ANNEXURE I

Statement on Impact of Audit Qualifications (for audit report with modified opinion) submitted along with Annual Audited Financial Results - *Standalone* - On account of amortising the gain on assignment over the tenure of the loans instead of booking it upfront

Statement on Impact of Audit Qualifications for the Financial Year ended 31 March 2021
[*See* Regulation 33 / 52 of the SEBI (LODR) (Amendment) Regulations, 2016]

(₹ in lakhs)

I.	Sl. No.	Particulars	Audited figures (as reported before adjusting for qualifications)	Adjusted figures (audited figures after adjusting for qualifications)
	1.	Turnover / total income	59,388.90	55,994.26
	2.	Total expenditure	40,099.61	40,099.61
	3.	Net profit/(loss) before tax	19,289.29	15,894.65
	4.	Earnings per share	26.25	21.61
	5.	Total assets	5,17,759.73	5,16,669.56
	6.	Total liabilities	4,00,502.86	3,96,171.95
	7.	Net worth	1,17,256.87	1,20,497.61
	8.	Any other financial item(s) (as felt appropriate by the management)	-	-

II. Audit qualification (each audit qualification separately):

a. Details of audit qualification:

As described in Note 6 to the Statement, during the year ended 31 March 2021, the Company had changed its accounting policy for recognising gain on derecognition of loans upon assignment. As per the previous policy, such gain was recognised immediately in the profit or loss. As per the new policy adopted by the Company, such gain is recorded as 'unearned income on assigned loans' under the head other 'non-financial liabilities' and is amortised in the profit or loss over the period of the underlying residual tenure of the assigned loan portfolio. This change in accounting policy would constitute a departure from the Indian Accounting Standards prescribed under section 133 of the Act (Ind AS 109 – 'Financial Instruments') which requires the gain / loss to be recognised immediately in the profit or loss upon derecognition of assigned loans. In our view, this change in accounting policy is not in compliance with the requirements of Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' that permits to change the accounting policy only if the change satisfies given criteria therein.

Had the Company not revised its policy, 'other equity' would have increased by ₹ 3,240.74 lakh, 'deferred tax assets' would have decreased by ₹ 1,090.17 lakh and 'liability on unearned income' would have decreased by ₹ 4,330.91 lakh to Nil as at 31 March 2021. Further, 'gain on assignment of financial assets' would have decreased by ₹ 799.62 lakh and ₹ 3,394.64 lakh and 'deferred tax credit' would have increased by of ₹ 201.19 lakh and ₹ 854.36 lakh for the quarter ended and year ended 31 March 2021, respectively. There is no impact on the net cash flows of the Company.

b. **Type of audit qualification:** Qualified Opinion

c. **Frequency of qualification:** Appearing since quarter ended 30 September 2020.

d. **For Audit qualification(s) where the impact is quantified by the auditor, management's views:**

Till quarter ended 30 June 2020, on derecognition of loans in its entirety upon assignment, as per Ind AS 109 'Financial Instruments', the Company has been recognising the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including new asset obtained less any new liability assumed) as gain immediately in the statement of profit or loss.

In view of the Company, earlier accounting treatment inflates the income at the time of assignment and leads to reporting higher earnings per share, potentially higher dividend pay-out and improved capital adequacy ratio. Further, after taking views from RBI circular no. RBI/2019-20/170 DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 dated 13 March 2020 which states that the responsibility of preparing and ensuring fair presentation of the financial statements of a NBFC vests primarily with its Board of Directors, RBI circular no. DNBS. PD. No. 301/3.10.01/2012-13 dated 21 August 2012 which had mandated the NBFCs to amortise the gain on assignment over the tenure of the loan and also as per paragraph 19 of Ind AS 1 'Presentation of Financial Statements', management has concluded that the upfront booking of income which is to be received over underlying residual tenure of the assigned portfolio would be so misleading for the users of the financial statements, that it would conflict with the objective of the financial statements set out in the Conceptual Framework for Financial Reporting under Ind AS and therefore to present a true and fair view of the Company's financial position, financial performance for the given period, from the quarter ended 30 September 2020, the Company had departed from the requirements of Ind AS 109 and changed its policy for more transparent and fair representation of the financial results.

Further, NBFC industry body Finance Industry Development Council (the 'association') which is represented by more than 100 NBFCs, has made representation to Reserve Bank of India and National Financial Reporting Authority ('NFRA') whereby the said change in accounting policy has also been requested by the association also. The association has requested RBI and NFRA to allow the gain on direct assignment transactions to be amortized instead of recognition of the gain in the statement of profit and loss immediately upon assignment of the loans due to above mentioned limitations.

For detailed understanding, please visit following web address:

https://www.mas.co.in/financial-results.aspx#

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	e. **For Audit qualification(s) where the impact is not quantified by the auditor:** Not Applicable
III.	**Signatories:**
	Chairman & Managing Director — Kamlesh C. Gandhi
	Director & Chief Executive Officer — Darshana S. Pandya
	Chief Financial Officer — Ankit Jain
	Audit Committee Chairman — Balabhaskaran Narayanan Nair
	Statutory Auditor — For **B S R & Co. LLP** Chartered Accountants Firm's Registration No: 101248W/W-100022 SAMEER HIRACHAND MOTA Digitally signed by SAMEER HIRACHAND MOTA Date: 2021.05.19 18:52:56 +05'30' **Sameer Mota** Partner Membership No: 109928
	Place: Ahmedabad Date: 19 May 2021 — Place: Mumbai Date: 19 May 2021

MAS FINANCIAL SERVICES LIMITED
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AHMEDABAD

ANNEXURE I

Statement on Impact of Audit Qualifications (for audit report with modified opinion) submitted along with Annual Audited Financial Results - *Consolidated* - On account of amortising the gain on assignment over the tenure of the loans instead of booking it upfront

Statement on Impact of Audit Qualifications for the Financial Year ended 31 March 2021
[*See* Regulation 33 / 52 of the SEBI (LODR) (Amendment) Regulations, 2016]

(₹ in lakhs)

I.	Sl. No.	Particulars	Audited figures (as reported before adjusting for qualifications)	Adjusted figures (audited figures after adjusting for qualifications)
	1.	Turnover / total income	62,771.23	59,309.74
	2.	Total expenditure	43,174.32	43,174.32
	3.	Net profit/(loss) before tax	19,596.91	16,135.42
	4.	Earnings per share	26.41	21.71
	5.	Total assets	5,42,963.07	5,41,823.97
	6.	Total liabilities	4,22,928.24	4,18,416.35
	7.	Net worth attributable to the owners of the Holding Company	1,17,988.07	1,21,307.60
	8.	Non-controlling interest	2,046.76	2,100.02
	9.	Any other financial item(s) (as felt appropriate by the management)	-	-

II. Audit qualification (each audit qualification separately):

a. Details of audit qualification:

As described in Note 6 to the Statement, during the year ended 31 March 2021, the Group had changed its accounting policy for recognising gain on derecognition of loans upon assignment. As per the previous policy, such gain was recognised immediately in the profit or loss. As per the new policy adopted by the Group, such gain is recorded as 'unearned income on assigned loans' under the head 'other non-financial liabilities' and is amortised in the profit or loss over the period of the underlying residual tenure of the assigned portfolio. This change in accounting policy would constitute a departure from the Indian Accounting Standards prescribed under section 133 of the Act (Ind AS 109 – 'Financial Instruments') which requires the gain / loss to be recognised immediately in the profit or loss upon derecognition of assigned loans. In our view, this change in accounting policy is not in compliance with the requirements of Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' that permits to change the accounting policy only if the change satisfies given criteria therein.

Had the Group not revised its policy, 'other equity' would have increased by ₹ 3,319.53 lakh, 'non-controlling interest' would have increased by ₹ 53.26 lakh, 'deferred tax assets' would have decreased by ₹ 1,139.10 lakh and 'liability on unearned income' would have decreased by ₹ 4,511.89 lakh to Nil as at 31 March 2021. Further, 'gain on assignment of financial assets' would have decreased by ₹ 814.86 lakh and ₹ 3,461.49 lakh and 'deferred tax credit' would have increased by of ₹ 205.08 lakh and ₹ 871.19 lakh for the quarter ended and year ended 31 March 2021, respectively. There is no impact on the net cash flows of the Group.

b. Type of audit qualification: Qualified Opinion

c. Frequency of qualification: Appearing since quarter ended 30 September 2020.

d. For Audit qualification(s) where the impact is quantified by the auditor, management's views:

Till quarter ended 30 June 2020, on derecognition of loans in its entirety upon assignment, as per Ind AS 109 'Financial Instruments', the Group has been recognising the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including new asset obtained less any new liability assumed) as gain immediately in the statement of profit or loss.

In view of the Group, earlier accounting treatment inflates the income at the time of assignment and leads to reporting higher earnings per share, potentially higher dividend pay-out and improved capital adequacy ratio. Further, after taking views from RBI circular no. RBI/2019-20/170 DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 dated 13 March 2020 which states that the responsibility of preparing and ensuring fair presentation of the financial statements of a NBFC vests primarily with its Board of Directors, RBI circular no. DNBS. PD. No. 301/3.10.01/2012-13 dated 21 August 2012 which had clearly mandated the NBFCs to amortise the gain on assignment over the tenure of the loan and also as per paragraph 19 of Ind AS 1 'Presentation of Financial Statements', management has concluded that the upfront booking of income which is to be received over underlying residual tenure of the assigned portfolio would be so misleading for the users of the financial statements, that it would conflict with the objective of the financial statements set out in the Conceptual Framework for Financial Reporting under Ind AS and therefore to present a true and fair view of the Group's financial position, financial performance for the given period, from the quarter ended 30 September 2020, the Group had departed from the requirements of Ind AS 109 and changed its policy for more transparent and fair representation of the financial results.

Further, NBFC industry body Finance Industry Development Council (the "association") which is represented by more than 100 NBFCs, has made representation to Reserve Bank of India and National Financial Reporting Authority ('NFRA') whereby the said change in accounting policy has also been requested by the association itself. The association has requested RBI to allow the gain on direct assignment transactions to be amortized instead of recognition of the gain in the statement of profit and loss immediately upon assignment of the loans due to above mentioned limitations.

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	e. **For Audit qualification(s) where the impact is not quantified by the auditor:** Not Applicable	
III.	**Signatories**:	
	Chairman & Managing Director	Kamlesh C Gandhi
	Director & Chief Executive Officer	Darshana S. Pandya
	Chief Financial Officer	Ankit Jain
	Audit Committee Chairman	Balabhaskaran Narayanan Nair
	Statutory Auditor	For **B S R & Co. LLP** Chartered Accountants Firm's Registration No: 101248W/W-100022 SAMEER HIRACHAND MOTA Digitally signed by SAMEER HIRACHAND MOTA Date: 2021.05.19 18:55:06 +05'30' **Sameer Mota** Partner Membership No: 109928
	Place: Ahmedabad Date: 19 May 2021	Place: Mumbai Date: 19 May 2021

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