

INDEPENDENT AUDITORS' REPORT

To

The Members

PUNJAB & MAHARASHTRA CO.OP BANK LTD.,

Report on the Audit of the Financial Statements

Qualified Opinion

1. We have audited the accompanying Financial Statements of **Punjab & Maharashtra Cooperative Bank Ltd.** as at March 31, 2020 which comprise the Balance Sheet as at March 31, 2020, the Profit and Loss Account for the year then ended and a summary of significant accounting policies and other explanatory information in which are included returns for the year ended on that date of Central Office including its Departments and 5 branches audited by us. The branches audited by us have been selected by the Bank based on approval received from Reserve Bank of India (RBI). Also incorporated in the Balance Sheet and the Profit and Loss Account are the returns from 132 branches which have not been subjected to audit. These unaudited branches account for 14.24 percent of advances, 80.09 per cent of deposits, 73.30 per cent of interest income and 78.22 per cent of interest expenses. The data related to unaudited branches and branches not visited by us was obtained to the extent available from the centralized data base system of the Bank at the Head Office.

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements together with the Notes thereon give the information required by the Banking Regulations Act, 1949 and the Multi State Co-operative Societies Act, 2002 and the rules made thereunder (together referred to as "the Act"), the guidelines issued by the National Bank for Agricultural and Rural Development (NABARD), Reserve Bank of India (RBI) and the Central Registrar of Cooperative Societies, to the extent applicable, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Bank as at 31 March 2020 and its loss for the year ended on that date.



Basis for Qualified Opinion

2. Reference is invited to the following notes to accounts in schedule 13B to the Financial Statements :

- i) Note No. 1, 9 & 29 regarding Fraud of substantial amount detected at the Bank during the year whereby certain advance accounts relating to Housing Development Infrastructure Limited (HDIL) Group having outstanding of ₹ 6212.46 crores and other credit facilities aggregating to ₹428.58 crores as on March 31,2020 remained unreported and were not properly classified in accordance with the asset classification norms issued by RBI. This had resulted in grossly inflating the profits and financial position of the Bank in earlier years. Since the investigation in the case of all such transactions undertaken which were not properly accounted and reported is under progress, the accounts /facilities which belong to the HDIL group and other accounts are as identified by the management and the actual amount involved and provision created may vary on completion of all investigations. The opening balances considered for the purpose of the financial statements dealt with by this report are taken as per the audited accounts for the year ended on March 31,2019 notwithstanding of the above stated fraudulent transactions and the accounts not having been approved in the Annual General Meeting of the Bank.
- ii) Note No.3 regarding reversal of unrealised interest in the accounts identified as fraudulent by reckoning the recoveries/ credits in doubtful assets towards interest instead of principal as per the accounting policy followed by the Bank. Had the declared accounting policy been followed , the recoveries should have been appropriated towards principal and interest reversal would be of higher amounts with consequential increase in the loss amount of which has not been precisely quantified in the absence of the complete information in this regard .
- iii) The advance accounts relating to HDIL Group and other accounts identified as Fraud, have been classified as Doubtful assets with full provision has been made. These accounts aggregating to ₹ 6641.04 crores should have been classified as Loss Assets. There is however no impact on the provision accounted for these advances. (Refer Note No. 1(v))
- iv) Effect of the pending compliances of RBI guidelines, Accounting Standards issued by ICAI and other laid down procedures , weakness in internal controls and matters stated in the following notes to accounts in Schedule 13B , on the financial statements dealt with by this report has remained unascertained for the reasons stated therein and therefore can not be commented upon :
 - a) Note No. 6 regarding withdrawals permitted to certain depositors (46 identified so far)in excess of the limits specified by the RBI and exercise of comprehensive review of the

