



## BOARDS' REPORT

To the Members,

Your Directors take great pleasure in presenting the Third Annual Report of your Bank's business and operations together with the audited accounts for the year ended March 31, 2017.

**Table 1. SUMMARY OF FINANCIAL PERFORMANCE**

(Rs. in crore)

Particulars	For the year ended	
	March 31, 2017	March 31, 2016
<b>Deposits:</b>	<b>23,228.66</b>	<b>12,088.75</b>
- Savings Bank Deposits	5,384.72	2,371.05
- Current Account Deposits	1,452.62	234.55
<b>Advances:</b>	<b>16,839.08</b>	<b>12,437.55</b>
- Cash credits, overdrafts and loans repayable on demand	344.48	84.60
- Term loans	16,494.60	12,352.95
<b>Total Assets/Liabilities</b>	<b>30,236.09</b>	<b>19,756.50</b>
Net Interest Income	2,403.50	932.84
Other Income:	411.41	149.89
- Fee Income	320.41	145.42
- Misc. Income	91.00	4.47
Operating Expenses (excluding depreciation)	955.15	580.14
<b>Profit before Depreciation, Provisions and Tax</b>	<b>1,859.76</b>	<b>502.59</b>
Depreciation	66.86	35.78
Provision for Tax	592.52	138.26
Other Provisions [Include Write-offs of Rs. 31.19 Crore]	88.43	53.30
<b>Net Profit</b>	<b>1,111.95</b>	<b>275.25</b>



<b>Balance in Profit &amp; Loss Account brought forward from previous year</b>	<b>215.38</b>	<b>0.58</b>
<b>Appropriations:</b>		
Transfer to Statutory Reserve	277.99	68.96
Transfer to Investment Reserve	-	-
Transfer to Capital Reserve	0.91	-
Transfer to/(from) Reserve Fund	-	-
Proposed Dividend	-	-
<b>Surplus carried over to Balance Sheet</b>	<b>1048.43</b>	<b>206.87</b>
<b>EPS (Basic &amp; Diluted)</b>	<b>10.15</b>	<b>3.40</b>

## PERFORMANCE OF THE BANK

The Bank commenced its banking business with effect from August 23, 2015, with 501 branches on a pan-India basis and on March 31, 2017, its network consisted of 840 branches spread across metro, urban, semi-urban and rural areas. Out of the total 840 branches, 32.62% per cent branches are in rural areas demonstrating your Bank's commitment to financial inclusion. The number of Doorstep Service Centre (DSC) increased from 2,022 to 2,443 between March 31, 2016 and March 31, 2017. With the expanding network of branches and DSC's, the number of customers grew by over a quarter during 2016-17, with a corresponding growth in total deposits of 92 per cent to Rs. 23,228.66 crore, of which Rs. 6837.34 crore or 29.43% was Current Account and Savings Bank (CASA).

Your Bank, while providing service to customers and working on financial inclusion, also enhanced shareholders' value by posting an increase of 149.54 per cent in total income to Rs. 4,320.12 crore in 2016-17. The profit after tax of Rs. 1,111.95 crore in 2016-17, after provisions of Rs. 680.95 crore, implies an increase in Return on Equity (ROE) from 16 per cent to 28.51 per cent, in Return on Assets (ROA) from 3.08 per cent to 4.47 per cent, basic earnings per share (EPS) from Rs. 3.40 to Rs 10.15, and diluted earnings per share from Rs 3.40 to Rs 10.15 between 2015-16 and 2016-17. The net interest margin (NIM) went down from 11.04 per cent in the previous year to 10.44 per cent in 2016-17.



Priority Sector Lending (PSL), or lending to critical players of the economy such as small and marginal farmers, and micro-enterprises, continued to be the core strength of your Bank, and PSL went up from Rs. 12,268.81 crore on March 31, 2016 to Rs. 16,456.64 crore on March 31, 2017. At the end of 2016-17, as a proportion of the net advances of Rs. 16,864.17 crore, PSL at 97.58 per cent was marginally lower than 98.58 per cent at the end of 2015-16, but still well above the regulatory requirement of 40 per cent.

Your Bank introduced a new product -- Small Enterprises Loan (SEL). SEL is a loan between Rs. 1 lakh and Rs. 10 lakh, without collateral, given for income generating activities of small enterprises. Small Enterprises are those enterprises whose investment in plant and machinery or equipment does not exceed Rs. 25 lakh for manufacturing enterprise and service enterprises, respectively. Given for working capital requirement, assets creation for business, and other short term business requirements, total SEL advances stood at Rs. 1054.48 crore on March 31, 2017. A modest beginning, but with the potential of scaling up.

Your Bank also introduced Gold Loan Product, Bank Guarantee Module of Trade Finance, Next Gen Yuva-Loan for Unemployed Youth to do 1 Year Residential Next Gen Yuva Programme in Banking.

The withdrawal of legal tender status of specified bank notes (SBN), namely denominations of Rs. 500 and Rs. 1,000 already issued, on November 8, 2016 tested the operational abilities of all banks in India, including yours. Your Bank stepped into the implementation of exchange of SBN for other currency notes, which were scarce for several weeks, by not only its own customers but also others, and acquitted itself creditably. It also provided all its support to its customers to depositing SBN into their accounts within the parameters set by the regulators.



## **DIVIDEND**

Considering that it is desirable to plough back the income for generating growth of business in the initial few years, the Board does not recommend any dividend for 2016-17.

Since the Bank has not declared any dividend since its incorporation, in terms of Section 125 of the Companies Act, 2013 (“the Act”), there is no unclaimed dividend relating to the financial year 2016-17, which requires to be transferred to the Investors Education and Protection Fund as per statutory requirement.

## **BOARD OF DIRECTORS**

The composition of the Board of Directors of the Bank (“Board”) is governed by the provisions of the Companies Act, 2013 and the Banking Regulation Act, 1949. Board of your Bank consists of thirteen directors, of whom nine, an overwhelming majority, are Independent Directors. Of the remaining four, one Nominee Director (Non-executive) each is from International Financial Corporation and Caladium Investment Pte Ltd., one is a Non-executive & Non-Independent Additional Director, and one Managing Director and CEO.

Dr. Ashok Kumar Lahiri is the Non-executive Chairman of the Bank and Shri Chandra Shekhar Ghosh is the Managing Director & CEO. Other than Shri Ghosh, all Directors on the Board are non-executive.

Shri Ranodeb Roy [DIN: 00328764] was appointed as Non-executive Director of the Bank, liable to retire by rotation, with effect from July 26, 2016, subject to the approval of the Shareholders of the Bank at the 3<sup>rd</sup> Annual General Meeting of the Bank. The ordinary resolution in respect of this appointment has been included in the Notice convening the 3<sup>rd</sup> Annual General Meeting of the Bank. The notice also contains a brief profile of Shri Ranodeb Roy as an annexure.



Smt. Georgina Elizabeth Baker [DIN: 06601316] was appointed as Nominee Director of the Bank, not liable to retire by rotation, with effect from July 26, 2016.

Apart from the above, no other Director was appointed or resigned during the year under review.

The composition of the Board and attendance of the members at the meetings follow:

<b>Table 2. Board of Directors and Attendance at Meetings</b>		
<b>Name of Director</b>	<b>Number of Board Meetings Attended (total 8 meetings)</b>	<b>Attendance at AGM on June 20, 2016</b>
Dr. Ashok Kumar Lahiri, <i>Chairman</i>	8	Present
Shri Chandra Shekhar Ghosh, MD & CEO	8	Present
Shri Bhaskar Sen	8	Present
Shri Boggarapu Sambamurthy	7	No
Shri Chintaman Mahadeo Dixit	7	Present
Sm. Gerogina Elizabeth Baker	3 <sup>1</sup>	N.A.
Dr. Holger Dirk Michaelis	6	No
Prof. Krishnamurthy Venkata Subramanian	6	No
Shri Pradip Kumar Saha	7	Present
Shri Ranodeb Roy	5 <sup>2</sup>	N.A.
Shri Sisir Kumar Chakrabarti	6	No
Shri Snehomoy Bhattacharya	6	No
Sm. T. S. Raji Gain	8	Present

<sup>1</sup> Sm. Georgina E. Baker was appointed with effect from July 26, 2016.

<sup>2</sup> Shri Ranodeb Roy was appointed with effect from July 26, 2016.



### **Selection and appointment of Directors**

The appointment of Directors is guided by the provisions of the Companies Act, 2013 and the Banking Regulation Act, 1949 and the guidelines issued by the RBI in this regard. While appointing a Director on its Board, your Bank follows the direction of RBI with regard to 'fit and proper' criteria as applicable to private sector banks, signing of deed of covenants which includes the requirement for Directors to discharge their duties and responsibilities to the best of their abilities, individually and collectively, in order to be eligible to be appointed as Directors of the Bank. Every year, the declarations given by the Directors are reviewed by the Nomination & Remuneration Committee of the Board (NRC) and sent with the NRC's recommendations to the Board for its review and noting.

### **Declaration from Independent Directors**

All the Independent Directors of your Bank have given their respective declarations stating that they meet the criteria of independence as laid down under Section 149(6) and (7) of the Companies Act, 2013. In the opinion of the Board, the Independent Directors meet the requirements of Section 149 of the Companies Act, 2013.

### **Key Managerial Personnel**

Shri Chandra Shekhar Ghosh, Shri Sunil Samdani and Shri Indranil Banerjee, continue to be the Managing Director & CEO, Chief Financial Officer and Company Secretary, respectively. These three personnel are statutorily required under Section 203 of the Companies Act, 2013.

### **Board Evaluation**

The NRC, and subsequently the Board, have approved "Performance Evaluation Policy for the Board, Non-independent/ Whole Time Directors and Independent Directors." A questionnaire for the evaluation of the Board and its Committees, and of individual Directors, covering various aspects of their respective performance, including quality, roles, responsibilities, process, functioning, adherence to the code of conduct, and best practices, was sent out to the Directors. The responses were discussed and reviewed at



a meeting of the Independent Directors, where an individual Director being evaluated recused himself/herself. The NRC, after taking into account this review by the Independent Directors, also examined the performance of the all the Directors. Board evaluation has provided some valuable inputs for underscoring the optimal role and responsibilities of the Board and its Committees, for their functioning, and streamlining and improving the quality, quantity and timeliness of flow of information between Bank Management and the Board to effectively and reasonably perform its duties.

### **Board meetings**

There were eight meetings of the Board during 2016-17 in calendar 2016, on April 13, May 11, June 20, July 26, September 19 and November 11, and in 2017, on January 19 and February 22 functioning.

### **Board Committees**

The Board has constituted the following committees to oversee specific areas.

- Audit Committee,
- Nomination & Remuneration Committee,
- Risk Management Committee.
- Information Technology Strategy Committee,
- Customer Service Committee,
- Corporate Social Responsibility Committee, and
- Special Committee for Monitoring High Value Fraud.

### **Audit Committee**

The Audit Committee provides direction to the audit function, and monitors the quality of internal and statutory audit. Its responsibilities include examining the financial statements and auditors' report and overseeing the financial reporting process to ensure fairness, sufficiency and credibility of financial statements, recommending appointment, terms of appointment and removal of statutory auditors, and reviewing and monitoring, jointly with Management, the internal audit of the Bank.



On March 31, 2017, the Audit Committee comprised of four Independent Directors and was chaired by Shri Chintaman Mahadeo Dixit. During 2016-17, the Committee met seven times on April 13, May 10, July 25, September 19, and November 7 in 2016, and on January 17 and March 13 in 2017.

The composition of the Committee and attendance of the members at the meetings follow:

<b>Table 3. Audit Committee of the Board and Attendance at Meetings</b>	
<b>Name of Member</b>	<b>Number of meetings attended by the members out of the total meeting of 7</b>
Shri Chintaman Mahadeo Dixit , <i>Chairman</i>	6
Shri Bhaskar Sen,	7
Shri Sisir Kumar Chakrabarti	5
Shri Pradip Kumar Saha (Note 1)	1

**Note :** 1. Shri Pradip Kumar Saha was appointed as member of the Committee with effect from January 19, 2017.

### **Nomination & Remuneration Committee**

#### *Criteria for Directors' Appointment*

The NRC evaluates the composition of the Board and recommends how to fill up vacancies arising in the Board from time to time. While recommending candidature of a Director, it considers the special knowledge or expertise possessed by the candidate as specified under the Banking Regulation Act, 1949.

The Committee also evaluates prospective candidates for the position of a Director from the perspective of the criteria for independence prescribed under the Companies Act, 2013. For a non-executive Director to be classified as independent, he/she must sign a declaration of independence. The Committee reviews the same and determines the independence of a Director.





### *Remuneration policy*

RBI *vide* its circular DBOD No. BC. 72/29.67.001/2011-12 dated January 13, 2012, has issued guidelines on “Compensation of Whole-time Directors/Chief Executive Officers/Risk takers and Control function staff etc.” for implementation by private sector banks and foreign banks from the financial year 2012-13. The Bank’s Compensation Policy, adopted in March, 2016, is in line with the RBI circular and also in compliance with the requirements of the Remuneration Policy as prescribed under Companies Act, 2013.

The remuneration payable to non-executive/independent Directors is governed by the provisions of the Banking Regulation Act, 1949, RBI guidelines issued from time to time and the provisions of the Companies Act, 2013, and related rules to the extent these are not inconsistent with the provisions of the Banking Regulation Act, 1949/RBI guidelines. The permitted modes of remuneration for the non-executive/independent Directors are sitting fee for attending each Meeting of the Committee/Board as approved by the Board from time to time within the limits as provided under the Companies Act, 2013, and related rules.

On March 31, 2017, the NRC comprised four Directors including three independent Directors and the Managing Director & CEO, and was chaired by Shri Bhaskar Sen, an Independent Director. There were six meetings of the Committee during the financial year 2016-17 – on April 13, May 9, July 26, and November 10, in 2016; and on January 18, and March 21, in 2017. Composition of the Committee and attendance at its meetings follow.



<b>Table 4. Nomination &amp; Remuneration Committee of the Board and Attendance at Meetings</b>	
<b>Name of Member</b>	<b>Number of meetings attended by the members out of the total meeting of 6</b>
Shri Bhaskar Sen, <i>Chairman</i>	6
Shri Chandra Shekhar Ghosh	6
Shri Boggarapu Sambamurthy	5
Shri Snehomoy Bhattacharya	5
Shri Ranodeb Roy (Note 1)	3

**Note :** 1. Shri Ranodeb Roy was appointed as member of the Nomination & Remuneration Committee with effect from September 19, 2016.

### **Risk Management Committee**

The Risk Management Committee has been formed as per guidelines of RBI on Risk Management Systems. The functions of the Committee are to review the Bank's risk management policies pertaining to credit, market, liquidity, operational, outsourcing, reputation, business continuity and disaster recovery plan.

On March 31, 2017, the Risk Management Committee comprised five Directors and was chaired by Shri Bhaskar Sen, an independent Director. There were four Meetings of the Committee during the financial year 2016-17 - on May 10, September 20, and November 10, in 2016, and on March 14, 2017. Committee composition and attendance at its meetings follow.



**Table 5. Risk Management Committee and Attendance at Meetings**

<b>Name of Member</b>	<b>Number of meetings attended by the members out of the total meeting of 4</b>
Shri Bhaskar Sen, <i>Chairman</i>	4
Shri Chandra Shekhar Ghosh	4
Prof. Krishnamurthy Venkata Subramanian	3
Shri. Ranodeb Roy (Note 1)	2
Shri. Pradip Kumar Saha (Note 2)	1

- Note :** 1. Shri Ranodeb Roy was appointed as member of the Committee with effect from September 19, 2016.
2. Shri Pradip Kumar Saha was appointed as member of the Committee with effect from November 11, 2016.

### **Information Technology (IT) Strategy Committee**

The IT Strategy Committee, constituted pursuant to RBI circulars/guidelines, approves strategy for IT and policy documents, ensures that IT strategy is aligned with the business strategy, reviews IT risks, ensures proper balance of IT investments for sustaining the Bank's growth, oversees the aggregate funding of IT at Bank-level, ascertains if Management has adequate resources to ensure proper management of IT risks and reviews the contribution of IT to the Bank's business.

On March 31, 2017, the IT Strategy Committee comprised three Directors -- two Independent Directors and the Managing Director & CEO -- and was chaired by Shri Boggarapu Sambamurthy, an Independent Director. There were four meetings of the Committee during 2016-17 - on July 28, September 20, and December 26, in 2016, and on March 21, 2017. Composition of the Committee and attendance at its meetings follow.



**Table 6. IT Strategy Committee and Attendance at Meetings**

<b>Name of Member</b>	<b>Number of meetings attended by the members out of the total meeting of 4</b>
Shri Boggarapu Sambamurthy, <i>Chairman</i>	4
Shri Chandra Shekhar Ghosh	4
Prof. Krishnamurthy Venkata Subramanian	4

### **Customer Service Committee**

The functions of the Customer Service Committee of the Board, constituted pursuant to RBI circulars/guidelines, include reviewing customer service initiatives, overseeing the functioning of customer service, evolving innovative measures for enhancing the quality of customer service and improving the overall satisfaction level of customers.

On March 31, 2017, the Customer Service Committee comprised three Directors, including two independent Directors and Managing Director & CEO, and was chaired by Shri Sisir Kumar Chakrabarti, an Independent Director. There were four meetings of the Committee during 2016-17 - on June 7, September 21, and December 21, in 2016, and March 29, 2017. Composition of the Committee and attendance at its meetings follow

**Table 7. Customer Service Committee and Attendance at Meetings**

<b>Name of Member</b>	<b>Number of meetings attended by the members out of the total meeting of 4</b>
Shri Sisir Kumar Chakrabarti, <i>Chairman</i>	4
Shri Chandra Shekhar Ghosh	4
Shri Pradip Kumar Saha	4



## Corporate Social Responsibility Committee

The functions of the Corporate Social Responsibility Committee include review of Corporate Social Responsibility (CSR) initiatives undertaken by the Bank for inclusive growth, formulation and recommendation to the Board of a CSR Policy indicating the activities to be undertaken by the Bank, and the amount of expenditure to be incurred on such activities. It also makes recommendations to the Board with respect to the CSR initiatives, policies and practices of the Bank, monitors the conformity of CSR activities, implementation and compliance with the CSR Policy, and reviews and implements, if required, any other matter related to CSR initiatives as recommended/suggested by RBI or any other body.

On March 31, 2017, the CSR Committee comprised three Directors including two Independent Directors and the Managing Director & CEO, and was chaired by Sm. Thekedathumadam Subramani Raji Gain, an Independent Director. During the financial year, there was two meetings of the Committee on June 7, 2016 and March 13, 2017. The composition of the Committee and attendance at its meetings follow

<b>Table 8. Corporate Social Responsibility Committee and Attendance at Meetings</b>	
<b>Name of Member</b>	<b>Number of meetings attended by the members out of the total meeting of 2</b>
Smt. Thekedathumadam Subramani Raji Gain	2
Shri Pradip Kumar Saha	2
Shri Chandra Shekhar Ghosh	2

Details of the policy developed and implemented by the Bank on CSR initiatives taken during 2016-17 have been hosted on the website of the Bank <http://www.bandhanbank.com/pdf/CSR-Policy-New-Format.pdf>. The Annual Report on CSR activities is at **Annexure 1**.



### Special Committee for Monitoring High Value Fraud

The Special Committee for Monitoring High Value Fraud was constituted as per RBI circulars/guidelines. The Committee is required to meet and review as and when a fraud involving an amount of Rs. 1 crore and above comes to light.

At March 31, 2017, the Special Committee for Monitoring High Value Fraud comprised five Directors including four independent Directors and the Managing Director & CEO, and was chaired by Shri Sisir Kumar Chakrabarti, an Independent Director. Since there was no fraud during 2016-17 involving an amount Rs. 1 crore or more, no meeting of the Committee was required to be held. The details of the composition of the Committee follow.

<b>Table 9. Special Committee for Monitoring High Value Fraud</b>	
<b>Name of Member</b>	<b>Number of meetings held</b>
Shri Sisir Kumar Chakrabarti, <i>Chairman</i>	Nil
Shri Chandra Shekhar Ghosh	Nil
Shri Bhaskar Sen	Nil
Shri Pradip Kumar Saha	Nil (Note -1)
Shri Snehomoy Bhattacharya	Nil (Note -2)

**Note :** 1. Shri Pradip Kumar Saha was appointed as member of Special Committee for monitoring High Value Fraud with effect from July 26, 2016.

2. Shri Snehomoy Bhattacharya was appointed as member of Special Committee for monitoring High Value Fraud with effect from July 26, 2016.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 134(3)(c) of the Companies Act, 2013, the Directors confirm:

- i) that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanations relating to material departures;



- ii) that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on March 31, 2017, and of the profit of the Bank for the year ended on that date;
- iii) that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013, for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;
- iv) that they have prepared the annual accounts on a going concern basis; and
- v) that they have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and were operating effectively.

#### **ISSUANCE/TRANSFER OF EQUITY SHARES**

Your Bank did not issue any equity shares during the financial year 2016-17. There was one transfer of 1,89,14,511 equity shares on May 11, 2016 as per details given below:-

<b>Table 10. Transfer of Equity Shares on May 11, 2016</b>					
<b>Name of Transferor</b>	<b>Name of Transferee</b>	<b>No. of shares</b>	<b>Share Certificate Nos.</b>	<b>Distinctive Number</b>	
				<b>From</b>	<b>To</b>
International Finance Corporation	IFC FIG Investment Company I	1,89,14,511	14	98,29,57,483	1,00,18,71,993
<b>TOTAL</b>		<b>1,89,14,511</b>			

As on March 31, 2017, the issued, subscribed and paid up capital of your Bank stood at Rs. 1095,14,10,340 comprising 109,51,41,034 equity shares of Rs. 10 each fully paid.



## **INFORMATION ABOUT FINANCIAL PERFORMANCE / FINANCIAL POSITION OF THE SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE COMPANIES**

The Bank does not have any subsidiaries, associates and Joint Venture Companies.

### **CAPITAL ADEQUACY RATIO**

Your Bank's Capital Adequacy Ratio (CAR), calculated in line with the relevant capital regulations, stood at 26.36 per cent on March 31, 2017, well above the minimum regulatory requirements of 13.0 per cent.

### **INTERNAL FINANCIAL CONTROLS, AUDIT AND COMPLIANCE**

Your Bank has an Internal Audit department and a Compliance department, which independently carry out evaluation of the adequacy of all internal controls, and ensure that operating and business units adhere to laid down internal processes and procedures as well as to regulatory and legal requirements. The audit department also proactively recommends improvements in operational processes and service quality. To mitigate operational risks, the Bank has put in place extensive internal controls including audit trails, appropriate segregation of front and back office operations, post-transaction monitoring processes at the back end to ensure independent checks and balances, adherence to the laid down policies and procedures of the Bank and to all applicable regulatory guidelines. Your Bank has adhered to the highest standards of compliance and governance and has put in place controls and appropriate structure to ensure this. To safeguard independence, the internal audit department reports directly to the Chairman of the Audit Committee of the Board. The Audit Committee of the Board also reviews the performance of the Audit department and Compliance department and reviews the effectiveness of controls and compliance with regulatory guidelines. The Board of Directors confirms that there are internal controls in place with reference to the Financial Statements and that such controls are operating effectively.





## **PARTICULARS OF EMPLOYEES**

The Bank had 24,220 employees on March 31, 2017. The details of employees in terms of Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, are appended separately as **Annexure - 2** and form part of this report.

## **RELATED PARTY TRANSACTIONS**

Pursuant to the proviso of Section 188(1) of the Companies Act, 2013, details of transactions with related parties are appended in **Annexure - 3**.

## **PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS**

Pursuant to Section 186 (11) of the Companies Act, 2013, the provisions of Section 186 of Companies Act, 2013, except sub-section (1), do not apply to a loan made, guarantee given or security provided by a banking company in the ordinary course of business. Further, in terms of the Companies (Removal of Difficulties) Order, 2015, nothing in Section 186 except sub section (1) shall apply to any acquisition made by a banking company in the ordinary course of business. The particulars of investments made by the Bank are disclosed in Schedule 8 of the Financial Statements as per the applicable provisions of the Banking Regulation Act, 1949.

## **WHISTLE BLOWER POLICY/ VIGIL MECHANISM**

The Bank has adopted a Whistle Blower Policy pursuant to which employees of the Bank can raise their concerns relating to fraud, malpractice or any other activity or event which is against the interest of the Bank or society as a whole. As per the Whistle Blower Policy, the Audit Committee has been entrusted with the responsibility of reviewing the complaints received and the action taken thereof.

## **CORPORATE SOCIAL RESPONSIBILITY**

In alignment with the vision of the Bank, CSR initiatives continued to endeavour helping the poorest of the poor, who are difficult to include under even the micro-banking activity



of your Bank, by proffering them not only financial assistance but also hand-holding and mentoring about the optimal use of funds. The outcome that your Bank strives for is to lift some of the poorest of the poor into the mainstream of society by making them able to generate sustained income on their own in due course. The civil society organisation Bandhan Konnagar continued to provide valuable partnership in this mission of your Bank.

The details of CSR activities/projects undertaken during the year is given as **Annexure - 1** and forms part of this Board Report.

### **SIGNIFICANT AND MATERIAL ORDERS PASSED BY REGULATORS OR COURTS OR TRIBUNALS**

During the year under review no significant or material orders were passed by any Regulators or Courts or Tribunals against the Bank.

### **AUDITORS**

At the Annual General Meeting (AGM) held on June 20, 2016, the members ratified the appointment of M/s S. R. Batliboi & Associates, LLP, Chartered Accountants, 22, Camac Street, Block C, 3<sup>rd</sup> Floor, Kolkata - 700016 (ICAI Firm Registration Number 101049W) as statutory auditors till the conclusion of the next AGM. As recommended by the Audit Committee, the Board has proposed the ratification of the appointment of S. R. Batliboi & Associates, LLP, Chartered Accountants, as Statutory Auditors for the financial year 2017-18.

### **SECRETARIAL AUDITORS**

Pursuant to the provisions of Section 204 of the Companies Act, 2013, and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Bank has appointed Shri Deepak Kumar Khaitan, Practising Company Secretary (C.P. 5615) to conduct Secretarial Audit of the Bank. The Secretarial Audit Report is given in **Annexure - 4** to this report.



There are no qualifications, reservations or adverse remarks made by M/s. S.R. Batliboi & Associates. LLP, Chartered Accountants, Statutory Auditors of the Bank, in their Auditors' report, or by Shri Deepak Kumar Khaitan, Practicing Company Secretary (C.P. 5615), Secretarial Auditors of the Bank, in their Secretarial Audit Report.

## RATING

Table 11. Rating of Bank's Financial Securities			
Instrument	Rating	Rating Agency	Amount
Long - term Bank Facilities	Care AA-	Care Ratings	Rs. 133.97 crore
Unsecured Subordinated Non-Convertible Debenture	Care AA-	Care Ratings	Rs. 160 crore
	[ICRA]AA-	ICRA	
Term Loan from Banks	[ICRA]AA-	ICRA	Rs. 80 crore
Certificate of Deposit	[ICRA]A1+	ICRA	Rs. 500 crore

## CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Considering the nature of activities of the Bank, the provisions of Section 134(m) of the Companies Act, 2013, read with Rule 8 of the Companies (Accounts) Rules, 2014 relating to conservation of energy and technological absorption do not apply to the Bank. The Bank is however, constantly pursuing its goal of technological up-gradation in a cost-effective manner for delivering quality customer service. There were no foreign exchange earnings and outgo during 2016-2017.



## EXTRACT OF ANNUAL RETURN

Pursuant to Section 92 (3) of the Companies Act, 2013, and Rule 12 (1) of the Companies (Management and Administration) Rules, 2014, the extract of the Annual Return is at **Annexure - 5**.

## MANAGEMENT'S DISCUSSIONS AND ANALYSIS

The Management Discussion and Analysis report enclosed as **Annexure - 6** forms part of this report.

## INFORMATION UNDER THE SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013

Your Bank has zero tolerance towards any action on the part of any executive which may fall under the ambit of 'Sexual Harassment' at workplace, and is fully committed to uphold and maintain the dignity of every woman executive working in the Bank. The Bank takes all necessary measures to ensure a harassment-free workplace and has instituted an Internal Complaints Committee for redressal of complaints and to prevent sexual harassment. The Policy provides for protection against sexual harassment of women at workplace and for prevention and redressal of such complaints.

Number of complaints pending as at the beginning of the financial year	Number of complaints filed during the financial year	Number of complaints pending as on the end of the financial year
1	4	Nil

## RESERVES

As required under Section 134(3)(j) of the Companies Act, 2013, the reserves as on the close of 2016-17 stood at Rs. 3351.31 crore.



## **DEPOSITS**

The details of the deposits received and accepted by your Bank as a banking company are enumerated in the financial statement for the year ended March 31, 2017.

## **HUMAN RESOURCE MANAGEMENT**

Your Bank recognizes that strategic human resource is key to organizational success. Thus, the goal of the Human Resources (HR) department is to ensure that the employees are recruited, engaged, retained and motivated to contribute to the Bank's growth and strategic mission. The HR Department proactively engages with employees at all levels for this purpose. The vision is to create an environment and culture of learning and superior performance by living the Bank's corporate values and aligning the personal aspirations of employees to business imperatives.

The employee engagement initiatives includes placing greater emphasis on learning & development, providing opportunities to staff to seek aspirational roles, streamlining the Performance Management System and introducing performance-linked rewards. A host of programs are being run to meet the on-going learning and development needs in the Bank and promote a climate of learning, self-growth and excellence. The learning architecture in your Bank focuses on:

1. Developing tailor-made, competency-mapped programs for different sets of employees, based on their roles in the Bank.
2. Induction/orientation of new hires for inculcating the culture of the Bank.
3. Training on operational risk, audit, compliance and regulatory aspects for frontline staff.
4. People management, customer-centric, and compliance-based programmes for employees in leadership roles.

Through its eight residential training centers across the country, and through a wide range of training programs, your Bank has provided 85,354 days of training to its employees,



spread across departments and functions, to build their professional competence and improve their skill set, so as to contribute to your Bank's mission.

Additionally, the Bank continues to engage with leading management institutes for leadership and management development programs and specialized programs for employees across senior and mid-management levels of staff.

Your Bank believes that the Performance Management (PM) process is a powerful driver of individual and corporate performance. An online PM System (PMS), with focus on building transparency in performance assessments, employee ownership of the goals and encouraging dialogue on performance and developmental feedback between the appraisee and appraiser, was introduced in your Bank. Softer behavioural attributes, like the employee's adherence to values of the organization, customer focus, accountability, ability to work in a team, etc. build a culture conducive to sustainable business performance and promote desired behaviour. Recognising their importance, attention was also paid to such softer behavioural attributes.

Your Bank shall continue to leverage and/or align HR practices to build critical organizational capabilities, build a conducive work environment to enhance and shape employee satisfaction, and enable achievement of the strategic goals.

## **RISK MANAGEMENT FRAMEWORK**

Your Bank's risk management framework seeks to ensure that there is an effective process in place to manage risks across the Bank. Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. The Board of Directors has oversight on all the risks assumed by the Bank.

The Risk Management Committee of the Board (RMCB) reviews risk management policies of the Bank pertaining to credit, market, liquidity, operational, outsourcing and business



continuity management. Policies approved from time to time by the Board of Directors/Committees of the Board form the governing framework for each type of risk.

The Audit Committee of the Board (ACB) provides direction to and monitors the quality of internal audit function. The internal audit function monitors the effectiveness of the Bank's risk program and provide objective assurance that risks are being managed appropriately.

As a part of ensuring senior Management participation, specific Committees, e.g., Credit Risk Management Committee (CRMC) for Credit Risk, Operational Risk Management Committee (ORMC) for Operational Risk, Asset Liability Committee (ALCO) for Market Risk and Asset Liability Management, have been constituted to facilitate focused oversight of various risks and report to the RMCB.

The overall Risk Limits and Appetite Statements are approved by the Board of Directors. The Risk Appetite Framework (RAF) guides Management on the desired level of risk for various types of risk and helps steer the decision making process. The Board reviews the risk profile of the Bank, as approved by the RMCB, on a regular basis.

The Internal Capital Adequacy Assessment Process (ICAAP) assesses the overall capital adequacy of the Bank and the significant risks in terms of capital. Stress tests are done, as part of the ICAAP document, to evaluate the capital adequacy during stressed scenarios. The RMCB reviews the capital adequacy position of the Bank under normal and stressed conditions on a regular basis. The Bank is also striving towards building frameworks for managing Pillar II risks, like reputation risk, business risk and strategic risk.

Risk Management Department is responsible for setting up the appropriate risk control mechanism and for quantifying and measuring risk. Broadly classified into three major sub-segments (Credit Risk, Market Risk and Operational Risk), the Risk Management Department owns, maintains and updates the various policies. The Risk Management team also provides analysis of the existing and emerging risks to the committees such as ALCO,



CRMC, ORMC, as also to RMCB, and based on the deliberations thereof, provides guidance to the various business Groups. Bank maintains independence of the risk function. The Risk Management Department operates under the direction of Chief Risk Officer (CRO), who reports directly to the RMCB.

### **Credit Risk:**

Credit Risk Management Department (CRMD) is responsible for measurement, monitoring and assessment of the credit risk of the Bank. CRMD is responsible for thorough risk vetting of credit proposals and highlighting the inherent risks therein to the sanctioning authorities. It also carries out continuous monitoring of the portfolio for delinquency trend and credit limits. The CRMC is responsible for overseeing implementation of credit risk management framework across the Bank and providing recommendations to the RMCB. Responsibility of CRMC includes implementation of credit risk policy/strategy approved by the Board, monitoring credit risk, deciding delegation of credit approving powers, and prudential limits.

### **Market and Liquidity Risk:**

Market Risk Management Department is responsible for assessing, measuring and monitoring investment risk (measured through PV01 or change in present value for a 1 basis point change in the yield curve, Modified Duration, monthly loss and marked-to-market or MTM position), liquidity risk, interest rate risk and risks emanating from commodity and equity price fluctuations. ALCO is responsible for managing these risks and reporting to the RMCB. ALCO has the power to determine pricing of assets, liabilities, maturity and also to play a role in approving the final benchmark marginal cost of lending rate (MCLR) .

### **Operational Risk:**

Operational Risk Management Department manages the risks emanating from people, process and systems of the Bank, including fraud risk, legal risk and outsourcing risk, and ensures that the appropriate risk controls are in place. The ORMC is responsible for measuring, monitoring and reporting of these risks as per the Board-approved policies. The Business Continuity Plan (BCP) framework ensures continuity of services.





Information Security Team assesses the IT-related vulnerabilities and manages the existing and emerging cyber security risks faced by your Bank.

## **INFORMATION TECHNOLOGY**

Your Bank continues to try and further deepen and broaden its reach and expand its market share by establishing DSCs, building relationships and spreading digital banking by extensive use of modern technology. Information Technology has transformed the landscape of the banking industry. Today, the customer, who is highly mobile, expects services to be available at the time and place of their choice and this expectation can be met only through the provision of information technology-led or digital services. Your Bank's technology-led products, e.g. Bandhan, its mobile banking application, try to deliver a seamless banking experience at the place of the customer's choice, i.e. their place, at one of your Bank's branches or wherever they are when on the move.

Technology has been used even for the delivery of micro-banking services, which is always close to the customer's homes. Direct Sales Officers visit customers and use Hand-held devices (Point-of-sale machines) to carry out the banking transactions. With innovative ways of banking like collections of loan instalments and providing cash receipts and payments for customers at their doorsteps, banking near the place of the micro-banking customer was never so easy and simple. Your Bank can be proud of introducing a new trend in micro-banking.

Your Bank has tied up with two Payment Gateway Service providers for online net banking transactions. Now Bank customers can shop and pay online through net banking on more than 2,500 merchant websites. Your Bank also started merchant acquiring services by deploying Electronic Draft Capture (EDC) or Point of Sale (POS) terminals, which accept Rupay and Visa Cards at 5,743 merchant outlets.

Your Bank has also enabled customers to do Aadhar seeding and mobile registration through the Bank's ATMs.



Your Bank recognises that improving its use of information technology is far from a one-off endeavour, the Bank has to run to be at the same place.

### **BANKING AT ONE OF THE BANK'S BRANCHES**

Your Bank has ensured that opening of an account, issue of a bank draft, payment of a cheque, facility of scheduling payments or transfers of funds at any of its branches is a simple and fast operation with the state-of-the-art Core Banking Solution. This has been possible with a seamless integration of the digital and physical. , The aim of setting up 840 branches by end-March 2017 was successfully achieved. Within 1 year and 7 months of commencing operations your Bank also had 282 ATMs and 2,443 DSCs.

### **Safe & Secure Banking**

Your Bank has implemented a robust IT Policy, Information Security Policy and Cyber Security Policy. These policies, in line with international best practices, are reviewed periodically and suitably strengthened to address emerging threats.

Your Bank has got a state-of-the-art Primary Data Centre and Disaster Recovery Centre to secure the live systems. The centres have got ISO 27001 and Payment Card Industry Data Security Standard (PCI DSS) certified. Your Bank has made substantial progress in implementing the RBI guidelines on Technology Risk Management, Information Security and Cyber Fraud. It is in the process of implementing additional IT security products and features to provide 'Best in Class Information Security' features and safe and secure banking to all of its customers.

Your Bank conducts regular cyber security drills. Employee awareness programmes are conducted to ensure security and increase awareness.

Your Bank is one of the few banks to implement bio-metric login for all employees to access the Core Banking Application. With a two factor authentication, this provides an edge on



the information security front. It has also implemented the state of the art Advanced Malware Protection Solution to secure its systems from current cyber threats.

Your Bank has accomplished resiliency in treasury business by opening Treasury Front Office Operations in Mumbai and resiliency in Back Office Operations by opening Central Processing Unit in Indore.

Disaster Recovery Drills are conducted regularly as part of the implementation of the Business Continuity Management System (BCMS). Critical IT Systems of your Bank are compliant with the International BCMS Standard – ISO 22301 – 2012.

The Application setups undergo security reviews before ‘Go Live’ and are also reviewed periodically.

## **ACKNOWLEDGMENTS**

The Board of Directors places on record its gratitude to the RBI, other government and regulatory authorities, financial institutions and correspondent banks for their strong support and guidance. The Board acknowledges the support of the shareholders, and also places on record its sincere thanks to its valued clients and customers for their patronage. The Board also expresses its deep sense of appreciation to all employees of the Bank for their strong work ethic, excellent performance, professionalism, teamwork, commitment and initiative, which has led to the Bank making commendable progress in today’s challenging environment. However, it also assures Management and staff that the Board will continue to ask for more and more improvements as your Bank continues its unique journey by combining micro-banking with traditional commercial banking.



**For and on behalf of the Board of Directors  
Bandhan Bank Limited**

**Place: Kolkata**

**Date : 26<sup>th</sup> April, 2017**

**Sd/-  
Chairman  
Ashok Kumar Lahiri  
[DIN: 07234290]**



**Annexure - 1**

**Annual Report on Corporate Social Responsibility (CSR) activities for the financial year 2016-17**

1	A brief outline of the Company's CSR Policy including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR Policy and projects or programs and the composition of CSR Committee.  <b>Composition of CSR Committee :</b> i. Smt. TS Raji Gain ii. Shri Chandra Shekhar Ghosh iii Shri P K Saha	Refer Section on Corporate Social Responsibility forming part of the Board's Report enclosed herewith.
2	Average net profit of the Company for last three financial years	Rs. 20,790.58 lakh
3	Prescribed CSR expenditure (two percent of the amount mentioned in item 2 above)	Rs. 415.81 lakh
4	Details of CSR spent during the financial year:	
	(a) Total amount to be spent for the financial year	Rs 421.00 lakh
	(b) Amount unspent, if any	Not applicable
	(c) Manner in which the amount spent during the financial year	Details Given below



Details of amount spent on CSR activities during the Financial Year 2016-17							
Sl. No.	CSR Project or activity identified	Sector in which the project is covered (Clause No. of Schedule VII to the Companies Act, 2013 as amended)	Projects or programme (1) Local Area or other (2) State and districts where programme was undertaken	Amount outlay (budget ₹ in lakh)	Amount spent on projects (₹ in lakh)	Cumulative expenditure upto the reporting period (₹ in lakh)	Amount Spent directly or through implementing agency
1	Targeting The Hard Core Poor Programme	Clause No. (i) eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water. Clause (x) rural development projects.	West Bengal - Bankura	169.13	169.13	169.13	Implementing Agency: Bandhan Konnagar*
2	Education Programme	Clause No. (i) eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water. Clause (x) rural development projects.	West Bengal -, Murshidabad, Burdwan, North Dinajpur, Howrah	119.03	119.03	119.03	Implementing Agency: Bandhan Konnagar*



3	Health Programme	Clause No. (i) eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water. Clause (x) rural development projects.	West Bengal - North 24 Parganas, Bankura, Murshidabad Jharkhand- Pakur	132.84	132.84	132.84	Implementing Agency: Bandhan Konnagar*
<b>Total</b>				<b>421.00</b>	<b>421.00</b>	<b>421.00</b>	

\*Bandhan Konnagar is a Society registered under the Societies of West Bengal Registration Act XXVI of 1931

## RESPONSIBILITY STATEMENT

The Responsibility Statement of the CSR Committee of the Board of Directors of the Company, is reproduced below:

‘The implementation and monitoring of Corporate Social Responsibility (CSR) policy, is in compliance with CSR objectives and policy of the Company.’

Sd/-  
Managing Director & CEO

Sd/-  
Chairman CSR Committee

For and on behalf of the Board of Directors  
Bandhan Bank Limited

Sd/-  
Chairman  
(Ashok Kumar Lahiri)  
(DIN: 07234290)

Date: 26<sup>th</sup> April, 2017  
Place: Kolkata



Annexure - 2

**Details of Employees as per Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.**

Name & Designation of the employee	Remuneration received during 2016-17 (₹)	Nature of employment, whether contractual or otherwise	Qualifications and experience of the employee	Date of commencement of employment	Age	The last employment before joining	The percentage of equity shares held in the company within the meaning of clause (iii) of sub-rule (2) above	Whether any such employee is a relative of any director or manager of the company
Mr. Chandra Shekhar Ghosh, Managing Director & CEO	19,468,680	Regular	M.Sc. in Statistics and 30 years of experience	From the commencement of Company	55 Years	Bandhan Financial Services Limited	Nil	N.A.
Rahul Johri, Head - Retail Banking	13,658,903	Regular	B.Tech and Masters in Business Management. 26 Years of experience	March 1, 2016	48 Years	DBS Bank Ltd	Nil	N.A.
Vijaykumar Ramakrishna, Chief Information Officer	7,463,568	Regular	BE- Electronics & Telecommunication, MBA- Finance. 16 Years of experience	February 1, 2016	43 Years	Intuit Global Development Centre	Nil	N.A.
Tamal Bandyopadhyay, Adviser	6,000,000	Contractual	Postgraduate from Calcutta University. 31 Years of experience	August 23, 2015	55 Years	HT Media Limited (Mint)	Nil	N.A.
Arun Raman Head- Banking Operations & Customer Services	6,778,825	Regular	PGDM from IIM Lucknow, 23 years of experience	May 05, 2015	47 Years	Manappuram Finance Ltd	Nil	N.A.
Santanu Banerjee Head - HR	7,553,504	Regular	MBA, 22 years of experience	September 3, 2014	48 Years	Axis Bank Ltd.	Nil	N.A.
Sunil Samdani CFO	8,522,437	Regular	CA, 20 Years of experience	March 14, 2015	42 Years	Karvy Financial Services Ltd	Nil	N.A.

For and on behalf of the Board of Directors

**Bandhan Bank Limited**

Sd/-

**Chairman**

**Ashok Kumar Lahiri**

(DIN: 07234290)

Place: Kolkata

Date: 26th April, 2017





Annexure-3

FORM NO. AOC - 2

[Pursuant to clause (h) of sub-section (3) of section 134 of the Companies Act, 2013 and Rule 8(2) of the Companies (Accounts) Rules, 2014]

Form for disclosure of particulars of contracts / arrangements entered into by the Company with the related parties referred to in sub-section (1) of section 188 of the Companies Act, 2013 including certain arms-length transactions under third proviso thereto.

1. Details of contracts or arrangements or transactions not at arm's length basis:

Sl. No.	Name of the related party and nature of relationship (a)	Nature of contracts / arrangements / transactions (b)	Duration of contracts / arrangements / transactions (c)	Salient features of contracts / arrangements / transactions, including value, if any (d)	Justification for entering into such contracts / arrangements / transactions (e)	Date(s) of approval by the Board (f)	Amount paid as advances, if any (g)	Date on which special resolution was passed in General meeting u/s 188(1) (h)
-----Nil-----								



**2. Details of material contracts or arrangements or transactions at arm's length basis:**

Sl. No.	Name of the related party and nature of relationship (a)	Nature of transactions (b)	Duration of transactions (c)	Salient features of transactions, including value, if any (d) (₹ In Lakh)	Justification for entering into such transactions (e)	Date(s) of approval by the Board / Audit Committee (f)	Amount paid as advances, if any (g)	Date on which special resolution was passed in general meeting u/s 188(1) (h)
1	Mr. Chandra Shekhar Ghosh (Managing Director & Chief Executive Officer)*	Remuneration	Appointed for five year w.e.f 10/07/2015	194.69	Remuneration was paid to Mr. Chandra Shekhar Ghosh for services rendered by him as Managing Director and CEO.	Date of approval by the Board - 26.07.2016	Nil	20.06.2016
2	Mr. Indranil Banerjee(Company Secretary)*	Remuneration	With effect from 01/04/2016	23.35	Remuneration was paid to Mr. Indranil Banerjee for services rendered by him as Company Secretary	Date of approval by the Board - 26.07.2016	Nil	NA
3	Mr. Sunil Samdani(Chief Financial Officer)*	Remuneration	With effect from 01/04/2016	85.22	Remuneration was paid to Mr. Sunil Samdani for services rendered by him as the	Date of approval by the Board -	Nil	NA



					Chief Financial Officer.	26.07.2016		
4	Mr. Dibakar Ghosh (Head IT Operations - System and Networking)**	Remuneration	With effect from 01/04/2016	48.68	Remuneration was paid to Mr. Dibakar Ghosh for services rendered by him as Head IT Operations - System and Networking	Date of approval by the Board - 26.07.2016	Nil	29.06.2015
5	Mr. Vaskar Ghosh(Head Procurement)**	Remuneration	With effect from 01/04/2016	16.83	Remuneration was paid to Mr. Vaskar Ghosh for services rendered by him as Head Procurement.	Date of approval by the Board - 26.07.2016	Nil	NA

*Note 1: - \* denotes KMP i.e. Key Managerial Personnel*

*Note 2: - \*\* denotes relatives of Key Managerial Personnel*

**For and on behalf of the Board of Directors  
Bandhan Bank Limited**

**Place: Kolkata**

**Date: 26<sup>th</sup> April, 2017**

**Sd/-  
Chairman  
Ashok Kumar Lahiri  
(DIN: 07234290)**

**CS Deepak Kumar Khaitan**

Mobile : + 91 90070 55560

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**Practising Company Secretary**   ☎ : + 91 98303 06692   ✉:officedkk@gmail.com

GEM House, 5B Russell Street, Unit 7B, 7<sup>th</sup> Floor, Kolkata – 700 071

**SECRETARIAL AUDIT REPORT**

FOR THE FINANCIAL YEAR ENDED ON 31<sup>ST</sup> MARCH, 2017

*[Pursuant to Section 204(1) of the Companies Act, 2013 and rule 9 of the Companies  
(Appointment and Remuneration of Managerial Personnel) Rules, 2014]*

To

The Members

**BANDHAN BANK LIMITED**

**Registered Office: DN-32, Sector V, Salt Lake, Kolkata -700 091**

I have conducted the Secretarial Audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by **BANDHAN BANK LIMITED** having **CIN U67190WB2014PLC204622** (hereinafter called 'the Bank'). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my verification of the Bank's books, papers, minute books, forms and returns filed and other records maintained by the Bank and also the information provided by the Bank, its officers, agents and authorized representatives during the conduct of Secretarial Audit, I hereby report that in my opinion, the Bank has, during the audit period covering the financial year ended on 31<sup>st</sup> March, 2017 (hereinafter called 'the Audit Period') complied with the statutory provisions listed hereunder and also that the Bank has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter.

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Bank for the financial year ended on 31<sup>st</sup> March, 2017 according to the provisions of:

- (i). The Companies Act, 1956 and the rules made thereunder, to the extent they were applicable during the Audit Period and The Companies Act, 2013 and the rules made thereunder (hereinafter collectively called as 'the Act');

- (ii). The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
- (iii). The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iv). Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings, wherever applicable;
- (v). The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act') :-
  - (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011-(Not applicable to the Bank during the Audit Period);
  - (b) Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 ;
  - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009- (Not applicable to the Bank during the Audit Period);
  - (d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (Not applicable to the Bank during the Audit Period);
  - (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
  - (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client (Not applicable to the Bank during the Audit Period);

- (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009- (Not applicable to the Bank during the Audit Period); and
  - (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998- (Not applicable to the Bank during the Audit Period);
- (vi). The Banking Regulation Act, 1949 and Rules made thereunder and The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest, 2002 and Recovery of Debts Due to Banks and Financial Institutions Act, 1993 are the other laws applicable specifically to the Bank for the purpose of reporting under this point as per the Management Representation Letter issued by the Bank of even date

I have also examined compliance with the applicable clauses of the following:

- (i). Secretarial Standards issued by The Institute of Company Secretaries of India.
- (ii). The Listing Agreement (Debt Listing Agreement) entered into by the Bank with BSE Limited read with The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

During the period under review the Bank has generally complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above.

**I further report that**

The Board of Directors of the Bank is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the Audit Period were carried out in compliance with the provisions of the Act.

Adequate notices were given to all directors to schedule the board meetings, agenda and detailed notes on agenda were sent at least seven days in advance and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

**CS Deepak Kumar Khaitan**

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☎ : + 91 98303 06692

GEM House, 5B Russell Street, Unit 7B, 7<sup>th</sup> Floor, Kolkata – 700 071

All decisions at board meetings and committee meetings held during the Audit Period carried out unanimously as recorded in the minutes of the respective meetings.

**I further report that** there are adequate systems and processes in the Bank commensurate with the size and operations of the Bank to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

**I further report that** during the Audit Period, the following specific events/ actions have a major bearing on the Bank's affairs in pursuance of the laws, rules, regulations, guidelines, standards etc. referred to as above are as follows : -

- (a) Consent received from BSE Limited for trading of non-convertible debentures (NCDs) in the name of the Bank instead of Bandhan Financial Services Limited (BFSL) since the aforesaid NCDs were transferred by BFSL to the Bank as per business transfer agreement dated 11th February, 2015 executed between them in consonance with RBI Guidelines for Licensing of New Banks in Private Sector dated 22nd February, 2013 and the special resolution passed by the members of the Bank on 10th February, 2015.
- (b) Pre-mature redemption of part of the above non-convertible debentures (NCDs) due to exercise of call option aggregating to Rs.100 Crores.
- (c) Redemption of part of the above non-convertible debentures (NCDs) aggregating to Rs.60 Crores.

This report is to be read with our letter of even date which is annexed as **Annexure A** and form an integral part of this report.

**Place: Kolkata**

**Date: 26.04.2017**

**Signature: SD/-**

**Name: Deepak Kumar Khaitan**

**F.C.S. No.: 5615 / C.P. No.: 5207**

**ICSI Unique Code No.: I2003WB347200**

**CS Deepak Kumar Khaitan**

Mobile : + 91 90070 55560

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**Annexure A**

to the SECRETARIAL AUDIT REPORT  
FOR THE FINANCIAL YEAR ENDED ON 31<sup>ST</sup> MARCH, 2017

To

The Members

**BANDHAN BANK LIMITED**

**Registered Office : DN-32, Sector V, Salt Lake, Kolkata -700 091**

Our Secretarial Audit Report of even date is to be read along with this letter.

1. Maintenance of secretarial record is the responsibility of the management of the Bank. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the secretarial records. The verification was done on test basis to ensure that correct facts are reflected in secretarial records. We believe that the processes and practices, we followed provide a reasonable basis for our opinion.
3. We have not verified the correctness and appropriateness of financial records and Books of Accounts of the Bank.
4. Where ever required, we have obtained the Management representation about the compliance of laws, rules and regulations and happening of events etc.
5. The compliance of the provisions of Corporate and other applicable laws, rules, regulations, standards is the responsibility of management. Our examination was limited to the verification of procedures on test basis.
6. The Secretarial Audit Report is neither an assurance as to the future viability of the Bank nor of the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

**Place: Kolkata**

**Date: 26.04.2017**

**Signature: SD/-**

**Name: Deepak Kumar Khaitan**

**F.C.S. No.: 5615 / C.P. No.: 5207**

**ICSI Unique Code No.: I2003WB347200**





**FORM NO. MGT. 9**  
**EXTRACT OF ANNUAL RETURN**  
**as on the financial year ended on March 31, 2017**  
*[Pursuant to section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014]*

I. REGISTRATION AND OTHER DETAILS:

- i) CIN:- U67190WB2014PLC204622
- ii) Registration Date : December 23, 2014
- iii) Name of the Company : Bandhan Bank Limited
- iv) Category / Sub-Category of the Company : Public Company / Limited by shares
- v) Address of the Registered office and contact details : DN-32, Sector-V, Salt Lake, Kolkata - 700091 , Ph: 033-66090909; Fax : 033-66090502
- vi) Whether listed company Yes / No : Yes (Only Non-Convertible Debentures are listed on BSE)
- vii) Name, Address and Contact details of Registrar and Transfer Agent, if any: Karvy Computershare Private Limited, 17-24, Vittal Rao Nagar, Madhapur, Hyderabad, Andhra Pradesh - 500 081, Tel no. : 040 44655000, Fax : 040 - 23420814

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing 10 % or more of the total turnover of the company shall be stated:-

Sl. No.	Name and Description of main products/ services	NIC Code of the Product/ service	% to total turnover of the company
1	Banking and Financial Services	Code : 64191	100

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES -

Sl. No.	NAME AND ADDRESS OF THE COMPANY	CIN/GLN	HOLDING/ SUBSIDIARY/ ASSOCIATE	% of shares held	Applicable Section
1	Bandhan Financial Holdings Limited; DN-32, Sector - V, Salt Lake City, Kolkata - 700091	U67190WB2014PLC 204317	Holding	89.76	2(87)



IV. SHARE HOLDING PATTERN (Equity Share Capital Breakup as percentage of Total Equity)

i) Category-wise Share Holding

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	De mat	Physical	Total	% of Total Shares	De mat	Physical	Total	% of Total Shares	
<b>A.Promoters</b>									
(1) Indian									
a) Individual/ HUF	-	-	-	-	-	-	-	-	-
b) Central Govt									
c) State Govt (s)									
<b>d) Bodies Corp.</b>		98,29,57,482	98,29,57,482	89.76		98,29,57,482	98,29,57,482	89.76	0
e) Banks/FI									
f) Any Other..									
<b>Sub-total (A) (1):-</b>		98,29,57,482	98,29,57,482	89.76		98,29,57,482	98,29,57,482	89.76	0
(2) Foreign									
a) NRIs - Individuals		-	-	-		-	-	-	-
b) Other - Individuals		-	-	-		-	-	-	-
c) Bodies Corp.		-	-	-		-	-	-	-
d) Banks / FI		-	-	-		-	-	-	-
e) Any Other....		-	-	-		-	-	-	-
<b>Sub-total (A) (2):-</b>		-	-	-		-	-	-	-
<b>Total shareholding of Promoter (A) = (A)(1)+(A)( 2)</b>		98,29,57,482	98,29,57,482	89.76		98,29,57,482	98,29,57,482	89.76	0
<b>B. Public Shareholding</b>									
1. Institutions									
a) Mutual Funds									
<b>b) Banks/FI</b>	-	34,94,060	34,94,060	0.32	-	34,94,060	34,94,060	0.32	0
c) Central Govt.									
d) State Govt. (s)		-	-	-		-	-	-	-
e) Venture Capital Funds									
f) Insurance Companies									
g) FIs									
h) Foreign Venture Capital Funds									
<b>i) Others (specify)</b>									
International Finance Corporation (Multi lateral institution) & IFC FIG INVESTMENT COMPANY I		5,40,41,462	5,40,41,462	4.93		5,40,41,462	5,40,41,462	4.93	0
<b>Sub-total (B)(1):-</b>		5,75,35,522	5,75,35,522	5.25		5,75,35,522	5,75,35,522	5.25	0
2. Non-Institutions									
<b>a) Bodies Corp.</b>		5,46,48,030	5,46,48,030	4.99		5,46,48,030	5,46,48,030	4.99	0



Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	De mat	Physical	Total	% of Total Shares	De mat	Physical	Total	% of Total Shares	
i) Indian ii) Overseas b) Individuals i) Individual shareholders holding nominal share capital upto ₹ 1 lakh ii) Individual shareholders holding nominal share capital in excess of ₹ 1 lakh c) Others (specify) <b>Sub-total (B)(2):-</b> Total Public Shareholding (B) = (B)(1) + (B)(2)		5,46,48,030	5,46,48,030	4.99		5,46,48,030	5,46,48,030	4.99	0
		11,21,83,552	11,21,83,552	10.24		11,21,83,552	11,21,83,552	10.24	0
C. Shares held by Custodian for GDRs & ADRs	-	-	-	-	-	-	-	-	-
Grand Total (A+B+C)	-	109,51,41,034	109,51,41,034	100	-	109,51,41,034	109,51,41,034	100	0

(ii) Shareholding of Promoters

Sl. No.	Shareholder's Name	Shareholding at the beginning of the year			Shareholding at the end of the year			% change in shareholding during the year
		No. of Shares	% of total Shares of the company	% of Shares Pledged/encumbered to total shares	No. of Shares	% of total Shares of the company	% of Shares Pledged/encumbered to total shares	
1	Bandhan Financial Holdings Limited	98,29,57,482	89.76	0	98,29,57,482	89.76	0	0
	<b>Total</b>	98,29,57,482	89.76	0	98,29,57,482	89.76	0	0

(iii) Change in Promoters' Shareholding (please specify, if there is no change)

Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
1	Bandhan Financial Holdings Limited				
	At the beginning of the year	98,29,57,482	89.76	98,29,57,482	89.76
	Date wise Increase/Decrease in Promoters	Nil	NA		



Sl. No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
1	Bandhan Financial Holdings Limited				
	Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/ sweat equity etc):				
	At the End of the year			98,29,57,482	89.76

(iv) Shareholding Pattern of top ten Shareholders (other than Directors, Promoters and Holders of GDRs and ADRs):

Sl. No.	Caladium Investment Pte. Ltd	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
1	For Each of the Top 10 Shareholders				
	At the beginning of the year	5,46,48,030	4.99	5,46,48,030	4.99
	Date wise Increase/Decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/ transfer/ bonus/sweat equity etc):	Nil	NA		
	At the End of the year (or on the date of separation, if separated during the year)			5,46,48,030	4.99

Sl. No.	International Finance Corporation	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
2	For Each of the Top 10 Shareholders				
	At the beginning of the year	5,40,41,462	4.93	5,40,41,462	4.93
	Date wise Increase/Decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/ transfer/ bonus/sweat equity etc):	3,51,26,951 (Transfer of 1,89,14,511 shares to IFC FIG Investment Company I on 11.05.2016 )	3.21%	3,51,26,951	3.21%



Sl. No.	International Finance Corporation	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
2	For Each of the Top 10 Shareholders	No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the End of the year (or on the date of separation, if separated during the year)			3,51,26,951	3.21%
Sl. No.	Small Industries Development Bank of India	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
3	For Each of the Top 10 Shareholders	No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	34,94,060	0.32	34,94,060	0.32
	Date wise Increase/Decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/ transfer/ bonus/sweat equity etc):	Nil	NA		
	At the End of the year (or on the date of separation, if separated during the year)			34,94,060	0.32
Sl. No.	IFC FIG INVESTMENT COMPANY I	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
4	For Each of the Top 10 Shareholders	No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	At the beginning of the year	1,89,14,511	1.73%	1,89,14,511	1.73%
	Date wise Increase/Decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/ transfer/ bonus/sweat equity etc):	1,89,14,511 (Transfer of 1,89,14,511 shares from IFC on 11.05.2016)	1.73%		
	At the End of the year (or on the date of separation, if separated during the year)			1,89,14,511	1.73%



(v) Shareholding of Directors and Key Managerial Personnel:

Sl. No.	Mr. Chandra Shekhar Ghosh, Managing Director & CEO (holding for and on behalf of Bandhan Financial Holdings Limited)	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
	For Each of the Directors and KMP				
	At the beginning of the year	1	0.00	1	0.00
	Date wise Increase / Decrease in Share holding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus/ sweat equity etc):				
	At the End of the year			1	0.00

**INDEBTEDNESS**

Indebtedness of the Company including interest outstanding/accrued but not due for payment (Rs. in lakh)

Particulars	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
Indebtedness at the beginning of the financial year				
i) Principal Amount	227,498.09	77,666.67	1,208,874.81	1,514,039.57
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	174.99	1,823.21	405.68	2,403.88
<b>Total (i+ii+iii)</b>	<b>227,673.08</b>	<b>79,489.88</b>	<b>1,209,280.49</b>	<b>1,516,443.45</b>
Change in Indebtedness during the financial year				-
• Addition	-	-	1,113,585.30	1,113,585.30
• Reduction	175,778.44	27,120.45	-	202,897.87
Net Change	<b>(175,778.44)</b>	<b>(27,120.45)</b>	<b>1,113,585.30</b>	<b>910,687.43</b>
Indebtedness at the end of the financial year				
i) Principal Amount	51,893.84	51,000	2,322,865.79	2,425,759.63
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	0.80	1,369.43	-	1,371.25
<b>Total (i+ii+iii)</b>	<b>51,894.64</b>	<b>52,369.43</b>	<b>2,322,865.79</b>	<b>2427129.86</b>



## VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL

### A. Remuneration to Managing Director, Whole-time Directors and/or Manager:

Sl. no.	Particulars of Remuneration	Name of MD/WTD/ Manager				Total Amount
		MD	WTD	WTD	Manager	
1.	Gross salary Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 Value of perquisites u/s 17(2) Income-tax Act, 1961 Profits in lieu of salary under section 17(3) Income- tax Act, 1961	Rs. 1,68,43,680  Perquisites - Nil	N.A.	N.A.	N.A.	Rs. 1,68,43,680  Perquisites - Nil
2.	Stock Option					
3.	Sweat Equity		N.A.	N.A.	N.A.	
4.	Commission as % of profit others, specify...					
5.	Others, please specify (Performance based Variable Pay)	Rs. 26,25,000				Rs. 26,25,000
	Total (A)	Rs 1,94,68,680				Rs 1,94,68,680
	Ceiling as per the Act					5% of Net Profit

### B. Remuneration to other directors:

(Rs in lakh)

Sl. no.	Particulars of Remuneration	Name of Directors									Total Amount
		Shri. Ashok Kumar Lahiri	Shri. S K Chakrabarti	Shri. Bhaskar Sen	Shri. Chintaman Mahadeo Dixit	Shri. Boggarapu Sambamurthy	Shri. Pradip Kr Saha	Prof. Krishna murthy Venkata Subramanian	Shri. Snehomoy Bhattacharya	Smt. T.S Raji Gain	
1.	Independent Directors										
	• Fee for attending Board Meetings	3.4	2.6	3.4	2.9	3.1	2.9	2.6	2.6	3.4	
	• Committee meetings	0.6	2.85	4.65	1.65	2.85	2.4	2.4	1.8	1.05	



Sl. no.	Particulars of Remuneration	Name of Directors									Total Amount
	<ul style="list-style-type: none"> <li>• Commission</li> <li>• Others, please specify</li> </ul>										
	Total (1)	4	5.45	8.05	4.55	5.95	5.3	5	4.4	4.45	47.15
	2. Other Non-Executive Directors	Mr. Holger Dirk Michaelis (Caladium Investment Pte Ltd)	Shri. Chandr a Shekhar Ghosh	Mr. Ranode b Roy	Ms. Georgina Elizabeth Baker (IFC)						
	<ul style="list-style-type: none"> <li>• Fee for attending Board Meetings</li> <li>• Committee meetings</li> <li>• Commission</li> <li>• Others, please specify</li> </ul>	2.6	0	2.5	1.5						
		0	0	1.5	0						
	Total (2)	2.6	0	4	1.5						8.1
	Total (B) = (1 + 2)										55.25
	Total Managerial Remuneration										205.25
	Overall Ceiling as per the Act										1% of Net Profit





C. REMUNERATION TO KEY MANAGERIAL PERSONNEL OTHER THAN MD / MANAGER / WTD

Sl. no.	Particulars of Remuneration	Key Managerial Personnel			
		Manager	Company Secretary	CFO	Total
1.	Gross salary (₹) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 Value of perquisites u/s 17(2) Income-tax Act, 1961 Profits in lieu of salary under section 17(3) Income-tax Act, 1961		Rs 20,23,822  Perquisites - Nil	Rs 70,26,131  Perquisites - Nil	Rs 90,49,954  Perquisites - Nil
2.	Stock Option		Nil	Nil	Nil
3.	Sweat Equity		Nil	Nil	Nil
4.	Commission as % of profit others, specify...		Nil	Nil	Nil
5.	Others, please specify (Performance based Variable Pay)		3,11,313	14,96,305	18,07,618
	Total (₹)		Rs 23,35,135	Rs 85,22,437	Rs 1,08,57,572

VII. PENALTIES/PUNISHMENT/COMPOUNDING OF OFFENCES:

Type	Section of the Companies Act	Brief Description	Details of Penalty/ Punishment/ Compounding fees imposed	Authority [RD/NCLT/ COURT]	Appeal made, if any (give Details)
<b>A. COMPANY</b>					
Penalty					
Punishment			Nil		
Compounding					



Type	Section of the Companies Act	Brief Description	Details of Penalty/ Punishment/ Compounding fees imposed	Authority [RD/NCLT/ COURT]	Appeal made, if any (give Details)
<b>DIRECTORS</b>					
Penalty					
Punishment					
Compounding					
<b>C. OTHER OFFICERS IN DEFAULT</b>			<b>Nil</b>		
Penalty					
Punishment					
Compounding					

**For and on behalf of the Board of Directors  
Bandhan Bank Limited**

**Place: Kolkata**

**Date: 26<sup>th</sup> April, 2017**

**Sd/-  
Chairman  
Ashok Kumar Lahiri  
(DIN: 07234290)**



## MANAGEMENT DISCUSSION & ANALYSIS REPORT

### OVERALL ECONOMIC AND INDIAN BANKING SCENARIO: AN OVERVIEW

#### **A. Global Economic Scenario**

1. In the World Economic Outlook update of January 2017, the International Monetary Fund (IMF) has hinted towards an uptick in economic activity in 2017 and 2018, especially in the Emerging Markets and Developing Economies (EMDEs). Global growth rate, driven by emerging markets, is expected to be approximately 3.6 per cent in 2018, up from 3.1 per cent and 3.4 per cent in 2016 and 2017, respectively.<sup>1</sup> Given that the new US administration is in its early stages, there is some uncertainty attending this forecast of global growth. .
  
2. Key factors influencing global growth trends are as follows:
  - a. Acceleration of growth in emerging markets. The favorable trend can be attributed to a gradual normalization of conditions in several large emerging economies that have experienced macro-economic strain in the recent past.
  - b. Steepening U.S. yield curve and strengthening of the U.S. dollar against major currencies. The newly appointed US administration has put in place near-term fiscal stimulus measures which are having an impact on the US yield curve and strengthening the US dollar.
  - c. Firming up of oil prices following the agreement among OPEC members and other major oil producers to limit global supply.

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<sup>1</sup> <http://www.imf.org/en/Publications/WEO/Issues/2016/12/27/A-Shifting-Global-Economic-Landscape>



3. According to the IMF, the important takeaways are<sup>2</sup>:
  - a. Growth in developed economies is expected to improve but remains moderate, weighed down by weak investment and policy uncertainty.
  - b. Commodity exporters can expect marginal recovery in growth as commodity prices trend higher and inflationary pressures moderate.
  - c. East and South Asia will remain the world's major dynamic regions, benefiting from robust domestic demand and supportive macro-economic policies.

## **B. Indian Economic Scenario**

1. The United Nations World Economic Situation and Prospects (WESP) 2017 forecasts India will grow at approximately 7.6 per cent in FY 2017-18. In terms of growth, India continues to lead the EMDEs on the back of sustained high private consumption levels and the steady introduction of domestic reforms, such as the Goods and Services Tax (GST).
2. Government of India's Economic Survey 2016-17 indicates a boost in consumption in 2017-18 from two sources<sup>3</sup>:
  - a. Catch-up after the demonetisation-induced reduction in the last two quarters of 2016-17.
  - b. Cheaper borrowing costs, down from 2016-17 by 75 to 100 basis points, stimulating spending on housing, consumer durables and semi-durables.
3. While the Indian Meteorological Department forecasts a normal monsoon in 2017, there is a risk of an El Niño weather pattern surfacing during September 2017, thereby hampering the normal monsoon cycle. Realisation of this risk has the danger of lower growth and higher commodity prices.

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<sup>2</sup> [https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/2017wesp\\_keyfindings.pdf](https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/2017wesp_keyfindings.pdf)

<sup>3</sup> <http://finmin.nic.in/indiabudget2017-2018/es2016-17/echapter.pdf>



4. The Economic Survey indicates three major risks that could derail the country's growth forecast:
  - a. Medium- to long-term effects of demonetization.
  - b. Probable increase in oil prices linked to geo-political infirmities and the decision of the OPEC to ration oil supply.
  - c. Flight of capital from EMDEs owing to trade tensions amongst major countries as a result of geo-political headwinds and currency pressures.
  
5. On the fiscal front, the likely factors with a bearing on the outlook for the next financial year are:
  - a. Plateauing of, or reduction in, the tax-GDP ratio as oil prices correct.
  - b. Increased income disclosure leading to higher tax collection through Pradhan Mantra Garib Kalyan Yojana (PMGKY) scheme, and windfall from un-returned high denomination notes.
  - c. Enhanced revenue collection due to implementation of GST.
  
6. Overall, the Indian economic scenario continues to be encouraging. In spite of a lull in private investment expenditure, domestic demand fueled by consumption expenditure continues to be buoyant. Softer global oil prices have yielded and continue to yield rich dividends in terms of lower import bill as well as moderate inflation. The uncertainty is not so much about whether the Indian economy will be able to sustain growth rates of 7-8 per cent per year, but whether it will be able to ratchet up the growth rate to 9-10 per cent on a sustained basis as China did for a number of years, and as Hon'ble Finance Minister Arun Jaitley wants.<sup>4</sup> Growth acceleration can take place only with sustained reforms and a supportive global economic environment. The reform initiatives of the Government in terms of the

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<sup>4</sup> "India needs sustained GDP growth of 9-10 percent: Jaitley," Reuters, March 2, 2015, <http://www.reuters.com/article/us-india-economy-jaitley-idUSKBN0LY2MK20150302>



proposed introduction of GST, adherence to the Fiscal Responsibility and Budget Management Act, emphasis on infrastructure such as roads and power, subsidy rationalization, and disinvestment bodes well in this regard. Much will depend also on how soon private investment can be stimulated, partly through solving what has been called 'the twin balance sheet problem' - namely problem with the balance sheets of both some corporate houses and their creditor public sector banks (PSB). Stressed assets in PSBs are also a significant strain on the financial system. Resolution of bad or non-performing loans is important for restarting lending by the affected banks, stimulating investment and reviving high growth. Both the Government of India and the Reserve Bank of India (RBI) are seized of this matter. Achievement of high growth will also depend on a conducive global economic condition in general and avoidance of sudden flare up in international oil prices, and protectionist tendencies among developed countries vis-à-vis international trade.

### **C. Indian Banking Industry Developments**

1. With moderately high growth in the economy and prospect for further growth acceleration, India's banking sector is poised for robust growth. Rapidly growing businesses would turn to banks for meeting their credit needs. Aware of this, the banking industry in India is going through a rapid transformation, particularly in the application of information technology and digital banking.

Banks are bolstering their technological infrastructure to bring advanced banking services to meet the needs of their customers. Technology is allowing banks to provide its customers a seamless banking experience at the place of the customer's choice, i.e. their place, at one of its branches or wherever they are when on the move. It is technology that provides a bank in India a



competitive edge in terms of differentiating products and services. Bank deposits have grown faster than the economy<sup>5</sup> as per an RBI weekly report of 17 March, 2017, the aggregate deposit for the Indian banking sector stood at Rs. 1,05,420.50 billion, which represents a growth of 13 per cent on a year-on-year basis. The aggregate deposit comprises demand deposits at Rs. 11,612.30 billion, and time deposits at Rs. 93,808.10 billion.<sup>6</sup> A part of this buoyant growth in deposits was because of the withdrawal of legal tender status of specified bank notes (SBN), namely denominations of Rs. 500 and Rs. 1,000 already issued, on November 8, 2016. The SBNs could be deposited in bank accounts, but they could be exchanged for other currency notes, or withdrawn after depositing in the accounts only in limited quantities because of cash shortage for several weeks. As a result, there was a bulge in deposits at the end of 2016. With disappearance of the cash shortage, some of these deposits are unwinding into cash, but a part of the increase in deposits relative to currency is likely to persist with the boost that the temporary cash shortage gave to less cash-intensive payments through digital means.

2. Indian banks' credit growth, however, was considerably slower than the growth of the economy as well as deposits. Aggregate bank credit at Rs. 75,656.70 billion on 17 March 2017 was only 4.4 per cent higher than the corresponding figure a year ago. The sluggish growth of bank credit, which comprises of food and non-food credit, reveals the sluggish investment in the economy as well as the stressed assets on the balance sheet of banks, particularly PSBs.
3. The currency-deposit ratio, while on a downward trend, continues to be high relative to many developed and developing countries. Withdrawal of legal tender status of SBN, namely denominations of Rs. 500 and Rs. 1,000 already

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<sup>6</sup> <https://www.ibef.org/industry/banking-india.aspx>



issued, on November 8, 2016 may have given a boost to less cash-intensive digital payment mechanisms and accelerated the downward trend in the currency-deposit ratio. It appears to have promoted the usage of digital channels (also known as Alternate channels) such as Internet and mobile banking and debit cards. Direct account-to-account based payment solutions are visible along with initiatives to bring merchants and end customers on to Aadhaar-based payment services.

4. Underperforming loans remain a cause for worry with banks, particularly some public sector banks. With global geo-political headwinds such as United Kingdom's planned withdrawal from the European Union or the Brexit, and the US policy stance under a new government, it was an unusual year for the banking sector all over the world, including India. The dominant themes for the Indian banking sector are<sup>7</sup>:

- a. **Introduction of new banking entities**

Two new entities – small finance banks and payment banks – have been introduced in the Indian banking sector. Small finance banks with minimum capital of Rs. 100 crore are allowed to accept deposits and lend mainly up to Rs. 25 lakh (50 per cent of the total) and to the priority sector (75 per cent of the total). Payment banks can accept demand deposits (up to Rs 1 lakh), offer remittance services, mobile payments/transfers/purchases and other banking services like ATM/debit cards, net banking and third party fund transfers, but cannot advance loans or issue credit cards. With licenses granted to ten and eight entities to operate small finance banks and payment banks, respectively, competition is likely to heat up in the Indian banking industry.

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<sup>7</sup> <http://www.livemint.com/Opinion/GivShcwWLIDCF7w0RpmIrO/Six-banking-trends-to-watch-out-for-in-2017.html>





## b. Consolidation

The recent merger of the State Bank of India (SBI) with five of its subsidiaries has resulted in its combined balance sheet of almost Rs. 37 trillion, and catapulted it into the league of top 50 banks in the world. . While the impact of the merger on efficiency is being keenly watched, further consolidations in the Indian banking industry are expected during the coming year.

## c. Bad Loans

Bad loans or non-performing assets (NPA) are assets of banks that do not generate cash flows to the extent and in the period originally envisaged. Gross NPA as a proportion of gross advances of the Indian banking sector has more than doubled from 3.2 per cent (Rs. 2.64 trillion) in 2012-13 to 7.5 per cent (Rs. 6.1 trillion) in 2015-16.<sup>8</sup> According to the rating agency ICRA, it is likely to go up further to 9.7-10.0 per cent (Rs 7.5-7.7 trillion) by end-March 2017 and 9.9-10.3 per cent (Rs 8.2-8.5 trillion) by end-March 2018. Growing NPA problem has reduced the capital adequacy of some banks perilously close to the regulatory minimum, and is discouraging further credit extension.

RBI has taken several initiatives to ameliorate the problem of NPA in banks. In February 2014, it introduced “Framework for Revitalising Distressed Assets in the Economy - Guidelines on Joint Lenders”. In July 2014, the flexible refinance and repayment option for long gestation infrastructure projects followed. Popularly known as the 5:25 scheme, it allowed banks to extend long-term loans of 20-25 years to match the cash flow of infrastructure projects and refinance them every five or seven years. Its Asset Quality Review initiated in early 2015-16 improved the

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<sup>8</sup> “Indian Banking Sector at a Glance,” under Statistical Tables Relating to Banks, RBI, <https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications>



recognition of NPAs and provisioning for such assets. It introduced the Strategic Debt Restructuring (SDR) scheme in June 2015 and the sustainable structuring of stressed assets (S4A) in June 2016. Though generation of fresh NPA has been slowing down, the stock continues to grow in spite of such initiatives. Non-performing assets continue to be a cause of concern.

#### **d. Digital Economy**

The gradual move from cash-based payments to digital channels got a boost from the withdrawal of legal tender status of SBN, namely denominations of Rs. 500 and Rs. 1,000 already issued, on November 8, 2016. The government is leading the agenda on the use of digital channels to make payments. Internet and mobile banking usage, the use of debit cards, and, with the Unified Payment Interface (UPI) facility, direct transfers between merchants and end customers are gaining steam.<sup>9</sup>

### **BANDHAN BANK'S OPERATIONS**

Your Bank's journey from doing only micro-banking operations to becoming a universal bank continues with newly designed products and services to meet the banking needs of diverse customer segments.

#### **A. Performance of General Banking**

##### **➤ Deposits**

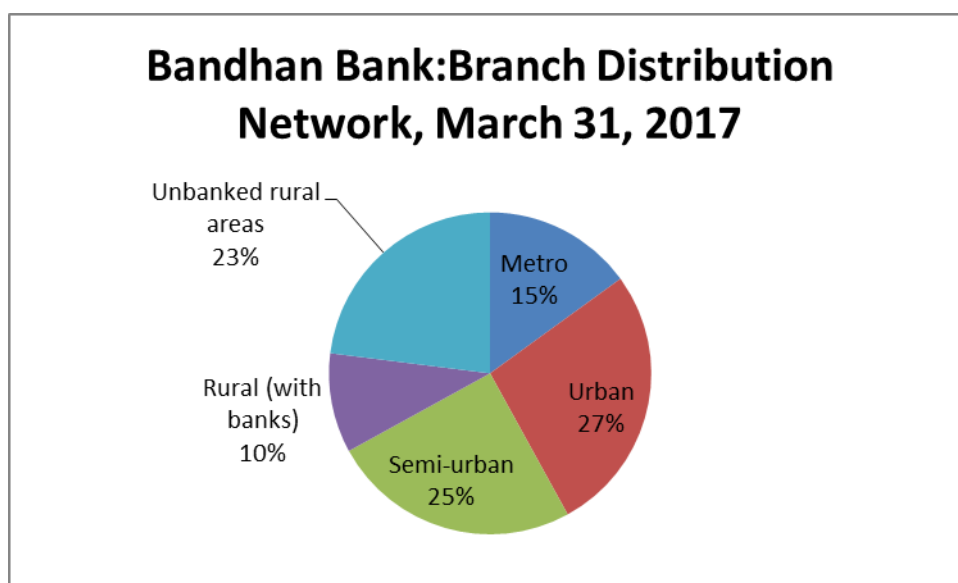
1. In 19 months of its operation, the Bank's branch distribution network has been scaled up to 840 on March 31, 2017. The branch network has been distributed

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<sup>9</sup> UPI is a payment system launched by National Payments Corporation of India and regulated by the Reserve Bank of India which facilitates the instant fund transfer between two bank accounts on the mobile platform



over different types of locations, to maintain an appropriate balance among rural (banked and unbanked), semi-urban, urban and metropolitan regions.



- Overall deposits grew by 92 per cent during 2016-17 (Table 1). The composition of the deposits indicate that your Bank has been able to reduce its funding through bulk term deposits, and also increase its current account deposits.

<b>Table 1. Deposits of Bandhan Bank</b>		
(In rupees crore)		
Type of deposit	At end-March	
	2016	2017
Total	12,089	23,229
Of which:		
Current account	235	1,453
Savings account	2,371	5,385
Term deposits	9,484	16,405
Of which		
Retail term deposit	1,982	9,577
Bulk term deposit <sup>^</sup>	7,501	6,814
<sup>^</sup> Term deposit of Rs. 1 crore and above		



➤ *Digital Payment Channels*

Your Bank is working in a focused manner to establish itself as a 'one stop shop' - a provider of an array of financial services, such as various deposit products, debit cards, and bill payments facility. It has a multichannel servicing strategy through ATMs, internet, phone and mBandhan (mobile banking) in addition to its branch network. Its digital channels, e.g. debit cards, internet banking mBandhan, which had been introduced at the time of inception of Bank in August 2015 got a fillip after the withdrawal of legal tender status of SBN, namely denominations of Rs. 500 and Rs. 1,000 already issued, on November 8, 2016 and the cash shortage in its immediate aftermath. mBandhan and Internet Banking witnessed robust growth in registrations and usage. The Bank has also undertaken focused communication initiatives through branches and social media to popularise ongoing debit card offers.

3. In 2016-17, your Bank also established its merchant acquiring business and started setting up point of sale (PoS) terminals in major towns and cities as well as comparatively smaller, cash-intensive towns and villages. The electronic data capture (EDC)-PoS terminals were rolled out in December 2016. In the four months from rollout to end-March 2017, the Bank received 7,885 applications, and for 5,734 of the applicants was able to install EDC-PoS terminals by March 31, 2017. Currently, on an average, about 2,000 EDC-PoS applications are being received per month.
4. Going forward, in 2017-18, your Bank plans to foray into the distribution of third party products as well. In the first phase, the distribution of Mutual Funds through metro and urban branches will commence in the first quarter. With the aim of increasing customer stickiness by way of increased balances in customers' account, investment in systematic investment plans (SIPs) will be emphasized. Branches identified for distribution of mutual funds will have at least two



employees who are duly certified for distributing such funds. The Bank also plans to commence General Insurance distribution vide a Corporate Agency License.

➤ *Small & Medium Enterprises Loan (SME)*

5. Your Bank has initiated its Small and Medium Enterprises (SME) loan business through five Asset Centers at Kolkata, Howrah, Burdwan, Barasat, and Behrampur. At end-March 2017, there were 71 SME borrowers with total loan outstanding (including a small amount of bank guarantees) of Rs. 106 crore.
6. The SME loans were subject to a minimum of Rs. 10 lakh and given as working capital, term loan, and project finance facilities. Facilities extended to the SMEs included fund-based term-loans and overdraft facilities, as well as non-fund-based bank guarantees. To minimise risk of default, the Bank focused on customers internally rated BB 1 to 4.
7. To build a solid SME customer base, the Bank endeavored to pursue a focused approach and provide a service commitment to render timely, adequate support. During 2016-17, the Bank participated in MSME seminars, workshops and trade fairs organized by RBI and State Governments. Participation in such exhibitions and trade fairs has also helped customers to understand the importance of innovation, marketing, technology and use of social media to grow their businesses. Your Bank will strive to increase the SME customer base during the coming year by opening another 14 SME Asset Centers across the country.

➤ *Small Enterprise Loan (SEL)*

8. Your Bank also started offering Small Enterprise Loan (SEL), a new product in 2016-17. It is available in amounts between Rs.1 lakh and Rs.10 lakh. At end-March 2017, there were 91 credit centres to assess and disburse SEL, and the total SEL amount outstanding from 57,171 customers was Rs. 1,054 crore.



9. The SEL business plan for 2017-18 proposes to focus on the following to accentuate its portfolio:
  - a. Loan disbursements in amounts less than Rs.1 lakh;
  - b. Expeditious processing of Loan proposals with minimal documentation.
  - c. Additional Credit Centers in locations of business potential
  - d. Risk management capabilities by enhancing the early warning system model based on holistic customer information and development of advanced credit rating tools.
  - e. Potential synergies in Trade Finance business

➤ *Retail Assets*

10. On March 31, 2017, the Bank had 14,927 retail loan accounts with the total outstanding at Rs. 390.60 crore. Going forward, the Bank's retail loan book, with a focus on home loans and personal Loans, is expected to grow rapidly. The initiative will be supported by the multiple product offerings and cross-selling to existing customers.
11. The primary reasons for focusing on retail lending are risk diversification, availability of a business opportunity and a supportive regulatory framework. Retail lending has the advantage of the risk being spread out rather than concentrated with a few individuals or enterprises or sectors. The penetration of retail lending in India is amongst the lowest in the world. It is much higher not only in the developed world, but also in some of the developing countries, especially South East Asia. Retail lending holds considerable potential for the banking sector.
12. Priority Sector lending (PSL) norms of the RBI is the major regulatory tool by which credit is directed to sectors and activities considered important for overall socio-economic development. The PSL norms also aims to establish a system that supports the availability of retail loans to every strata of society. As per PSL



guidelines of RBI, vide Circular no RBI/2014-15/573 dated April 23, 2015, housing loans to individuals up to Rs. 28 lakh in metropolitan centers (population above 10 lakh) and up to Rs. 20 lakh in other centers qualify as PSL provided the total cost of the dwelling unit does not exceed Rs.35 lakh in metropolitan centres and Rs. 25 lakh in other centers. Also, loans for repair and renovation of dwelling units up to Rs.5 lakh in metropolitan centres and Rs.2 lakh in other centers qualify for PSL.

13. Demand for housing loans is also likely to be stimulated by the 'Pradhan Mantri Awas Yojana (Urban) - Housing for All Mission' (PMAY) for urban areas launched on June 25, 2015. PMAY, with the aim of ensuring that 2 crore houses are built across the nation's length and breadth by 2022, is being implemented by providing central assistance to implementing agencies through States and Union Territories. The Credit Linked Subsidy Scheme under PMAY provides interest subsidy on home loans taken by eligible urban poor. The interest subsidy available to the economically weaker sections (EWS), lower income group (LIG), and middle income group (MIG) for loans for acquisition or construction of houses should work as an additional stimulus to boost up the demand for housing loans and open up a business opportunity for your Bank.

14. Your Bank has tied up with National Housing Bank (NHB), one of the central nodal agencies under the CLSS scheme, to cater to the needs of EWS and LIG beneficiaries. It is also in the process of signing the MoU for the recently launched CLSS scheme for MIG.

➤ ***Gold Loans***

In recent years, increasingly banks in India have entered the gold loan business. Financial institutions/banks have introduced innovative lending products such as upfront collection of interest for entire loan tenure. Gold loans are emerging as a reliable and convenient source of credit for low to mid income groups, as they



are made available with convenient procedures and documentation. Gold loans, as a business for Financial Institutions/banks, grew by around 60 per cent in 2011-12, and 45 per cent in 2012-13. There was a slight softening of the growth rate in 2013-14 due to decline in the international gold prices, but such bank loans are expected to grow at a compound annual rate of 15 per cent over the next 5 years. The year 2016-17 marked the entry of the Bank in the gold loan business. On March 31, 2017, the Bank's outstanding gold loans to 314 customers was Rs. 1.66 crore.

## **B. Performance of Micro Banking**

1. Micro banking with the aim of achieving financial inclusion is the cornerstone of your Bank's operations. While most other banks, after doing general banking operations for years, are getting into micro banking, Bandhan has followed the bottom up approach - after a long and successful experience in microfinance, it transformed itself into a bank and diversified into general banking.
2. Your Bank's commitment to financial inclusion is reflected in the growth of over 38 per cent in the aggregate micro-banking asset portfolio from Rs.15,436 crore to Rs.21,387 crore during 2016-17. This growth was achieved through a combination of broadening (opening new Doorstep Service Centres) as well as deepening (more loans to existing as well as new customers in areas covered by already existing Doorstep Service Centres).
3. The micro-banking loans continued to be in four categories:
  - a. **Suchana Loan** - Rs.1,000 to Rs.25,000 (No Processing Fee): Loan size is up to Rs.25000/- and is sanctioned to Micro Banking customers for deploying in eligible income generating activities.





- b. **Srishti Loan** - Rs.25,000 to Rs.100,000: Loan size is above Rs.25000/- and is sanctioned to Micro Banking customers for expanding their business enterprise.
  - c. **Suraksha Loan** - up to Rs.10,000: Loan size is up to Rs. 10000/- and is sanctioned to Micro Banking customers to meet emergency expenses due to health issues.
  - d. **Susiksha Loan** - up to Rs.10,000: Loan size is up to Rs. 10000/- and is sanctioned to Micro Banking customers to meet expenses towards education of their children.
4. The withdrawal of legal tender status of SBNs (i.e. Rs 500 and Rs 1000 notes of particular series) on 8<sup>th</sup> November 2016 resulted in a cash shortage in its immediate aftermath. Micro-banking customers, who were dependent on the cash economy for a major part of their functioning, were adversely impacted in their incomes. This impact on individual earnings had a negative bearing on the servicing of micro-banking loans by borrowers. As a result, overdue borrower numbers have increased in the last quarter of 2016-17. Your Bank's micro-banking loans slowed significantly in November & December 2016.
5. Bandhan as a microfinance institution could not garner deposits from its customers. Your Bank can and did. It provided a safe, secure and profitable avenue for its micro-banking customers to deploy their savings. A modest beginning was made in 2016-17 by garnering Rs.2,006.18 crore in aggregate deposits -- Rs.1,801.54 crore in current and savings account deposits and Rs.204.65 in term deposits – from micro-banking customers.
6. The Board and Management are fully aware that the key ingredients of success are going to be the Bank's appropriately skilled and dedicated human resources. To build up a robust pool of skilled manpower, the Bank successfully conducted training programs at its Learning Centre at Rajpur. Apart from Rajpur, your Bank



also has seven other training centres at various locations. Together with training at these centres, your Bank is committed to building up a strong team spirit and sense of ethics, and a customer-friendly attitude throughout the organization.

**For and on behalf of the Board of Directors  
Bandhan Bank Limited**

**Place: Kolkata**

**Date: 26<sup>th</sup> April, 2017**

**Sd/-  
Chairman  
Ashok Kumar Lahiri  
(DIN: 07234290)**