



Share Department, Finance Division, HO Plot No.4 Sector 10, Dwarka, New Delhi-110075
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Ref:HO/FD/SD/2017-2018

Date: 09.03.2018

Mr Sandeep Dhamal,
Assistant Manager – Listing Compliance,
National Stock Exchange of India Limited (NSE),
Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051

Dear Sir,

This reference to your mail of the 15th of February, 2018. In connection with Schedule II of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations, 2015), we have noted that you required us to place the matter, concerning announcement in the matter of reporting price sensitive information wherein the bank has detected some fraudulent and unauthorised transactions in one of its branch in Mumbai for the benefit of few select account holders with their apparent connivance, before Audit Committee of Board and send their comments in the matter.

Accordingly matter was placed before Audit Committee of Board and Board in its meeting held on 26th of February, 2018. The comments of Committee are placed as under:

1. It is pertinent to note that The Bank being a body corporate and also listed entity is regulated by Reserve Bank of India (RBI) and governed under the provision of The Banking Companies (Acquisition and Transfer of undertakings), Act, 1970 (The Act) and SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 [SEBI (LODR) regulations] to the extent these do not violate the Act and RBI guidelines.
2. Audit Committee of Board (ACB) has been constituted by the Bank in terms of Reserve Bank of India (RBI) circular No. DOS. No. BC/3/08/91.020/97 dated 20.01.97, and other extant guidelines of RBI and as required under SEBI (LODR) Regulations 2015.
3. The Bank had informed the National Stock Exchange, Mumbai on three occasions that some unauthorised transactions (by unauthorised SWIFT messages) had been detected. A copy of the three mails of the 5th of February, 2018, 14th of February 2018 and 26th of February, 2018 are enclosed herewith.

For replying to your three specific issues pertaining to Schedule II Part C, Clauses 11, 12 and 15 of LODR 2015, the audit committee was asked to submit their comments for:

- a. (11) evaluation of internal financial controls and risk management systems;
 - b. (12) reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
 - c. (15) reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board"
4. In relation to (a) above, the audit committee's ("ACB") response is as follows:-

"Evaluation of internal financial controls and risk management systems"

The bank conducts its business based on various policies approved by the Board viz Credit Management and Risk policy, Credit risk mitigation and collateral management policy, Operational risk management policy to name a few. These policies cover comprehensive guidelines on exposure norms, industry ceilings, delegation of powers, treatment of various

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collaterals for credit risk mitigation, operating risk management, management of assets vis-a-vis liabilities, determining the investment portfolio mix, mitigating the risk of exchange fluctuation etc. Portfolio analysis, yield analysis, industry outlook, external and internal loss, status of key Risk Indicator etc.. The position of various segments of business and control aspects are reported to Audit Committee of Board through various reports by concerned division on quarterly basis. Some of the parameters are reviewed by RBI during the Bank inspection.

However, the way these fraudulent transactions were committed by some employees in connivance of beneficiary was not within the scope of overall direct supervision of ACB. However, appropriate directions have been given to urgently integrate SWIFT with CBS system and other remedial measures connected to overall audit functions of the Bank.

In relation to (b) above, the audit committee's response is as follows:

"Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems"

Bank is having a separate division i.e. Inspection and Audit Division at HO level. Which ensures conducting of audit of branches and administrative offices at prescribed intervals as per annual audit plan approved by the ACB and Board. The audit of the offices is conducted on the basis of risk based internal audit (RBIA model) internally developed by the Bank.

Some of the Branches are under concurrent audit. As per RBI guidelines 50% of Deposits and 50% of Advances and as per DFS recommendation 70% of total Business should be under concurrent audit. Total 1608 branches / offices having 77.01% of total business, 92.52% of advances (as on 31.03.2017) was under coverage of Concurrent Audit during FY 2017-18. The performance of internal auditors and adequacy of internal control system is being put up to ACB and Board on quarterly basis. Similarly performance of external Auditors is being reviewed. If the performance is found unsatisfactory for two consecutive quarters steps are taken for depanelment of external auditors. Last such review was placed to ACB in its meeting dated 26.02.2018." ACB is continuously striving to get improved its quality.

ACB manages Control of Risk through Risk Based Management Audit of branches, Compliance Audits of all administrative offices, FEMA audits of all Authorised Dealer branches, Credit/Legal Audits of high advances, IT audit of the systems of the Bank.

Report on performance of Statutory Auditor is being placed by Finance Division of the Bank to ACB on annual basis in line with the compliance of RBI circular DBS.ARS.No. BC. 08/08.91.001/2003-01 dated 26th March 2004 and report is being submitted to RBI in the prescribed format in respect of all Statutory Central Auditors (SCAs). ACB has desired that some branches were not subject to external audit because of the size of business needs to be re-examined and bank should look at having all branches externally audited at a regular interval.

ACB has decided that a concerted effort be made to improve quality of external audit and to make this possible audit charges were revised upwards so that audit firms can send more senior people for audit.

Regular audit of a branch is decided on the basis of previous Regular Audit Report, its risk directions. Based on the above guidelines, Annual Audit Plan is formulated on yearly basis and was approved by Audit Committee of Board vide resolution No. 18 on meeting dated 28.06.2017.

Adequacy of internal control and internal audit is being reviewed from time to time and notes are being placed to Audit Committee of Board.



Following notes are being placed to ACB in this regard:

1. Review of Housekeeping-Suspense/Sundry etc.	Quarterly
2. Status of Information Systems (IS) Audit of Circle Offices, Zonal Offices and HO Divisions	Quarterly
3. Review of Significant Audit findings of IS Audit of the Bank	Quarterly
4. Significant Audit Findings of FEMA Audit	Quarterly
5. Performance of External Auditors	Quarterly
6. Significant Audit Findings of Regular Audit	Quarterly
7. Review & Achievement of Audit Plan	Quarterly
8. Adequacy of Internal Audit Functions	Yearly

Note on Review & Achievement of Audit Plan, the position of Budget vs. Achievement of Regular Audit, undercharges reported in Revenue Audit, status of IS Audit, FEMA Audit, Compliance Audit and Snap/segment audit is placed to the ACB on quarterly basis.

An exercise on the adequacy of audit is being undertaken by a specialised external agency (as suggested by RBI).

In relation to (c) above, the audit committee's response is as follows:

"Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board", is being dealt with FRMD, HO."

"Whenever any fraud / suspected fraud is reported a detailed note for frauds above ₹1 lakh is reported to Board of Directors promptly on their detection (on monthly basis), in which causative factors are examined and remedial measures are suggested.

Monitoring of all frauds of ₹ 1 Cr. and above are placed before Special Committee of Board on Fraud.

On the basis of modus operandi of attempted frauds/ suspected frauds / fraud reported, FRMD advise various Divisions to revisit / revamp the system and procedures, wherever required. During processing of any fraud case, if any systemic lacuna is observed, FRMD advises to the concerned HO Divisions to take corrective measures to prevent recurrence of such fraud.

Modus operandi, in case of unique/ different type of fraud cases, is circulated for the awareness of field functionaries to pre-empt such attempt. Whenever FRMD observes that there is a lack of control mechanism or there is any need to improve it, the same is referred to Inspection and Audit Division (IAD) or the concerned owner division to improve/revamp the system or revise/reiterate the existing guidelines.

The Bank has appointed M/s. BDO, one of the large accounting firms in India to conduct a forensic audit in addition to the fraud in addition to the CBI investigation / ED investigation which are on-going. BDO has been given maximum 3 months from the date of Appointment i.e. 27.02.18 for completion of Forensic Audit.

On the 23rd of February, 2018, in relation to a petition filed by the Ministry of Corporate Affairs, in Company Petition No.277 of 2018 filed under Sections, 221, 222, 241, 242 and 246 read with Section 339 of the Companies Act, the NCLT Mumbai Bench has also granted a restraint order as prayed for by the Government of India preventing removal, transfer or disposal of funds, assets and properties of the entities and individuals, who are respondents in the Government's petition.



The next date of hearing for this Government petition is fixed for 26th of March, 2018.

The Committee also noted that a new software – Finacle 10 version has already been installed and is in the testing phase. It is a superior system and would enable the bank at mid office and head office to view transactions of all branches through one administration. The core banking system earlier in Finacle 7 has now been upgraded to Finacle 10 on 29/1/2018. Need based access is available for authorized users at various levels based on user profile to view transactions of a required branch or a group of branches and related MIS as required.

A three level authentication has been implemented in the bank regarding SWIFT authentication and a terminal at head office / zonal office would be provided to monitor transactions immediately. A 3rd level Re-Authorization of all financial messages by putting an additional tier at SWIFT Centre Mumbai, has been implemented, wherein payment messages are re-authorized, *only after cross checking authentication of transaction in CBS* and thereafter, allowed to pass through SWIFT Gateway server w.e.f. 12.02.2018.

Our response may be placed on your website. We will also place the same on our website for information of members of the public and shareholders.

Yours sincerely,



(Balbir Singh)
Company Secretary

