

## **Independent Auditor's Report**

**To the Members of North East Small Finance Bank Limited**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the accompanying financial statements of **North East Small Finance Bank Limited** (the "Bank"), which comprise the Balance Sheet as at March 31, 2023, the Profit and Loss Account, the Cash Flow Statement for the year then ended and Notes to the financial statements including a summary of 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 the Banking Regulation Act, 1949, Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Accounting Standards prescribed under section 133 of the Act read with the Companies (Accounting Standards) Rules, 2014, as amended ("Accounting Standards") as applicable to banks and other accounting principles generally accepted in India, of the state of affairs of the Bank as at March 31, 2023, its loss 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 specified under section 143(10) of the Act (SAs). Our responsibilities under those Standards are further described in the Auditor's Responsibility 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 (ICAI) together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules made thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

#### **Emphasis of Matter**

We draw attention to Schedule 12 and Note No. 31 of Schedule 18 to the Financial Statement which fully describes that the Holding Company of the Bank had received income tax demand order of Rs. 35,25,135 thousands from income tax authorities for the Financial Year 2016-17 (Assessment year 2017-18) before the formation of the bank on 17.10.2017. This majorly includes the demand towards Share capital raised by the Holding Company during the assessment year, cash deposits done during the period of demonetisation on account of collection from various customers and interest thereon. The Holding Company has filed an appeal against the order before Commissioner of Income Tax (Appeals) and is hopeful of a favourable decision, as the additions are unsustainable.

As per the terms of Business Transfer Agreement executed between the Holding Company and the bank, in the event of crystallisation of this contingent liability, the bank may have to reimburse the same to the Holding Company to the extent of amount remaining unpaid by the Holding company. However, the Board of Directors of the bank has noted in its meeting held on 24.02.2021 that Income Tax Department has passed an ex-parte assessment order with a demand. As per the GAAP principle of accounting, any event of such nature occurring in the books of Holding company need not be shown in the books of subsidiary company. Hence it has been shown as notes to accounts in the Financial Statements of the bank.

Our opinion is not modified in respect of this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

<b>Key Audit Matter</b>	<b>Auditors Response</b>
<b>Identification of Non-Performing Advances and provisioning for Advances</b> (Refer Schedule 9 read with Schedule 18 Note 3 to the financial statements)	
<p>Advances constitute a significant portion of the Bank's assets and the quality of these advances is measured in terms of ratio of Non-Performing Advances ("NPA") to the gross advances of the Bank. The Bank has net advances amounting to Rs. 1603.25 Lakhs as at March 31, 2023.</p> <p>Identification of and provisioning for non-performing assets (loans) in accordance with relevant prudential norms issued by the Reserve Bank of India (RBI) in respect of income recognition, asset classification and provisioning pertaining to advances and guidelines relating to AMFIRS (herein after referred as "Relevant RBI guidelines") is a key audit matter due to level of regulatory and other stakeholders focus.</p> <p>During the year Government of Assam issued Notification No. ECF.215016/2022/27 dated 2<sup>nd</sup> August 2022 regarding flood and</p>	<p>Our audit approach included testing the design, operating effectiveness of internal controls and substantive audit procedures in respect of income recognition, asset classification and provisioning pertaining to advances. In particular:</p> <ul style="list-style-type: none"><li>• We have evaluated and understood the Bank's internal control system in adhering to the Relevant RBI guidelines regarding income recognition, asset classification and provisioning pertaining to advances;</li><li>• We have analysed and understood key systems/ applications used and tested the design and implementation as well as operational effectiveness of relevant controls, including system generated reports and manual process and controls in relation to income recognition, asset classification, viz., standard, substandard, doubtful and loss with reference to</li></ul>

<p>landslide situation and the same was declared as affected w.e.f. 6<sup>th</sup> April 2022 in line with the RBI circular RBI/FIDD/2018-19/64 dated 17<sup>th</sup> October 2018 regarding natural calamity. Special SLBC meeting was held on 11<sup>th</sup> August 2022 in respect of the flood notification. As per Para 7 The borrowers from MFIs registered under RBI should also be eligible for the incentives provided to borrowers of Scheduled Commercial banks and Regional Rural Banks under the Master Directions issue by RBI. Bank being a SCB has registered 144379 borrowal accounts with RBI and has restructured 144379 borrowal accounts with a moratorium period of 9 months commencing from 6<sup>th</sup> April 2022 based on these notifications.</p> <p>The aforesaid involves significant management estimates/ judgments and hence identified as Key Audit Matter (KAM).</p>	<p>relevant RBI guidelines;</p> <ul style="list-style-type: none"><li>• We test checked advances to examine the validity of the recorded amounts, loan documentation, examined the statement of accounts, indicators of impairment, impairment provision for non-performing assets, and compliance with income recognition, asset classification and provisioning pertaining to advances;</li><li>• We have evaluated the adequacy of the additional provisions as prepared by the Management and checked consistency of various inputs and assumptions used by the Management to determine adequacy of the additional provisions</li></ul>
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### **Information Other than the Financial Statements and Auditor's Report Thereon**

The Bank's Board of Directors is responsible for the preparation of the other information. The other information comprises the Directors Report including annexures to the Directors report but does not include the financial statement and our auditors report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and accordingly will 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the course of our 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 required under SA 720 'The Auditor's responsibilities Relating to Other Information'.

### **Management's Responsibility for the Financial Statements**

The Bank's Board of Directors is responsible for the matters stated in section 134(5) of 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 cash flows of the Bank in accordance with the provisions of Section 29 of the Banking Regulation Act ,1949, Accounting

Standards and other accounting principles generally accepted in India and the circulars, guidelines and the directions issued by the Reserve Bank of India, from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding 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 statement 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. Those Board of Directors are also responsible for overseeing the financial reporting process of Bank.

#### **Auditor's Responsibility 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 financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3) (i) of the Act, 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 the 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.

Materiality is the magnitude of misstatements in the financial statements that, individually or in 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 the scope of our audit work and in evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatements 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

1. The Balance Sheet and Profit and Loss Account have been drawn up in accordance with the provisions of section 29 of the Banking Regulation Act, 1949 and Section 133 of the Companies Act, 2013 and relevant Rules issued there under.
2. The Report does not include a statement on the matters specified in Paragraph 3 and 4 of the Companies Auditors Report Order 2016 ('The Order') issued by the Central Government of India in terms of section 143 (11) of the Companies Act, 2013. In our opinion and according to information and explanation given to us, the said order is not applicable to the Bank.
3. As required by Section 143(3) of the Act and Section 30 of the Banking Regulation Act, 1949, based on our Audit, 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 purposes of our audit and found them to be satisfactory.
- b. In our opinion, the transactions of the Bank which have come to our notice have been within the powers of the bank.
- c. As explained in the paragraph 4 below, the financial accounting system of the Bank are centralised and, therefore, accounting returns are not required to be submitted by branches.
- d. In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books.
- e. The Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
- f. In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act as applicable to the Banks.
- g. On the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2023 from being appointed as a director in terms of Section 164(2) of the Act.
- h. With respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”. Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Bank’s internal financial controls over financial reporting.
- i. With respect to the other matters to be included in the Auditor’s Report in accordance with the requirements of section 197(16) of the Act, as amended, in our opinion and to the best of our information and according to the explanations given to us, the entity being a banking company, section 197 of the Act related to the managerial remuneration is not applicable by virtue of Section 35B(2A) of the Banking Regulation Act, 1949.
- j. 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, as amended 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;
  - ii. The Bank did not have any long term contracts including derivative contracts for which there were any material foreseeable losses;
  - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank.

4. We report that during the course of our audit we have visited and performed select relevant procedures at 15 Branches. Since the Bank considers its key operations to be automated, with the key applications largely integrated to the Core Banking System, it does not require its branches to submit any financial returns. Accordingly, our audit is carried out centrally at Head Office and Central Processing Units based on the records and data required for the purpose of Audit being made available to us.

For Baweja & Kaul  
Chartered Accountants  
ICAI Reg. 005834N

Samvit Kumar Gurtoo  
Partner  
Membership No. 090758  
UDIN: 23090758BGZDFM9329

Place: New Delhi  
Date: 26<sup>th</sup> June '23



**Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)**

We have audited the internal financial controls over financial reporting of North East Small Finance Bank Limited (the “Bank”) as of March 31, 2023 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 management 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 issued by the Institute of Chartered Accountants of India”. 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 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 Banking Regulation Act, 1949 and the guidelines issued by the Reserve Bank of India.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the Bank’s internal financial controls over financial reporting of the Bank 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”) issued by the Institute of Chartered Accountants of India and the Standards on Auditing prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. 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 over financial reporting 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 over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, 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 over financial reporting.



### **Meaning of Internal Financial Controls Over Financial Reporting**

A Bank's internal financial control over financial reporting 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. A Bank's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) 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 authorisations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised 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 Over Financial Reporting**

Because of the inherent limitations of internal financial controls over financial reporting, 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 over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting 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 over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2023, based on the criteria for internal financial control over financial reporting 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 Baweja & Kaul  
Chartered Accountants  
ICAI Reg. 005834N

Samvit Kumar Gurtoo  
Partner  
Membership No. 090758  
UDIN: 23090758BGZDFM9329

Place: New Delhi  
Date: 26<sup>th</sup> June '23