BHARAT
Financial Inclusion Ltd
Prayaas se pragati
(Formerly known as 'SKS Microfinance Limited')

Head Office: 3rd Floor, My Home Tycoon, Block A, 6-3-1192, Kundanbagh
Begumpet, Hyderabad - 500 016, Telangana, India T: +91 40 4452 6000
F: +91 40 4452 6001; info@bfil.co.in I www.bfil.co.in

Corporate Identity Number: L65999MH2003PLC250504

Registered Office: Unit No. 410, Madhava, Bandra-Kurla Complex
Bandra (East), Mumbai - 400 051, Maharashtra, India T: +91 22 2659 2375

REPORT OF THE AUDIT COMMITTEE OF BHARAT FINANCIAL INCLUSION LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN THE COMPANY AND INDUSIND BANK LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

BACKGROUND:

1. A meeting of the Audit Committee of Bharat Financial Inclusion Limited ("the Company") was held on October 13, 2017, *inter-alia* to consider and recommend to the Board of Directors of the Company, the draft scheme of arrangement between the Company and IndusInd Bank Limited ("IndusInd Bank" or "Amalgamated Company") and their respective shareholders and creditors for the amalgamation of the Company with IndusInd Bank (hereinafter referred to as "Scheme") , to be implemented under the provisions of Section 230 to 232 and other applicable provisions of the Companies Act, 2013.

2. This Report of the Audit Committee is made in accordance with the requirements of Securities Exchange Board of India ("SEBI") Circular CFD/DIL3/CIR/2017/21 dated March 10, 2017.

3. The following documents were placed before the Audit Committee:

    a. Draft Scheme;
    b. Joint Valuation Report dated October 13, 2017 prepared by S. R. Batliboi & Co. LLP, Chartered Accountants and Deloitte Haskins & Sells, Chartered Accountants ("Valuation Report");
    c. Fairness Opinion dated October 13, 2017 issued by Credit Suisse, a Category I Merchant Banker ("Fairness Opinion")
    d. Financial and Tax Vendor Due Diligence, Legal Vendor Due Diligence of the Company and IndusInd Bank and summary of review reports prepared by the Company's advisors.
    e. An Auditors' certificate to the effect that the accounting treatment contained in the Scheme is in compliance with all the Accounting Standards specified by the Central Government under Section 133 of the Companies Act, 2013 read with the rules framed thereunder or the Accounting Standards issued by ICAI ("Certificate").

PROPOSED SCHEME:

1. The Committee noted the salient features of the Scheme as under:

    a) the amalgamation of the Company with the IndusInd Bank and dissolution of the Company without winding up and the consequent issuance of its shares by IndusInd Bank (to the shareholders of the Company ("Amalgamation");

    b) the Preferential Allotment by IndusInd Bank of the warrants to its Promoters;

BHARAT
Financial Inclusion Ltd
Prayaas se pragati
(Formerly known as 'SKS Microfinance Limited')

Head Office: 3rd Floor, My Home Tycoon, Block A, 6-3-1192, Kundanbagh
Begumpet, Hyderabad - 500 016, Telangana, India T: +91 40 4452 6000
F: +91 40 4452 6001; info@bfil.co.in I www.bfil.co.in
Corporate Identity Number: L65999MH2003PLC250504
Registered Office: Unit No. 410, Madhava, Bandra-Kurla Complex
Bandra (East), Mumbai - 400 051, Maharashtra, India T: +91 22 2659 2375

c) pursuant to the Amalgamation, the transfer of the Transferred Undertaking, as a going concern, on a slump exchange basis, by IndusInd Bank to the wholly owned Subsidiary of IndusInd Bank ("Subsidiary") in exchange for the Consideration Shares to be issued by the Subsidiary to IndusInd Bank ("Slump Exchange");

d) The Appointed Date would be January 1, 2018. Shareholders of the Company would get shares in the Amalgamated Company in the ratio of 639 (Six Hundred Thirty Nine) fully paid-up equity shares in the Amalgamated Company of face value INR 10 (Rupees Ten only) each for every 1000 (One Thousand) fully paid-up equity share of face value INR 10 (Rupees Ten only) each held by such shareholder in the Company.

e) All assets and liabilities of the Company shall be transferred from the Amalgamated Company to the Transferee Company at its value appearing in the books of the Amalgamated Company as on the Appointed Date.

f) Pursuant to the Amalgamation, all assets and liabilities of the Company will be transferred, as a going concern, on a slump exchange basis, from the Amalgamated Company to the Subsidiary in exchange for the slump exchange shares will be issued and allotted by the Subsidiary to the Amalgamated Company.

g) Upon the Scheme being effective, the Amalgamated Company shall give effect to the accounting treatment in its books of account in accordance with the accounting standards specified under section 133 of the Companies Act, 2013, as applicable. The goodwill or any other intangible assets if any, acquired on the Appointed Date, shall be set-off against the security premium arising out of the business combination on the Appointed Date.

h) All employees of the Company as of the Effective Date (as defined under the scheme) shall become employees of the wholly owned subsidiary of the Amalgamated Company, as applicable, 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 the Company.

i) The transfer, pursuant to the amalgamation of the Company with the Amalgamated Company, of the BC Business (as defined under the Scheme) from the Amalgamated Company to the Subsidiary on a going concern basis, by way of slump exchange, in exchange for fully paid-up equity shares which will be equivalent in value to the Transferred Undertaking (as appearing in the books of IndusInd Bank as on the appointed date) to be issued by the Transferee Company to Amalgamated Company.

j) The grant of stock options by the Amalgamated Company to certain specified employees of the Company in lieu of certain existing ESOPs of the Company held by such employees upon their transfer to the Subsidiary or the Amalgamated Company, as applicable, pursuant to the Scheme with the adjustment against the Vesting Period of one year as per the applicable laws.

k) The Scheme provides for a package of incentives, structured as payments/ increments/ retention awards/ ESOPs for various categories of employees of the Amalgamating Company, as applicable.

BHARAT
Financial Inclusion Ltd
Prayaas se pragati
(Formerly known as 'SKS Microfinance Limited')

Head Office: 3rd Floor, My Home Tycoon, Block A, 6-3-1192, Kundanbagh
Begumpet, Hyderabad - 500 016, Telangana, India T: +91 40 4452 6000
F: +91 40 4452 6001; info@bfil.co.in I www.bfil.co.in
Corporate Identity Number: L65999MH2003PLC250504
Registered Office: Unit No. 410, Madhava, Bandra-Kurla Complex
Bandra (East), Mumbai - 400 051, Maharashtra, India T: +91 22 2659 2375

l) Conduct of the respective businesses of the Company and the Amalgamated Company to be in the ordinary course, consistent with past practice and in line with their respective business objectives pending the effectiveness of the Scheme.

m) The Draft Scheme to be approved by certain regulatory approvals including of the RBI, the Competition Commission of India ("CCI"), National Company Law Tribunal ("NCLT"), and the Securities and Exchange Board of India/Stock Exchanges, as well as third party consents and approvals including from the lenders of the Amalgamating Company and the Amalgamated Company, as applicable.

2. The Audit Committee reviewed the Draft Scheme, Valuation Report and Fairness Opinion and noted the rationale and benefits of the Scheme which *inter-alia* are as follows:

a) the Amalgamation would create meaningful value to the various stakeholders including respective shareholders, customers, employees amongst others, as the combined business would benefit from increased scale, wider product diversification, lower funding cost, stronger balance sheet and the ability to drive synergies across, inter alia, revenue and cross sell opportunities, operating efficiencies and underwriting efficiencies, amongst others;

b) the Company has a commercially established model in the microfinance segment. The Amalgamation pursuant to the Scheme shall provide the Amalgamated Company access to the Amalgamating Company's growing customer base and marketing / distribution offices;

c) the Amalgamation would offer the Amalgamated Company a deeper reach in the low income segment, and also increase the access of the Company's customer base to the Amalgamated Company's wide array of products and services;

d) the Amalgamated Company can, pursuant to the Amalgamation, leverage the Amalgamating Company's loan book for compliance with the RBI's guidelines in relation to financial inclusion including the priority sector lending norms;

e) the Preferential Allotment shall result in bolstering the capital base and balance sheet of the Amalgamated Company and shall provide growth capital for the future growth of the Amalgamated Company;

f) the Slump Exchange of the Subsidiary pursuant to the Scheme would enable the Amalgamated Company, after the Amalgamation, to comply with the RBI's circular on Financial Inclusion by Extension of Banking Services – Use of Business Correspondents dated June 24, 2014 read with the RBI Master Circular on Branch Authorization dated July 1, 2014, which, inter alia, prohibit a banking company from carrying on the business correspondent business directly; and

g) the Subsidiary will act as a dedicated business correspondent of the Amalgamated Company and will help deepen the reach and widen the delivery mechanism of banking services and will enhance the ability of the Amalgamated Company to fulfill its commitment towards financial inclusion in a commercially viable manner.

BHARAT
Financial Inclusion Ltd
Prayaas se pragati
(Formerly known as 'SKS Microfinance Limited')

Head Office: 3rd Floor, My Home Tycoon, Block A, 6-3-1192, Kundanbagh
Begumpet, Hyderabad - 500 016, Telangana, India T: +91 40 4452 6000
F: +91 40 4452 6001; info@bfil.co.in I www.bfil.co.in
Corporate Identity Number: L65999MH2003PLC250504
Registered Office: Unit No. 410, Madhava, Bandra-Kurla Complex
Bandra (East), Mumbai - 400 051, Maharashtra, India T: +91 22 2659 2375

3. The Audit Committee reviewed and noted the Valuation Report wherein it is recommended the following Fair Equity Share Exchange Ratio (Ratio) for the Proposed Amalgamation of the Company into IndusInd Bank – 639 (Six Hundred Thirty Nine) equity shares of IndusInd Bank of INR 10/- each fully paid up for every 1000 (One Thousand) equity shares of the Company of INR 10/- each fully paid up.

4. The Audit Committee reviewed the Fairness Opinion confirming that the Ratio is fair to the Shareholders of the Company.

5. The Audit Committee also noted the Certificate received from the Statutory Auditors of the Company ,M/s BSR & Co., LLP on the accounting treatment prescribed in the Scheme.

Recommendation of the Audit Committee:

The Audit Committee after taking into consideration the Valuation Report and the Fairness Opinion, recommends the Draft Scheme for favourable consideration by the Board of Directors of the Company, the Stock Exchanges and SEBI.

For and on behalf of Audit Committee
of Bharat Financial Inclusion Limited
(formerly known as SKS Microfinance Limited)

R.M. Malla
Chairman, Audit Committee
Date: October 13, 2017
Place: Mumbai