

REPORT OF THE AUDIT COMMITTEE OF BOARD OF DIRECTORS OF IDFC FIRST BANK LIMITED (“BANK”) RECOMMENDING THE DRAFT COMPOSITE SCHEME OF AMALGAMATION AMONG IDFC FINANCIAL HOLDING COMPANY LIMITED (“IDFC FHCL”), IDFC LIMITED, THE BANK AND THEIR RESPECTIVE SHAREHOLDERS FOR (I) THE PROPOSED AMALGAMATION OF: (A) IDFC FHCL INTO AND WITH IDFC LIMITED; AND (B) IDFC LIMITED INTO AND WITH THE BANK AND (II) REDUCTION OF SECURITIES PREMIUM ACCOUNT OF THE BANK; AT ITS MEETING HELD ON MONDAY, JULY 03, 2023

Members Present:

Name of Director	Category
Mr. Aashish Kamat, Independent Director	Chairman
Mr. Pravir Vohra, Independent Director	Member
Mr. S. Ganesh Kumar, Independent Director	Member
Mr. Ajay Sondhi, Non-Executive Non-Independent Director (<i>Recused</i>)	Member

In Attendance/ Invitee

Mr. V. Vaidyanathan	Managing Director & Chief Executive Officer (“MD & CEO”), physically present
Mr. Sudhanshu Jain	Chief Financial Officer & Head - Corporate Centre
Mr. Satish Gaikwad	Head - Legal & Company Secretary

Representative(s) of

- (i) Deloitte Touche Tohmatsu India LLP, Valuers
- (ii) Harsh Ruparelia, Registered Valuer
- (iii) ICICI Securities Limited, Fairness Opinion on Valuation
- (iv) AZB & Partners, Legal Diligence
- (v) Deloitte Touche Tohmatsu India LLP, Financial Diligence; and
- (vi) JM Financial Limited, Advisors

1. Background

1.1. A meeting of the Audit Committee of the Board of Directors of the Bank (“**Audit Committee**”) was held on **Monday, July 03, 2023**, to consider and recommend to the Board of Directors of the Bank

IDFC FIRST Bank Limited

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(“**Board**”), the draft composite scheme of amalgamation among IDFC Limited, IDFC FHCL, the Bank, and their respective shareholders for (I) the proposed amalgamation of: (a) IDFC FHCL into and with IDFC Limited; and (b) IDFC Limited into and with the Bank, and (II) reduction of the securities premium account of the Bank (“**Scheme**”); under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 (“**Act**”), and rules made thereunder, and in compliance with the provisions of all Applicable Laws (*as defined in the Scheme*), including the Reserve Bank of India (“**RBI**”) Amalgamation of Private Sector Banks, Directions, 2016 (“**RBI Amalgamation Directions**”), Master Circular issued by the Securities and Exchange Board of India (“**SEBI**”) dated June 20, 2023 bearing reference number SEBI/HO/CFD/POD-2/P/CIR/2023/93 as amended from time to time (“**SEBI Scheme Circular**”), Chapter XII, the Operational Circular issued by SEBI for listing obligations and disclosure requirements for Non-convertible Securities, Securitised Debt Instruments and/or Commercial Paper dated July 29, 2022 (updated as on December 01, 2022) bearing reference number SEBI/HO/DDHS/DDHS_Div1/P/CIR/2022/0000000103 as amended from time to time (“**SEBI Debt Circular**”) and Section 2(1B) of the Income-Tax Act, 1961, and rules thereunder (“**Proposed Amalgamation**”).

- 1.2. The Scheme is subject to the receipt of necessary regulatory approvals including from the RBI, BSE Limited (“**BSE**”) and the National Stock Exchange of India Limited (“**NSE**”) (both collectively, the “**Stock Exchanges**”), SEBI, the Competition Commission of India (“**CCI**”), the National Company Law Tribunal (“**NCLT**”), and the respective shareholders, and any other regulatory authorities or persons, as may be required under applicable laws.
- 1.3. This report of the Audit Committee is made in order to comply with the requirements of paragraph A.2(c), Part I of the SEBI Scheme Circular, according to which the Scheme is required to be considered and recommended by the Audit Committee to the Board, taking into account *inter alia* the Valuation Report (*as defined hereinafter*).
- 1.4. IDFC FHCL is a non-operative financial holding company registered with the RBI as a non-deposit taking non-banking financial company (“**NBFC**”). IDFC FHCL is a wholly owned subsidiary of IDFC Limited.
- 1.5. IDFC Limited is operating as a NBFC-Investment Company registered with the RBI and its equity shares are listed on the Stock Exchanges.
- 1.6. The Bank is registered with the RBI as a banking company under the provisions of the Banking Regulation Act, 1949 and its shares are listed on the Stock Exchanges and certain non-convertible debentures are listed on NSE.
- 1.7. The Audit Committee has discussed and has made this report (“**Report**”) after perusing the following documents:
 - (a) A draft of the proposed Scheme;
 - (b) The draft implementation agreement proposed to be entered into by and between IDFC Limited and the Bank (“**Implementation Agreement**”);

- (c) The (i) legal due diligence report dated July 02, 2023 prepared by AZB & Partners, and (ii) financial due diligence report dated June 30, 2023 prepared by Deloitte Touche Tohmatsu India LLP, Chartered Accountants;
- (d) The joint valuation report dated July 03, 2023 submitted by Mr. Harsh Chandrakant Ruparelia and SSPA & Co., Registered Valuers, and joint valuation report dated July 03, 2023 submitted by Deloitte Touche Tohmatsu India LLP and SSPA & Co., Chartered Accountants (“**Valuation Report**”);
- (e) Fairness opinion dated July 03, 2023 issued by ICICI Securities Limited, a SEBI registered merchant banker (“**Merchant Banker**”) appointed by Bank (“**Fairness Opinion**”);
- (f) Draft Auditors’ Certificate pursuant to paragraph A.5 of Part I of the SEBI Scheme Circular, and paragraph A.6 of Part I of Annex – XII-A to the SEBI Debt Circular and the proviso to sub-clause (j) of Section 232(3) of the Act, to be issued by M S K A & Associates and Kalyaniwalla & Mistry LLP, the joint statutory auditors of the Bank, certifying that (i) the Scheme is in compliance with the applicable accounting standards specified by the Central Government under Section 133 of the Act, read with the rules framed thereunder or the accounting standards issued by the Institute of Chartered Accountants of India, as applicable, and other generally accepted accounting standards and principles; and (ii) the payment/ repayment capability of the Bank in terms of SEBI Debt Circular;
- (g) Draft of the Detailed Compliance Report to be filed with the Stock Exchanges;
- (h) Declaration from the Bank on any past defaults of listed debt obligations of the entities forming part of the Scheme;
- (i) Declaration from the Bank as to whether the Bank or any of its promoters or directors is a wilful defaulter; and
- (j) Other presentations, reports, documents and information made to/ furnished before the Audit Committee.

2. Salient Features of the proposed Scheme

2.1. The Audit Committee noted the brief particulars of the Scheme as under:

- (a) The Scheme provides for the Proposed Amalgamation of (i) IDFC FHCL into and with IDFC Limited and the subsequent dissolution of IDFC FHCL without winding up; (ii) IDFC Limited into and with the Bank and the subsequent dissolution of IDFC Limited without winding up; and (iii) reduction of securities premium account of the Bank (against negative balance of the profit and loss account) after consolidation of the securities premium of IDFC FHCL and IDFC Limited with the Bank.

- (b) Sections 230 to 232 of the Act and the SEBI Scheme Circular, the SEBI Debt Circular, the relevant RBI regulations and such other regulations, as may be applicable from time to time, shall govern the Scheme.
- (c) The appointed date for the Proposed Amalgamation of IDFC FHCL into and with IDFC Limited, shall mean close of business hours on the day immediately preceding the Effective Date (“**Appointed Date 1**”). The appointed date for the Proposed Amalgamation of IDFC Limited into and with the Bank, shall mean opening of business hours on the Effective Date (“**Appointed Date 2**”).
- (d) Amalgamation of: (a) IDFC FHCL into and with IDFC Limited; and (b) IDFC Limited into and with the Bank shall be in accordance with Section 2(1B) of the Income Tax Act, 1961.
- (e) Upon coming into effect of the Scheme and in consideration of the Proposed Amalgamation of:
- (i) IDFC FHCL into and with IDFC Limited, no consideration shall be payable, and the securities held by IDFC Limited and its nominees in IDFC FHCL, shall stand cancelled without any further act, application or deed; and
 - (ii) IDFC Limited into and with the Bank, the Bank shall, without any further application, act or deed, issue and allot to the shareholders of IDFC Limited whose names are recorded in the register of members as a member of IDFC Limited on the Record Date (*as specified in the Scheme*) (or to such of their respective heirs, executors, administrators or other legal representatives or other successors in title as may be recognized by the Board of the Bank), 155 equity shares of the face value of ₹ 10 (Rupees ten) each of the Bank (credited as fully paid-up) for every 100 equity shares of the face value of ₹ 10 (Rupees ten) each fully paid-up held by such member in IDFC Limited (“**Share Exchange Ratio**”).
- (f) With effect from the Appointed Date 1 and upon Part III of the Scheme becoming effective, IDFC FHCL along with all its assets, liabilities, contracts, employees, licenses, records, approvals, etc. being its respective integral parts shall stand transferred to and vest in or shall be deemed to have been transferred to and vested in IDFC Limited, as a going concern, without any further act, instrument or deed, together with all its properties, assets, liabilities, rights, benefits and interest therein, subject to the provisions of the Scheme, in accordance with Sections 230 – 232 of the Act, the Income-Tax Act, 1961 and other applicable provisions, if any.
- (g) IDFC Limited shall, upon the Scheme becoming effective and with effect from Appointed Date 1, record the assets, liabilities and reserves, if any, of IDFC FHCL as vested in it pursuant to the Scheme, at the respective book values and in the same form as appearing in the books of IDFC FHCL.
- (h) With effect from the Appointed Date 2 and upon Part IV of the Scheme becoming effective, IDFC Limited along with all its assets, liabilities, contracts, employees, licenses, records, approvals etc. being its integral part shall stand transferred to and vest in or shall be deemed to have been transferred to and vested in the Bank, as a going concern, without any further act,

instrument or deed, together with all its properties, assets, liabilities, rights, benefits and interest therein, subject to the provisions of the Scheme, in accordance with Sections 230 – 232 of the Act, the Income-Tax Act, 1961 and other applicable provisions, if any.

- (i) The Bank shall, upon the Scheme becoming effective and with effect from Appointed Date 2, record the assets and liabilities of IDFC Limited as vested in it pursuant to the Scheme in accordance with the accounting standards notified under Section 133 of the Act and the rules thereto, as amended from time to time, as applicable on the Effective Date.
- (j) During the period between the approval of the Scheme by the respective Boards of Directors of IDFC Limited and the Bank and up to the Effective Date (*as referred in the Scheme*), the business of IDFC FHCL, IDFC Limited and the Bank shall be carried out with reasonable diligence and business prudence in the ordinary course consistent with past practice, in accordance with the applicable law and as mutually agreed between: IDFC FHCL, IDFC Limited and the Bank.
- (k) The effectiveness of the Scheme is contingent upon certain conditions as mentioned in the Scheme including the receipt of the requisite approvals.

3. Details of the Scheme

Basis the perusal of and discussion on the Scheme, the Audit Committee noted and commented on the following in relation to: (i) need for Proposed Amalgamation; (ii) rationale of the Scheme; (iii) synergies of the businesses of the entities involved in the Proposed Amalgamation; (iv) impact of the Scheme on the Shareholders; and (v) cost benefit analysis of the Scheme.

3.1. Need for Proposed Amalgamation and Rationale of the Scheme

- (i) The Scheme, *inter alia*, provides for the Proposed Amalgamation and various other matters consequential or otherwise integrally connected therewith.
- (ii) As per conditions RBI's Guidelines for Licensing of New Banks in the Private Sector on February 22, 2013 ("**Private Banking Licence Guidelines**"), the equity shares of IDFC FIRST Bank must be listed on a recognised stock exchange in India within a time period of 3 (three) years of commencing of business as a bank. The promoter(s) namely IDFC Limited must not be conducting any financial regulated business directly under it.
- (iii) It was mandated to hold the equity investment in IDFC FIRST Bank and other regulated financial entities only through IDFC FHCL. Hence, IDFC Limited (promoter of IDFC FIRST Bank) invested in IDFC FIRST Bank only through a Non-Operating Financial Holding Company i.e., IDFC FHCL, due to other regulated financial services entities of the group.
- (iv) Hence, the 39.93% (thirty nine point nine three percent) equity stake in IDFC FIRST Bank is held by IDFC Limited through IDFC FHCL. As on date of the Board of IDFC FHCL approving the Scheme, IDFC FHCL has closed/ sold/ exited all other regulated financial services business.

- (v) IDFC Limited and IDFC FHCL have minimal operations and have no businesses or stake in any other financial services entities regulated by RBI or other financial sector regulators. Further pursuant to the letter dated July 20, 2021, RBI has clarified that after the expiry of lock-in period of 5 (five) years (i.e. after September 30, 2020), IDFC Limited, the Amalgamating Company can exit as the promoter of IDFC FIRST Bank Limited, the Amalgamated Company.
- (vi) The Private Banking Licence Guidelines, and subsequent clarification by RBI, also permit IDFC Limited to exit or to cease to be a promoter after lock-in period of 5 (five) years, subject to RBI's regulatory and supervisory comfort and SEBI regulations.
- (vii) In view of the above, this Scheme *inter alia* contemplates the (a) amalgamation of IDFC FHCL with IDFC Limited, and (b) the subsequent amalgamation of IDFC Limited with IDFC FIRST Bank and issuance of IDFC FIRST Bank shares to the shareholders of IDFC Limited, in the manner and subject to the terms and conditions set out in this Scheme, keeping the best interest of all the stakeholders of IDFC FHCL, IDFC Limited and IDFC FIRST Bank.
- (viii) The Amalgamation will result in the shareholders of IDFC Limited directly holding shares in IDFC FIRST Bank, which will lead to simplification of the shareholding structure.

3.2. Synergies of businesses of the entities involved in the Proposed Amalgamation

- (i) The opportunities in the Indian banking system are expected to grow manifold in the next decade and the Bank is well placed to participate in and contribute to such growth. The Bank has firmly established itself in the Indian market with an excellent deposit franchise with strong track record of growth. The bank has a robust lending model, with proven and consistent track record of high asset quality of over a decade, including the track record of the companies that combined to create IDFC FIRST Bank. IDFC FIRST Bank has launched highly ethical and customer friendly products which are highly accepted in the marketplace. The Bank maintains the highest levels of corporate governance. Thus, IDFC FIRST Bank is well placed to consistently grow in a profitable manner. All the shareholders and stakeholders of IDFC FHCL, IDFC Limited and IDFC FIRST Bank shall benefit from such growth at the Bank, leading to opportunity for value creation in the long run and for maximizing the value and returns to the shareholders.
- (ii) The Scheme will provide all public shareholders of IDFC Limited with direct shareholding in IDFC FIRST Bank thereby helping them to unlock value of their investments in the business of IDFC FIRST Bank which is currently held by IDFC Limited through IDFC FHCL. Consequently, these shareholders of IDFC Limited can take independent decisions with respect to their holdings in IDFC FIRST Bank without being constrained to hold investment in IDFC Limited to be able to derive value of benefit from IDFC FIRST Bank's business.
- (iii) The Scheme will facilitate compliance by IDFC Limited with the promoter ownership norms set out under the Private Banking Licence Guidelines.

- (iv) The Amalgamation through this Scheme shall simplify the corporate and organisational structures of IDFC FHCL, IDFC Limited and IDFC FIRST Bank by consolidating them in a single large listed company. This will also lead to unification and streamlining of the regulatory compliances of both the listed entities.

In terms of businesses, IDFC Limited does not have any material operations while IDFC FIRST Bank operates as a universal bank.

3.3. Impact of the Scheme on the shareholders

- (i) The opportunities in the Indian banking system are expected to grow manifold in the next decade and the Bank is well placed to participate in and contribute to such growth. The Bank has firmly established itself in the Indian market with an excellent deposit franchise with strong track record of growth. The bank has a robust lending model, with proven and consistent track record of high asset quality of over a decade, including the track record of the companies that combined to create IDFC FIRST Bank. IDFC FIRST Bank has launched highly ethical and customer friendly products which are highly accepted in the marketplace. The Bank maintains the highest levels of corporate governance. Thus, IDFC FIRST Bank is well placed to consistently grow in a profitable manner. All the shareholders and stakeholders of IDFC FHCL, IDFC Limited and IDFC FIRST Bank shall benefit from such growth at the Bank, leading to opportunity for value creation in the long run and for maximizing the value and returns to the shareholders.
- (ii) The Scheme will provide all public shareholders of IDFC Limited with direct shareholding in IDFC FIRST Bank thereby helping them to unlock value of their investments in the business of IDFC FIRST Bank which is currently held by IDFC Limited through IDFC FHCL. Consequently, these shareholders of IDFC Limited can take independent decisions with respect to their holdings in IDFC FIRST Bank without being constrained to hold investment in IDFC Limited to be able to derive value of benefit from IDFC FIRST Bank's business.
- (iii) The shareholders of IDFC Limited will be allotted shares of IDFC FIRST Bank and will therefore become shareholders of a larger free public float of the combined listed company with multiple growth avenues. Upon effectiveness of the Scheme, IDFC FIRST Bank will continue to be professionally managed and shall only have public shareholders.
- (iv) Further, the aforementioned exercise will present the true and fair view of IDFC FIRST Bank's financial position. It shall also enable IDFC FIRST Bank to explore opportunities to benefit the shareholders (including dividend payout).

3.4. Cost benefit analysis of the Scheme

The Amalgamation through this Scheme shall simplify the corporate and organisational structures of IDFC FHCL, IDFC Limited and IDFC FIRST Bank by consolidating them in a single large listed company. This will also lead to unification and streamlining of the regulatory compliances of both

the listed entities. Additionally, the Proposed Amalgamation would result in enhancement of stakeholder value.

4. Valuation Report and Fairness Opinion

- 4.1. The Audit Committee reviewed the Valuation Report and noted the method of valuation and the recommended Share Exchange Ratio.
- 4.2. The Audit Committee also noted that the Fairness Opinion has confirmed that the Share Exchange Ratio in the Valuation Report is fair to the shareholders (including the minority shareholders) of the Bank.

5. Recommendation of the Audit Committee

- 5.1. The Audit Committee having considered and noted the above-mentioned documents placed before it, *inter alia*, the draft Scheme, the draft Implementation Agreement, Valuation Report issued by the Registered Valuer, and the Fairness Opinion issued by the Merchant Banker, recommends the Scheme in its present form, for approval of the of the Board and for favourable consideration by the RBI, SEBI, BSE, NSE, CCI, NCLT and any other regulatory/governmental authority or person, as may be required.
- 5.2. In the opinion of all the members of the Audit Committee present at the Meeting, the draft Scheme is in the best interest of all the stakeholders of Bank including shareholders, holders of non-convertible debentures, customers, lenders and employees and the Share Exchange Ratio as mentioned in the Valuation Report is fair and reasonable.

In order for the Bank to comply with the requirements of extant regulations applicable to the listed companies undertaking any scheme of amalgamation under the Act, this Report of the Audit Committee may please be taken on record by the Board while considering the Scheme for approval and further authorisations.

**For and on behalf of the Audit Committee of
IDFC FIRST Bank Limited**

Sd/-

Name: Aashish Kamat
DIN: 06371682
Designation: Chairman, Audit Committee
Date: July 03, 2023
Place: Mumbai