

ANNEXURE B

OUR BRIEF FINANCIAL DETAILS EXTRACTED FROM OUR AUDITED STANDALONE FINANCIAL STATEMENTS FOR FINANCIAL YEARS 2022, 2021 AND 2020

Particulars	(₹ in million except per share data)		
	Financial Year 2022	Financial Year 2021	Financial Year 2020
Reserves (Excluding Revaluation Reserve)	589,843	531,714	271,887
Sales	804,688	805,118	429,919
Profit/(Loss) after Tax	52,321	29,060	(112,980)
Earnings per Share (Basic) (Face Value of ₹10)	7.73	4.54	(12.49)
Earnings per Share (Diluted) (Face Value of ₹10)	7.73	4.54	(12.49)
Net Asset Value	NA	NA	NA

Our turnover as on June 30, 2022 is ₹209,910.89 million.

Significant Notes of the Auditors:

1. For Financial Year 2022:

Emphasis of Matter

We draw your attention to Note No. 17 of schedule 18 – Notes to Accounts to the consolidated financial statements which describes that there is change in the accounting policies/estimates followed during the year ended 31st March, 2022 as compared to those followed in the preceding financial year ended 31st March, 2021 with effect from 1st April, 2021, in respect of appropriation of recovery in non performing accounts first towards interest unrealised and then towards principal outstanding as against towards principal first and then towards interest unrealised in earlier periods. Impact due to the change in accounting policy has resulted increase in income for the quarter by ₹ 495.26 crores and for the year by ₹ 1,081.77 crores and consequential non-reduction in gross non performing assets by equivalent amount.

We draw your attention to Note No. 9 of schedule 18 – Notes to Accounts to the consolidated financial statements which describes amortization of additional liability on account of revision in family pension amounting to ₹ 1,902.02 crores. The bank has charged an amount of ₹ 380.40 crore to the profit and loss account during the year ended March 31, 2022, and the balance unamortized expenses of ₹ 1,521.62 crore has been carried forward.

We draw your attention to Note No. 16 of schedule 18 – Notes to Accounts to the consolidated financial statements which describes uncertainties due to outbreak of COVID-19 pandemic. In view of these circumstances, the impact on the Banks operations and financial results is dependent on future developments including actions being taken to mitigate the same and other regulatory measures.

Our opinion is not modified in respect of this matter.



Key Audit Matters

Sr. No.	Key Audit Matter	How it was dealt with in our report
1	<p>Income Recognition, Asset Classification (IRAC) and provisioning on Loans & Advances and Investments as per the regulatory requirements</p> <p>Loans & Advances and Investments are the largest class of assets forming 85.01% of the total assets as on March 31, 2022. Classification, income recognition and loss provisioning on the same are based on objective parameters as prescribed by the regulations (Reserve Bank of India's prudential norms and other guidelines). The management of the Bank relies heavily on its IT systems (including Core Banking Solution), exercise significant estimates and judgement, manual interventions, and uses services of experts (like independent valuers, Lawyers, legal experts and other professional) to determine asset classification, income recognition and provisioning for losses. The Bank has system based identification of nonperforming assets in accordance with IRAC Norms</p>	<p>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. Our audit procedures included the assessment of controls over the approval, disbursements and monitoring of loans, and reviewing the logic and assumptions used in the CBS and other related IT systems for compliance of the IRAC and provisioning norms and its operating effectiveness. These included evaluation and understanding of following:</p> <ul style="list-style-type: none"> • Bank's internal control system in adhering to the Relevant RBI guidelines regarding income recognition, asset classification and provisioning pertaining to advances/ investments; • System controls and manual controls over the timely recognition of non-performing assets (NPA/NPI); • Operational existence and effectiveness of controls over provisioning calculation models from the IT systems; • Overall Controls on the loan approval, disbursement and monitoring process in case of advances and controls over the purchase, sale and hold decisions making system in case of investments • We tested sample of loans/investments (in cases of branches visited by us) to assess whether they had been identified as non performing on a timely manner, income recognized and provisioning made as per IRAC norms. • We have also reviewed the reliability, effectiveness and accuracy of manual interventions, wherever it has come to our notice, on test check basis. • We have relied on the reports/returns and work done by other Statutory Branch Auditors (SBA) in cases of branches not visited by us to get an overall comfort with respect to overall compliance in accordance with SA 600 - Using the Work of Another Auditor. • We have reviewed the work done by other experts like Independent valuers, Lawyers, Legal Experts and other such professionals who have rendered services to the Bank, in accordance with SA 620 Using the Work of an Auditor's Expert. • Further we have also reviewed the Bank's system of monitoring potentially weak and sensitive accounts which show a sign of stress. • We have also reviewed



Sr. No.	Key Audit Matter	How it was dealt with in our report
		<p>the reports and observations of the Bank's internal audit/inspection reports and observations of the concurrent auditors for the same.</p> <ul style="list-style-type: none"> • Verification of valuation, classification, provisioning and income recognition of investments by carrying out substantive test including arithmetic accuracy, data accuracy and control over the financial reporting system. We have test checked and assessed the efficacy of the system based identification of NPA
2.	<p>Information Technology (IT) and controls impacting financial reporting</p>	
	<p>In the normal course of its business, the Bank's financial accounting and reporting systems are highly dependent on the effective working of the Core Banking Solution (CBS) and other IT systems linked to the CBS or working independently. Extensive volume, variety and complexity of transactions are processed daily and there is a risk that automated accounting procedures and related internal controls may not be accurately designed and operating effectively. Particular areas of focus relate to the logic that is fed into the system, sanctity and reliability of the data, access management and segregation of duties. These underlying principles are important because they ensure that changes to applications and data are appropriate, authorized, cleansed and monitored, so that the system generates accurate and reliable reports/ returns and other financial and non-financial information that is used for the preparation and presentation of the financial statements.</p> <p>We have relied on the consistent and accurate functioning of CBS and other IT systems for the following:</p> <p>Asset Classification and Income recognition as per the Reserve Bank of India guidelines;</p> <ul style="list-style-type: none"> • Provisioning on the advance portfolio; • Identification of advances and liability items and its maturity pattern in various brackets; • Reconciliation and ageing of various suspense and sundry accounts, impersonal accounts, inter-branch balances and other such accounts; • Recording Investment transactions 	<p>Our audit procedures included verifying, testing and reviewing the design and operating effectiveness of the IT system by verifying the reports/returns and other financial and nonfinancial information generated from the system on a test check basis.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Ensuring that deficiencies noticed in our verification on test check basis were informed to the management for corrective action; • Carrying out independent alternative audit procedures like substantive testing in areas where deficiencies were noticed; • Analytical procedures like ratio analysis, trend analysis, reasonable tests, comparative analysis; • Reliance on the work performed by the statutory branch auditors and the rectification entries (MOCs) passed based on branch audits; • Reliance on external vendor inspection reports wherever made available. • Reviewed the IS Audit Reports and discussed with IT Department on compliance with key IT controls.



Sr. No.	Key Audit Matter	How it was dealt with in our report
	<ul style="list-style-type: none"> Interest expense on deposits and other liabilities; 	
3.	Recognition and measurement of Deferred tax	
	<p>The Bank has recognised a net deferred tax asset of ₹ 12,29,23,747 (in '000) as on March 31, 2022. Besides objective estimation, recognition and measurement of deferred tax asset is based on the judgment and numerous estimates regarding the availability and visibility of profits in the future. The recent decrease in the amount of deferred tax assets presumes availability and forecasting of profits over an extended period of time thus decreasing uncertainty and the inherent risk of inappropriate recognition of the said asset.</p>	<p>Our audit procedures included the risk assessment to gain an understanding of the applicable tax laws and relevant regulations applicable to the Bank. Based on our understanding, we performed both tests of related internal key controls and substantive audit procedures with the assistance of tax specialists. We performed the following audit procedures as part of our controls testing including, but not limited to:</p> <ul style="list-style-type: none"> Evaluation of the policies used for recognition and measurement of deferred tax assets in accordance with AS 22 Accounting for Taxes on Income; Assessed the method, assumptions and other parameters used with reference to uniformity, management representations, consistency and continuity like budget and midterm projections prepared by the management including earning growth and applicable tax rates and tested the arithmetical accuracy Assessed the probability of the availability and visibility of profits against which the bank will be able to use this deferred tax asset in the future.
4.	COVID-19 Pandemic	
	<p>COVID-19 Pandemic has adversely impacted the economic activity across the country and the Government of India had announced series of lock down since March 2020 onwards, which were lifted & reimposed at various point of time in regionalized manner across the country based on the prevailing situation in the respective State. Correspondingly and in tune with the partial and complete lock downs, we experienced travel restrictions for some part of the year and the Bank facilitated carrying out audit remotely wherever physical access was not possible. This situation eased out considerably by the end of the year and therefore physical audit was most prevalent at the year end. Therefore wherever we could not gather audit evidence in person/physically/through discussions and personal interactions with the officials at the Branches /Regions &Zones/ Verticals /</p>	<p>Wherever physical access was not possible, necessary records/ reports/ documents/ certificates were made available to us by the Bank through digital medium including the designated audit portal of the bank, emails and remote access to CBS and closing package. To this extent, the audit process was carried out on the basis of such documents, reports and records made available to us which were relied upon as audit evidence for conducting the audit and reporting for the current period.</p> <p>Accordingly, we modified our audit procedures (based on regulatory and ICAI advisories) as follows:</p> <ul style="list-style-type: none"> Conducted verification of necessary records/ documents/ CBS/closing package and other application software electronically through remote access/emails/in respect of some of the Branches/Regions/Zones/Verticals/ Corporate Offices and other offices of the Bank wherever physical access was not possible. Carried out verification of scanned copies of the



Sr. No.	Key Audit Matter	How it was dealt with in our report
	<p>Corporate Offices, we have identified such modified audit procedures as a Key Audit Matter. Accordingly, our audit procedures were modified to carry out the audit remotely.</p>	<p>documents, deeds, certificates, returns from branches and the related records made available to us through emails and remote access over secure network of the Bank</p> <ul style="list-style-type: none"> • Making enquires and gathering necessary audit evidence through Video Conferencing, dialogues and discussions over phone calls/conference calls, emails and similar communication channels. • Resolution of our audit observations telephonically/through email instead of a face to-face interaction with the designated officials.

2. For Financial Year 2021:

Emphasis of the Matter

We draw your attention to Note No.1.1 of schedule 18 – Notes to Accounts to the standalone financial statements which describes Government approved scheme of amalgamation and basis for preparation of these financial results adopting "Pooling of Interest" method as prescribed under the Accounting Standard – 14 on "Accounting for Amalgamations" issued by the Institute of Chartered Accountants of India (ICAI), to record amalgamation of erstwhile Andhra Bank and erstwhile Corporation Bank (amalgamating banks) with the bank with effect from 1st April 2020. The financial results for the year are not comparable with corresponding previous period.

We draw your attention to Note No. 1.1 of schedule 18 – Notes to Accounts to the standalone financial statements which describes that during the year the bank has set off entire accumulated loss amounting to ₹ 32,758.49 crore (as at 1st April 2020) against securities premium account as per the approval received from RBI dated 29th October 2020.

We draw your attention to Note No. 1.4.5 of schedule 18 – Notes to Accounts to the standalone financial statements which describes uncertainties due to outbreak of COVID-19 pandemic. The situation continues to be uncertain and the management of the bank is evaluating the situation and impact on its business operations.

We draw your attention to Note No. 13 of schedule 18 – Notes to Accounts to the standalone financial statements which describes that there is change in the accounting policies/estimates followed during the year ended 31st March, 2021 as compared to those followed in the preceding financial year ended 31st March, 2020 with effect from 1st April, 2020,

- a) the income on account of LC/BG commission is recognized as revenue on accrual basis as against receipt basis followed in earlier periods. Impact due to the change in accounting policy has resulted in decrease in other income and net profit (before tax) for the year by ₹ 441.06 Crore.
- b) Pursuant to amalgamation of erstwhile Andhra Bank and erstwhile Corporation Bank into Union Bank of India, there is a change in method of depreciation on Fixed Assets from Written Down Value to Straight Line Method and change in estimated useful life with respect to some categories of assets. Impact due to



the said changes has resulted in increase in depreciation and decrease in net profit (before tax) for the quarter by ₹ 3.24 Crores for the year ended 31st March 2021 and due to harmonization, one time impact on the depreciation amounting to ₹ 180.16 Crores for the year ended 31st March, 2021.

e) Our opinion is not modified in respect of this matter.

Key Audit Matters

Sr. No.	Key Audit Matter	How it was dealt with in our report
1	<p>Accounting for Amalgamation of e-Andhra Bank and e-Corporation Bank</p> <p>The Government of India (GOI), Ministry of Finance, Department of Financial Services vide Gazette Notification CG-DL-E-04032020-216535 dated 4th March, 2020 approved the scheme of amalgamation of Andhra Bank and Corporation Bank (Amalgamating Banks) into Union Bank of India effective from 1st April, 2020</p> <p>The Bank has adopted "Pooling of Interest" method as prescribed under the Accounting Standard 14 on "Accounting for Amalgamations" issued by the Institute of Chartered Accountants of India (ICAI), to record amalgamation of Andhra Bank and Corporation Bank (the amalgamating banks) with the Bank with effect from 1st April, 2020. Accordingly, the difference of Rs. 1309.60 Crore between the net assets assets of amalgamating banks and the amount of shares issued to shareholders of the amalgamating banks has been recognized as Amalgamation Reserve in the opening balance sheet as on 1st April, 2020.</p> <p>Due to the complexity of the transaction and the associated significant risk of misstatement involved due to</p> <ul style="list-style-type: none"> • Divergence in accounting policies followed by the amalgamating banks with respect of accounting of certain items of income, providing for depreciation of fixed assets • Application of tax laws especially carry forward and set off of loss of the merging entities. <p>Ownership and rights over immovable and movable assets of the amalgamating banks,</p>	<p>Our audit approach for testing of accounting of amalgamation included in particular:</p> <ul style="list-style-type: none"> • we evaluated the Scheme of Amalgamation approved by The Government of India (GOI), Ministry of Finance, Department of Financial Services vide Gazette Notification CG-DL-E-04032020-216535 dated 4th March, 2020 • we evaluated appropriateness of the Bank's selection of amalgamation accounting by Pooling of Interest method in compliance with each of the conditions stipulated in AS 14 • we have considered audited balance sheet of amalgamated entity as on 01.04.2020 - Accounting for Amalgamation; • we evaluated the residual useful life of the acquired assets, focusing on the valuation methodologies and key assumptions applied; • we evaluated the reasonableness of key assumptions based on our knowledge of the business and industry; • we evaluated the basis determined by the Management for accounting of Amalgamation Reserve representing difference between value of net assets of amalgamating banks and the number of shares issued to shareholders of the amalgamating banks. • we performed evaluation of tax laws applicable to the Bank and verification of the management's assessment with respect to eligibility of carry forward and set off of losses of the amalgamating banks • we evaluated the terms of amalgamation as



properties held by the amalgamating banks under lease, assets, guarantees and other assurances offered as security for the advances made by the amalgamating banks, cause of action, suits, decrees, recovery certificates, appeal and other proceedings in favour of amalgamating banks and all other acts carried out by the amalgamating banks in the normal course of its banking business. The accounting of amalgamation of banks is considered as a key audit matter

approved by the Government of India vide its notification dated 04.03.2020 titled "Amalgamation of Andhra Bank and Corporation Bank into Union Bank of India Scheme 2020" with reference to the Ownership and rights over immovable and movable assets of the amalgamating banks, properties held by the amalgamating banks under lease, assets, guarantees and other assurances offered as security for the advances made by the amalgamating banks, cause of action, suits, decrees, recovery certificates, appeal and other proceedings in favour of amalgamating banks and all other acts carried out by the amalgamating banks in the normal course of its banking business

2. Income Recognition, Asset Classification (IRAC) and provisioning on Loans & Advances and Investments as per the regulatory requirements

Loans & Advances and Investments are the largest class of assets forming 84.88% of the total assets as on March 31, 2021. Classification, income recognition and loss provisioning on the same are based on objective parameters as prescribed by the regulations (Reserve Bank of India's prudential norms and other guidelines). The management of the Bank relies heavily on its IT systems (including Core Banking Solution), exercise significant estimates and judgement, manual interventions, and uses services of experts (like independent valuers, Lawyers, legal experts and other professional) to determine asset classification, income recognition and provisioning for losses. The Bank has system based identification of nonperforming assets in accordance with IRAC Norms

- 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. Our audit procedures included the assessment of controls over the approval, disbursements and monitoring of loans, and reviewing the logic and assumptions used in the CBS and other related IT systems for compliance of the IRAC and provisioning norms and its operating effectiveness. These included evaluation and understanding of following:
- Bank's internal control system in adhering to the Relevant RBI guidelines regarding income recognition, asset classification and provisioning pertaining to advances/investments;
- System controls and manual controls over the timely recognition of non-performing assets (NPA/NPI);
- Operational existence and effectiveness of controls over provisioning calculation models from the IT systems; • Overall Controls on the loan approval, disbursement and monitoring process in case of advances and controls over the purchase, sale and hold decisions making system in case of investments
- We tested sample of loans/investments (in cases of branches visited by us) to assess whether they had been identified as non performing on a timely manner, income recognized and provisioning made as per



		<p>IRAC norms.</p> <ul style="list-style-type: none"> • We have also reviewed the reliability, effectiveness and accuracy of manual interventions, wherever it has come to our notice, on test check basis. • We have relied on the reports/returns and work done by other Statutory Branch Auditors (SBA) in cases of branches not visited by us to get an overall comfort with respect to overall compliance in accordance with SA 600 - Using the Work of Another Auditor. • We have reviewed the work done by other experts like Independent valuers, Lawyers, Legal Experts and other such professionals who have rendered services to the Bank, in accordance with SA 620 Using the Work of an Auditor's Expert. • Further we have also reviewed the Bank's system of monitoring potentially weak and sensitive accounts which show a sign of stress. • We have also reviewed the reports and observations of the Bank's internal audit/inspection reports and observations of the concurrent auditors for the same. • Verification of valuation, classification, provisioning and income recognition of investments by carrying out substantive test including arithmetic accuracy, data accuracy and control over the financial reporting system. • We have test checked and assessed the efficacy of the system based identification of NPA
3.	<p>Information Technology (IT) and controls impacting financial reporting</p> <p>A. On account of amalgamation</p> <p>During the year, in view of the amalgamation of erstwhile Andhra Bank (eAB) and erstwhile Corporation Bank (eCB) with Union Bank of India, with effect from April 1, 2020, as stated in note 1 of Schedule 18 of the Financial Statements and until integration into the Union Bank of India platform, the banking operations were carried out in three different software for the respective verticals namely eAB branches, eCB branches and other branches, during the year. In respect of some specific department or specialized software's for business processes the integration process is underway and was not be completed during the year. In view of the above, the IT</p>	<p>We have obtained understanding of the IT related environment of all the three verticals of the Bank, and had accordingly identified IT applications, databases and operating systems to conduct risk assessment which may impact on the financial reporting. Our audit procedures, with respect to all three verticals in this area included, among others:</p> <ul style="list-style-type: none"> • Testing IT general controls related to User and Application controls, Change Management Controls and Data backup. • Assessing whether appropriate restrictions were placed on access to core systems through reviewing the permissions and responsibilities of authorised personnel.



<p>environment had become complex and pervasive to the operations of the Bank with regards to the financial reporting process since the same was highly dependent on information technology including automated and manual controls and availability of complete and accurate electronic data due to the size and complexity of the operations. Pending the systems integration / migration of the three software, the process of consolidated of data to be reported was manual.</p> <p>Unauthorized or extensive access rights, changes in IT environment, operational controls, lack of segregation of duties which may cause a risk of misstatement of financial information and could have a material consequence on the completeness and accuracy of the financial statements. Due to high level of automation, number of integrated / non – integrated systems used, the manual process used for the consolidation of the three verticals, this is considered a significant matter for our audit.</p> <p>B. On normal financial reporting</p> <p>We have relied on the consistent and accurate functioning of CBS and other IT systems for the following:</p> <ul style="list-style-type: none"> • Asset Classification and Income recognition as per the Reserve Bank of India guidelines; • Provisioning on the advance portfolio; • Identification of advances and liability items and its maturity pattern in various brackets; • Reconciliation and ageing of various suspense and sundry accounts, impersonal accounts, inter-branch balances and other such accounts; • Recording Investment transactions • Interest expense on deposits and other liabilities; 	<ul style="list-style-type: none"> • Where we identified the need to perform additional procedures, we placed reliance on manual compensating controls; such as reconciliations between systems and other information sources or performing additional testing; extended our sample sizes, to obtain adequate and appropriate audit evidences. • Reviewed the controls with respect to manual processes consolidation of data of all verticals and ensured data integrity with respect to such consolidation. <p>Our audit procedures included verifying, testing and reviewing the design and operating effectiveness of the IT system by verifying the reports/returns and other financial and non-financial information generated from the system on a test check basis. Our audit procedures included:</p> <ul style="list-style-type: none"> • Ensuring that deficiencies noticed in our verification on test check basis were informed to the management for corrective action; • Carrying out independent alternative audit procedures like substantive testing in areas where deficiencies were noticed; • Analytical procedures like ratio analysis, trend analysis, reasonable tests, comparative analysis; • Reliance on the work performed by the statutory branch auditors and the rectification entries (MOCs) passed based on branch audits; • Reliance on external vendor inspection reports wherever made available. • Reviewed the IS Audit Reports and discussed with IT Department on compliance with key IT controls.
<p>4. Recognition and measurement of Deferred tax</p> <p>The Bank has recognised a net deferred tax asset of ₹ 15,67,24,947 (in '000) as on March 31, 2021. Besides objective estimation, recognition and measurement of deferred tax asset is based on the judgment</p>	<p>Our audit procedures included the risk assessment to gain an understanding of the applicable tax laws and relevant regulations applicable to the Bank. Based on our understanding, we performed both tests of related internal key controls and</p>



<p>and numerous estimates regarding the availability and visibility of profits in the future. The recent increase in the amount of deferred tax assets recognised presumes availability and forecasting of profits over an extended period of time thus increasing uncertainty and the inherent risk of inappropriate recognition of the said asset.</p>	<p>substantive audit procedures with the assistance of tax specialists. We performed the following audit procedures as part of our controls testing including, but not limited to:</p> <ul style="list-style-type: none"> • Evaluation of the policies used for recognition and measurement of deferred tax assets in accordance with AS 22 Accounting for Taxes on Income; • Assessed the method, assumptions and other parameters used with reference to uniformity, management representations, consistency and continuity like budget and midterm projections prepared by the management including earning growth and applicable tax rates and tested the arithmetical accuracy • Assessed the probability of the availability and visibility of profits against which the bank will be able to use this deferred tax asset in the future. • Evaluation of recognition and measurement of deferred tax assets on accumulated losses of erstwhile Andhra Bank (eAB) and erstwhile Corporation Bank (eCB) on amalgamation with Union Bank of India, with effect from April 1, 2020.
<p>5. COVID-19 Pandemic</p> <p><i>Modified Audit Procedures carried out in light of COVID-19 outbreak</i></p> <p>Due to the continuing COVID-19 pandemic, lockdown declared by some of the state governments and travel restrictions imposed by Central / State Government / Local authorities during the period of our audit and the RBI directions to Bank to facilitate carrying out audit remotely wherever physical access was not possible, audit could not be conducted by visiting the premises of certain Branches / Regional & Zonal Offices/ Verticals at the Corporate Office of the bank. As we could not gather audit evidence in person/ physically/ through discussions and personal interactions with the officials at the Branches / Regions & Zones/ Verticals / Corporate Offices, we have identified such modified audit procedures as a Key Audit Matter.</p> <p>Accordingly, our audit procedures were modified to carry out the audit remotely</p>	<p>Due to the continuing COVID-19 pandemic followed by lockdown declared by some of the state governments and other travel restrictions imposed by the Central and State Governments/ Local administration during the period of our audit, we could not travel to the Branches/Regions/ Zones/ Verticals/ Corporate Offices and carry out the audit processes physically at the respective offices. Wherever physical access was not possible, necessary records/ reports/ documents/ certificates were made available to us by the Bank through digital medium including the designated audit portal of the bank, emails and remote access to CBS and closing package. To this extent, the audit process was carried out on the basis of such documents, reports and records made available to us which were relied upon as audit evidence for conducting the audit and reporting for the current period.</p> <p>Accordingly, we modified our audit procedures (based on regulatory and ICAI advisories) as follows:</p> <ul style="list-style-type: none"> • Conducted verification of necessary records/



		<p>documents/CBS/closing package and other application software electronically through remote access/emails/in respect of some of the Branches/ Regions/Zones/Verticals/Corporate Offices and other offices of the Bank wherever physical access was not possible.</p> <ul style="list-style-type: none"> • Carried out verification of scanned copies of the documents, deeds, certificates, returns from branches and the related records made available to us through emails and remote access over secure network of the Bank • Making enquires and gathering necessary audit evidence through Video Conferencing, dialogues and discussions over phone calls/conference calls, emails and similar communication channels. • Resolution of our audit observations telephonically/ through email instead of a face to-face interaction with the designated officials.
--	--	---

3. For Financial Year 2020:

Emphasis of Matters

4.a. We draw your attention to Note 15 to the consolidated financial statements which describes that the extent to which the COVID-19 Pandemic will impact the bank's operations will depend on future developments, which are highly uncertain.

b. We draw your attention to Note 7.2 to the consolidated financial statements which explains the impact of the harmonization of provision for the year ended on March 31, 2020, on account of divergence in asset classification across Union Bank of India, Andhra Bank and Corporation Bank as per extant IRACP norms.

Our opinion is not modified in respect of these matters.

Key Audit Matters

Sr. No.	Key Audit Matters	How the Matter was addressed in our report
1	Information Technology (IT) Systems and controls over financial reporting	
	<p>The Bank's financial accounting and reporting systems are highly dependent on the effective working of the Core Banking Solution (CBS) and other IT systems linked to the CBS or working independently. Extensive volume, variety and complexity of transactions are processed daily and there is a risk that automated accounting procedures and related internal controls may not be accurately designed and operating effectively. Particular areas of focus relate to the logic that is fed into the system, sanctity and reliability of the</p>	<p>Our audit procedures included verifying, testing and reviewing the design and operating effectiveness of the IT system by verifying the reports/returns and other financial and non-financial information generated from the system on a test check basis. Our audit procedures included:</p> <ul style="list-style-type: none"> • Ensuring that deficiencies noticed in our verification test check basis were informed to the management for corrective action;



<p>data, access management and segregation of duties. These underlying principles are important because they ensure that changes to applications and data are appropriate, authorized, cleansed and monitored, so that the system generates accurate and reliable reports/returns and other financial and non-financial information that is used for the preparation and presentation of the financial statements. We have relied on the consistent and accurate functioning of CBS and other IT systems for the following:</p> <ul style="list-style-type: none"> • Asset Classification and Income recognition as per the Reserve Bank of India guidelines; • Provisioning on the advance portfolio; • Identification of advances and liability items and its maturity pattern in various brackets; • Reconciliation and ageing of various suspense and sundry accounts, impersonal accounts, inter-branch balances and other such accounts; • Recording Investment transactions • Interest expense on deposits and other liabilities; 	<ul style="list-style-type: none"> • Carrying out independent alternative audit procedures like substantive testing in areas where deficiencies were noticed; • Analytical procedures like ratio analysis, trend analysis, reasonable tests, comparative analysis; • Reliance on the work performed by the statutory branch auditors and the rectification entries (MOCs) passed based on branch audits; • Reliance on external vendor inspection reports wherever made available.
<p>2 Income Recognition, Asset Classification (IRAC) and provisioning on Loans & Advances and Investments as per the regulatory requirements.</p>	<p>Loans & Advances and Investments are the largest class of assets forming 84.95% of the total assets as on March 31, 2020. Classification, income recognition and loss provisioning on the same are based on objective parameters as prescribed by the regulations (Reserve Bank of India's prudential norms and other guidelines). The management of the Bank relies heavily on its IT systems (including Core Banking Solution), exercise significant estimates and judgement, manual interventions, and uses services of experts (like independent valuers, Lawyers, legal experts and other professional) to determine asset classification, income recognition and provisioning for losses.</p> <p>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.</p> <p>Our audit procedures included the assessment of controls over the approval, disbursements and monitoring of loans, and reviewing the logic and assumptions used in the CBS and other related IT systems for compliance of the IRAC and provisioning norms and its operating effectiveness.</p> <p>These included:</p> <ul style="list-style-type: none"> • 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/investments; • System controls and manual controls over the timely recognition of non-performing assets (NPA/NPI); • Operational existence and effectiveness of



		<p>controls overprovisioning calculation models from the IT systems;</p> <ul style="list-style-type: none"> • Overall Controls on the loan approval, disbursement and monitoring process in case of advances and controls over the purchase, sale and hold decisions making system in case of investments • We tested sample of loans/investments (in cases of branches visited by us) to assess whether they had been identified as non performing on a timely manner, income recognized and provisioning made as per IRAC norms. • We have also reviewed the reliability, effectiveness and accuracy of manual interventions, wherever it has come to our notice, on test check basis. • We have relied on the reports/returns and work done by other Statutory Branch Auditors (SBA) in cases of branches not visited by us to get an overall comfort with respect to overall compliance in accordance with SA 600 - Using the Work of Another Auditor. • We have reviewed the work done by other experts like Independent valuers, Lawyers, Legal Experts and other such professionals who have rendered services to the Bank, in accordance with SA 620 Using the Work of an Auditor's Expert. • Further we have also reviewed the Bank's system of monitoring potentially weak and sensitive accounts which show a sign of stress. • We have also reviewed the reports and observations of the Bank's internal audit/inspection reports and observations of the concurrent auditors for the same. • Verification of valuation, classification, provisioning and income recognition of investments by carrying our substantive test including arithmetic accuracy, data accuracy and control over the financial reporting system.
3	<p>Recognition and measurement of Deferred tax</p>	
	<p>The Bank has recognised a net deferred tax asset of 7,35,68,800 (in '000) as on March 31, 2020. Besides objective estimation, recognition and measurement of deferred tax asset is based on the judgment and numerous estimates</p>	<p>Our audit procedures included the risk assessment to gain an understanding of the applicable tax laws and relevant regulations applicable to the Bank. Based on our understanding, we performed both tests of</p>



	<p>regarding the availability and visibility of profits in the future. The recent increase in the amount of deferred tax assets recognised presumes availability and forecasting of profits over an extended period of time thus increasing uncertainty and the inherent risk of inappropriate recognition of the said asset</p>	<p>related internal key controls and substantive audit procedures with the assistance of tax specialists. We performed the following audit procedures as part of our controls testing including, but not limited to:</p> <ul style="list-style-type: none"> • Evaluation of the policies used for recognition and measurement of deferred tax assets in accordance with AS 22- "Accounting for Taxes" on Income; • Assessed the method, assumptions and other parameters used with reference to uniformity, management representations, consistency and continuity like budget and midterm projections prepared by the management including earning growth and applicable tax rates and tested the arithmetical accuracy. • Assessed the probability of the availability and visibility of profits against which the bank will be able to use this deferred tax asset in the future.
4	<p>COVID-19 Pandemic</p>	
	<p>Modified Audit Procedures carried out in light of COVID-19 outbreak Due to COVID-19 pandemic, Nation-wide lockdown and travel restrictions imposed by Central / State Government/ Local authorities during the period of our audit and the RBI directions to Bank to facilitate carrying out audit remotely wherever physical access was not possible, audit could not be conducted by visiting the premises of certain Branches / Regional & Zonal Offices/ Verticals at the Corporate Office of the bank. As we could not gather audit evidence in person/physically/ through discussions and personal interactions with the officials at the Branches /Regions & Zones/Verticals / Corporate Offices, we have identified such modified audit procedures as a Key Audit Matter. Accordingly, our audit procedures were modified to carryout the audit remotely.</p>	<p>Due to the outbreak of COVID-19 pandemic that caused nationwide lockdown and other travel restrictions imposed by the Central and State Governments/ Local administration during the period of our audit, we could not travel to the Branches/Regions/Zones/ Verticals/Corporate Offices and carry out the audit processes physically at the respective offices. Wherever physical access was not possible, necessary records/ reports/ documents/ certificates were made available to us by the Bank through digital medium including the designated audit portal of the bank, emails and remote access to CBS and closing package. To this extent, the audit process was carried out on the basis of such documents, reports and records made available to us which were relied upon as audit evidence for conducting the audit and reporting for the current period. Accordingly, we modified our audit procedures (based on regulatory and ICAI advisories) as follows:</p> <ul style="list-style-type: none"> • Conducted verification of necessary records/documents/CBS/closing package and other application software electronically through remote access/emails/in respect of some of the Branches/Regions/Zones/Verticals/Corporate Offices and other offices of the Bank



		<p>wherever physical access was not possible.</p> <ul style="list-style-type: none">• Carried out verification of scanned copies of the documents, deeds, certificates, returns from branches and the related records made available to us through emails and remote access over secure network of the Bank• Making enquires and gathering necessary audit evidence through Video Conferencing, dialogues and discussions over phone calls/conference calls, emails and similar communication channels.• Resolution of our audit observations telephonically/through email instead of a face to-face interaction with the designated officials.
--	--	---

