IndusInd Bank and Bharat Financial Inclusion Merger Update

Building A Sustainable Platform for Financing Livelihoods

November 10, 2018
Agenda

1. Merger Status Summary
2. Transaction Structure
3. Merger Rationale & Synergies
4. Update on Approvals
5. IBL & BFIL Performance since Merger Announcement
6. Fact Sheet
1. Merger Status Summary
Board Authorization to Evaluate Strategic Opportunities

- IBL and BFIL Board authorized the respective senior managements to evaluate various organic and inorganic strategic growth opportunities.

Exclusivity Announcement for IBL & BFIL Merger

- IBL and BFIL entered into an exclusivity arrangement to explore potential combination.

Due Diligence, Negotiations, Documentation

- Appointment of advisors for legal, financial, tax and operational diligence.
- Various rounds of discussion on transaction contours.

Board Approval

- Audit Committees and Boards *inter alia* considered business case, fairness opinions, valuation reports, diligence reports, auditor reports etc.
- Respective Boards approved the transaction unanimously.

July 01, 2016 - IBL
May 01, 2017 - BFIL

September 11, 2017

Sep-Oct 2017

October 14, 2017
Approval Process and Indicative Timelines

Board Approval
- Valuation / Swap Ratio
- Approval of 'Scheme', matters therein and other legal documents
- Execution of Implementation Agreement

Regulatory Filings & Approvals
- RBI
- CCI
- SEBI and Stock Exchanges (NOC)

NCLT Filings & Approval
- Filing of Scheme
- NCLT approval: Shareholders approval, Creditors approval, other approvals – Shareholders' and Creditors' meetings Scheduled on Dec 11, 2018

ROC Filings & Share Issuance
- Final approval of RBI
- ROC Filing
- Allotment of shares to BFIL shareholders
- Preferential Issuance of share warrants to the IBL Promoters

Transaction to take up to 2-3 months for closure
2. Transaction Structure
1. BFIL to merge into IBL under a Scheme of Arrangement

2. BFIL shareholders to receive IBL shares as consideration

3. IBL to transfer the employees and the undertaking in relation to the Business Correspondent operations into IndusInd Financial Inclusion Limited* (IFIL) (a wholly owned subsidiary of IBL), making it a captive Business Correspondent

4. Preferential Issuance of share warrants to the IBL Promoters. The Promoters shareholding would be retained at ~15%.

* To be re-named as Bharat Financial Inclusion Limited post effectiveness of the Scheme
Transaction Structure

Resultant Structure
- BFIL assets and liabilities to merge into IBL’s assets and liabilities.
- BFIL operations to be part of IFIL, a wholly owned subsidiary of IBL.
- Subsidiary to act as a Business Correspondent of IBL

Swap Ratio
- BFIL shareholders to receive 639 IBL shares for every 1,000 BFIL shares

Board
- No change in the Board of IndusInd Bank
- MFI Advisory Committee to be set up for the Wholly Owned Subsidiary

Employees
- Continuity of all BFIL Management and Employees in current assignments

IndusInd Bank
3. Merger Rationale and Synergies
Culmination of Existing Long Standing Relationship

Business Correspondent (BC) for Over 6 years

314 BFIL Branches Exclusive to IBL

Rs 2,772 cr BC Outstanding

Compatible Culture

Savings & Recurring Accounts for Borrowers

Partnership for 2-Wheeler & Home Improvement Loans

Rural Distribution Service Points

Integrated CRM Platform

Merger of Entities Focusing on “Livelihood Financing”

Data as of 30th September 2018
Creates Large and Complementary Network

**Geographic Reach as of 30th September 2018**

- **IBL Presence**: 1,466 Branches (includes 250 rural branches)
- **BFIL Presence**: 1,708 strong MFI Network
- **Vehicle Finance Presence**: 932 Outlets (excluding Dealer Points)

**Merged Entity to have 4,000+ branches and outlets**
Financial Inclusion Pilots Showing Encouraging Results

Savings and Recurring Deposits
• 5,10,000+ Savings accounts and 2,70,000+ Recurring deposit accounts opened in 314 BC branches in Q2FY19

Retail Distribution and Service Points (RDSP)
• Pilot is rolled out in ~ 1,500 locations
• Services offered are cash deposit & withdrawal, bill payments and allied financial services

Two Wheeler Loans
• Pilot is rolled out in 390 BFIL branches with portfolio outstanding of Rs 25.1 cr as of Sep 30, 2018

Housing Improvement Loans
• Pilot is rolled out in 55 BFIL branches with portfolio outstanding of Rs 1.9 cr as of Sep 30, 2018
IBL & BFIL together bridging the Financial Inclusion gap

<table>
<thead>
<tr>
<th>IBL’s Banking Capabilities</th>
<th>BFIL’s Large Presence in Under Banked Areas Across Country</th>
<th>Answer the Rural Banking Need</th>
</tr>
</thead>
</table>

1. Basic Banking Services
   - Microfinance, Microinsurance, Savings Bank Accounts, Recurring Deposits

2. Additional Services (Ease of Use)
   - Mobile Banking, Micro ATMs, Debit Card, Value added services like Rural Insurance

3. Loans with Longer Tenure & Larger Ticket Size
   - Home Improvement Loans, 2 Wheeler, Personal, Secured Asset Creation

4. Tech. Products
   - Bill Payment Services, Retail Distribution, Cost Optimization

Increasing Sophistication of Financial Products

No Mission Drift: Committed to the Cause / Enhancement of Microfinancing
Saving Products Create Multiple Opportunities

- Strong Liability Franchise
- Savings Bank Accounts
- Recurring Deposits
- Fixed Deposits
- Loan products based on Savings pattern
- Cashless collections to lead to better efficiencies
- Propensity to default by customer reduces
- Enhanced relationship with customers
- Higher customer retention
- Lower NPA %
- Lower Cost to Income %
- Cross-sell Asset Products

8.3 Million Members spread across ~100,000 villages
Key Synergy Estimates

- **Lower Cost of Funds**: Reduction of 2%-3%
- **Priority Sector Loans**: 100% Eligible as PSL. Fee income of 0.75%-1.5% on excess
- **Capital Release**: 75% Risk Weight in Bank
- **Liabilities**: Potential to penetrate >50% Customer Base
- **Ancillary Products**: 2-Wheeler Financing, Home Improvement Loans, Fixed Usage Loans, Micro Insurance

*Note: Synergies are management estimates and subject to transaction receiving all approvals*
Creating Domain Expertise in Microfinance

Furthering PC 4 Strategic Theme of “Rural Banking and Microfinance”

<table>
<thead>
<tr>
<th>For IBL</th>
<th>For BFIL</th>
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</thead>
<tbody>
<tr>
<td>✓ Creates “Scale with Profitability” - Faster growth and higher profitability vs IBL</td>
<td>✓ Provides ready banking platform to drive operating synergy</td>
</tr>
<tr>
<td>✓ Provides access to best-in-class microfinance capabilities</td>
<td>✓ Universal product suite for customers</td>
</tr>
<tr>
<td>✓ Huge increase in outreach with ~1,700 well-spread MFI outlets with 8.3 Mn customers</td>
<td>✓ Reduces risks and improves competitiveness vis-à-vis recently licensed SFBs</td>
</tr>
<tr>
<td>✓ Ability to leverage network, clients and capital</td>
<td>✓ Continuation of the business without merger interruption through a “lift and drop” approach</td>
</tr>
<tr>
<td>✓ Transaction is key driver of “Bharat” Play (currently serving ~100,000 villages)</td>
<td>✓ Diversification for all stakeholders</td>
</tr>
<tr>
<td>✓ Portfolio eligible for Priority Sector Loans</td>
<td>✓ Access to stable and low-cost of funds at a bank</td>
</tr>
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</table>

Transaction Accretive to All Key Vectors on Day 1!
Positive Market Reception

- **CLSA – Acquisition should be earnings accretive and boost capital**
  The three key positives for IIB will come from scope to reduce its cost of funds, earn from surplus priority loans & boost capital as BHAFIN’s Tier I CAR is 33%, & the risk-weight for micro-loans is lower for banks. This will be partly offset by the need for CRR/SLR & cuts in lending rates. We see c.2-3% upside for merged earnings (FY19) & a +100bp lift to Tier I CAR (warrants will lift it by an additional 100bps). As BHAFIN has been originating microloans for IIB, the merger may be smooth. While IIB expects to leverage BHAFIN’s customers for deposits and other retail loans, the opportunity for these among low-income customers may be smaller. Reduced regulatory risk will also be a positive. *(Extract from report dated October 16, 2017)*

- **JP Morgan – Bharat Financial merger approved - accretive deal, despite the 11% premium**
  IndusInd Bank and Bharat Financial formally announced a merger today. The ratio of 0.639:1 implies an c.11% premium for BHAFIN on Friday close. We think the merger is a positive for IIB as it enhances the overall growth and profitability profile and provides significant synergies over 1-2 years. *(Extract from report dated October 16, 2017)*

- **Motilal Oswal – IIB announces merger with BHAFIN; Gains strong edge in rural distribution; synergies to further boost earnings**
  The MFI business can generate higher sustainable RoEs under a banking set-up due to a) elimination of the need to carry excess liquidity (negative carry), which is required in day-to-day operations and first loss margins for off-balance sheet, b) lower cost of funds (difference of ~400bp between IIB and BHAFIN); c) no cap on spreads, d) higher leverage (10x v/s 5x currently), and, e) also addresses political and regulatory overhang. We note that PPoP to average assets is ~6.3% for BHAFIN and ~3.4% for IIB. Furthermore, capitalization of BHAFIN is very high, with a CAR of ~32% (leverage of just ~4.6x). *(Extract from report dated October 15, 2017)*
4. Update on Approvals
Received All Regulatory Approvals Without Any Adverse Comments

- Merger Announcement (Oct 14, 2017)
- Application to the RBI for the Scheme Approval (Nov 06, 2017)
- Application to the CCI for Combination Approval (Nov 15, 2017)
- CCI Approval for the Combination (Dec 19, 2017)
- Application to the RBI for setting-up of a Wholly Owned Subsidiary (WOS) (Mar 15, 2018)
- Application to the Stock Exchanges for SEBI comments & NOC (Mar 28, 2018)
- ’No-objection’ from the NSE and BSE basis SEBI comments (June 1 & 4, 2018)
- RBI approval for setting-up of a WOS (June 08, 2018)
- Incorporation of IFIL, a wholly owned subsidiary (Aug 06, 2018)
- Filing of the Scheme with the National Company Law Tribunal (August 24, 2018)
- NCLT convened Shareholder meeting on December 11, 2018
The Composite Scheme of Arrangement was filed with the Hon’ble National Company Law Tribunal, Mumbai on August 24, 2018 to seek requisite directions under Section 230-232 of the Companies Act, 2013.

The NCLT issued directive on October 31, 2018 to hold meeting of the equity shareholders for the purpose of considering, and if thought fit, approving the Composite Scheme of Amalgamation.

In accordance with the NCLT order, meeting of the equity shareholders of the Bank is being held on December 11, 2018. The NCLT dispensed with the meeting of the unsecured creditors of the Bank (notice is being provided in accordance with the NCLT directions).

Notice is issued convening the meeting of the equity shareholders and secured creditors of BFIL on December 11, 2018.
5. IBL & BFIL Performance since Merger Announcement
## Key Pro-forma Parameters

<table>
<thead>
<tr>
<th></th>
<th>IBL</th>
<th>BFIL</th>
<th>IBL + BFIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>13.0mn</td>
<td>6.5mn</td>
<td>19.5mn</td>
</tr>
<tr>
<td>Employees</td>
<td>26,341</td>
<td>18,277</td>
<td>44,618</td>
</tr>
<tr>
<td>Loans (Rs cr)</td>
<td>1,63,144</td>
<td>10,914</td>
<td>1,74,058</td>
</tr>
<tr>
<td>Networth (Rs cr)</td>
<td>25,005</td>
<td>3,602</td>
<td>28,607</td>
</tr>
<tr>
<td>Total Assets (Rs cr)</td>
<td>2,48,319</td>
<td>12,001</td>
<td>2,60,320</td>
</tr>
<tr>
<td>CRAR</td>
<td>14.28%</td>
<td>31.3%</td>
<td>-</td>
</tr>
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</table>

Data as of September 30, 2018

(1) Excludes 1.8 mn customers under BC with IBL
(2) AUM of Rs 15,482 cr
(3) Net worth will be further augmented by preferential allotment of share warrants to IBL promoters
Key Vectors Stable or Improved Since Merger Announcement

IndusInd Bank Limited

Net Interest Margin (NIM)

- Q2FY18: 4.00%
- Q3FY18: 3.99%
- Q4FY18: 3.97%
- Q1FY19: 3.92%
- Q2FY19: 3.84%

RoA

- Q2FY18: 1.90%
- Q3FY18: 1.96%
- Q4FY18: 1.86%
- Q1FY19: 1.91%
- Q2FY19: 1.89%* (pre contingent provision)

RoE

- Q2FY18: 16.48%
- Q3FY18: 16.96%
- Q4FY18: 16.56%
- Q1FY19: 17.25%
- Q2FY19: 17.63%* (pre contingent provision)

Cost / Income

- Q2FY18: 45.70%
- Q3FY18: 45.98%
- Q4FY18: 44.98%
- Q1FY19: 44.18%
- Q2FY19: 43.41%

Net NPA

- Q2FY18: 0.44%
- Q3FY18: 0.46%
- Q4FY18: 0.51%
- Q1FY19: 0.51%
- Q2FY19: 0.48%

Revenue / Employee (Rs Lakhs)

- Q2FY18: 48
- Q3FY18: 49
- Q4FY18: 50
- Q1FY19: 54
- Q2FY19: 53
Key Vectors Stable or Improved Since Merger Announcement

Bharat Financial Inclusion Limited

AUM Growth (YoY)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q2FY18</th>
<th>Q3FY18</th>
<th>Q4FY18</th>
<th>Q1FY19</th>
<th>Q2FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>17%</td>
<td>34%</td>
<td>38%</td>
<td>44%</td>
<td>46%</td>
</tr>
</tbody>
</table>

RoA

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q2FY18</th>
<th>Q3FY18</th>
<th>Q4FY18</th>
<th>Q1FY19</th>
<th>Q2FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoA</td>
<td>3.80%</td>
<td>4.91%</td>
<td>5.86%</td>
<td>3.68%</td>
<td>5.74%</td>
</tr>
</tbody>
</table>

RoE

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q2FY18</th>
<th>Q3FY18</th>
<th>Q4FY18</th>
<th>Q1FY19</th>
<th>Q2FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoE</td>
<td>19.18%</td>
<td>24.47%</td>
<td>29.26%</td>
<td>17.62%</td>
<td>26.96%</td>
</tr>
</tbody>
</table>

Cost / Income

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q2FY18</th>
<th>Q3FY18</th>
<th>Q4FY18</th>
<th>Q1FY19</th>
<th>Q2FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost %</td>
<td>48.6%</td>
<td>53.1%</td>
<td>48.5%</td>
<td>51.2%</td>
<td>40.0%</td>
</tr>
</tbody>
</table>

Gross NPA

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q2FY18</th>
<th>Q3FY18</th>
<th>Q4FY18</th>
<th>Q1FY19</th>
<th>Q2FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPA %</td>
<td>5.23%</td>
<td>4.57%</td>
<td>2.38%</td>
<td>0.31%</td>
<td>0.37%</td>
</tr>
</tbody>
</table>

Net NPA

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q2FY18</th>
<th>Q3FY18</th>
<th>Q4FY18</th>
<th>Q1FY19</th>
<th>Q2FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPA %</td>
<td>0.28%</td>
<td>0.16%</td>
<td>0.09%</td>
<td>0.09%</td>
<td>0.11%</td>
</tr>
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Note: FY18 based on previous GAAP and FY19 based on Ind AS
8. Fact Sheet
## Transaction Advisors

<table>
<thead>
<tr>
<th>Financial Advisors</th>
<th>IBL</th>
<th>BFIL</th>
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</thead>
<tbody>
<tr>
<td>Business &amp; Tax Diligence</td>
<td>Morgan Stanley, Arpwood</td>
<td>Credit Suisse</td>
</tr>
<tr>
<td>Tax Advisors</td>
<td>KPMG</td>
<td>E&amp;Y</td>
</tr>
<tr>
<td>Legal Advisors</td>
<td>E&amp;Y</td>
<td>-</td>
</tr>
<tr>
<td>Joint Valuation Report</td>
<td>Cyril Amarchand Mangaldas</td>
<td>AZB &amp; Partners</td>
</tr>
<tr>
<td>Auditors’ Certificate</td>
<td>Deloitte Haskins &amp; Sells</td>
<td>S. R. Batliboi &amp; Co</td>
</tr>
<tr>
<td></td>
<td>Price Waterhouse</td>
<td>BSR &amp; Associates LLP</td>
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</tbody>
</table>
## Transaction Summary

<table>
<thead>
<tr>
<th></th>
<th>IBL</th>
<th>BFIL</th>
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<tbody>
<tr>
<td><strong>Ticker:</strong></td>
<td>NSE: INDUSINDBK; BSE: 532187</td>
<td>NSE: BHARATFIN; BSE: 533228</td>
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<tr>
<td><strong>Valuation:</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Transaction Terms</strong></td>
<td>639 IBL Shares for Every 1,000 BFIL Shares</td>
<td></td>
</tr>
<tr>
<td><strong>Type of Consideration</strong></td>
<td></td>
<td>Stock – Fixed Exchange Ratio</td>
</tr>
<tr>
<td><strong>Premium at Announcement</strong></td>
<td>-</td>
<td>12.6% to 2 week VWAP</td>
</tr>
<tr>
<td><strong>Process:</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Announcement Date</strong></td>
<td>October 14, 2017</td>
<td></td>
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<tr>
<td><strong>Unaffected Date</strong></td>
<td>October 13, 2017</td>
<td></td>
</tr>
<tr>
<td><strong>Board Support</strong></td>
<td>Unanimous</td>
<td>Unanimous</td>
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</table>
Thank You
The proposed transaction is subject to approval of various regulatory and other authorities, including without limitation, the Reserve Bank of India and the National Company Law Tribunal as well as the shareholders and creditors of BFIL and IndusInd Bank. Estimates, expectations, and business plans in this presentation are forward-looking statements based on currently available information and the management’s current views and assumptions. Such statements are naturally subject to risks and uncertainties. In addition to statements which are forward-looking by reason of context, the words "will", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Factors such as changes in applicable laws and regulations, including in regard to the banking and NBFC sector, the development of general economic conditions, future market conditions, unusual catastrophic loss events, changes in the capital markets and other circumstances may cause the actual events or results to be materially different from those anticipated by such statements. IndusInd Bank Limited and Bharat Financial Inclusion Limited (“Parties”) do not make any representation or warranty, express or implied, as to the accuracy, completeness or updated status of the statements contained in this release. Therefore, in no case whatsoever will the Parties be liable to anyone for any decision made or action taken in conjunction with the information and/or statements in this presentation or for any related damages.

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