

**REPORT OF THE AUDIT COMMITTEE OF UJJIVAN SMALL FINANCE BANK LIMITED ON THE SCHEME OF AMALGAMATION OF UJJIVAN FINANCIAL SERVICES LIMITED INTO AND WITH UJJIVAN SMALL FINANCE BANK LIMITED**

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**1. Background**

- 1.1. A meeting of the Audit Committee ("**the Committee**") of Ujjivan Small Finance Bank ("**Transferee Company**") was held on October 14, 2022, to consider and recommend to the Board of Directors the proposed Scheme of Amalgamation ("**Scheme**") of Ujjivan Financial Services Limited ("**Transferor Company**") into and with the Transferee Company, under Section 230 to 232 of the Companies Act, 2013 ("**Act**").
- 1.2. The equity shares of the Transferee Company and Transferor Company are listed on BSE Limited ("**BSE**") and the National Stock Exchange of India Limited ("**NSE**"). The Transferor Company is the promoter and holding company of the Transferee Company and holds 73.68% (seventy-three point sixty-eight percent) of the total paid-up equity share capital and 100% (hundred percent) of the total paid-up preference share capital of the Transferee Company as on the date of this report.
- 1.3. This report of Audit Committee is made in order to comply with the requirement of Securities and Exchange Board of India ("**SEBI**") Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/665 dated November 23, 2021, as amended from time to time ("**SEBI Master Circular**").
- 1.4. The following documents were placed before the Committee:
- (i) The draft Scheme of Amalgamation among Ujjivan Financial Services Limited (Transferor Company), Ujjivan Small Finance Bank Limited (Transferee Company) and their Respective Shareholders and Creditors
  - (ii) Valuation Report dated October 14, 2022 issued by M/s JBPR Valuation Advisory LLP (IBBI Regn No.: IBBI/RV-E/05/2021/150), registered valuer ("**Valuation Report**").
  - (iii) Fairness Opinion dated October 14, 2022 issued by IIFL Securities Limited, independent merchant banker ("**Fairness Opinion**")
  - (iv) Certificate dated October 14, 2022 issued by Statutory Auditors of the Transferee Company, certifying that the accounting treatment provided in the Scheme is in conformity with the accounting standards provided under Section 133 of the Act, the Banking Regulation Act, 1949, the guidelines and circulars issued by the Reserve Bank of India ("**RBI**") with respect to accounting.

**2. Review of the Proposed Scheme:**

2.1. The salient features of the Scheme are:

- (i) Amalgamation of Transferor Company into and with the Transferee Company;
- (ii) reduction of issued and paid-up share capital of the Transferee Company, pursuant to cancellation of equity shares and preference shares held by the Transferor Company in the Transferee Company;



- (iii) issuance and allotment of equity shares of Transferee Company to the shareholders of the Transferor Company consequent upon coming into effect of aforesaid amalgamation;
- (iv) setting off any debit balance in the capital reserve arising upon amalgamation of Transferor Company with the Transferee Company pursuant to giving effect to the accounting treatment as proposed under the Scheme, with the Securities Premium Account of the Transferee Company; and
- (v) dissolution of the Transferor Company without winding up.

2.2. Upon coming into effect of this Scheme, in consideration of the amalgamation, and based on the Valuation Report and Fairness Opinion, the Transferee Company would issue and allot to the shareholders of the Transferor Company whose names are recorded in the register of members of the Transferor Company on the Record Date, 116 (One hundred and sixteen) equity shares of the face value of Rs. 10 (Rupees ten) each of Transferee Company, credited as fully paid-up, for every 10 equity shares of the face value of Rs. 10 (Rupees ten) each fully paid-up held by such member in the Transferor Company (“**Share Exchange Ratio**”).

2.3. The Fairness Opinion confirmed that the Share Exchange Ratio as mentioned in the Valuation Report is fair to the shareholders from a financial point of view.

2.4. The Scheme is conditional and subject to the following:

- (i) the approval of the RBI in terms of RBI Master Directions – Amalgamation of Private Sector Banks, Directions, 2016 dated April 21, 2016 and RBI certification under Section 44(B)(1) of the Banking Regulation Act, 1949;
- (ii) no-objection of BSE and the NSE and SEBI comments as per Regulation 37 and Regulation 94 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 (“**SEBI LODR**”) read with SEBI Master Circular;
- (iii) the Scheme being approved by the requisite majority of each classes of members and/or creditors (where applicable) of the Transferor Company and Transferee Company in accordance with the Applicable Laws (as defined in the Scheme) and as may be directed by the National Company Law Tribunal, Bengaluru Branch (“**NCLT**”). Further, the Scheme is conditional upon Scheme being approved by the public shareholders through e-voting in terms of Para (A)(10)(a) of Part-I of SEBI Master Circular and the Scheme shall be acted upon only if vote cast by the public shareholders in favour of the proposal are more than the number of votes cast by the public shareholders against it in terms of Para (A)(10)(b) of Part-I of SEBI Master Circular;
- (iv) the Scheme having been sanctioned by the NCLT;
- (v) fulfilment of any compliance(s), condition(s) etc., if any, stipulated by the RBI, SEBI, BSE, NSE and/or any other relevant Governmental Authority (as defined in the Scheme) prior to effecting the Scheme;
- (vi) receipt of such other sanction(s), approval(s) etc., of any other Governmental Authority as may be required by Applicable Laws in respect of the Scheme; and
- (vii) certified copy of the NCLT order sanctioning the Scheme being filed with the jurisdictional Registrar of Companies by both the Transferor Company and the Transferee Company.

2.1. The Scheme is proposed to be effective from Appointed Date (as defined in the Scheme) and operative on the Effective Date (as defined in the Scheme).



### 3. Comment by the Audit Committee on the Scheme:

#### Need and rationale for amalgamation:

- 3.1. The Transferee Company is functioning a small finance bank (SFB) and was issued a license in this regard by the RBI on November 11, 2016. As per the conditions laid in the said license read with RBI Guidelines for Licensing of 'Small Finance Banks' in the Private Sector dated November 27, 2014 and the RBI Guidelines for 'on-tap' Licensing of 'Small Finance Banks' in Private Sector dated December 5, 2019 ("**SFB Guidelines**"), the promoter of SFB was required to reduce its equity stake in SFB to 40%, then to 30%, and then to 26% within a period of 5 (five) years, 10 (ten) years and 12 (twelve) years respectively, from commencement of operations of SFB. Subsequently, certain recommendations including *inter alia* with respect to the dilution of promoter shareholding were made in a report dated November 20, 2020, by the Internal Working Group (IWG) which was constituted by the RBI to review the extant guidelines on ownership and corporate structure for Indian private sector banks. The RBI vide its press release dated November 26, 2021, has *inter alia* accepted IWG's recommendation with respect to dilution aspects of promoter shareholding in the private sector banks and clarified that the submission of a dilution schedule shall be mandatory.
- 3.2. Accordingly, the proposed amalgamation among other business objectives and benefits (as indicated in the Scheme) would enable the Transferee Company to meet the aforesaid dilution requirements.

The Audit Committee noted that in proceeding with this approach, the Transferee Company and Transferor Company, have *inter alia*, resorted to:

- (i) the RBI clarification dated January 1, 2015 which provides that promoter can exist **or** cease to be a promoter after completing lock-in period of five years, subject to the RBI's regulatory and supervisory comfort and SEBI Regulations; and
  - (ii) RBI letter dated July 9, 2021 issued to the 'Association of Small Finance Banks of India', which allows reverse merger of holding company with the SFB subject to RBI approval.
- 3.3. The Audit Committee also took note of the advantages which the proposed amalgamation would yield, as elaborated in the Scheme, and is of the view that such benefits and the purpose of the amalgamation as referred above and, in the Scheme, is justifying the basis for the amalgamation.

#### Synergies of business:

- 3.4. The proposed amalgamation would result in formation of a larger, stronger and single entity having greater capacity for conducting its operations more efficiently and competitively. It would enable better administration and cost reduction, including reduction in administrative, legal and other costs associated with the Transferor Company.

#### Impact of the Scheme on the shareholders:

- 3.5. The Scheme would, *inter alia*, result in economies of scale, cost reduction and better administration, which will contribute to make Transferee Company more profitable, and thus, unlock and enhance the overall value for the shareholders of the Transferee Company.
- 3.6. The amalgamation would result in larger free public float for the combined listed entity as pursuant to coming into effect of the Scheme, the resultant listed entity would be entirely held by the public shareholders.



**Cost benefit analysis of the Scheme:**

4. Keeping in view the rationale and purpose of the Amalgamation as mentioned in the Scheme, the Audit Committee is of the view that the amalgamation would result in economies of scale, reduction in compliance and administrative costs, increase efficiencies, and better administration, thereby contribution to future profitability of the Transferee Company and enhancement of overall value for the respective shareholders of the Transferor Company and Transferee Company.

**5. Recommendation of Audit Committee:**

The Audit Committee after due deliberations and considerations on, inter alia, the draft Scheme, Share Exchange Ratio, Valuation Report, Fairness Opinion, statutory auditors' certificate on accounting treatment, and the above-referred considerations, recommends the draft Scheme for favorable consideration of the Board of Directors of the Transferee Company.

**For Audit Committee of  
Ujjivan Small Finance Bank Limited**

**Mr. Rajesh Jogi**  
Chairman of the Audit Committee  
DIN: 03341036

**Date: October 14, 2022**