

Dated- 19-12-2023

**MANAGEMENT REPLY ON AUDITOR'S QUALIFICATION DURING HALF
YEARLY LIMITED REVIEW**

Half Yearly Limited review has been completed by our Statutory Auditors Chaturvedi and Co. for HY 2023-2024. During the review 3 nos. of qualified opinion have been given by the auditors for which Management has the following in reply to the qualifications. The reply has been prepared in consent with all the stakeholders of Half Yearly Limited Review Committee and our Consultant-Assurance Mr. Aloke Chatterjee.

Auditor's Qualification 1:

The management has upgraded 42940 Number of Accounts having advances of Rs 7287 lacs during the period. However, in course of our Review of the Financial Statement we observed that the upgradation is not in accordance with the IRAC norms of RBI as applicable

Management Reply:

Bank has upgraded the accounts basis norms provided in Clause 17.2.2.1 of Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances. As per the clause, bank has considered upgradation of the accounts post completion of 1 year (i.e. monitoring period) from the 1st Payment of Principal and Interest (i.e. April, 2023), which in this case commenced from April, 2022 where 10% or more has been recovered on the Principal Outstanding as on start date of Resolution Period i.e. April 06, 2022. It is pertinent to note several borrowers had made payments of principal and interest in advance which had been adjusted in subsequent relevant periods when the monitoring period had already commenced.

Auditor's Qualification 2:

The Bank has migrated to new CBS (BSG) on 24th April, 2023. However, there are certain issues relating to generation of reports and data. Therefore, we have conducted our review on the basis of the information, explanation and various data provided by the management and we have relied on the management for the accuracy and validity of the same. Further, the system has generated negative balance in certain General Ledger Accounts, which may have consequential impact in the preparation of the Financial Statement, amount of which is not ascertainable.

Management Reply:

The negative Balances have started in the heads subsequent to adjustment entries posted on 26.04.2023 post CBS migration in those GLs. As per our analysis, the entries posted on 26.04.2023 were more than the figures which were parked in these GLs at the time of migration. We have already taken up with our CBS vendor

to understand the calculation based on which the transfer entries on 26.04.2023 were posted. Issue Ticket Reference - TL0036008 and taken up with CBS service provider for resolution.

Auditor's Qualification 3:

An amount of Rs. 4034 Lacs was accounted for as receivable vide letter no. FD-12/42/2021-IF_FIN-Finance (Ecif:174539) dated 30th June, 2023 under Assam Micro Finance Incentive and Relief Scheme, 2021-CAT III against which only Rs. 3693 lacs are received by the bank as on 23.09.2023. The remaining balance of Rs. 341 lacs not receivable needs to be written off.

Management Reply:

The Bank received a letter dated June 30, 2023 from Government of Assam informing that our Bank would receive an amount of Rs.40.35 crore as per norms under Category III of the AMFIRS. The letter contained a sovereign assurance to give a specific amount (Rs.40,34,65,148/-) in respect of specific number of borrower accounts (35,274). Treating the expected inflow as a certainty, the amount of Rs.40.35 crore was taken in the books as receivable under AMFIRS and passed accounting entries in Bank's books based on the list sent by Assam Government. As of September 30, 2023, we have received Rs 36.95 Crs in a specific list of accounts from the GoA finally under the Cat 3 tranche 1. Thus, as a prudent practice, we have reversed the earlier entries pertaining to Rs 40.35 Crs in Oct 2023 and have made entries as received for Rs 36.95 Crs in our books.

Parallel to this, we enquired with Gov of Assam for AMFIRS, and we were given an understanding that this sum pertains to Single Lender which is also mentioned in the letter as Unique Beneficiaries under the CAT 3 category of the scheme. As we have discussed and submitted before, the AMFIRS Cat 3 related payments are for Single Lender (Unique Lender) to multiple lender (first, second or third lender position of NESFB in the lenders hierarchy from the point of giving loan to a borrower subject to loan exposure meeting the criterion laid down as part of the scheme), we have considered the balance amount under receivable (liability) as of Sep 30th 2023 and onwards.

This is the factual position and in no manner is deviating from the MOU facets which we have signed along with 37 other lenders as well as the letter received from Government of Assam. It is upto Govt of Assam to release the funds for multiple lenders as per their state finance position and we cannot comment on the receipt other than the same being a sovereign commitment under the MOU which warrants this special treatment.

Seeking approval to place the same as Board Note in the upcoming Board Meeting.