Bandhan Bank Limited

Issue Snapshot:

Issue Open: Mar 15 – Mar 19, 2018

Price Band: Rs. 370 – 375

Issue Size: 119,280,494 Equity Shares (Including Fresh issue of 97,663,910 eq sh + Offer for sale of 21,616,584 eq sh)

Offer Size: Rs 4413.3cr – 4473.0cr

QIB	Upto	60% eq sh
Non Institutional	atleast	15% eq sh
Retail	atleast	35% eq sh

Face Value: Rs 10

Book value: Rs 49.35 (December 31, 2017)

Bid size: - 40 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs 1095.14cr

Post issue Equity: Rs 1192.80cr

Listing: BSE & NSE

Book Running Lead Manager: Kotak Mahindra Capital Company Limited, Axis Capital Limited, Goldman Sachs (India) Securities Private Limited, JM Financial Institutional Securities Limited and J.P. Morgan India Private Limited

Registrar to issue: Karvy Computershare Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	89.62	82.28
Public & Others	10.38	17.72
Total	**100.0**	**100.0**

Source for this Note: RHP

Background & Operations:

Bandhan Bank Ltd is a commercial bank focused on serving underbanked and underpenetrated markets in India. It has a banking license that permits to provide banking services pan-India across customer segments. It currently offers a variety of asset and liability products and services designed for micro banking and general banking, as well as other banking products and services to generate non-interest income.

Its strength lies in microfinance, including a network of 2,022 doorstep service centres ('DSCs') and 6.77 million micro loan customers that Bandhan Financial Services Limited (BFSL) transferred to BBL, which has grown to 2,633 DSCs and over 9.86 million micro loan customers as of December 31, 2017. To complement micro loan business, since obtaining banking license it has also focused particularly on creating a strong general banking business. To this end, BBL launched its general banking business on August 23, 2015 by opening a greenfield network of 501 bank branches and 50 automated teller machines ('ATMs'), which as of December 31, 2017 has grown to 887 bank branches and 430 ATMs, together serving over 2.13 million general banking customers. Its distribution network is particularly strong in East and Northeast India, with West Bengal, Assam and Bihar together accounting for 56.37% and 57.58% of its branches and DSCs, as of December 31, 2017 respectively, though its focus is to expand across India.

BBL currently offers a variety of asset and liability products and services designed for micro banking and general banking. Its asset products consist of retail loans including a substantial portfolio of micro loans, as well as micro, small and medium enterprise ('SME') loans and small enterprise loans. As of December 31, 2017, 96.49% of its Gross Advances were in priority sector lending ('PSL') compliant with the Reserve Bank of India ('RBI's') PSL requirements. Its liability products consist of savings accounts, current accounts and a variety of fixed deposit accounts. Since beginning banking operations, it has built a strong base of current account and savings account deposits, which together stood at Rs.84,018 million as of December 31, 2017, a CASA ratio of 33.22%. Its CASA ratio provides a stable source of low-cost funding, allowing BBL to provide cost-effective loans to its target customer base. Moreover, as of December 31, 2017, its retail-to-total deposit ratio stood at 85.07%.

In addition to BBL's loan and deposit products, it also offer other banking products and services to generate non-interest income and cater towards the additional needs of its customers. These products and services include debit cards, internet banking, mobile banking, EDC-POS terminals, online bill payment services and the distribution of third-party general insurance products and mutual fund products. In addition, because its Priority Sector Lending (PSL) portfolio significantly exceeds the RBI's PSL requirements, it generate PSL certificates that it is able to sell to other banks, providing with an additional stream of non-interest income. As of December 31, 2017, BBL deposits and Gross Advances (including IBPC/Assignment) stood at Rs. 252,939.56 million and Rs. 243,643.89 million, respectively. For the nine months ended December 31, 2017 and 2016, it had net interest margins ('NIMs') of 9.86% and 10.34%, return on equity ('RoE') of 25.55% and 27.88% and return on assets ('RoA') of 4.07% and 4.39%, respectively (each on an annualised basis). For FY 2017 and FY 2016, it had Total Income of Rs.43,201.23 million and Rs. 17,312.54 million and profit after tax as restated of Rs. 11,119.52 million and Rs. 2,752.47 million, respectively.

Objects of Issue:

The Issue comprises of a Fresh Issue and an Offer for Sale.

Offer for Sale

The Selling Shareholders will be entitled to the respective portion of the proceeds of the Offer for Sale net of their proportion of Issue related expenses. BBL will not receive any proceeds from the Offer for Sale.

Fresh Issue

The objects of the Fresh Issue are to augment BBL's Tier-I capital base to meet Bank's future capital requirements. Further, the proceeds from the Issue will also be used towards meeting the expenses in relation to the Issue. BBL expects to receive the benefits of listing the Equity Shares on the Stock Exchanges.

Competitive Strengths

Operating Model Focused on Serving Underbanked and Underpenetrated Markets: BBL is a commercial bank focused on serving underbanked and underpenetrated markets in India. Its historical strength lies in microfinance, with its group beginning operations in 2001 as an NGO providing microfinance services to socially and economically disadvantaged women in rural West Bengal. While its business model has transitioned over the years, operating as an NGO and then a non-bank finance company ('NBFC') before becoming a bank, the provision of micro loans to women has remained the core focus. It reach its micro loan customers largely through extensive network of doorstep service centres, which are low overhead banking outlets located nearby customers. Given their low overhead, DSCs are a cost effective means of reaching micro loan customers, who generally are underbanked. By the time BFSL transferred its microfinance business to BBL in 2015, it was India's largest microfinance company by asset size. This scale, experience and history in micro loans, combined with general banking business, provides BBL with significant synergies, including (i) brand recognition, with its roots in financial inclusion, engenders good will and loyalty, (ii) established distribution network and customer relationships, which provides with a strong base of customers who may one day require more general banking services as they improve their economic situation, providing a potential customer pipeline for products such as home, business and other loans and third-party insurance and investment products and (iii) the fact that BBL is able to use the low cost of funds provided by banking deposits to reduce its rates on micro loans and capture market share while building customer loyalty.

Consistent Track Record of Growing a Quality Asset and Liability Franchise*:* BBL's micro loan business began in 2001 as part of Bandhan Konnagar, an NGO. Its microloan business was then transitioned to BFSL, an NBFC in 2009, which then established as a bank and transferred the micro loan business to it in 2015. Across these phases of development, its micro loan business has consistently grown a quality asset base. Since BBL began its general banking business, it has grown to offer a broad and diversified range of asset and liability products to its customers, while maintaining strong asset quality. The growth in liability business has led to a reduction in its cost of funding, as has been able to increasingly tap into low-cost deposits. BBL's access to low cost deposits provides significant synergies with its focus on micro lending by allowing to lower the interest rates it charges on micro loans while maintaining profitable spreads, thus allowing to further grow portfolio and capture market share. Its strong NPA position is largely driven by group-based individual lending model, focus on income generating loans made to women, strong systems to track loan utilization, monitor credit and ensure collection, and extensive risk management practices, such as lending progressively higher amounts only to members who has built up a track record of good repayment, which taken together has led to low rates of default. Moreover, BBL is conservative in its approach to providing for non-performing loans, providing for them sooner and in higher amounts than required under RBI regulations.

Extensive, Low Cost Distribution Network: BBL provides its products and services primarily through an extensive physical network of branches, DSCs and ATMs. It began operations on August 23, 2015 with 6.77 million customers and 2,022 DSCs from its micro loan business, as well as 501 branches and 50 ATMs that it established for its general banking business. This extensive footprint that micro loan business provided allowed BBL to expand into the general banking market in a way that a new entrant into the market could not, enabling it to tap into the large and growing Indian retail banking market rapidly and profitably. BBL has since grown so that as of December 31, 2017, it operated in 33 States and Union Territories in India, reaching 11.99 million customers through 887 branches, 2,633 doorstep service centres and 430 ATMs, with 2.13 million of its customers belonging to its general banking business. Its distribution network is particularly strong in East and Northeast India, with West Bengal, Assam and Bihar together accounting for 56.37% and 57.58% of its branches and DSCs, respectively, though its focus is to expand across India. As of December 31, 2017, BBL had 27,176 employees spread across its Bank. In addition to being extensive, its distribution network is relatively low cost, which in particular is a result of its 'hub'and spoke" model of using DSCs and associated bank branches, as well as its focus on tech initiatives. In addition to BBL's physical network, it also provides debit cards, as well as offer a comprehensive suite of digital solutions, including a mobile banking app and online banking. These channels help with efficient, yet secure, customer outreach, particularly for its liability products and general banking customers, who tends to be more tech savvy. On the asset side, its digital and technology initiatives are generally focused on reducing processing time, so that it can quickly respond to customer requests, and on reducing operating costs.

Customer-Centric Approach*:* BBL's mission is to provide its customers accessible, simple, cost-effective and innovative financial solutions in a courteous and responsible manner. In furtherance of this mission, it design products that cater to the specific needs of its customers, such as offering educational micro loans and healthcare micro loans so that its customers can further their or their families educations and ensure that they or their families can pay for medical treatment. On the liability side, BBL offers a variety of daily deposits, recurring deposits, and other services so that it customers can realise their savings goals within the means available to them. Similarly, BBL insure all of its micro loan customers, so that if they pass away their loan balance is paid off in full without their family needing or feeling pressured to repay the loans. It undertake these initiatives to foster customer loyalty, encourage the timely repayment of loans by its customers, increase the likelihood that its customers will take additional loans from BBL rather than its competitors, and increase the likelihood that its customers will use it for their general banking and financial needs, including savings products, insurance products and investment products.

Consistent Financial Performance and Robust Capital Base*:* BBL has since its inception delivered consistent financial results for its shareholders and is currently in a robust financial position that, will enable it to grow business quickly. Its net interest margin for the six months ended December 31, 2017 was 9.86%, while its return on assets and return on equity were 4.07% and 25.55%, respectively (each on an annualised basis). Its cost-to-income ratio for the six months ended December 31, 2017 was 35.38% (on an annualised basis). Additionally, since beginning operations it has generated increasing non-interest income as a percentage of overall income, improving from 8.66% for March 2016 to 35.38% for the nine months ended December 31, 2017. This increase in non-interest income has helped to improve BBL's margins and returns. In addition to its consistent financial performance, it is well capitalised with a robust capital base. BBL has grown its Gross Advances (including IBPC/Assignment) from Rs.155,784.35 million as of March 31, 2016 to Rs.243,643.89 million as of December 31, 2017 and its total deposits from Rs.120,887.48 million as of March 31, 2016 to Rs.252,939.56 million as of December 31, 2017. Moreover, BBL's CASA ratio has improved from 21.55% as of March 31, 2016 to 33.22% as of December 31, 2017. This strong capital base places BBL well to pursue the further growth of its business. As a result of its performance for the periods ending March 31, 2016 and December 31, 2017, its return on assets increased from 3.07% to 4.07%, respectively, while its return on equity increased from 15.96% to 25.55%, respectively (each on an annualised basis).

Experienced and professional team, backed by strong independent board: BB's management team has a strong track record and significant experience in the microfinance and banking industries. Its founder, Managing Director and Chief Executive Officer, Mr. Chandra Shekhar Ghosh, has 37 years of experience in the Indian microfinance industry. The members of its senior management has a track record that combines professional and entrepreneurial skills in microfinance and banking, with an average of 23.9 years' experience in the financial services industry. This commitment and experience of senior management will help BBL to drive the growth of its business and maintain the continuity of its company culture after listing, all while continuing to focus on creating and maintaining shareholder value. Its management team is supported by a strong and independent board, which provides BBL with robust corporate governance oversight. Nine out of the thirteen directors on its board are Independent Directors, and each member possesses knowledge and experience in the fields of microfinance and/or banking.

Business Strategy:

Maintain focus on micro lending while expanding further into other retail and SME lending: As India's largest micro lender in terms of overall advances as of March 2017 (according to CRISIL Research), BBL will aim to maintain its leading position in the micro lending space while expanding further into other retail and SME lending in order to capitalise on growth opportunities in India's micro lending and banking industries. It expects the Indian market for micro banking and general banking to continue to grow in the foreseeable future. BBL seeks to leverage on its existing network and reputation and the scalability of its business model to benefit from this growth potential by opening new branches and centres and attracting new members all across India. While East and Northeast India are strongholds, BBL is continuing to develop a pan-Indian network, and its strategy is to increasingly diversify its geographical footprint. Accordingly, it has increased its footprint to 33 State and Union Territories from 24 State and Union Territories when it began banking operations. In order to grow asset portfolio, BBL intends to open branches and DSCs where it can grow its customer base for micro loans as well as tap into the rural affluent and mass affluent populations in order to grow its retail and SME lending. In addition to expanding BBL's network, it will also seek to grow its business by increasing its digital reach and by leveraging on its broad network and customer base to improve cross-selling opportunities and improve wallet share of customers. It also intends to use its existing branches to penetrate into villages where BBL already has a presence and where it can benefit from its strong reputation to increase customer base. Through the increased customer base driven by greater geographical presence, BBL will enhance its market position, establish greater brand recognition and continue to grow its business. While BBL intends to grow, it aims to do so in a selective and calculated manner, focusing on attractive and profitable expansion opportunities

Continue to strengthen liability franchise: BBL aims to strengthen its liability franchise with a particular focus on growing deposit base in order to provide a stable, low-cost source of funding. Its primary focus for funding is to seek retail deposits, as opposed to wholesale deposits or other forms of funding. It intends to seek retail deposits due to their particularly low cost of funds and because, that retail customers are more loyal and therefore their deposits more secure than wholesale customers. It intends to grow its retail deposit base through the continued expansion of its branch network to reach new customers and by providing a convenient banking experience to its customers to meet the needs of their particular demographics. In addition to the rural and semi-urban branches that BBL intends to open to enhance its asset base, and in order to fund those assets, it will also seek to selectively open branches specifically focused on collecting deposits in urban areas where there is a large potential deposit base. In addition to expanding branch network, BBL will also seek to develop products and services designed for its rural and urban mass retail customers, as well as by continuing to actively promote its accounts and deposits, and by offering attractive interest rates.

Boost share of non-interest income: BBL intends to complement income from its core asset products with non-interest income from other sources in order to diversify its income stream and improve margins. In particular, it will seek to leverage its strong PSL-compliant portfolio by increasingly selling PSL certificates to non-PSL compliant banks. Additionally, in 2017 it entered into arrangements to begin distributing third-party insurance products and third-party mutual funds, in return for which it receive a commission based upon the value of insurance product or mutual fund sold. BBL will also commence distribution of life insurance products as a corporate agent in December 2017, for which it has received a license from IRDAI. As it expands its network, it expects to increase the size of its PSL-compliant loan portfolio as well as grow the distribution of third party products, thereby increasing income stream from both sources.

Enhance digital platform to improve customer acquisition and retention and reduce costs: Proactive adoption and development of digital and technology offerings are critical to running a competitive bank. Therefore, BBL is continually investing to enhance its digital and technology platform as a means of driving enhanced customer satisfaction, enhanced customer retention and reduced costs. By furthering its digital and technology platform, that it can reduce its operating costs and increase efficiencies, as customers migrate towards digital solutions and away from traditional branch banking. Moreover, with a more advanced information technology platform, BBL will reduce risks, costs and errors and operate with greater cohesiveness and efficiency. Further, as it develop a track record of long-standing digital relationships with its customers, it expect that it will be able to engage in data analytics with the goal of more proactively addressing customer's banking and financial needs. This will help to increase cross-selling opportunities not only of its own products but also the third-party products that it distribute, such as insurance and mutual funds.

Enhance retail banking systems and procedures to improve efficiency: BBL intends to enhance its retail banking systems and procedures in order to improve its retail banking efficiency. Whereas the performance of its micro loan business and DSC network has been refined for over 15 years, as a comparatively new player in the general banking segment it is seeking to build that same level of refinement for its retail banking operations. In furtherance of this, BBL is taking a number of steps, including improving the efficiency of work undertaken in branches, increasing multi-tasking by its branch employees, and closely monitoring the interaction between DSCs and linked branches to optimise the linkage between them. By building the same level of skill and expertise in its retail banking operations that it has developed in its micro loan operations, this will result in reduction of costs and thereby improve profitability.

Industry:

Addressable market and under-penetration of credit and banking services in India

Current scenario and key developments

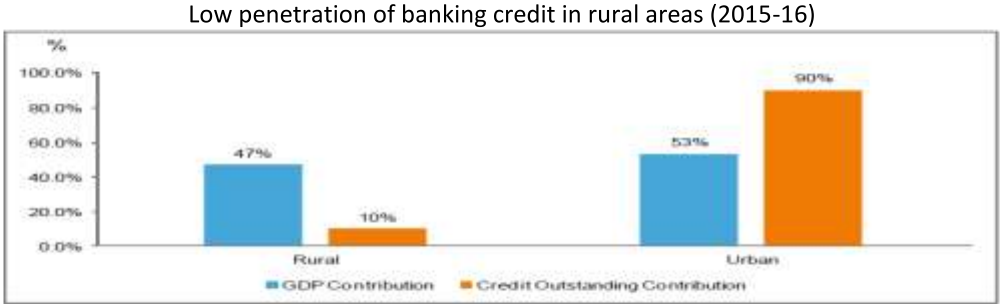
Financial inclusion is imperative for sustaining India's continued and equitable economic growth. Financial access strongly underpins economic opportunity, and in India, the major reasons for financial exclusion are poverty and low income, social iniquities, financial illiteracy, high transaction costs, and the lack of proper infrastructure. Consequently, a significant proportion of the population remains without access to formal banking facilities.

The global average of the adult population with an account (at a bank, financial institution, or with mobile money providers) is approximately 62%. India ranks below that global average, at approximately 53%. However, India ranks above South Asia as a whole, where the proportion is relatively low at around 46%. Financial inclusion is especially poor in some of India's neighbouring countries. According to the global Findex database, in 2014, of the world's unbanked adults, 21% or approximately 420 million, are from India, which is about two-thirds of South Asia's total unbanked adults. China, India, and Indonesia together account for 38% of the world's unbanked. The total global unbanked population stands at 2 billion.

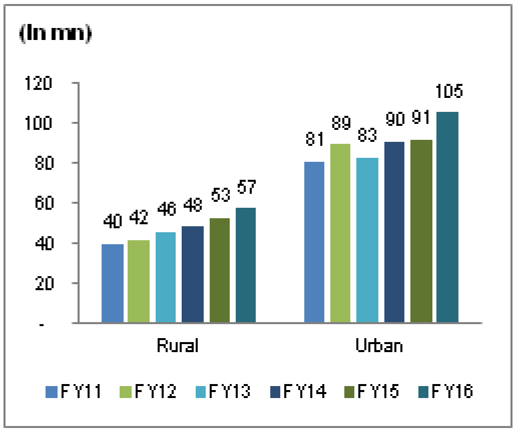
Rural areas account for half of GDP, but less than 10% of banking credit

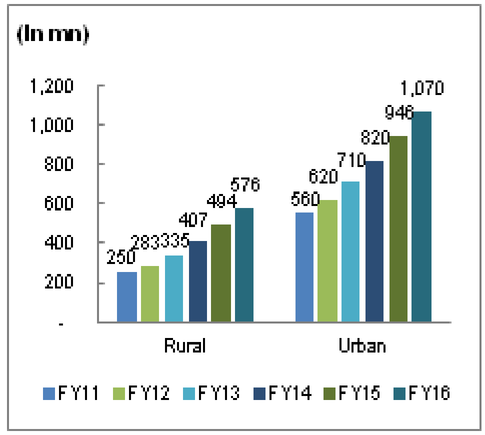
As of fiscal year 2016, there were almost 640,000 villages in rural India, inhabited by some 850 million consumers, who make up 65-70% of the population and contribute around half of the country's gross domestic product (GDP). Although rural India contributes 47% of India's GDP, its share in total credit outstanding is just 10%, in comparison with 90% for urban India as of fiscal year 2016. This extreme divergence in the share of rural areas in India's GDP and banking credit is an indicator of the very low penetration of banking in rural areas.

Low penetration of banking credit in rural areas (2015-16)

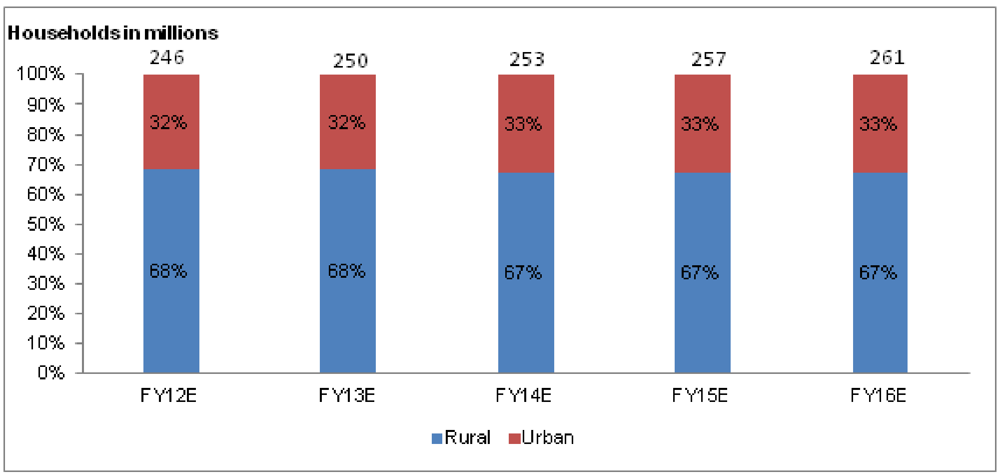


Buoyed by the Government's sustained efforts to bolster financial inclusion, the number of credit accounts in rural India grew at a 7% CAGR, with the number of deposit accounts rising at an 18% CAGR in fiscal year 2016 from fiscal year 2011. This growth was higher than the five-year CAGR of 5% in the number of credit accounts, and 14% in the number of deposit accounts in urban India. Notwithstanding, the number of credit and deposit accounts in rural India was almost half that of urban India as of fiscal year 2016. Number of credit accounts; urban versus rural Deposit accounts in urban areas twice versus rural





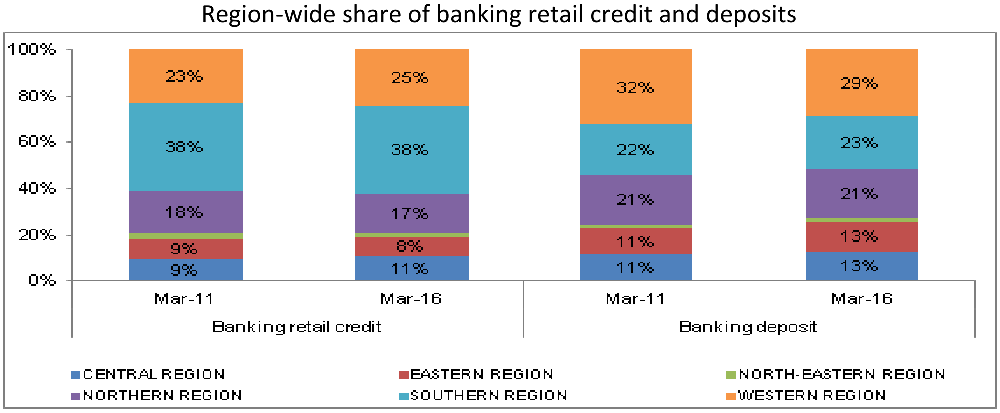
Two thirds of total households are in rural India



Region-wise asymmetry: Northern and eastern regions have a lower share in total bank credit and deposits

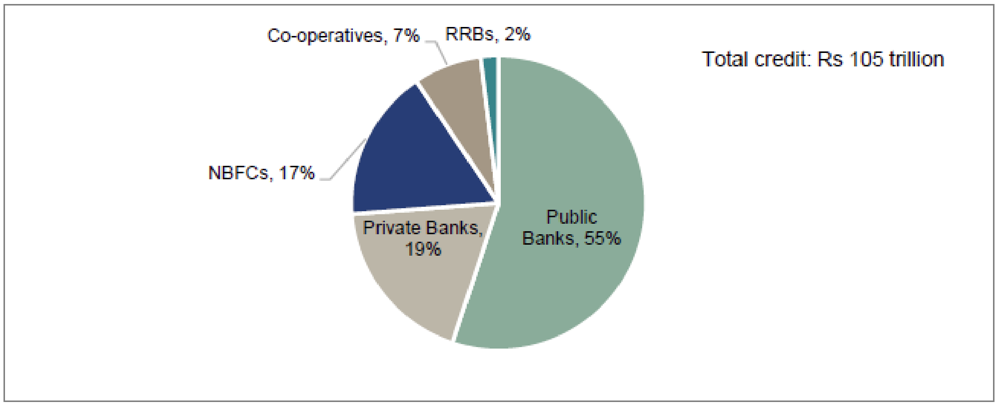
Indian banking credit and deposits are predominantly concentrated in the southern and western regions, whereas banking credit and deposit penetration have been empirically low in the northern and eastern regions. Credit and deposit penetration in the south has increased over the past six years. Banking retail credit per capita in the eastern region is the lowest, and is five times lower than the southern region.

Region-wide share of banking retail credit and deposits



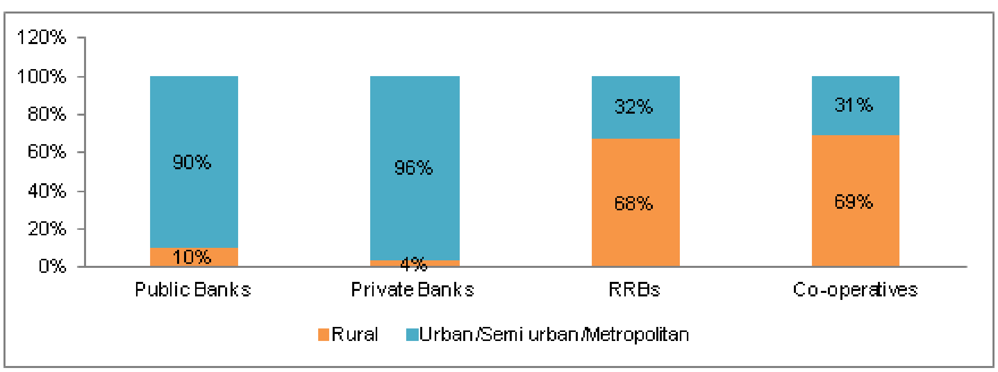
Key steps taken by the Government to boost financial inclusion
A lot of progress has been made in the past five to seven years to incorporate unbanked areas into India's formal banking system. The RBI and Government have taken a number of measures to simplify financial inclusion, such as the introduction of no-frill accounts, a business correspondent (BC) model, liberalisation of RBI's branch expansion/ATM policy, new technology-led products and services, hosting of financial literacy programmes, introduction of payment banks and small finance banks, creation of Aadhaar card, Pradhan Mantri Jan Dhan Yojana (PMJDY), and Micro Units Development & Refinance Agency Ltd (MUDRA). However, there remains much ground to be covered to bring people in rural and remote areas into the financial mainstream.

Indian credit business dominated by public sector banks, strong presence of other players required for better financial inclusion
The systemic credit in India (including banks and NBFCs) is dominated by public sector banks, which account for approximately 55% share of total credit. Private banks have approximately one fifth of the credit share. On the other hand, NBFCs account for approximately 18% credit share in the system, primarily on account of NBFC's strong presence in the housing, infrastructure and auto sectors. Regional rural banks are very small, and account for just 2% of total systemic credit. Credit co-operatives, on the other hand, holds a 7% share of total systemic credit, distributed between urban and rural co-operatives. Public and private banks together account for a share of more than three quarters of overall systemic credit (fiscal year 2016)



Most of the agricultural land in India is present in rural areas and hence, the majority of lending in rural areas is towards agricultural purposes. Due to the lower banking penetration in rural regions, the share of public and private banks in rural areas is still very low, at around 10% and 4%, respectively. On the other hand, regional rural banks, which were developed to cater the needs of the rural population, have almost 68% of their total portfolio in rural areas.

Amongst other players, NBFCs have only a limited presence in rural areas, as only a few NBFCs in specific segments provide credit in rural regions. NBFCs in the micro-finance sector have good penetration in rural areas, with almost 38% of their total micro-finance credit outstanding in rural areas. Auto finance NBFCs also provide commercial vehicle loans, tractor loans and other pre and post-harvest finance options in rural areas. Since some of the low cost housing finance and micro-finance companies are expanding their reach in rural areas, the share of rural credit for NBFCs (including HFCs) is expected to increase in the coming years, considering the underpenetrated nature of the rural market. Low banking penetration in rural regions leads to lower share of banks in their overall credit (fiscal year 2016)



The primary contributors to India's systemic credit, such as co-operatives, regional rural banks (RRBs), and micro-finance NBFCs, play a key role in fulfilling the banking needs of India's rural population. This is because a large proportion of their portfolios is concentrated in rural areas. The RBI's priority sector lending norms, which include loans given to agriculture, micro, small and medium enterprises, education, housing, weaker sections, social infrastructure, and renewable energy will improve credit flow in rural areas. As per the revised norms of 2016, 75% of the total loans by RRBs must be given in the priority sector, against 60% previously, whereas commercial banks have a priority sector lending target of 40%. With the emergence of new players in the banking space (including new commercial banks such as IDFC and Bandhan Bank, along with small finance banks) and with tighter priority sector lending norms, the share of rural credit in the future bank credit will increase. The RBI has taken several steps to provide banking facilities in all unbanked villages. A roadmap to cover villages with a population of more than 2,000 was first rolled out in 2010. As of March 31, 2017, 96% (472,136 villages) of the total villages allotted had been covered. Of these, 19,875 villages have been served through brick-and-mortar branches, 431,359 villages through BCs, and 20,902 villages through other modes.

Priority sector lending certificates (PSLCs) – Introduced in April 2016, the scheme provides a mechanism to incentivise banks to diversify lending to different groups within the PSL, and thereby boosting the overall PSL market. This scheme allows a bank to benefit by selling over-achievement of targets in particular sectors through PSLCs to another bank. There are only four eligible categories of PSLCs: (i) PSLC General; (ii) PSLC Small and Marginal Farmer; (iii) PSLC Agriculture; and PSLC Micro Enterprises. Amongst the four PSLC categories, the highest trading was observed in case of PSLC –Small and marginal farmer, and PSLC – General categories, with transaction volume being Rs 229.9 billion and Rs 200.2 billion, respectively. Bandhan Bank has the second highest priority sector advances ratio, amongst its peer set in fiscal year 2017 based on disclosures in the balance sheet.

Overview of the Indian Banking Industry

Evolution of the sector and regulations and landscape and description of the various banks

The banking industry plays a crucial role in mobilising savings and stimulating the economic development of a nation. The banking structure in India has multiple layers to cater to the varied and specific requirements of customers. The existing banking structure in India has evolved over several decades, and has been serving the credit and banking services needs of the economy. The evolution of the Indian banking industry following the country's independence can be divided into three different phases. Nationalisation of banks in the first phase was one the biggest structural reforms the industry has seen. In the second phase, the Indian economy was liberalised in 1991 to make it more market and service-oriented. This move markedly improved the performance and strength of the banking structure. At present, the Indian commercial banking system is well – developed and comparable to most of the advanced and emerging economies in the world.

On-tap' Licensing of Universal Banks in the Private Sector

After a successful experience of licensing two universal banks in 2014 and granting final approvals for Small Finance Banks and Payments Banks, the Reserve Bank released the framework for granting licences to universal banks on a continuous basis. The Reserve Bank of India (RBI) has released the final guidelines for 'on-tap' licensing of Universal Banks in the Private Sector on 1 August 2016. An 'on-tap' facility would mean the RBI will accept applications and grant license for banks throughout the year. The policy allows aspirants to apply for universal bank license at any time, subject to the fulfilment of the set conditions. There are several conditions for applying for new bank licenses set for individual applicants and entities like NBFCs.

Some of the key features of the guidelines to be eligible for the on tap license are:

- Minimum 10 years of successful track record of existing NBFCs (that are resident-owned and controlled) / promoter / promoting entity / promoter group / entities / group in private sector (that are resident owned and controlled). Non-financial business of such entity / group should not account for 40% or more in cases where total assets of the entity / group is more than Rs 50 billion.

- Initial minimum paid-up voting equity capital of Rs 5 billion. Minimum net worth of Rs 5 billion at all times (also applicable to NBFCs converting into banks)

- Aggregate foreign investment limit not more than 74%.

- The entity after getting the licence of a bank as per the guidelines shall get its shares listed on the stock exchanges within six years of the commencement of business by the bank. The bank shall open at least 25% of its branches in unbanked rural centres (population up to 9,999 as per the latest census). The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic scheduled commercial banks.

As per RBI guidelines, the licensing window will be open on-tap, and the applications in the prescribed form along with requisite information could be submitted to the Reserve Bank at any point of time. The applications will be referred to a Standing External Advisory Committee (SEAC) to be set up by the Reserve Bank. The Committee will submit its recommendations to the Reserve Bank for consideration. The Internal Screening Committee (ISC), consisting of the Governor and the Deputy Governors, will examine all the applications and then submit its recommendations to the Committee of the Central Board of the Reserve Bank for the final decision to issue in-principle approval. The validity of the in-principle approval issued by the Reserve Bank will be 18 months from the date of granting in-principle approval and would thereafter lapse automatically.

Regulatory developments to control NPAs in the banking industry

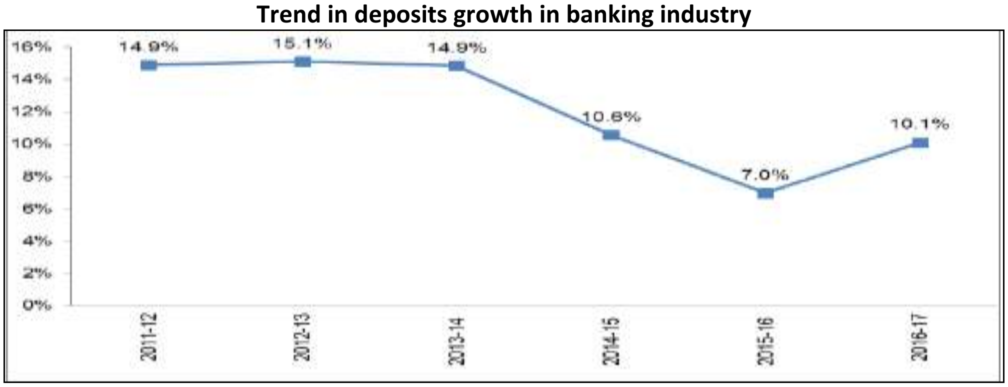
The RBI has implemented several initiatives in order to resolve the ageing issue in relation to non-performing assets, as in the past two years the gross NPA levels in the corporate (industry) sector for the overall banking industry surged to over 16%. Analysis of the GNPAs of scheduled commercial banks in different sectors indicates that the industrial sector accounts for the largest percentage of non-performing assets, its percentage of GNPAs exceeding 16% as for fiscal year 2017. This was an increase of more than 10% from fiscal year 2015. The high rate of GNPAs in the industrial sector signifies the poor performance of corporations and the credit growth of banks in the industrial sector has accordingly reduced over the past few years. On the other hand, the retail segment contains the lowest level of GNPAs, 2.2% for fiscal year 2017. Consequently, credit growth has been significantly high in the retail sector in the past two years for SCBs. GNPAs of public sector banks in the industrial sector remain very high at 19%, which has impacted the profitability of public sector banks.

Demonetisation impact

Post demonetisation spike in deposits growth to moderate in near term

Deposits with the Indian banking industry recorded a significant growth of 10.1% year on year in fiscal year 2017, compared with 7% in fiscal year 2016, owing to demonetisation. However, a lower inflation rate, record growth in the mutual funds industry (25% year on year in December 2017), a strong upswing in the stock market, and expected rate cuts in savings and term deposits by banks (in step with the 50 bps rate cut by the State Bank of India), will lower the demand for bank deposits going forward. The growth in deposits within the banking sector is expected to be moderate and will remain in single digit i.e. below 10% in fiscal years 2018. As per the latest RBI data, year on year deposits growth as of February 2, 2018 was 5.7%.

Trend in deposits growth in banking industry

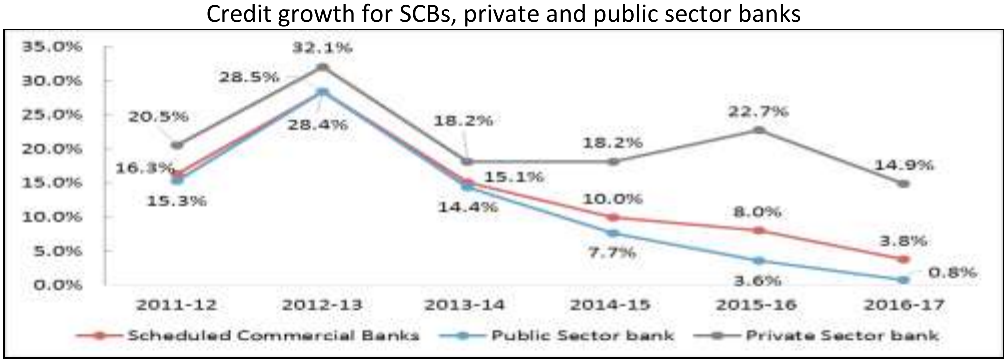


Growth potential of credit and deposits – including a comparison of rural, urban and regional outlook

Banking credit growth to recover this fiscal year

Banking credit growth slumped in the previous two fiscal years owing to asset quality and capital adequacy issues. However, CRISIL Research projects bank credit to surge in fiscal year 2018, from 3.8% in fiscal year 2017, owing to improvements in working capital demand, marginal pick-up in private investment, increased government spending on the infrastructure sector, improvements in commodity prices, and higher expectations of a good monsoon season. As per the latest RBI data, year on year credit growth as of February 2, 2018 was 11.0%. However, further growth could be depressed by poor asset quality and poor capital adequacy ratios of banks (especially for the public sector banks, or PSBs). Limits on the lending operations of a few PSBs as a result of the PCA framework could restrict credit growth in the banking sector.

Credit growth for SCBs, private and public sector banks



Retail segment growth to lead

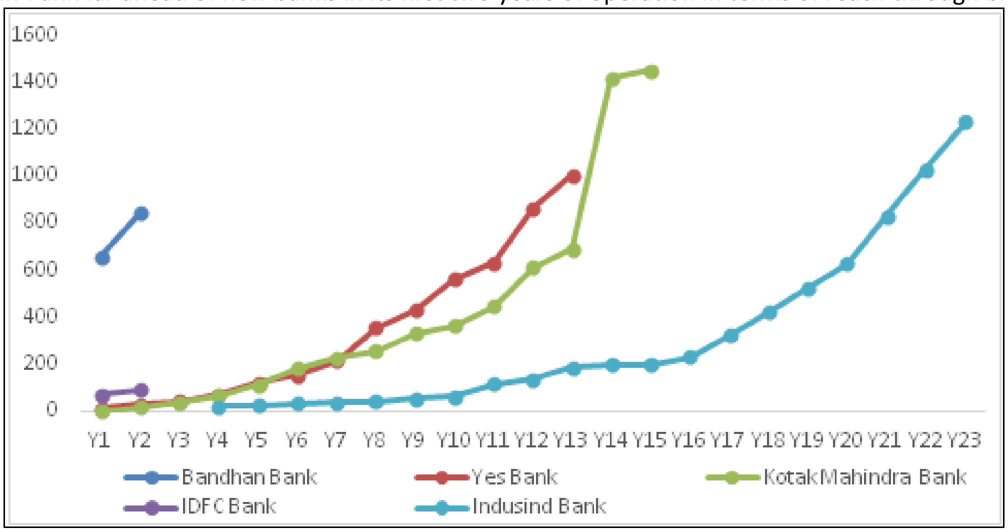
Though demonetisation significantly affected the retail sector's credit performance in fiscal year 2017, which dropped approximately 300 basis points (bps) from fiscal year 2016, growth remained significantly higher than industrial and agricultural credit growth in fiscal year 2017. The retail segment represents more than one-fifth (23% as of March 2017) of overall banking credit, and in turn, derives a major share from housing finance, with housing finance accounting for 53% in total retail credit by banks as of March 2017. Consequently, the retail segment was negatively impacted by the demonetisation-driven slump in the real estate sector. Retail credit grew approximately 16% year-on-year, while industrial credit contracted on year by 2%.

Evolution of the number of branches, CASA ratio and Advances for the new private sector banks – including Kotak Mahindra, IndusInd Bank, Yes Bank, IDFC Bank and Bandhan Bank – from inception

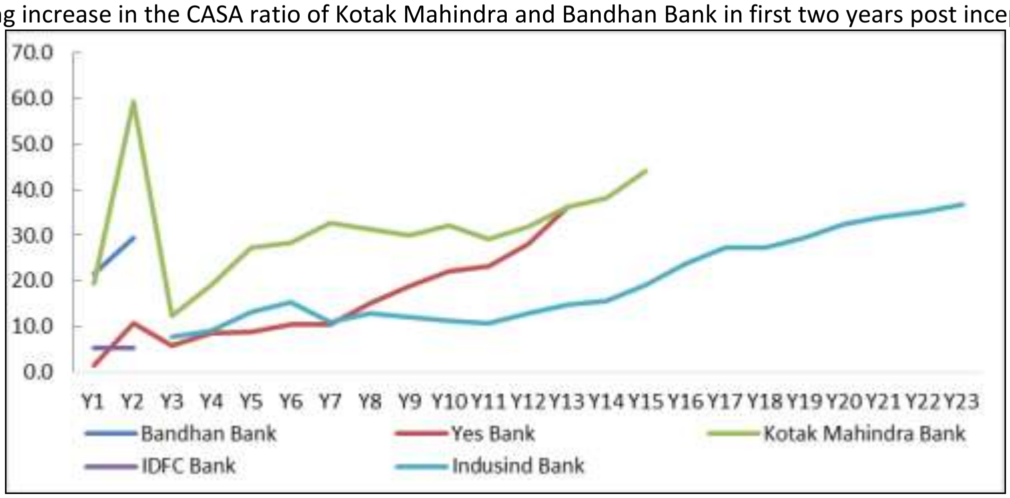
Comparative analysis of the evolution of new private banks since inception

Bandhan Bank, the biggest micro-finance player (in terms of asset size) before 2015, currently has more than 800 branches. Significantly, it was the only player to begin operations with over 500 branches. Most of its branches are micro branches catering mainly to retail customers. With its strong retail presence and high number of branches, Bandhan Bank's CASA ratio was approximately 28.18% in its second year of operation, well above many other new private banks during their initial stages.

Bandhan Bank far ahead of new banks in its first two years of operation in terms of reach through branches



Strong increase in the CASA ratio of Kotak Mahindra and Bandhan Bank in first two years post inception



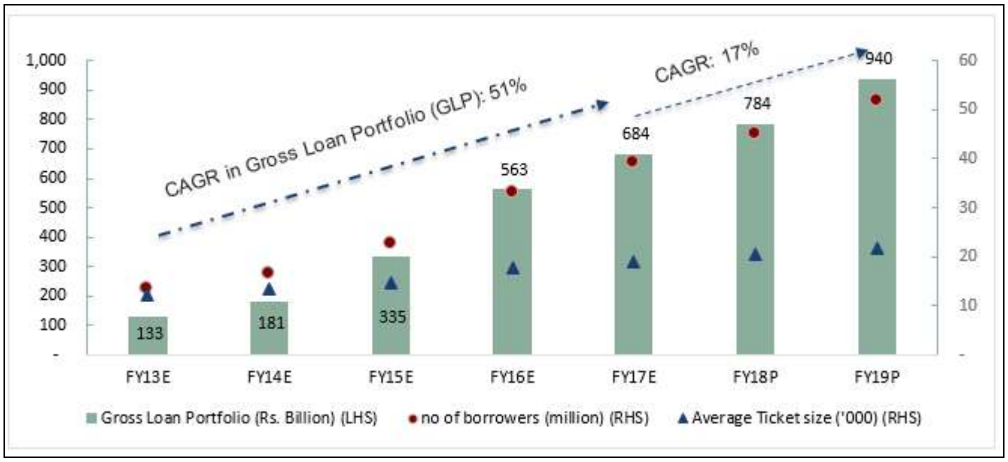
Priority sector lending

PSL includes small-value loans to farmers for agriculture and allied activities, MSMEs, poor people for housing, students for educational purposes, and other low income groups. PSL aims to ensure the adequate and timely availability of credit for those vulnerable sections which are deprived of credit due to the perceived lack of availability and creditworthiness.

Microcredit sector

Industry size to reach near INR 1 trillion in next two years driven by rising penetration

The gross loan portfolio ("GLP") of MFIs grew at 51% CAGR from fiscal year 2013 to fiscal year 2017. This growth was fuelled largely by the growth in GLP of some large players, such as Janalakshmi Micro-finance, Bharat Financial Inclusion Ltd, Ujjivan Financial Services and Satin Creditcare Network Ltd. CRISIL Research anticipates additional opportunities to capture market share from unorganised moneylenders in the future, which will continue to drive MFI industry growth. There are many unorganised moneylenders in the domestic microfinance industry. Hence, there is large scope for MFIs to grow their portfolio by covering areas that are least penetrated and where unorganised players predominate. CRISIL Research expects the MFI loan portfolio to witness healthy growth support by growth in both client base and average ticket size..



Bandhan Bank is the largest player in the micro-finance space

Bandhan Bank has the largest overall gross micro-banking asset portfolio, with Rs 213.8 billion as of March 2017, (also counting gross advances, which includes IBPC/Assignment, in the microfinance segment). Amongst the banks (private as well as public), the outstanding loans given by Bandhan Bank is more than three times higher than its closest competitor, the State Bank of India.

Industry-level asset quality by the above segments (credit costs and GNPA) (Micro-finance report)

Asset quality to improve going forward

The Portfolio At Risk (PAR) value, the percentage of total loan portfolio that is at risk, increased sharply in fiscal year 2017 due to the non-availability of cash and a slowdown in the business activity of individuals after demonetisation. Misinterpretation of RBI leeway on recognition of GNPAs to financiers, as well as loan waiver and political intervention in some states, also led to lower collections. As per MFIN Reports, at the end of March 2017, the PAR 90 level for the industry surged to 8% from 0.2% at the end of fiscal year 2016. As of Q1 FY18, the PAR 90 level improved for the industry to 6.0%. Over the next two to three years, CRISIL Research expects the PAR levels for the industry to improve as the impact of demonetisation fades and players write off the majority of non-performing loans. However, the improvement is dependent on no major events impacting the industry during this period.

Bandhan Bank registered the second-highest loan and deposit growth in fiscal year 2017 amongst its peers

Bandhan Bank's loan book grew 35% in fiscal year 2017, the highest amongst scheduled commercial banks considered in the peer set. Other banks, except for ICICI and IDFC banks, have also shown double-digit growth in their loan books. Bandhan Bank's deposit growth was second only to IDFC Bank. The deposit growth for these two banks was the highest amongst their peers on account of their lower base, as they began to accept deposits only from fiscal year 2016.

Bandhan Bank has the highest return on average assets amongst its peers in fiscal year 2017

The returns on average assets posted by Bandhan Bank was the highest amongst its peers. In terms of return on equity, the bank was second highest amongst its peers and better than other private sector scheduled commercial banks. While Bandhan Bank has the highest NIM amongst scheduled commercial banks and NBFCs/HFCs, the figure is lower than the NIMs of some MFIs and SFBs. Bandhan Bank has one of the lowest cost-to-income ratios, with only ICICI Bank and Gruh performing better.

ICICI Bank has the strongest presence amongst its peers having the highest number of branches

Being the largest private sector players, ICICI and HDFC Bank are active and present across India, with more than 4,700 branches and an employee base of more than 80,000 as of fiscal year 2017. However, Bandhan Bank has expanded its reach, with more than 800 branches and 2,443 doorstep service centres (DSCs). Compared with another new player, IDFC Bank, this is much greater excluding scheduled commercial banks, Bharat Financial Inclusion has the highest number of branches and largest employee base.

Bandhan Bank has the lowest gross NPA level amongst scheduled commercial banks in its peer set
Bandhan Bank, despite being a former micro-finance players and considering the impact of demonetisation, posted the lowest NPAs amongst scheduled commercial banks with a GNPA ratio of 0.5% in fiscal year 2017. On the other hand, ICICI Bank posted the highest NPAs amongst the SCBs due to higher loan losses in the corporate sector. The GNPAs of most of the banks surged after the RBI's asset quality review and stress in some of the key industries such as metal, steel, cement and infrastructure. Without considering RBI's dispensation, Satin Creditcare has the highest NPAs amongst its peers.

Key Concerns

BBL's limited operating history and fast growing and rapidly evolving business make it difficult to evaluate the business and future operating results on the basis of past performance, and future results may not meet or exceed past performance: BBL was incorporated on December 23, 2014 and began operations on August 23, 2015 when Bandhan Financial Services Limited ("BFSL"), its ultimate parent company, transferred its entire microfinance business to it and simultaneously commenced general banking activities. Bandhan Konnagar was formed in 2001 as a non-governmental organisation ("NGO") providing microfinance services to socially and economically disadvantaged women in rural West Bengal. BFSL started its microfinance business in 2006 and the NGO transferred its microfinance business to BFSL in 2009 and thereby the entire microfinance business was undertaken by BFSL. By the time BFSL transferred its microfinance business to BBL it was India's largest microfinance company by number of customers and size of loan portfolio. As a result of its limited operating history as a bank, there is limited historical financial and operating information available to help prospective investors to evaluate past performance as an entity with combined general banking and micro banking businesses. Its business in each sector and overall is growing and the results and amounts set forth in financial statements may not provide a reliable indication of future performance. Its failure to mitigate these risks and uncertainties successfully could materially adversely affect BBL's business and operating results, and consequently result in a decline in the trading price of Equity Shares.

If BBL is unable to manage the growth associated with the expansion of its branches, ATMs and DSCs effectively, its financial, accounting, administrative and technology infrastructure, as well as business and reputation could be adversely affected: BBL's banking businesses has successfully experienced rapid growth over the past few years. It began its operations with 501 branches servicing approximately 7 million customers located in 24 states across India as of August 23, 2015, and expanded to 887 branches servicing approximately 11.99 million customers located in 33 states as of December 31, 2017. It has also increased its number of ATMs and DSCs from 50 and 2,022 as of August 23, 2015, respectively, to 430 and 2,633 as of December 31, 2017, respectively. BBL expects the expansion of its geographic footprint and network of branches, ATMs, DSCs and customers to continue, which may further constrain capital resources and make asset quality management increasingly important. It will need to enhance and improve its financial, accounting, information technology, administrative and operational infrastructure and internal capabilities in order to manage the future growth of the business. If BBL is unable to manage the future expansion of its banking businesses successfully, its ability to provide products and services to customers would be adversely affected, and, as a result, its reputation could be damaged and business, results of operations and cash flows could be materially and adversely impacted.

A substantial portion of BBL's operations are located in East and Northeast India: A substantial number of BBL's branches and DSCs and a significant portion of its deposits and advances are located in East and Northeast India, and in particular the States of West Bengal, Bihar and Assam, or from customers from these areas. Because of this concentration, the success and profitability of its overall operations may be disproportionately exposed to regional factors. These regional factors include, among others: (i) the growth in population, income levels, and deposits, (ii) increased competition as more players enter into these geographies, (iii) general economic conditions, (iv) laws and regulations, (v) increased competition, and (vi) other developments including political unrest, depreciation of goods, floods and other natural calamities. Adverse developments in any of the above factors would affect BBL more than they might affect banks with greater geographic diversity. Any one of these events may require BBL to close branches, ATMs or DSCs, temporarily shut down operations, or lower lending levels, and may result in a material adverse change in its business, financial condition, results of operations and cash flows.

Business comprises both traditional general banking activities and modern micro banking activities: BBL offers a variety of banking products and services in the micro banking and general banking segments. Traditional banks and microfinance institutions are exposed to different risks that may impact their operations and performance, including but not limited to: regulatory requirements, geographic and industry concentration risks, varied customer demographics and borrower profiles, risks associated with secured and unsecured lending practices, and the ability to offer different types of financial products to attract customers. Its presence in each of the general banking and micro banking sectors uniquely exposes BBL overall to the risks present in each. Accordingly, such exposure to each may result in events that materially adversely impact its operations and financial performance.

Derive a substantial portion of interest income from loans that are due within one year: A substantial portion of BBL's loans, particularly within its microloan portfolio, has tenures of one to two years. The relatively short-term nature of its loans means that, while it will have some asset-liability mismatch, its long-term interest income stream is less certain than if more of its loans were for a longer term. In addition, customers may not obtain new loans from BBL upon maturity of their existing loans, particularly if competition increases. The potential instability of interest income could materially and adversely affect its results of operations, financial position and cash flows.

Microcredit lending has its own unique risks and, as a result, it may experience increased levels of nonperforming loans: Even though BBL operates within the micro banking and general banking segments, a significant portion of its operations remain extending microloans to its customers, and most of its loan portfolio consists of microloans. Its business and performance could therefore suffer as a result of the disproportionate impact that negative events affecting micro banking segment have on its business overall. The borrower profile of BBL microloan customers typically consists of an individual poor woman living in rural India, with limited sources of income, savings and credit histories, and who cannot provide with any significant collateral (secondary security) for their borrowings. Although it has adopted certain risk management policies and procedures, it cannot be assured that these policies and procedures will continue to be sufficient, adequately address unidentified or unanticipated consequences or that additional risk management policies for individual borrowers will not be required. Failure to maintain sufficient credit assessment policies, particularly for individual borrowers, could adversely affect credit portfolio, which could have a material and adverse effect on its results of operations, financial condition and cash flows. In addition, as BBL's microloans are not generally backed by collateral, they may pose a higher degree of risk than loans secured with physical collateral.

Rely primarily on deposits as a low-cost means of funding loan portfolio: Microfinance organisations do not have the same access to low-cost deposits that are available to traditional banks licensed with RBI. Hence, the costs of funds is typically higher for microfinance organisations than for traditional banks and managing the costs of funds is of vital importance to its micro lending activities. While BBL now operates as a universal bank and has successfully replaced the majority of its bank borrowings with deposits, there is no guarantee that it will be able to generate enough funding from its banking activities to fund microloan portfolio. It also cannot guarantee that such funds will be realised as quickly as anticipated or be realised at all and this may hamper its growth plans. Any inability on BBL's part to generate sufficient funding to support micro banking activities could result in higher cost of funding and, consequently, lower yields, which would have a material adverse effect on its business, financial condition, results of operations, cash flows and prospects.

An increase in portfolio of non-performing assets may materially and adversely affect the business and results of operations: BBL's management of credit risk involves having appropriate credit policies, underwriting standards, approval processes, loan portfolio monitoring, collection and remedial management and an overall architecture for managing credit risk in its business. If the credit quality of its creditors, the growth of its loan portfolio or provisioning levels deteriorate due to various factors in either division, this could have a material adverse effect on overall business, results of operations, financial condition, cash flows and prospects. Although it has credit monitoring and risk mitigation policies and procedures in place for its businesses, these policies and procedures may not be accurate, properly designed, or appropriately implemented, and it could suffer material credit losses. In addition, the expansion of BBL's business may cause its NPAs to increase and the overall quality of its loan portfolio to deteriorate. If its NPAs increase, it will be required to increase its provisions, which would result in net profit being less than it otherwise would be and could materially adversely affect the financial condition, results of operations and cash flows.

A decline in the value of security or an inability on part to enforce such security may have a material adverse effect on the value of loan portfolio and/or increase write-offs for credit and other losses: The recoverability and/or value of security or assets that has been charged to BBL as collateral could decline as a result of a deterioration in global and regional economic conditions or of security or asset values, or as a result of adverse changes in the credit quality of its borrowers and counterparties. Among other factors, it consider a mix of cash flow and availability of collateral when making lending decisions. Most of its micro loans are secured by the underlying stock purchased with such loans, and many of its other loans are secured by a variety of methods, including but not limited to liens on inventory, gold, real estate, financial accounts, receivables and other current assets, and charges on fixed assets, such as property, movable assets (such as vehicles) and financial assets (such as marketable securities). In the event of a decline in any of these sectors, some of its loans may exceed the value of their underlying collateral. Changes in security value or asset prices may cause the value of its collateral to decline. Further, the value of collateral may be less than it expects or may decline. The fluctuations in the prices of assets secured as collateral for a loan may impact its recovery amount during the enforcement of security resulting in write-offs in its loan amount. Any decline in the value of the collateral securing loans, any inability to obtain additional collateral or inability to realize the value of collateral may require BBL to increase its write-offs for credit and other losses. In such a scenario, its losses will increase and its net profits will decline.

Micro finance loan portfolio is not supported by any collateral that could help ensure repayment of the loan: BBL offers micro finance loans portfolio through each of its general banking and micro banking business models. Micro finance loan portfolio through its general banking model are offered, for example, to entrepreneurs to help in scaling up enterprises. Micro finance loans portfolio are offered through micro banking business, for example, to individuals and families to assist in starting home-based businesses and to invest in income-generating activities. Micro finance loans portfolio are at higher credit risk than secured loan portfolios because they may not be supported by realisable collateral that could help ensure an adequate source of repayment for the loan. BBL may be unable to collect in part or at all in the event of non-payment by a borrower. Further, any increase in delinquency in its micro finance loan portfolio could require it to increase provision for credit losses, which would decrease its earnings.

BBL is subject to macro-economic developments and other market factors, and its results of operations may fluctuate or decline from period to period: BBL's business is subject to a number of macro-economic factors that are outside of its control, and can lead to business and financial losses in the future, including growth in GDP, inflation, fiscal deficits, disposable household income in India, international and domestic political and economic conditions, fiscal and monetary policies of governments and central banks, and changes in interest rates. As a result of (i) the volatility of these macro-economic factors, including exchange rates and interest rates, (ii) provisions it makes from period to period for non-performing assets, commitments and contingencies (such as for letters of credit and bank guarantees), and (iii) volatility in trading operations, results of operations has varied from period to period in the past and may fluctuate or decrease in the future due to these and other factors.

Business is vulnerable to interest rate and investment-related risks: BBL's results of operations depends to a large extent on the level of its net interest earned as primary revenue source is interest earned. Net interest earned is the difference between the total interest earned that it receives on its interest bearing assets and the total interest expense that it pays on its interest-bearing liabilities. The differential between the interest rates that BBL charge on interest-earning assets and the interest rates that it pay on interest-bearing liabilities, and the volume of such assets and liabilities, tend to have a significant impact on its results of operations. An increase in interest rates could result in an increase in interest expense relative to interest earned if BBL is not able to increase the rates charged on its loans and advances or if the volume of its interest-bearing liabilities is larger or growing faster than the volume of its interest-earning assets. The differences between repricing maturities of rate sensitive liabilities and rate sensitive assets, called repricing gaps, exposes its business to interest rate risk. Its business is also exposed to interest rate risk in the form of non-uniform movement in different interest rate benchmarks that are used for pricing of assets and liabilities. Exposure of business to interest rate risks as mentioned above would also impact on the long term economic value of equity. Further, any inability to competitively price its loans and credit substitutes could negatively affect targeted volume growth, which could materially adversely affect its net profits.

Any failure or material weakness of internal control system could cause significant operational errors, which would materially and adversely affect the profitability and reputation: BBL is responsible for establishing and maintaining adequate internal measures commensurate with its size and the complexity of its operations. Its internal or concurrent audit functions are equipped to make an independent and objective evaluation of the adequacy and effectiveness of internal controls on an ongoing basis to ensure that business units adhere to its policies, compliance requirements and internal circular guidelines. While BBL periodically test and update, as necessary, its internal control systems, BBL is exposed to operational risks arising from the potential inadequacy or failure of internal processes or systems, and its actions may not be sufficient to guarantee effective internal controls in all circumstances. BBL may face operational risks in its business and there may be losses due to deal errors, deficiencies in the credit sanction process, settlement problems, pricing errors, inaccurate financial reporting, fraud and failure of critical systems and infrastructure. Though it has put systems and practices in place and are adequate, there is no guarantee that they will be successful, nor that it will be able to monitor or detect frauds that occur. In addition, it carry out certain processes manually, which may increase the risk that human error, tampering or manipulation will result in losses that may be difficult to detect. As a result, it may suffer material monetary losses. Such instances may also adversely affect its reputation.

BBL may face risks associated with large number of branches and widespread network of operations which may adversely affect the business, financial condition and results of operations: BBL has a large branch and DSC network. As of December 31, 2017, it had 887 branches, 430 ATMs, 2,633 DSCs, and more than 11.00 million customers. As a consequence of its large network, it has had to previously address difficulties in supervising and monitoring local operations and third-party outsourced service providers and has had cases where Know Your Customer ("KYC") information was not updated or available for saving accounts and micro loan accounts. Further, it may also be exposed to certain other risks owing to an expensive network, including, amongst others:

- preserving asset quality as geographical presence increases and customer profile changes
- developing and improving products and delivery channels;
- recruiting, training and retaining sufficient skilled personnel;
- upgrading, expanding and securing technology platform
- complying with regulatory requirements such as KYC; Anti Money Laundering ("AML"); Foreign Exchange Management Act ("FEMA") and Foreign Account Tax Compliance Act ("FATCA") norms
- maintaining high levels of customer satisfaction;
- difficulties arising from operating a larger and more complex organization;
- difficulties arising from coordinating and consolidating corporate and administrative functions
- delay in the transfer of data amongst various locations

- higher technology support costs to achieve last mile connectivity
- operational risks including integration of internal controls and procedures
- failure to efficiently and optimally allocate management, technology and other resources across its branch network
- failure to manage third-party service providers in relation to any outsourced services
- difficulties in the integration of new branches with its existing branch network
- difficulties in hiring skilled personnel in sufficient numbers to operate the new branches locally and management to supervise such operations from centralized locations
- failure to maintain the level of client service at all branches; and
- unforeseen legal, regulatory, property, labour or other issues

Any of the above reasons may result in BBL's failure to manage its expansive presence, which may materially and adversely affect its brand, reputation, financial condition and result of operations.

Business is highly competitive: The Indian banking industry is highly competitive. BBL face strong competition in its business from much larger government controlled public sector banks, Indian and foreign commercial banks, non-banking financial companies, payment banks, small finance banks and other financial services companies as well. Public sector banks, which generally has a much larger customer and deposit base, larger branch networks and Government support for capital augmentation, pose strong competition to BBL. Mergers among public sector banks, including those encouraged and facilitated by Government efforts, may result in enhanced competitive strengths in pricing and delivery channels for the merged entities. It may also face additional competition in the future in the Priority Sector Lending ("PSL") portfolio. As part of RBI's PSL regulation, banks not meeting the PSL requirements in their lending portfolio are able to purchase PSL Certificates ("PSLCs") from PSL-compliant banks in order to make up the deficit. BBL holds a strong PSL portfolio as it mostly lend to micro borrowers, and consequently generate significant income from selling PSLCs. An increase in competition in the micro lending segment may (i) impact or eliminate its ability to sell PSLCs or reduce the price at which it is able to do so and (ii) result in increased competitive pressures more generally, which may erode market share and/or require to reduce rates to remain competitive. In addition, BBL has faced and may face in the future attrition and difficulties in hiring at senior management, specialized functions and other levels due to competition from existing banking entities, as well as new banks and banking entities entering the market. Due to such intense competition, it may be unable to execute its growth strategy successfully and offer competitive products and services, which would have a material adverse effect on its business, financial condition, results of operations and cash flows

The rise of digital platforms and payment solutions may adversely impact floats and impact fees, and there may be disintermediation in the loan market by Fintech companies: Through BBL's electronically linked branch network and centralized processing, it effectively provide a nationwide collection, disbursement and payment systems for its clients. Disruption from digital platforms could have an adverse effect on the cash float and fees that it has traditionally received on such services. BBL also face threat to its loan market from newer business models that leverage technology to bring together savers and borrowers. Over a period, BBL may not be competitive in facing up to the challenges from such newer entrants. This may, accordingly, have an adverse impact on its business and growth strategy.

BBL face the threat of fraud and cyber-attacks targeted at disrupting its services, such as hacking, phishing and trojans, and/or theft of sensitive internal data or customer information. This may cause damage to its reputation and adversely impact BBL's business and financial results*:* BBL systemic and operational controls may not be adequate to prevent adverse impact from frauds, errors, hacking and system failures. Further, its mobile and internet-based customer applications and interfaces are exposed to being hacked or compromised by third-parties, resulting in thefts and losses to its customers and BBL. Although it has implemented steps to address gaps previously identified in its data protection cyber security framework, some cyber threats from third-parties may remain, including: (i) phishing and trojans – targeting customers, wherein fraudsters send unsolicited mails to its customers seeking account sensitive information or to infect customer machines to search and attempt ex-filtration of account sensitive information; (ii) hacking – wherein attackers seek to hack into BBL's website with the primary intention of causing reputational damage to BBL by disrupting services; (iii) data theft – wherein cyber criminals may attempt to intrude into its network with the intention of stealing its data or information; and (iv) advanced persistent threat – a network attack in which an unauthorized person gains access to its network and remains undetected for a long period of time with an intention to steal data or information rather than to cause damage to its network or organization. The frequency of such cyber threats may increase in the future with the increased digitisation of its services. Not only BBL is exposed to such risks from its own actions or those of its employees, but from actions of its third-party service providers, whom it do not control. If it become the target of any of such cyber attacks, it could materially and adversely affect the business, financial condition, results of operations and cash flows.

BBL's depends on its brand recognition, and failure to maintain and enhance awareness of its brand would adversely affect the ability to retain and expand its base of customers: Any damage to BBL's brand "Bandhan" or its reputation could substantially impair the ability to maintain or grow its business, or have a material adverse effect on its overall business, financial condition, results of operations and cash flows. If BBL fails to maintain this brand recognition with its existing and target customers due to any issues with its product offerings, a deterioration in service quality, or otherwise, or if any premium in value attributed to its business or to the brands under which its services are provided declines, market perception and customer acceptance of its brands may also decline. BBL also distribute third-party products via partnerships with external organizations whom it has limited control over. Any negative news affecting such external organizations might also affect its reputation and brand value. In such an event, BBL may not be able to compete for customers effectively, and its business, financial condition and growth prospects may be materially and adversely affected.

BBL handle cash in a high volume of transactions occurring through a dispersed network of branches and DSCs; as a result, it is exposed to operational risks, including fraud, petty theft and embezzlement, which could harm results of operations and financial position*:* As BBL handle a large amount of cash through a high volume of small transactions taking place in its network, it is exposed to the risk of fraud or other misconduct by employees or outsiders. This risk is further exacerbated by the high level of autonomy on the part of its field officers, which BBL's business model requires. Given the high volume of transactions it process on a daily basis, certain instances of fraud and misconduct may go unnoticed or may only be discovered and successfully rectified after substantial delays. Even when it discover such instances of fraud or theft and pursue them to the full extent of the law or with its insurance carriers, there can be no assurance that it will recover any of the amounts involved in these cases. In addition, its dependence upon automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect.

Success depends, in large part, upon its management team and skilled personnel and on BBL's ability to attract and retain such persons: BBL is highly dependent on the continued services of its management team, in particular, including the efforts of its Managing Director and Chief Executive Officer. It is also dependent on its experienced members of its Board of Directors and Senior Management. The RBI also mandates certain requirements (including qualification and experience requirements) for directors who sit on the board of banks and approval prior to appointment of certain directors and such requirements will make it more difficult for BBL's to replace its directors when it has to. BBL may not be able to replace its Board of Directors with similarly experienced professionals, which could materially and adversely impact the quality of its management and leadership team. It also face a continuing challenge to hire and assimilate a number of skilled personnel. Competition for management and other skilled personnel in itsr industry is intense, and it may not be able to attract and retain the personnel it needs in the future. The loss of key personnel or BBL's inability to replace key personnel may restrict its ability to grow, to execute its strategy, to raise the profile of brand, to raise funding, to make strategic decisions and to manage the overall running of its operations, which would have a material adverse impact on its results of operations, financial position and cash flows.

Deficiencies in the accuracy and completeness of information about customers and counterparties may adversely impact BBL: BBL rely on the accuracy and completeness of information about its customers and counterparties, and on representations by them or third-parties as to the accuracy and completeness of such information, while carrying out transactions with these entities or on their behalf. It also rely on credit ratings and bureau scores assigned to its customers. BBL has, in the past, identified cases where there was a deficiency in credit bureau verification. Although it has taken steps to strengthen its internal processes, its results of operations, financial condition and cash flows could be negatively impacted by reliance on missing information or information provided by third-parties that is inaccurate or materially misleading. This may affect the quality of information available to BBL about the credit history of its borrowers, especially individuals and small businesses.

Rely extensively on information technology systems and any unforeseen internal or external disruptions may have a detrimental impact on its operations: BBL's information technology systems are a critical part of its business that helps it to manage, among other things, its risk management, deposit servicing and loan origination functions, as well as its increasing portfolio of products and services. BBL is heavily reliant on its technology systems in connection with financial controls, risk management and transaction processing. In addition, BBL's delivery channels include ATMs, DSCs, mobile applications and the internet, it use to provide services and perform transactions on behalf of its customers and it may need to regularly upgrade its systems, including its software, back-up systems and disaster recovery operations so that it remains competitive. Its hardware and software systems are subject to both potential internal and external disruptions such as damage or incapacitation by human error, natural disasters, power loss, nation/region-wide interruptions in the infrastructure, sabotage, computer viruses and similar events or the loss of support services from third-parties such as internet backbone providers. There can be no assurance that it will not encounter disruptions in the future due to substantially increased numbers of customers and transactions, or for other reasons. Any inability to maintain the reliability and efficiency of BBL's systems could adversely affect its reputation, and its ability to attract and retain customers.

Success depends on ability to respond to new technological advances: BBL's success will depend, in part, on its ability to respond to new technological advances and emerging banking, capital markets, and other financial services industry standards and practices on a cost-effective and timely basis. The development and implementation of such technology entails significant technical and business risks. There can be no assurance that it will successfully implement new technologies or adapt transaction processing systems to customer requirements or improving market standards.

Business is subject to seasonality, which may contribute to fluctuations in results of operations and financial condition: BBL experience significant seasonality in its business, as demand by its customers for new micro loans is primarily concentrated during the third and fourth quarters of the fiscal year owing to agricultural conditions and other factors. Because of this demand, it typically disburse more micro loans during its third and fourth quarters than during first and second quarters. Accordingly, its results of operations in one quarter may not accurately reflect the trends for the entire financial year and may not be comparable with its results of operations for other quarters.

Operate in a highly regulated environment: BBL operates in a highly regulated environment in which it is regulated by SEBI, RBI, IRDAI, PFRDA, and other domestic and international regulators. Accordingly, legal and regulatory risks are inherent and substantial in its businesses. As it operates under licences or registrations obtained from appropriate regulators, BBL is subject to actions that may be taken by such regulators in the event of any non-compliance with any applicable policies, guidelines, circular, notifications and regulations issued by the relevant regulators. In addition, it is also exposed to the risk of any of its employees being non-compliant with insider trading rules or engaging in front running in securities markets. In the event of any such violations, regulators could take regulatory actions, including financial penalties against it and the concerned employees. This could have a materially adverse financial and reputational impact on BBL. Any change to the existing legal or regulatory framework will require BBL to allocate additional resources, which may increase its regulatory compliance costs and direct management attention and consequently affect its business.

Depends on various licenses issued by domestic and foreign regulators for banking and other operations: BBL is also required to maintain various licenses issued by domestic regulators and foreign regulators for its banking and other operations including operation of branches and DSCs. Domestically, it maintains its licenses and registrations with the RBI, IRDA, PFRDA and SEBI. Any license BBL has obtained may be revoked if it fails to comply with any of the terms or conditions relating to such license, or restrictions may be placed on its operations. Any failure to obtain, renew or maintain any required approvals, permits or licenses, may result in the interruption of all or some of its operations, which could materially and adversely affect the business, results of operations and cash flows. Any significant deficiencies identified by the RBI that BBL is unable to rectify to the RBI's satisfaction could lead to sanctions and penalties imposed by the RBI, as well as expose it to increased risks. Any failure to meet other RBI or the SEBI requirements could materially and adversely affect BBL's reputation, business, financial condition, cash flows, results of operations, pending applications or requests with the RBI and its ability to obtain the regulatory permits and approvals required to expand its business.

In order to support and grow business, BBL must maintain a minimum capital adequacy ratio: As at December 2017, BBL's capital adequacy ratio was at 26.85%. The RBI requires a minimum capital adequacy ratio of 13.0% of its total risk-weighted assets. Basel III capital regulations are effective in India from April 1, 2013 are required to be fully implemented by March 31, 2019 in a phased manner. Its ability to support and grow business would become limited if the capital adequacy ratio is low. While it may access the capital markets to offset any declines to its capital adequacy ratio, it may be unable to access the markets at the appropriate time or the terms of any such financing may be unattractive due to various reasons attributable to changes in the general environment, including political, legal and economic conditions. If BBL is unable to meet any existing or new and revised requirements, its business, future financial performance and the price of its Equity Shares could be adversely affected.

Profit & Loss **Rs in million**

Particulars	9MFY18	FY17	FY16	FY15
Income				
Interest Earned	**34,517.0**	**39,087.1**	**15,813.6**	**0.0**
Other Income	5,028.1	4,114.1	1,498.9	79.5
Total	**39,545.1**	**43,201.2**	**17,312.5**	**79.5**
Expenditure				
Interest Expended	12,828.7	15,052.1	6,485.3	0.0
Operating Expenses	9,453.4	10,220.1	6,159.2	56.5
Provisions & Contingencies	2,651.3	884.4	533.0	0.0
Total	**24,933.3**	**26,156.5**	**13,177.4**	**56.5**
Profit before tax	**14,611.8**	**17,044.7**	**4,135.1**	**23.1**
Tax Expenses				
Current tax	5,413.8	6,251.8	1,695.4	25.8
Deferred tax	-379.1	-326.6	-312.8	-8.5
Total	**5,034.8**	**5,925.2**	**1,382.6**	**17.3**
Profit after tax as restated	**9,577.0**	**11,119.5**	**2,752.5**	**5.8**
Face Value	10.0	10.0	10.0	10.0
Equity	10,951.4	10,951.4	10,951.4	5,010.5
EPS	8.7	10.2	2.5	0.0

Balance Sheet: **Rs in million**

Particulars	9MFY18	FY17	FY16	FY15
Capital & Liabilities				
Capital	10951.4	10951.4	10951.4	5010.5
Reserves & Surplus	43090.1	33513.1	22393.6	5.8
Deposits	252939.6	232286.6	120887.5	0.0
Borrowings	13306.9	10289.4	30516.5	0.0
Other liabilities and provisions	11904.5	15320.4	12816.0	252.6
Total	**332192.6**	**302360.9**	**197565.0**	**5268.9**
Assets				
Cash and balances with Reserve Bank of India	12587.1	60120.7	8102.9	0.1
Balance with Banks and Money at call and short notice	11332.0	13529.3	23631.1	4012.5
Investments	72911.6	55164.9	37580.3	0.0
Advances	229307.5	168390.8	124375.5	0.0
Fixed Assets	2329.8	2517.9	2372.3	1086.1
Other Assets	3724.5	2637.4	1502.9	170.2
Total	**332192.6**	**302360.9**	**197565.0**	**5268.9**
Contingent liabilities	300.7	236.3	49.0	1030.3

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