for understanding the ASL's Major risk areas and ensuring that appropriate internal controls are in place to manage the risk exposures. Additionally, the Audit Committee is responsible for the monitoring of the control process and the adequacy of the system of internal control by reviewing internal and external audit reports. The Audits Committee's key responsibilities are to:

- Be continually aware of the current areas of significant risk exposures and ensure ASL Management is effectively managing the risk.

- Ensure that effective systems of internal controls are established and maintained to Manage the risk exposure :
- Satisfy itself as regards to the integrity and prudence of management internal control system, including the review of policies and/or practice:
- Determine whether the CEO or Executive Management are aware of any matters that might have a significant impact on the financial state of affairs of the ASL, and
- Report on the effectiveness of internal controls and comment on its evaluation of the financial statements in the company's annual report based on management assurance as well as internal and external assurance providers.

Terms of Reference of the Audit Committee:

The board of directors shall provide adequate resources and authority to enable the audit committee to carry out its responsibilities effectively. The terms of reference of the audit committee include the following:

a) Determination of appropriate measures to safeguard the company's assets;

b) Review of annual and interim financial statements of the company, prior to their approval by the Board of Directors, focusing on:

   - major judgmental areas;
   - significant adjustments resulting from the audit;
   - going concern assumption;
   - any changes in accounting policies and practices;
   - compliance with applicable accounting standards;
   - compliance with these regulations and other statutory and regulatory requirements; and
   - All related party transactions.

c) Review of preliminary announcements of results prior to external communication and publication;

d) Facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);

e) Review of management letter issued by external auditors and management's response thereto;

f) Ensuring coordination between the internal and external auditors of the company;

g) review of the scope and extent of internal audit, audit plan, reporting framework and procedures and ensuring that the internal audit function has adequate resources and is appropriately placed within the company;

h) Consideration of major findings of internal investigations of activities characterized by fraud, corruption and abuse of power and management's response thereto;

i) Ascertaining that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities and the reporting structure are adequate and effective;

j) Review of the company's statement on internal control systems prior to endorsement by the board of directors and internal audit reports;

k) k) instituting special projects, value for money studies or other investigations on any matter specified by the board of directors, in consultation with the chief executive officer and to consider remittance of any matter to the external auditors or to any other external body;

l) Determination of compliance with relevant statutory requirements;

m) Monitoring compliance with the these regulations and identification of significant violations thereof;

n) Review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures;

o) Recommend to the board of directors the appointment of external auditors, their removal, audit fees, the provision of any service permissible to be rendered to the company by the external auditors in addition to audit of its financial statements. The board of directors shall give due consideration to the recommendations of the audit committee and where it acts otherwise it shall record the reasons thereof.

p) Consideration of any other issue or matter as may be assigned by the board of directors.

Reporting Procedure: The secretary of audit committee shall circulate minutes of meetings of the audit committee to all members, directors, head of internal audit and where required to chief financial officer prior to the next meeting of the board. Where this is not practicable, the chairman of the Audit Committee shall communicate a synopsis of the proceedings to the board and the minutes shall be circulated immediately after the meeting of the board

- **MANAGEMENT AND STAFF**

Management and staff are charged with the responsibility for establishing a network of processes with the objective of controlling the operations of the ASL. The day-to-day responsibility for designing implementing & monitoring controls in the business processes rests with Management. These areas and the required system of internal control are identified, documented and regularly reviewed by management to ensure they are appropriate and relevant and that any necessary improvement is implemented. Management and Staff's key responsibilities are to:

- Plan, develop, implement and monitor the required business policies, processes and system to achieve the company's objectives and strategies.
- Identify. Quantify, control and manage all exposures to loss and risk within the company in a prudent manner:
- Implement and maintained adequate systems of internal control and monitor their continued effectiveness:
- Ensure that all systems and processes are efficient, effective and economical:
- Safeguard and maintain the quality of the assets of the company :
- Monitor the performance of all aspects of the business activities of the company on a regular basis:
- Implement those measures as recommended by the Risk Function, Internal and External Auditor as well as other Assurance Providers which, in Their opinion will enhance controls at reasonable cost :
- Comply with the Delegations Framework :
- Ensure that legislation, policies and procedures are strictly complied with:
- Ensure compliance with the system of internal control and the code of Ethics :
- Ensure compliance with policies standard procedures and applicable legislation and regulation : and

- Provide assurance to the Chief Executive Officer and Board of Directors on the effectiveness of the internal controls system through the management Assurance Letter on an annual basis. This assurance letter will be phased in to the Division over a period of 12 months.

The Limitations of Internal Controls

The existence of a sound internal control environment provides company with an assurance that activities are being carried out in an efficient and effective manner and that its assets are secure. Even with effective internal controls, errors and inappropriate activities are not entirely eliminated. The following are factors not entirely eliminated by an internal control framework:

- Human error may cause breakdown in internal controls when staff are pressured with tight timeframes; exercise poor judgments; lack appropriate understanding of their responsibilities and delegations and when they lack appropriate training
- Abnormal or non-routine transactions may not be appropriately captured by internal controls designed for routine transactions
- Inappropriate behavior by a number of staff acting together in collusion to bypass the systems of internal control
- A deliberate decision to not implement cost prohibitive internal controls
- Internal controls not being updated immediately when changes in procedures or changes in technology occurs.