INDEPENDENT AUDITOR'S REPORT

To

The Members of The Lakshmi Vilas Bank Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of The Lakshmi Bank Limited ("the Bank"), which comprise the Balance Sheet as at 31st March 2020, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the Returns for the year ended on that date of 21 Branches and departments audited by us and 562 Branches/ offices audited by statutory branch auditors. The Branches audited by us and those audited by other auditors have been selected by the Bank in accordance of the guidelines issued to the Bank by the Reserve Bank of India ("RBI").

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matters described in the *Basis for Qualified* Opinion paragraph, the aforesaid financial statements give the information required by the Banking Regulation Act,1949 as well as the Companies Act,2013 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, of the state of affairs of the Bank as at 31st March 2020, and its losses and its cash flows for the year ended on that date.

Basis for Qualified Opinion

1. We draw attention to Note 8 of the Schedule 18 – Notes on Accounts. During the financial year ended 31st March 2018, the Bank had adjusted loans aggregating to Rs.794 crore extended to RHC Holding Private Limited and Ranchem Private Limited against deposits of Religare Finvest Limited. The said adjustment has been contested by Religare Finvest Limited and a suit has been filed against the Bank in May 2018 before the Honourable High Court of Delhi. The matter still remains sub-judice. Further, the Economic Offences Wing, Delhi ("EOW") has initiated proceedings against the Directors of the Bank and SEBI has sought clarification on the above matter. However, as per the Bank, based on legal opinions obtained against the suit, the said appropriation is lawful and tenable and hence not made any specific provision on this score. The Reserve Bank of India ("RBI") vide letter dated 21st November 2019, had advised the Bank to maintain provisions, on a prudential basis, to cover potential losses for the 'Claim against the Bank not acknowledged as debt' in respect of the above-mentioned matter. In case of adverse judgment, the Management needs to provide an additional amount of Rs.594 crore after considering the available contingent provision of Rs.200 crore provided in the books. Considering the above, the Provisions & Contingencies would have increased, net loss for the year would have increased, shareholders' funds would have decreased, by Rs.594 crore each and the Capital Adequacy Ratio (Basel III) would have reduced by 4.50%.

   The audit opinion on the financial statements for the years ended 31st March 2018 and 31st March 2019 was also qualified in respect of this matter.

2. We draw attention to Note 5.1.1 of the Schedule 18 – Notes on Accounts, which states that the Bank has reversed the cumulative provision of Rs.48.70 crore held towards revision of wages due to employees with effect from November 2017. While the Bank has cited the withdrawal of mandate given to the Indian Banks' Association ("IBA") to negotiate revision of salary on its behalf, as the basis for reversing the provision, there is no evidence to suggest that there will not be any liability for the wage revision with effect from November 2017. While the quantum of wage revision cannot be determined as on date, it is likely that the provision required would at least be Rs.48.70 crore. Considering the above, Operating Expenses and the net loss for the year would have increased by Rs.24 crore each, Other income would have decreased by Rs.24.70 crore and Other liabilities & Provisions as at 31st March 2020 would have increased by Rs.48.70 crore.

3. We draw attention to Note 4.9 of the Schedule 18 – Notes on Accounts, which states that the Bank has recognised net deferred tax asset of Rs.1,185.57 crore as at 31st March 2020, of which Rs.326.01 crore was created during the year ended 31st March 2020. The Bank has decided not to opt for reduced corporate tax rate under Section 115BAA of the Income Tax Act and the deferred tax asset and liability have been calculated with the existing tax rate.

   As per the requirements of AS 22 "Accounting for Taxes on Income", deferred tax assets should be recognised and carried forward only to the extent that there is a virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In our opinion, considering the recurring losses and in the present scenario of the Bank going through the Prompt Corrective Action imposed by the RBI, there is no certainty that the Bank will have sufficient future taxable income to justify the creation of deferred tax asset. Had the deferred tax asset not been created and retained, the net loss for the year would have been higher by Rs.1,185.57 crore.

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

Material uncertainty related to going concern

The financial results indicate that the Bank has incurred a loss of Rs.836.04 crore during the year ended 31st March 2020. The Bank has been incurring losses for the past 10 Quarters and the Reserve Bank of India has initiated Prompt Corrective Action in September 2019, which inter alia prescribes the Bank to bring in additional capital, restrict further lending to corporates, reduce NPAs and improve the Provision Coverage Ratio to 70%. There has been a steady decline in the Bank's deposit base since September 2019 and increase in the NPA ratios. The Bank's Tier 1 Capital ratio has turned negative, at -0.88%, as compared to the minimum requirement of 8.875%. This requires the Bank to take effective steps to augment its capital base in the year 2020-21. We were informed that the Bank routinely evaluates capital raising options.

In line with the RBI's COVID-19 Regulatory Package dated 27th March 2020 and 17th April 2020, the Bank has granted a moratorium of three months on the payment of all instalments and/ or interest, as applicable, falling due between 1st March 2020 and 31st May 2020 to all eligible borrowers classified as "Standard", even if overdue, as at 29th February 2020.

In the opinion of the Bank, based on their internal assessment and the likely capital infusion, the Bank will be able to realise its assets and discharge its liabilities in its normal course of business and hence the Financial Results have been prepared on a going concern basis. The said assumption of going concern is dependent upon the Bank's ability to achieve improvements in liquidity, asset quality and solvency ratios, augment its capital base and mitigate the impact of COVID-19 and thus a material uncertainty exists that may cast a significant doubt on the Bank's ability to continue as a going concern. However, as stated above, the Bank opines that there are mitigating factors to such uncertainties.

Our opinion on the financial statements is not modified in respect of this matter.

Emphasis of Matter

1. We draw attention to Note 9 of the Schedule 18 – Notes on Accounts, which describes that the Bank has recognised provision on loans and overdrafts that were overdue but "Standard" as at 29th February 2020, for which moratorium benefit has been granted, based on the days past due status as on that date in accordance with the RBI's COVID-19 Regulatory Package.
2. We draw attention to Note 9 of the Schedule 18 – Notes on Accounts, which describes the uncertainties due to the outbreak of COVID-19 and Management's evaluation of its impact on the operations of the Bank. In view of these uncertainties, the impact on the Bank's financial results is significantly dependent on future developments.
3. We draw attention to Note 5.1.1 of the Schedule 18 – Notes on Accounts, which describes about the reversal of excess provision for employee benefits amounting Rs.70.37 crore as per the actuarial valuation report as at 31st March 2020 in accordance with AS 15 "Employee benefits" and this reversal of excess provision is mainly on account of the change in the principal actuarial assumption of salary escalation rate.

Our opinion on the financial statements is not modified in respect of any of the above-mentioned matters of emphasis.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone 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.

S. No.	Key Audit Matter	Auditor's Response to Key Audit Matter
1	***Recognition of Deferred tax assets on carry forward of losses*** Deferred tax assets on unabsorbed depreciation or carry forward of losses are to be recognized only when there is a virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such	**Principal Audit Procedures:** • Considered the taxable profits of the Bank and taxes paid in the past, obtained details of carry forward losses under income tax and details of estimates of taxable incomes for future periods without considering further capital infusion, of restructuring and without considering expected recoveries from assets where resolution proceedings are underway.

S. No.	Key Audit Matter	Auditor's Response to Key Audit Matter
	deferred tax assets can be realised. Determination of virtual certainty is a matter of judgement based on convincing evidence. Refer Note 4.9 of the Schedule 18 – Notes on Accounts	• Tested the period over which the deferred tax assets on such unabsorbed losses would be recovered against future taxable income. • Tested the Management`s underlying assumptions in estimating the future taxable incomes against which such unabsorbed losses would be recovered.
2	***Adequacy of provisions in respect of Advances*** Advances are classified as performing and non-performing assets in accordance with the prudential norms issued by RBI. The identification of non-performing assets and creation of provision on such advances involves key judgments relating to performance of borrowers, determination of security value, manual interventions, management judgement, regulatory level, etc. Accordingly, our audit was focused on income recognition, asset classification and provisioning pertaining to advances due to the materiality of the balances and associated impairment provisions.	**Principal Audit Procedures:** We assessed the Bank's system in place to identify and provide for non-performing assets. Our audit approach consisted testing of the design and operating effectiveness of the internal controls and substantive testing as follows: • Evaluated the design of internal controls relating to identification and making provision for non-performing assets. • Tested the relevant information technology systems used in identification and making provision for such NPA as per the RBI Guidelines including involvement of manual process and manual controls. in relation to income recognition, asset classification and provisioning pertaining to advances. • Considered Branch audit reports for identification and provisioning for non-performing assets • Test checked the identification and provisioning of non-performing assets in accordance with RBI Guidelines issued from time to time. • Ensured exceptions noticed during our audit procedures are duly corrected.
3	***Information technology (IT) systems (Flex Cube – Oracle based) used in financial reporting process*** The Bank's operational and financial processes are dependent on IT systems due to large volume of transactions that are processed daily. Accordingly, our audit was focused on key IT systems and controls due to the pervasive impact on the financial statements.	**Principal Audit Procedures:** We conducted an assessment and identified key IT applications, databases and operating systems that are relevant to our audit and have identified CBS and Treasury System primarily as relevant for financial reporting. Our audit approach consisted testing of the design and operating effectiveness of the internal controls and substantive testing as follows: • Obtained an understanding of the Bank's IT control environment, IT policies and key changes during the audit period. • Reviewed the design, implementation and operating effectiveness of the Bank's General IT controls over the key IT systems that are critical to financial reporting on test check basis as per the checklist provided by the ICAI in its latest Guidance Note on Bank Audit. • Tested key automated and manual business cycle controls and logic for system generated reports relevant to the audit on test check basis.
4	***Valuation of Investments*** As per RBI guidelines, Investments are classified into Held for Trading ("HFT"), Available for Sale ("AFS") and Held to Maturity ("HTM") categories at the time of purchase and HTM investments are at amortised cost and AFS and HFT are at Mark to Market. Accordingly, our audit was focused on the key audit matter, due to the Management's judgment in determining the value based on the policy of the Bank, impairment assessments and the impact on the financial statements.	**Principal Audit Procedures:** We conducted an assessment of the policies, controls, classifications and valuation of investments. • Reviewed the appropriateness of the valuation, by test checking on the pricing, volatility, discount factors. • Reviewed if the RBI policies are followed. • Reviewed if the financial statements disclosures reflect the Bank's exposure to investments in line with the RBI policies, and Accounting Standards.

S. No.	Key Audit Matter	Auditor's Response to Key Audit Matter
5	***Modified audit procedures carried out in light of COVID-19 pandemic*** Due to the outbreak of COVID-19 pandemic, nationwide lockdown has been imposed by the Central Government/ State Governments/ Local authorities, which had resulted in restrictions on movement of personnel. Hence, physical visit to the Branches and offices was not possible in most of the cases by us and the Branch auditors. Accordingly, our audit procedures were carried out based on the necessary records, reports, documents and certificates were made available to us by the Bank through digital medium, e-mail and remote access to the Core Banking Solution application. As we could not gather audit evidence physically or through meetings with the Bank's officials, we have identified the modified audit procedure as a Key Audit Matter.	**Principal Audit Procedures:** We modified our audit procedures as outlined below: • Verified the necessary records, reports, documents and certificates (mostly the scanned images) electronically through e-mails and remote access to the Branch/ office system and the Core Banking Solution application. • Resolved audit observations through discussions, receipt of digital records, telephonic conversations, video conferencing and e-mails.

Other Matter

Audit of most of the Branches have been performed by us and the Branch auditors, relying on alternative audit procedures, such as through remote access, on account of restrictions on physical visit to the Branches due to the COVID-19 pandemic.

Our opinion on the financial statements is not modified in respect of this matter.

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 of the CSR initiatives, Directors' Report including Annexures to Directors' Report, Shareholders' Information, Business Responsibility Report, Corporate Governance Report, Management Discussion and Analysis Report, List of Branches, Basel III Disclosures, Decade Progress included in the Bank's Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and the Basel III disclosures, and accordingly, 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, 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 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 cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 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, the Board of Directors 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 the Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 with SA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 standalone 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 controls 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 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 Company'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 standalone 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone 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 standalone 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

The Balance Sheet and the 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 read with Rule 7 of the Companies (Accounts) Rules, 2014.

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 except for the matter described in the *Basis for Qualified Opinion* paragraph 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 key applications integrated to the Core Banking System, the audit is carried out centrally as all the necessary records and data required for the purpose of our audit are available therein. However, during the course of our audit, we have visited 9 Branches and offices. The returns received from the offices and Branches of the Bank have been found adequate for the purposes of our audit. As mentioned in *Other Matter* paragraph, audit of most of the Branches have been performed by us and the Branch auditors, relying on alternative audit procedures, such as through remote access, on account of restrictions on physical visit to the Branches due to the COVID-19 pandemic.

Further, as required by Section 143(3) of the Act, we report that:

(i) 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 except for the matter described in the *Basis for Qualified Opinion* paragraph;

(ii) 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 and proper returns adequate for the purposes of our audit have been received from Branches not visited by us;

(iii) The reports on the accounts of the Branches audited by Branch auditors of the Bank under Section 143(8) of the Act have been sent to us and have been properly dealt with by us in preparing this report;

(iv) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account and with the returns received from the Branches not visited by us;

(v) Except for the possible effects of matter described in the *Basis for Qualified Opinion* paragraph, in our opinion, the financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, to the extent they are not inconsistent with the accounting policies prescribed by RBI;

(vi) On the basis of written representations received from the Directors as on 31st March 2020 taken on record by the Board of Directors, none of the Directors is disqualified as on 31st March 2020 from being appointed as a Director in terms of Section 164 (2) of the Act;

(vii) 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"; and

(viii) 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:

a. The Bank has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule 18 - Note No. 7 to the financial statements;

b. The Bank does not have any long term contracts including derivative contracts - Refer Schedule 18 - Note No. 3.3 to the financial statements;

c. There has been no delay in transferring amounts required to be transferred to the Investor Education and Protection Fund by the Bank;

d. With respect to the matter 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 Bank 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.

For **M/s. P.CHANDRASEKAR LLP**
Chartered Accountants
(Firm Registration No. 000580S/S200066)

LAKSHMY CHANDRASEKARAN
Partner
Membership No. 028508
UDIN: 20028508AAAAAU7760

Place : Bangalore
Date : 10th July, 2020

Annexure A to the Independent Auditor's Report of even date on the financial statements of The Lakshmi Vilas Bank Limited

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 The Lakshmi Vilas Bank Limited ('the Bank') as at 31st March 2020 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 with reference to financial statements

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 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").

Auditor's 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") issued by the ICAI and the Standards on Auditing ("the Standards"), 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 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 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 judgment, 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 with reference to financial statements.

Meaning of Internal Financial Controls with reference to financial statements

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 expenditure of the bank are being made only in accordance with authorizations of management and directors of the bank; and

(3) 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 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.

LAKSHMI VILAS BANK

Opinion

In our opinion, the Bank has, in all material respects, adequate internal financial controls with reference to financial statements and such internal financial controls with reference to financial statements were operating effectively as at 31st March 2020, based on the internal controls criteria established by the Bank considering the essential components of internal control stated in the Guidance Note issued by the ICAI.

For **M/s. P.CHANDRASEKAR LLP**
Chartered Accountants
(Firm Registration No. 000580S/S200066)

LAKSHMY CHANDRASEKARAN
Partner
Membership No. 028508
UDIN: 20028508AAAAAU7760

Place : Bangalore
Date : 10th July, 2020