

**REPORT OF THE AUDIT COMMITTEE OF INDUSIND BANK LIMITED  
RECOMMENDING THE COMPOSITE SCHEME OF ARRANGEMENT BETWEEN  
INDUSIND BANK LIMITED AND BHARAT FINANCIAL INCLUSION LIMITED  
(FORMERLY, SKS MICROFINANCE LIMITED) AND THEIR RESPECTIVE  
SHAREHOLDERS AND CREDITORS**

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**DIRECTORS PRESENT:**

**Present:**

|                          |   |                   |
|--------------------------|---|-------------------|
| Mr. T. Anantha Narayanan | - | Chairman          |
| Mrs. Kanchan Chitale     | - | Director          |
| Mr. Ranbir Singh Butola  | - | Director          |
| Mr. Y. M. Kale           | - | Director          |
| Mr. Shanker Annaswamy    | - | Director          |
| Mr. Haresh Gajwani       | - | Company Secretary |

**By invitation, Members of the Core Executive Team**

|                         |   |                                       |
|-------------------------|---|---------------------------------------|
| Mr. Romesh Sobti        | - | Managing Director & CEO               |
| Mr. S.V. Zaregaonkar    | - | Chief Financial Officer               |
| Mr. Suhail Chander      | - | Head - Corporate & Commercial Banking |
| Mr. Sanjay Mallik       | - | Head - Investor Relations & Strategy  |
| Mr. R. Meyyappan        | - | Chief Risk Officer                    |
| Mr. Sanjay Anand        | - | Head – Commercial Banking             |
| Mr. S. V. Parthasarathy | - | Head – Consumer Finance               |

**By invitation:**

|                     |   |                                |
|---------------------|---|--------------------------------|
| Mr. B Chandra Mohan | - | Head – Inspection and Audit    |
| Mr. Dilip Vaidya    | - | Head – Legal                   |
| Mr. K. C. Bhandari  | - | Head – Risk Management         |
| Mr. Mridul Sharma   | - | Head – Information Technology  |
| Mr. Srinivas Bonam  | - | Head – Inclusive Banking Group |
| Mr. J Sridharan     | - | Head – Finance & MIS           |
| Mr. Indrajit Yadav  | - | Investor Relations & Strategy  |

**By invitation, Advisors:**

|   |   |  |
|---|---|--|
| Deloitte Haskins & Sells                        | - | Independent Valuer, appointed by the Bank                    |
| Morgan Stanley India Company<br>Private Limited | - | SEBI Registered Merchant Banker to issue<br>Fairness Opinion |
| Price Waterhouse Chartered<br>Accountants LLP   | - | Statutory Auditors   |
| Ernst & Young LLP                               | - | Tax Advisors   |
| KPMG India Private Limited                      | - | Financial & Tax Advisors                                     |
| Cyril Amarchand Mangaldas                       | - | Legal Advisors   |



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## 1. Background

1.1. A meeting of the Audit Committee of IndusInd Bank Limited ( the “**Bank**”) was held on October 13, 2017 to consider and recommend to the Board of Directors of the Bank, the proposed Composite Scheme of Arrangement (“**Draft Scheme**”) involving:

- (i) the amalgamation of Bharat Financial Inclusion Limited (formerly, SKS Microfinance Limited) (“**BFIL**”) with the Bank and the consequent dissolution of BFIL, without winding up, pursuant thereto;
- (ii) the subsequent transfer, as a going concern, on a Slump Exchange basis, of the Undertaking in relation to the Business Correspondent Business of BFIL (including any other related businesses) (“**BC Business Undertaking**”) transferred to the Bank pursuant to the amalgamation, from the Bank into its Wholly Owned Subsidiary to be incorporated (“**Transferee Company**”) following the approval of the Reserve Bank of India (“**RBI**”) for such transfer of the BC Business Undertaking; and
- (iii) the Preferential Allotment of Share Warrants, by the Bank to its Promoters, as an integral part of and pursuant to the Scheme, such that upon exercise of all the Share Warrants and together with the shares of the Bank already held by them, the Promoters hold upto 15% of the total expanded Issued and Paid-Up Equity Share Capital of the Bank on a fully-diluted basis,

pursuant to the provisions of, *inter alia*, Sections 230 to 232 of the Companies Act, 2013 and the relevant rules, the RBI (Amalgamation of Private Sector Banks) Directions, 2016 and the relevant framework for schemes involving listed entities as set out by the Securities and Exchange Board of India (“**SEBI**”) Circular CFD/DIL3/CIR/2017/21 dated March 10, 2017 (“**SEBI Scheme Circular**”) read with the SEBI Circular CFD/DIL3/CIR/2017/26 dated March 23, 2017 (“**SEBI ICDR Circular**”).

1.2. In terms of the SEBI Scheme Circular, a Report from the Audit Committee is required recommending the Draft Scheme, taking into consideration, *inter alia*, the Valuation Report. This Report of the Audit Committee is made in order to comply with the requirements of the SEBI Scheme Circular.

1.3. In this regard, the Audit Committee considered, *inter alia*, the following:

- (i) The Draft Scheme;
- (ii) Joint Valuation Report dated October 13, 2017 issued by S.R Batliboi & Co. LLP, Independent Valuers appointed by BFIL, and Deloitte Haskins & Sells, Independent Valuers appointed by the Bank (“**Joint Valuers**”), for the purposes of arriving at the Equity Share Exchange Ratio (“**Joint Valuation Report**”), which report recommended that “639 (Six Hundred and Thirty Nine) Equity Shares of shares of the Bank of INR 10/- each fully Paid-Up for every 1,000 (One Thousand) Equity Shares of BFIL of INR 10/- each fully Paid-Up”; and
- (iii) Fairness opinion dated October 13, 2017 issued by Morgan Stanley India Company Private Limited, a SEBI Registered Merchant Banker, on the valuation of the shares to be issued to the shareholders of BFIL pursuant to the amalgamation (“**Fairness Opinion**”).



## 2. Salient features of the Draft Scheme

2.1. The Audit Committee discussed and noted the salient features of the Draft Scheme:

- (i) The Draft Scheme provides for: (a) the amalgamation of BFIL with the Bank and the consequent dissolution of BFIL, without winding up, pursuant thereto; (b) the subsequent transfer, as a going concern, on a Slump Exchange basis, of the BC Business Undertaking transferred to the Bank pursuant to the amalgamation, from the Bank into the Transferee Company, to be incorporated following the approval of the RBI; and (c) the Preferential Allotment of Share Warrants, by the Bank to its Promoters, as an integral part of and pursuant to the Scheme, in accordance with the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements), Regulations 2009, read with the SEBI ICDR Circular, such that upon exercise of all the Share Warrants and together with the shares of the Bank already held by them, the Promoters hold upto 15% of the total expanded Issued and Paid-Up Equity Share Capital of the Bank on a fully-diluted basis.
- (ii) The Appointed Date is fixed as January 1, 2018.
- (iii) All assets and liabilities of BFIL shall be incorporated in the Bank's accounts pursuant to the amalgamation, and the assets and liabilities relating to the BC Business Undertaking shall be incorporated in the accounts of the Transferee Company pursuant to the Slump Exchange, in the manner specified under the Draft Scheme.
- (iv) Shareholders of BFIL would get shares in the Bank in the ratio of 639 fully Paid-Up Equity Shares in the Bank of Face Value INR 10 each, for every 1,000 fully Paid-Up Equity Share of face value INR 10 each, held by such shareholder in BFIL.
- (v) All employees of BFIL as of the Effective Date (*as defined under the Draft Scheme*) shall become employees of the Transferee Company, without any break or interruption in their service and on the basis of continuity of service on terms no less favourable than those on which they are engaged by BFIL.
- (vi) The Draft Scheme to be approved by (A) the RBI, (B) the Stock Exchanges / SEBI, (C) the Competition Commission of India, (D) the respective requisite majorities of the various classes of shareholders and creditors (as applicable) of BFIL, the Bank and the Transferee Company, subject to any dispensation as may be granted by the National Company Law Tribunal; and (E) a majority of the public shareholders of the Bank in terms of the regulatory framework prescribed by SEBI, in accordance with applicable laws.
- (vii) The amalgamation shall create meaningful value to the various stakeholders, including the respective shareholders, customers, employees amongst others, as the combined business would benefit from increased scale, wider product diversification, stronger balance sheet and the ability to drive synergies across, *inter alia*, revenue and cross sell opportunities, operating productivity and underwriting efficiencies, etc.
- (viii) The transfer of the BC Business Undertaking shall result in access to Business Correspondent services through the Transferee Company to help deepen the reach and widen the delivery mechanism of banking services at the same time allowing the Bank to comply with RBI's regulatory framework.
- (ix) The Preferential Allotment of Share Warrants to the Promoters of the Bank, in accordance with RBI guidelines on Ownership and Governance of Private Sector



Banks and pricing formula as per SEBI guidelines, shall provide growth capital to the Bank and ensure continued promoter involvement.

The presentations were also made to the Audit Committee, *inter alia*, by the following:

- (i) Deloitte Haskins & Sells (Joint Valuers along with S R Batliboi & Co.) – explaining the methodology adopted by them in arriving the share exchange ratio.
- (ii) Morgan Stanley India Company Private Limited (Merchant Banker) – confirmation that in its opinion, the share exchange ratio is fair from a financial point of view.
- (iii) Legal and financial advisors appointed by the Bank – on the legal vendor due diligence report and the financial vendor due diligence report of BFIL.
- (iv) Price Waterhouse Chartered Accountants LLP (Statutory auditors of the Bank) – confirmation that the accounting treatment contained in the Draft Scheme is in compliance with all accounting standards and applicable laws.

### 3. Recommendation of the Audit Committee

The Audit Committee, having considered the aforementioned documents as placed before the Committee, including the Valuation Report and the Fairness Opinion, does hereby unanimously recommend the Draft Scheme for favorable consideration by the Board of Directors of the Bank, BSE Limited and the National Stock Exchange of India Limited and the Securities and Exchange Board of India.

By order of the Audit Committee  
**For and on behalf of IndusInd Bank Limited**



**T Anantha Narayanan**  
**Chairman of the Audit Committee**

**October 13, 2017**  
**Mumbai**

