

F-7, Laxmi Mills
Shakti Mills Lane (Off Dr E Moses Rd)
Mahalaxmi, Mumbai - 400 011 India
Tel : 91 22 2493 2502 / 6655 1770
Fax : 91 22 6655 1774
Grams : VERIFY
www.KSAiyar.com
Mail@KSAiyar.com

Independent Auditors' Report

**To,
The Members of SBM Bank (India) Limited**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Financial Statements of SBM Bank (India) Limited ("the Bank"), which comprise the Balance Sheet as at March 31, 2022, the Profit and Loss Account and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid Financial Statements give the information required by Banking Regulation Act, 1949, as well as the Companies Act, 2013 ("the Act") and circulars and guidelines issued by the Reserve Bank of India, in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India, including the Accounting Standards prescribed under section 133 of the Act, read with rules made thereunder, of the state of affairs of the Bank as at March 31, 2022, and its profit and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit of the financial statements in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Emphasis of Matter

We draw attention to Note 4(h) of Schedule 17B which describes the business uncertainties due to the outbreak of the SARS-CoV-2 virus (COVID-19). In view of these uncertainties, the impact on the Bank's results for the subsequent period is significantly dependent on future developments.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key Audit Matters	How our audit addressed the key audit matter
<p>Identification of Non-performing asset (NPA) and provisioning on advances</p> <p>The Reserve Bank of India's ("RBI") guidelines on income recognition and asset classification ("IRAC") prescribe the prudential norms for identification & classification of non-performing assets ("NPA") and the minimum provision required for such assets.</p> <p>The Bank management is required to apply its judgement to determine the identification and provision required against the NPAs by applying quantitative as well as qualitative factors. The risk of identification of NPAs is affected by factors like stress and liquidity concerns in certain sectors.</p> <p>The provision on NPA is estimated by management of the Bank based on ageing and classification of NPAs, recovery estimates, nature of loan product, value of security and other qualitative factors and it is subject to the minimum provisioning norms specified by RBI and approved policy of the bank in this regard.</p>	<p>Tested the design and operating effectiveness of key controls (including application controls) over approval, recording, monitoring & recovery of loans, monitoring overdue/stressed accounts, identification of NPA, provision for NPA & valuation for security and collateral. Testing of application controls include testing of automated controls, reports and system reconciliations.</p> <p>Evaluated the governance process & review controls over calculations of provision of non-performing advances, basis of provisioning in accordance with the Board-approved policy.</p> <p>Selected the borrowers based on quantitative and qualitative risk factors for their assessment of appropriate classification as NPA including computation of overdue ageing to assess its correct classification and provision amount as per extant IRAC norms and the Bank policy.</p> <p>Performed other substantive procedures included and not limited to the following:</p>



<p>Additionally, the Bank makes provisions on exposures that are not classified as NPAs including advances in certain sectors and identified advances or group advances that can potentially slip into NPA. These are classified as additional provisions.</p> <p>Since the identification of NPAs and Provisioning for advances require a significant level of estimation and given its significance to the overall audit including possible observation by RBI which could result into disclosure in the financial statements, we have ascertained identification and provisioning for NPAs as a key audit matter.</p>	<ul style="list-style-type: none"> • Selected samples of performing loans and assessed independently as to whether those should be classified as NPA; • For samples selected reviewed the collateral valuation, financial statements and other qualitative information; • Considered the accounts reported by the Bank and other Banks as Special Mention Accounts (“SMA”) in RBI’s Central Repository of Information on Large Credits (CRILC) to identify stress; • For selected samples assessed independently accounts that can potentially be classified as NPA and Red Flagged Accounts; • Performed inquiries with the credit and risk departments to ascertain if there were indicators of stress or an occurrence of an event of default in a particular loan account or any product category which needed to be considered as NPA; • Examined the early warning reports generated by the Bank to identify stressed loan accounts; • Held specific discussions with the management of the Bank on accounts where there is perceived credit risk and the steps taken to mitigate the risks to identified accounts; • Selected samples for standard accounts, default but standard accounts and overdue accounts and assessed compliance with RBI circular on COVID-19 Regulatory Package; • Selected and tested samples of accounts which were restructured under Resolution Framework for COVID-19 related stress circular for their compliance with the RBI directions; and
<p>Information Technology (“IT”) Systems and Controls</p> <p>The Bank has an IT architecture to support its day-to-day business operations. High volume</p>	<p>Our Audit procedures with respect to this matter included:</p> <p>For testing the IT general controls, application controls and IT dependent manual controls, we involved IT specialists</p>



of transactions is processed and recorded on single or multiple applications.

The reliability and security of IT systems plays a key role in the business operations of the Bank. Since large volume of transactions are processed daily, the IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner.

Appropriate IT general controls and application controls are required to ensure that such IT systems are able to process the data, as required, completely, accurately and consistently for reliable financial reporting.

We have identified 'IT systems and controls' as key audit matter because of the high-level automation, multiple number of systems being used by the management and its impact on the financial reporting system.

as part of the audit. The team also assisted in testing the accuracy of the information produced by the Bank's IT systems.

Obtained a comprehensive understanding of IT applications implemented at the Bank. It was followed by process understanding, mapping of applications to the same and understanding financial risks posed by people-process and technology.

Key IT audit procedures includes review of design and operating effectiveness of key controls operating over user access management (which includes user access provisioning, de-provisioning, access review, password configuration review, segregation of duties and privilege access), change management (which include change release in production environment are compliant to the defined procedures and segregation of environment is ensured), program development (which include review of data migration activity), computer operations (which includes review of key controls pertaining to, backup, Batch processing (including interface testing), incident management and data centre security), System interface controls. This included review of requests for access to systems were appropriately logged, reviewed, and authorized. Also, entity level controls pertaining to policy and procedure was also part of our audit procedure.

In addition to the above, the design and operating effectiveness of certain automated controls, that were considered as key internal system controls over financial reporting were reviewed. Using various techniques such as inquiry, review of documentation / record / reports, observation, and re-performance. We also reviewed few controls using negative



	<p>testing technique. We had taken adequate samples of instances for our review</p> <p>Reviewed compensating controls and performed alternate procedures, where necessary. In addition, understood where relevant, changes made to the IT landscape during the audit period.</p>
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Information Other Than Financial Statements and Auditors' Report Thereon

The Bank's Board of Directors is responsible for the preparation of Other Information. The Other Information comprises the Directors' Report including Annexures to Directors' Report (collectively called as "Other Information") but does not include the Financial Statements and our auditor's report thereon and the Pillar 3 Disclosures under Basel III Capital Regulations, Leverage Ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio.

Our opinion on the financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information identified above when it becomes available and, in doing so, consider whether the Other Information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

As the Other Information is not prepared by the management as on the date of this report, we are not in a position to comment on the same.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cashflows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ("RBI") from time to time. This responsibility also includes maintenance of adequate accounting records in



accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities, selection and application of appropriate accounting policies, making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are also responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the bank has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the business activities within the Bank and its branches to express an opinion on the Bank's financial statements. Materiality is the magnitude of the misstatements in the financial statements that, individually or aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning of the scope of our audit work and evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatement in the financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matters

The financial statements of the Bank for the year ended March 31, 2021, were audited by M.P. Chitale & Co. whose report dated June 16, 2021 expressed an unmodified opinion on those financial statements.

Bank has made an additional provision of 0.5% of Operating Income of the year having an impact of Rs. 1.20 Crores, as advised by the Reserve Bank of India in view of certain non-compliances observed in its inspection with respect to Automation of Income Recognition, Asset classification and Provisioning processes.

Our opinion is not modified in respect of this matters.

Report on Other Legal and Regulatory Requirements

1. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provision of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Act and Rules made thereunder.
2. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
 - a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory.
 - b. The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.
 - c. Since the key operations of the Bank are automated with the key applications integrated into the core banking systems, the audit is carried out centrally, as all the necessary records and data required for the purposes of our audit are available therein. Therefore, no returns are being received from the branches. However, in view of the prevailing situation of Covid 19, we could not visit any of the branches of the Bank to examine the records that are maintained at the branches for the purpose of our audit.
 - d. The statement of profit and loss shows a true balance of profit for the year then ended.



3. In our opinion and to the best of our information and according to the explanations given to us, as the Bank is governed by Section 35B (2A) of the Banking Regulation Act, 1949, Section 197 of the Act relating to managerial remuneration is not applicable.;
4. Further, as required by section 143(3) of the Act, we report that:
- a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b) in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books;
 - c) the Balance Sheet, the statement of profit and loss and the statement of cash flows, dealt with by this report are in agreement with the books of account;
 - d) in our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act and Rules made thereunder, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
 - e) on the basis of written representation received from the directors as on March 31, 2022 and taken on record by the Board of Directors, none of the directors are disqualified as on March 31, 2022 from being appointed as director in terms of Section 164 (2) of the Companies Act, 2013;
 - f) with respect to the adequacy of the internal financial controls with reference to financial statements of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A";
 - g) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us;
 - i) The Bank has disclosed the impact of pending litigations on its financial position in its financial statements to the extent determinable/ascertainable— Refer Note 15 of Schedule 12 and Note 17 of Schedule 17B to the financial statements.
 - ii) The Bank has made provision, as required, under the applicable law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts. Refer Note 17 of Schedule 17B to the financial statements.



- iii) There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank.
- iv) (a) The management has represented that, to the best of its knowledge and belief, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Bank to or in any other persons or entities, including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Bank ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries
- (b) The management has represented, that, to the best of its knowledge and belief, no funds have been received by the Bank from any persons or entities), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the Bank shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and
- (c) Based on such audit procedures that were considered reasonable and appropriate by us in the circumstances, nothing has come to our notice that has caused us to believe that the representations under sub clause (a) and (b) contain any material misstatement.
- v) During the year the Bank has not declared or paid any dividend.

For K. S. Aiyar & Co.
Chartered Accountants,
Firm Reg. No.100186W


Rajesh Joshi
Partner

Membership No. 038526
UDIN: 22038526AJRYF5074



Place: Mumbai
Date: May 11, 2022

Annexure A to the Independent Auditor's Report of even date on the financial statements of SBM Bank (India) Limited

(Referred to in paragraph 4 (f) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

Report on the Internal Financial Controls with reference to financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

We have audited the internal financial controls with reference to financial statements of **SBM Bank (India) Limited** ("the Bank") as at March 31, 2022 in conjunction with our audit of the financial statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Bank's Board of Directors is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ("the Guidance Note") issued by the Institute of Chartered Accountants of India ("the ICAI"). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 ("the Act").

Auditors' Responsibility

Our responsibility is to express an opinion on the Bank's internal financial controls with reference to financial statements based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ("the Guidance Note") and the Standards on Auditing ("the SAs"), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls over financial reporting; both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to financial statements was established and maintained and if such controls operated effectively in all material respects.



Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements included obtaining an understanding of internal financial controls with reference to financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system with reference to financial statements.

Meaning of Internal Financial Controls with reference to Financial Statements

A Bank's internal financial control with reference to financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Bank's internal financial control with reference to financial statements includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and Directors of the Bank; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls with reference to Financial Statements

Because of the inherent limitations of internal financial controls with reference to financial statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to financial statements to future periods are subject to the risk that the internal financial control with reference to financial statements may become



inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, to the best of our information and according to the explanations given to us the Bank has in all material respects, an adequate internal financial controls system with reference to financial statements and such internal financial controls with reference to financial statements were operating effectively as at March 31, 2022, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

For K. S. Aiyar & Co.
Chartered Accountants,
Firm Reg. No.100186W


Rajesh Joshi
Partner

Membership No. 038526
UDIN: 22038526AJYRYF5074



Place: Mumbai
Date: May 11, 2022