

Maharaj N R Suresh And Co.

Chartered Accountants

9, (Old 5), II Lane, II Main Road, Trustpuram, Chennai - 600 024.

Tel. : (044) 24837583, 24801322 Fax : 044-24813734 e-mail : mnrsuresh56@gmail.com



ANNEXURE - 1 TO INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TAMILNADU MERCANTILE BANK LIMITED, TUTICORIN FOR THE YEAR ENDED 31ST MARCH 2017

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

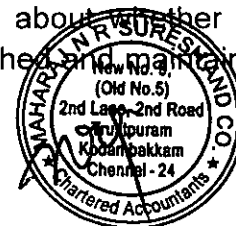
We have audited the internal financial controls over financial reporting of **TAMILNADU MERCANTILE BANK LIMITED, TUTICORIN** ("the Bank") as of March 31, 2017 in conjunction with our audit of the standalone financial statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Bank's management is responsible for establishing and maintaining internal financial controls based on 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 Companies Act 2013 ("the Act")

Auditors' Responsibility

Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, ('the standards') both issued by ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. 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;

- I. pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;
- II. 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
- III. 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.

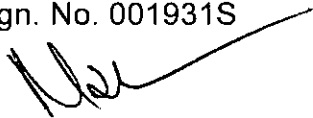
Opinion

In our opinion, 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, 2017, based on internal control over financial reporting criteria established by the bank considering the essential components of internal control stated in the guidance note issued by the ICAI

- i. existing policies and procedures adopted by the Bank for ensuring orderly and efficient conduct of business.
- ii. continuous adherence to Bank's policies.
- iii. existing procedures in relation to safeguarding of Bank's fixed assets, investments, inventories, receivables, loans and advances made and cash and bank balances.
- iv. existing system to prevent and detect fraud and errors.
- v. accuracy and completeness of Bank's accounting records; and
- vi. existing capacity to prepare timely and reliable financial information

For Maharaj N R Suresh And Co

Chartered Accountants
Firm Regn. No. 001931S



N R Jayadevan

Membership No. 023838

Partner

Date : 14/06/2017

Place: Tuticorin