# DISCLOSURES UNDER THE NEW CAPITAL ADEQUACY FRAMEWORK- PILLAR III (BASEL II)

## 1. Scope of Application

YES BANK Limited is a publicly held Bank; which was incorporated as a limited company under the Companies Act, 1956; on November 21, 2003. The Bank received the licence to commence banking operations from the Reserve Bank of India ('RBI') on May 24, 2004. Further, YES BANK was included to the Second Schedule of the Reserve Bank of India Act, 1934 with effect from August 21, 2004. As at March 31, 2009, YES BANK does not have any subsidiaries.

The Bank does not have any interest in any insurance entity.

## 2. Capital Structure

**Equity Capital**

The Bank has authorised share capital of Rs. 4,000,000 thousands comprising of 400,000,000 shares of Rs.10/- each. As at March 31, 2009, the Bank has issued, subscribed and paid up equity shares 296,978,930 of Rs. 10 each amounting to Rs. 2,969,789 thousands. The Bank's shares are listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). During the year 2008-09, the Bank has allotted 1,189,180 shares to employees pursuant to exercise of employee stock options.

The provisions of the Banking Regulation Act, 1949, the Companies Act, 1956 and other applicable laws and regulations govern the rights and obligations of the equity shareholders of the Bank.

**Innovative Perpetual Debt Instruments/Tier II Instruments**

In line with the RBI circular on capital adequacy, the Tier I Capital of the Bank comprises of paid-up equity share capital, statutory reserves, capital reserves, other disclosed free reserves and eligible Innovative Perpetual Debt Instruments (IPDI). The Tier II Capital of the Bank includes general loan loss provision, Upper Tier II Instruments and Lower Tier II Instruments. The terms and conditions that are applicable for IPDI and Upper and Lower Tier II Instruments comply with the stipulated regulatory requirements.

IPDI are non cumulative, unsecured, perpetual instruments with step up and/or call options. Interest on IPDI is payable either annually or semi-annually. The Upper Tier II Instruments are non-convertible, unsecured and have a minimum tenure of fifteen years. Interest on Upper Tier II debt is payable either annually or semi-annually. Lower Tier II debt is unsecured and non-convertible. Interest payable on Lower Tier II is payable annually.

The details of IPDI and Tier II instruments are given below.

**Innovative Perpetual Debt Instruments (IPDI)**

The Bank has raised IPDI, eligible as Tier I Capital to the tune of Rs. 1,540,000 thousands and USD 5,000,000 during the year ended March 31, 2009. The details of the same are given as follows:

| Nature of security | Date of Issue | Coupon Rate (%) | Tenure | Rs. in thousands |
|---|---|---|---|---|
| Bonds* | June 27, 2008 | 450 BPS over applicable Libor | Perpetual | 214,400 |
| Promissory Notes | February 21, 2009 | 10.25% | Perpetual | 1,150,000 |
| Promissory Notes | March 9, 2009 | 10.25% | Perpetual | 390,000 |
| | | | | **1,754,400** |

* Issue has been made of USD 5,000,000; converted at foreign exchange rate on date of borrowing 1$ = Rs. 42.88

Upper Tier II Instruments

The Bank has raised Upper Tier II Capital to the tune of Rs. 2,000,000 thousands and USD 80,000,000 during the Financial Year ended March 31, 2009. The details of Upper Tier II instruments outstanding as at March 31, 2009 are given below:

| Nature of security | Tranche | Date of Issue | Coupon Rate (%) | Tenure | Rs. in thousands |
|---|---|---|---|---|---|
| Debentures | Tranche 1 | January 2, 2007 | 9.73% | 15 years | 800,000 |
| Debentures | Tranche 2 | February 7, 2007 | 9.60% | 15 years | 336,000 |
| Promissory Notes | Tranche 3 | March 15, 2007 | 10.10% | 15 years | 100,000 |
| Debentures | Tranche 4 | March 14, 2007 | 10.00% | 15 years | 100,000 |
| Debentures | Tranche 5 | March 23, 2007 | 10.40% | 15 years | 600,000 |
| Promissory Notes | Tranche 6 | March 31, 2007 | 10.40% | 15 years | 50,000 |
| Debentures | Tranche 7 | April 20, 2007 | 10.40% | 15 years | 20,000 |
| Debentures | Tranche I | September 29, 2007 | 10.70% | 15 years | 1,820,000 |
| Debentures | Tranche II | November 8, 2007 | 10.70% | 15 years | 100,000 |
| Bonds* | Not Applicable | June 27, 2008 | 300 BPS over applicable LIBOR | 15 years | 3,430,400 |
| Debentures | Not Applicable | September 15, 2008 | 11.75% | 15 years | 2,000,000 |
| | | | | | **9,356,400** |

* Issue has been made of USD 80,000,000; converted at foreign exchange rate on the date of borrowing $1 = Rs. 42.88

### Lower Tier II Instruments

The details of Lower Tier II Instruments outstanding as at March 31, 2009 are as follows:

| Nature of security | Tranche | Date of Issue | Coupon Rate (%) | Tenure | Rs. in thousands |
|---|---|---|---|---|---|
| Bonds | Not Applicable | March 2, 2006 | One year commercial Paper benchmark rate plus 55 basis points, reset annually. | 7 years and 6 months | 1,000,000 |
| Promissory Notes | Not Applicable | November 7, 2006 | 9.10% | 9 years and 6 months | 1,800,000 |
| Debentures | Tranche I | September 29, 2007 | 10.00% | 9 years and 7 months | 100,000 |
| Debentures | Tranche II | November 30, 2007 | 10.15% | 9 years and 6 months | 71,000 |
| Debentures | Tranche III | December 12, 2007 | 10.15% | 9 years and 6 months | 10,000 |
| Debentures | Tranche IV | February 7, 2008 | 10.00% | 9 years and 3 months | 368,000 |
| | | | | | **3,349,000** |

### Capital Funds

The composition of Capital funds of the Bank as at March 31, 2009 is as follows:

*(Rs. in thousands)*

| | |
|---|---|
| A. Tier I Capital | |
| i. Paid-up Share Capital | 2,969,789 |
| ii. Reserves | 13,272,088 |
| iii. Innovative Perpetual Debt Instruments* | 1,754,400 |
| iv. Amounts deducted from Tier I Capital | |
| Intangible assets (including Deferred Tax assets) | (466,704) |
| Tier I Capital | **17,529,573** |
| * includes issue of USD 5,000,000 converted at foreign exchange rate on the date of borrowing $1 = Rs. 42.88 | |
| B. Tier II Capital | **13,144,084** |
| C. Debt capital instruments eligible for inclusion in Upper Tier II Capital | |
| i. Total amount outstanding** | 9,356,400 |
| ii. Of which amount raised during the current year** | 5,430,400 |
| iii. Amount eligible to be reckoned as capital funds ** | 9,356,400 |
| ** includes Issue of USD 80,000,000; converted at foreign exchange rate on the date of borrowing $1 = Rs. 42.88 | |

*(Rs. in thousands)*

| | | |
|---|---|---|
| D. | **Subordinated Debt eligible for inclusion in Lower Tier II Capital** | |
| i. | Total amount outstanding | 3,349,000 |
| ii. | Of which amount raised during the current year | - |
| iii. | Amount eligible to be reckoned as capital funds | 3,149,000 |
| E. | **Other deductions from capital** | - |
| F. | **Total eligible Capital (A + B)** | **30,673,657** |

## 3. Capital Adequacy

The Bank is subject to the Capital adequacy norms stipulated by the Reserve Bank of India ('RBI'). As per the earlier applicable capital adequacy guidelines (Basel I), the Bank was required to maintain a minimum capital ratio of total capital to risk adjusted assets and off-balance sheet items of 10.0% , at least half of which must be Tier I Capital. On July 1, 2008, RBI issued Prudential Guidelines on Capital Adequacy and Market Discipline-Implementation of the New Capital Adequacy Framework (Basel II), which are applicable to all Indian Banks not having operational presence outside India from March 31, 2009. In terms of RBI guidelines for implementation of Basel II, the Bank is required to maintain minimum capital at the level required by Basel I or Basel II, whichever is higher. For the Financial Year ended March 31, 2009, the minimum capital required to be maintained by the Bank as per Basel I is higher than that under Basel II guidelines.

The Bank has put in place a Board approved policy on Internal Capital Adequacy Assessment Process (ICAAP) which identifies the Risk appetite of the Bank and linkages between the business targets of the Bank and material risks that the Bank could face in implementation of its strategic plan. The integration of risk assessment with business activities facilitated by a robust risk management framework enables the Bank to take informed decisions and effectively manage risk-return trade-off. The Bank has set processes to periodically review and improve the techniques used for identification, measurement and assessment of all material risks and resultant capital requirements.

| | Capital Adequacy | Rs. in thousands |
|---|---|---|
| A. | **Capital requirements for credit risk** | |
| i. | Portfolios subject to standardised approach | 15,096,865 |
| ii. | Securitisation exposures | - |
| B. | **Capital requirements for market risk** | **899,701** |
| | Standardised duration approach | |
| | Interest rate risk | 721,584 |
| | Foreign exchange risk (including gold) | 126,000 |
| | Equity risk | 52,117 |
| C. | **Capital requirements for operational risk** | |
| | Basic Indicator approach | 607,623 |
| D. | **Total and Tier I Capital Adequacy ratio** | |
| | Tier I Capital Adequacy ratio | 9.5% |
| | Total Capital Adequacy ratio | 16.6% |

## 4. Credit Risk

**Credit Risk Management Objectives, Processes and Structure (CRM):**

Credit Risk covers the liability of the borrower or the counter party to honor commitments under an agreement and any such failure has an adverse impact on the financial performance of the Bank. The Bank is exposed to credit risk through lending and treasury products.

The Bank's risk management processes are guided by well-defined policies appropriate for various risk categories, independent risk oversight and periodic monitoring through Risk Monitoring Committee(RMC) which is a Board level sub-committee.

The Board sets the overall risk appetite and risk philosophy for the Bank. The RMC and the Audit Committee of the Board review various aspects of risk arising from the business.

**Strategies & Processes**

The objective of the Bank's Credit Policy is to build and maintain a quality portfolio with sound and well-diversified credit risk distribution. Credit Risk Management is an important tool for achieving this objective, as it helps the Bank:

✓ Take informed credit decisions based on an adequate assessment of the relevant factors involved in the credit risk

✓ Screen credit proposals and assume only such credit risk that is acceptable to the Bank to ensure better credit quality in compliance with statutory and regulatory guidelines

✓ Optimise the risk return trade-off by providing guidelines for securing return commensurate with the risk involved in the credit

✓ Ensure diversification of the credit portfolio, by avoiding concentration in credit exposures to individual/group borrowers, industry/sector etc.

✓ Customise product offerings (fund-based and fee-based) to maximise customer satisfaction

Risk identification and assessment is the first step in the credit risk management system. The credit risk inherent in credit proposal is assessed by evaluating the below mentioned risk factors among others:

✓ Financial Risk: This would include an assessment of the entity's overall financial strength based on performance and financial indicators, as derived from its financial statements-historical and projected

✓ Business Risk: This entails an analysis of the fundamentals of the business unit, its competitive market position in the industry and its operational efficiency

✓ Industry Risk: This would include an evaluation of the competition/entry barriers, industry cyclicality/outlook, regulatory risk/government policies and other contemporary issues

✓ Management Risk: This involves evaluation of the management of the enterprise, their risk philosophy, competence and past track record

**Structure and Organisation of the Credit Risk Management Function**

The organisational structure for CRM in the Bank comprises the Board of Directors, the Risk Monitoring Committee ('RMC') and the Credit Risk Management Department ('CRMD').

The Board of Directors of the Bank ("Board") has the overall responsibility for risk management in the Bank, including credit risk management. The Risk Monitoring Committee (RMC) is an independent Board-level sub-committee that reviews and monitors the various risk exposures in the Bank. The Credit Risk Management Department (CRMD) is delegated specific responsibilities of managing the credit risk in the Bank by the RMC.

The Board approves the Bank's credit policy covering, inter alia, prudential exposure limits, business segments, credit assessment and approval/denial system, margin and collateral management, credit documentation, credit pricing, credit administration and monitoring system, non-performing assets management policy and credit risk management system.

The roles and responsibilities of the 'RMC' broadly include issuance and modification of the guidelines for Credit Risk Management with the Board's approval, providing update to the Board at periodic intervals about the Bank's credit risk exposure profile along with the recommended corrective measures, ensuring that the credit function activities are managed in compliance with the credit policy of the Bank and recommending changes/modifications in the credit policy of the Bank for approval by the Board.

The credit proposals are examined in depth by the sanctioning authorities, under the "three initial system" of sanction. This system establishes line accountability for credit decisions and combines credit approval authorities and discretionary powers. The credit-worthiness and assessment of credit requirement are evaluated and determined having regard to risk rating of the borrower and the credit facilities are sanctioned accordingly.

Credit Proposals above Rs. 500 million are sanctioned by an Internal Credit Committee which comprises the MD & CEO, Chief Risk Officer, President/Heads of Business & Risk.

The CRMD is headed by the Chief Risk Officer who is assisted by Country Head (Wholesale Banking Credit), Country Head (Commercial Banking Credit), Country Head (Business Banking Credit), Country Head (Small Business Banking Credit), Head (Market Risk), Portfolio Management Group & Head (Credit Mid Office). Operational Risk Management is supervised by the Chief Operating Officer, and reviewed by the Operational Risk Management Committee (ORMC). The CRMD is accountable for protecting the quality of the entire loan/investment portfolio and would undertake portfolio evaluations and conduct comprehensive studies on the environment to test the resilience of the loan portfolio.

**Reporting and Measurement**

The credit risk management function is largely centralised at Head Office for both credit approvals and disbursements. It is well structured and staffed to ensure that the credit policy and regulatory requirements are adhered to and implemented. Post sanction, an independent Credit Management Unit is responsible for ensuring that the credit policy guidelines and terms of sanction are adhered to.

The Bank has a risk rating system comprising of multiple models that assesses the ratings of customers based on their financial data, industry characteristics, business positioning and other non financial parameters. The core banking system is used to control and monitor utilisation of limits under various products by customer and is also the repository for information on past dues and excesses. There is also a post disbursal tracking system that is used for monitoring appraisal conditions, financial covenants, documentation exceptions, deferrals, etc.

An annual review is required for all facilities granted to a customer. The analysis carried out during annual review would reflect not only the performance of the company but also the performance of the account. The lower rated obligors are reviewed more frequently.

Credit Monitoring involves follow-up and supervision of the Bank's individual loans as well as the entire loan portfolio with a view to maintain the assets quality at the desirable level, through proactive and corrective actions, aimed at controlling and mitigating the

risks to the Bank. The main objectives of Credit Monitoring are:

(a) To ensure compliance with the terms and conditions of the credit sanctioned

(b) To ensure the end-use of the Bank funds by the borrowers as per the approved purposes and prevent diversion of the funds for unauthorised purposes

(c) To assess the health of the obligor at periodic intervals with reference to the key indicators of performance such as activity level, profitability, management standards

(d) To periodically review the loan portfolio of the Bank or of its specified segment to assess the overall asset quality/risk and compliance with the prudential norms

**Policies for Hedging & Mitigating Credit Risk**

Security management is instrumental in hedging and mitigating credit risk. It involves creation of enforceable charge over the borrower's/third party assets in favour of the Bank, proper valuation/storage/maintenance and insurance of the securities so charged at regular intervals, in order that the Bank's advances/loans remain fully covered by the realisable value of the securities charged to it. Further, the charged securities are valued at periodic intervals on conservative basis and stipulated margins maintained at all times.

Primary securities are taken to cover the full/core facilities, and suitable charge/lien thereon created in favour of the Bank. With a view to strengthen the security cover in advances where required and also to guard against an unexpected steep erosion in the value of the primary security, collateral security is also obtained by way of a charge on non-financed assets of the borrower, or of the promoters or third party guarantors having sufficient value.

**Definition and Classification of Non Performing Assets (NPA)**

The Bank classifies its outstandings into performing and non-performing in accordance with the extant RBI guidelines.

An Non Performing Advance (NPA) is defined as a loan or an advance where:

i. interest and/or instalment of principal remains overdue for more than 90 days in respect of a term loan. Any amount due to the Bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the Bank

ii. a bill purchased/discounted by the Bank remains overdue for a period of more than 90 days

iii. interest and/or instalment of principal in respect of an agricultural loan remains overdue for two crop seasons for short duration crops and one crop season for long duration crops

iv. the regular/adhoc credit limits have not been reviewed/renewed within 180 days from the due date/date of adhoc sanction

v. the account remains 'out of order' in respect of an overdraft/cash credit (OD/CC). An account is treated as 'out of order' if:

   a) the outstanding balance remains continuously in excess of the sanctioned limit/drawing power, or

   b) where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of the balance sheet or,

   c) credits are enough to cover the interest debited during the same period

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vi. drawings have been permitted in working account for a continuous period of 90 days based on drawing power computed on the basis of stock statements that are more than three months old even though the unit may be working or the borrower's financial position is satisfactory.

vii. an account would be classified as NPA only if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.

The Bank's loan portfolio would be classified in 4 categories of assets as per extant RBI guidelines as follows:

- Standard Assets: These are Performing Assets (or Non- NPAs)
- Non-Performing Assets (NPAs):
  - Substandard Assets: i.e. an asset which remains irregular/out of order/overdue for 90 days and is classified as NPA for a period of 12 months from the date of such classification.
  - Doubtful Assets: i.e. an NPA that remains Sub-standard Asset for a period of 12 months.
  - Loss Assets: i.e. An asset that is identified as uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

The Bank has established appropriate internal mechanism for prompt identification of NPA.

Total Gross Credit Risk Exposure* Including Geographic Distribution of Exposure*

*(Rs. in thousands)*

| Particulars | Domestic | Overseas | Total |
|---|---|---|---|
| Fund Based | 136,401,847 | - | 136,401,847 |
| Non Fund Based** | 75,756,623 | - | 75,756,623 |
| **Total** | **212,158,470** | - | **212,158,470** |

**Non-fund based exposures are guarantees given on behalf of the constituents and acceptances and endorsements.

**Industry type distribution of Exposure***

*(Rs. in thousands)*

| Industry | Fund Based | Non Fund Based |
|---|---|---|
| Coal | 905,987 | 852,524 |
| Mining | 97,141 | 364,505 |
| Iron & Steel | 2,236,178 | 3,226,345 |
| Other Metal & Metal Products | 1,362,960 | 2,506,249 |
| **All Engineering** | **11,707,463** | **9,889,852** |
| *- Of which Electronics* | 902,686 | *280,435* |
| Electricity | 272,000 | - |
| Cotton Textiles | 743,337 | 268,795 |
| Other Textiles | 1,861,400 | 256,275 |

(Rs. in thousands)

| Industry | Fund Based | Non Fund Based |
|---|---|---|
| Sugar | 1,370,479 | 607,396 |
| Tea | 314,833 | 150,093 |
| Food Processing | 2,407,044 | 575,885 |
| Vegetable Oils and Vanaspati | 689,844 | 683,776 |
| Rubber & Rubber Products | 879,867 | - |
| **Chemicals, Dyes & Paints** | **9,580,138** | **3,471,429** |
| *- Of which Fertilisers* | *3,433,085* | *2,555,478* |
| *- Of which Drugs & Pharmaceuticals* | *4,864,986* | *485,890* |
| *- Of which Petro-Chemicals* | *223,204* | *354* |
| Cement | 409,263 | 427,665 |
| Gems & Jewellery | 738,107 | 3,477,414 |
| Construction | 4,761,370 | 3,368,795 |
| Petroleum | 487,389 | 485,734 |
| Automobiles including trucks | 1,968,005 | 505,473 |
| Computer Software | 2,894,027 | 1,023,636 |
| **Infrastructure** | **18,800,397** | **19,424,573** |
| *- Of which Power* | *6,606,059* | *4,652,613* |
| *- Of which Telecommunications* | *7,440,394* | *8,652,592* |
| *- Of which Roads & Ports* | *797,095* | *1,232,656* |
| NBFC | 8,932,394 | 184,337 |
| Trading | 8,971,111 | 7,791,216 |
| Paper & Paper Products | 500,206 | 886,532 |
| Other Industries | 52,174,404 | 14,285,774 |
| Residuary Other | 1,336,503 | 1,042,350 |
| **Grand Total** | **136,401,847** | **75,756,623** |

**Industries where the Bank's Exposure* was more than 5% of the total gross credit Exposure* as at March 31, 2009**

| Industry | Percentage to total gross credit Exposure |
|---|---|
| Infrastructure | 18% |
| All Engineering | 10% |
| Trading | 8% |
| Chemicals, Dyes & Paints | 6% |

*represents book value as at March 31, 2009*

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Residual Contractual maturity breakdown of assets as at March 31, 2009

*(Rs. in thousands)*

| Maturity Bucket | Cash, Balances with RBI and other banks | Investments | Advances | Other assets including Fixed assets |
|---|---|---|---|---|
| 1 day | 261,401 | - | 3,654,178 | 1,072,359 |
| 2 to 7 days | 4,834,172 | 341,747 | 6,139,381 | 81,386 |
| 8 to 14 days | 719,983 | 232,925 | 1,684,411 | 163,360 |
| 15 to 28 days | 873,161 | 1,248,716 | 7,181,424 | 4,034,420 |
| 29 days to 3 Months | 3,514,989 | 4,424,978 | 17,851,488 | 760,003 |
| Over 3 to 6 Months | 2,498,230 | 1,916,910 | 11,638,314 | 558,525 |
| Over 6 to 12 Months | 3,790,593 | 10,397,092 | 23,981,269 | 134,787 |
| Over 1 year to 3 years | 1,899,975 | 9,367,288 | 41,014,574 | 4,660,197 |
| Over 3 years to 5 years | 89,444 | 3,185,446 | 7,746,468 | 275,914 |
| Over 5 years | 745,098 | 40,055,092 | 3,139,415 | 2,838,788 |
| **Total** | **19,227,046** | **71,170,194** | **124,030,922** | **14,579,739** |

Movement of NPA (Gross) and Provision for NPAs – March 31, 2009

| Particulars | Rs. in thousands |
|---|---|
| A. Amount of NPAs (Gross) | **849,254** |
| Substandard | 760,651 |
| Doubtful 1 | 88,603 |
| Doubtful 2 | - |
| Doubtful 3 | - |
| Loss | - |
| B. Net NPAs | **411,570** |
| C. NPA Ratios | |
| i. Gross NPAs to Gross Advances | 0.68% |
| ii. Net NPAs to Net Advances | 0.33% |
| D. Movement of NPAs (Gross) | |
| Opening Balance as at April 01, 2008 | 105,699 |
| Additions | 879,763 |
| Reductions | 136,208 |
| Closing Balance as at March 31, 2009 | 849,254 |
| E. Movement of Provisions for NPAs | |
| Opening Balance as at April 01, 2008 | 21,139 |
| Additions | 552,753 |
| Write-off of NPA provision | 136,208 |
| Write back of excess provision | - |
| Closing Balance as at March 31, 2009 | 437,684 |

NPI (Gross), Provision for NPI and Movement in Provision for Depreciation on investments – March 31, 2009

*(Rs. in thousands)*

| | |
|---|---|
| A. Amount of Non-Performing Investment (NPI) | - |
| B. Amount of provisions held for NPI | - |
| C. Movement of provisions for depreciation on investments | |
| Opening Balance as at April 01, 2008 | 237,552 |
| Add/Less Provision during the year | (199,410) |
| Closing Balance as at March 31, 2009 | 38,142 |

## 5. Credit Risk: Portfolios subject to the Standardised Approach

**Ratings used under Standardised Approach**

The Bank makes use of ratings assigned by specified External Credit Assessment Agencies (ECAs) namely CRISIL, CARE, ICRA & Fitch (India) for domestic counterparties and Standard & Poor's, Moody's and Fitch for foreign counterparties.

While arriving at risk-weighted assets for credit risk under the standardised approach, 'bank loan' ratings of the counterparty have been used. This would include fund-based and non-fund based facilities. In case of treasury facilities, the Bank has also used 'Issuer' ratings of the counterparties, wherever available. In case the Bank does not have exposure in a rated issue, the Bank would use the issue rating for its comparable unrated exposures to the same borrower, provided that the Bank's exposures are pari-passu or senior and of similar or lesser maturity as compared to the rated issue. Further the lower rating, where there are two ratings and the second-lowest rating where there are three or more ratings are used in cases where multiple ratings for a given facility were available.

**Details of credit Exposures* (funded and non funded) classified by risk buckets**

The table below provides the break-up of the Bank's outstandings (rated and unrated) into three major risk buckets.

| Particulars | Rs. in thousands |
|---|---|
| Below 100% risk weight | 67,418,361 |
| 100% risk weight | 141,236,243 |
| More than 100% risk weight | 3,503,866 |
| Deducted | - |
| **Total** | **212,158,470** |

**represents book value as at March 31, 2009*

## 6. Credit Risk Mitigation - Disclosures for Standardised Approaches

The Bank's credit policy outlines the type of collateral that can be taken for different facilities and the process for its valuation. Currently, eligible financial collateral in the form of fixed deposits under Lien and Guarantees issued by Banks/government agencies have been used as credit risk mitigants.

In the case of fixed deposits under Lien, the Bank reduces its credit exposure to counterparty with the value of fixed deposits.

Under the standardised approach, the total credit exposure that was covered by eligible financial collateral, after application of haircuts was Rs. 14,691,592 thousands as at March 31, 2009.

## 7. Securitisation: Disclosure for Standardised Approach

The primary objective of securitisation of asset receivables of the Bank is to enhance the return on capital by facilitating efficiency of capital employed and diversifying the sources of funding. These transactions also help exploit the arbitrage between asset pricing and capital market instrument pricing, where available and churn assets as part of risk management strategy.

The Bank enters into securitisation transactions wherein corporate loans are sold to a Special Purpose Vehicle ('SPV'); on the basis of "True Sale" which provides credit default protection to the Bank. The Bank structures its securitisation transactions to best suit its client needs and post securitisation generally, acts as a servicing agent wherein it collects and manages funds on behalf of the investors of the securitised paper.

The Bank also acquires investment grade securitised debt instruments backed by financial assets originating from diverse sectors for regulatory/investment/trading/market-making purposes. The Bank facilitates issuances of securitised debt instruments by acting as an underwriter for select issuances based on its own underwriting/risk criteria.

The Bank follows the standardised duration approach prescribed by RBI for the securitisation activities.

These securitisation transactions are accounted for in accordance with the RBI guidelines on "Securitisation of Standard Assets" and Guidance Note on Accounting for Securitisation issued by the Institute of Chartered Accountants of India ('ICAI').

Securitised assets are derecognised upon sale if the Bank surrenders control over the contractual rights that comprise the financial asset. In respect of credit enhancements provided or recourse obligations accepted by the Bank, appropriate provision/disclosure is made at the time of sale in accordance with AS 29 – 'Provisions, contingent liabilities and contingent assets'. Gain on securitisation is amortised over the life of the securities issued by the SPV. Losses are recognised immediately. Sales and transfers that do not meet the criteria for surrender of control are accounted for as secured borrowings.

The Bank has used ratings issued by domestic accredited rating agencies like CARE, ICRA, CRISIL and Fitch (India) for its securitisation exposures. Presently, the type of securitisation exposures, for which these ratings are used, are Senior Securitised Debt instruments/Pass Through Certificates (PTCs).

**Exposures securitised by the Bank and subjected to securitisation framework**

During the year ended March 31, 2009, with respect to all securitisation transactions originated by the Bank, the transfers of assets have been effected on "true sale" basis and the Bank has no retained exposure as at March 31, 2009. The Bank has securitised Rs. 65,240,000 thousands of loan assets (corporate) during the year ended March 31, 2009.

| Particulars | Rs. in thousands |
|---|---|
| i. Amount of impaired/past due assets securitised during year ended March 31, 2009 | - |
| ii. Losses recognised by the Bank during year ended March 31, 2009 | |
| Corporate Loan assets | 65 |

**Aggregate amount of outstanding securitisation exposure (retained or purchased) as at March 31, 2009**

| Particulars | Rs. in thousands |
|---|---|
| i. Retained | - |
| ii. Securities Purchased | 3,906,550 |
| Housing Finance | 1,082,707 |
| Auto Finance | 2,702,223 |
| Micro Finance | 121,620 |

**Risk weight-wise break up of outstanding securitised exposures (retained or purchased) as at March 31, 2009**

| Risk Weights | Rs. in thousands |
|---|---|
| Below 100% Risk weight | 3,906,550 |
| 100% Risk weight | - |
| More than 100% Risk weight | - |
| Deductions | - |

**Summary of portfolios securitised by the Bank is given below:**

*(Rs. in thousands)*

| Particulars | Year ended March 31, 2009 | Year ended March 31, 2008 |
|---|---|---|
| Total number of transactions | 40 | 38 |
| Book value of loan assets (corporate) securitised | 65,240,000 | 37,061,839 |
| Sale consideration received for the securitised assets | 65,351,242 | 37,169,157 |
| Net Gain/(loss) on sale on account of securitisation | 111,242 | 107,318 |
| Additional consideration realised in respect of accounts transferred in earlier years | - | - |
| Form and quantum (outstanding value) of services provided by way of post-securitisation asset servicing, etc. | Form: Collection/Payout Agent. Value of Service charges maximum of Rs. 25,000. | Form: Collection/Payout Agent. Value of Service charges maximum of Rs. 25,000. |

YES BANK

## 8. Market Risk in Trading Book

- Market Risk Policy and Investment Policy in line with the RBI regulations and business requirements along with risk monitoring and mitigation measures are in place
- The Investment Committee of the Bank monitors and manages market risks in trading book
- Risk management and reporting is based on globally accepted parameters such as Modified Duration, PV01, Exposure and Gap Limits, VaR, etc. As per the Market Risk Policy, limits have been set for Sensitivities and VaR and the same are monitored on a daily basis
- Forex Open Position limits (Daylight/Overnight), deal-wise cut-loss limits stop-loss limit, Profit/Loss in respect of cross currency trading are properly monitored and exception reporting is regularly carried out
- Stress testing is carried out as per norms laid in the Board approved "Stress Testing Policy"
- Back testing of the current VaR model carried out quarterly
- Bank has adopted the Standardised Duration Approach as prescribed by RBI for computation of capital charge for market risk and is already fully compliant with such RBI guidelines. Standardised Duration Approach is applied for calculation of Market Risk for:
  - ✓ Securities under HFT category
  - ✓ Securities under AFS category
  - ✓ All Derivatives except those entered into for hedging Balance Sheet

| Amount of Capital required | Rs. in thousands |
|---|---|
| Interest rate risk | 721,584 |
| Equity position risk | 52,117 |
| Foreign Exchange risk | 126,000 |
| **Total capital required for Market Risk** | **899,701** |

## 9. Operational Risk

**Strategies & Processes**

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Bank has in accordance with the regulatory guidelines, implemented a comprehensive Board approved Operational Risk Management Policy and put in place a framework to identify, assess and monitor risks; strengthen controls; improve customer service; and minimise operating losses.

**Structure and Organisation**

The Bank has constituted the Operational Risk Management Committee (ORMC), consisting of senior management personnel. The ORMC which supports the Risk Management Committee (RMC) of the Board, is responsible for implementing the Operational Risk Management Policy and adopting the best industry practices.

### Scope and Nature of Operational Risk Reporting and Measurement Systems

The Bank has implemented a systematic process for recording operational risk events and losses. These events and losses are reported and discussed at ORMC for appropriate actions.

### Approaches for Computation of Capital Charge for Operational Risk

In accordance with Reserve Bank of India guidelines, the Bank has adopted the Basic Indicator Approach (BIA) for measurement of Operational Risk for the year ending March 31, 2009.

## 10. Interest Rate Risk in the Banking Book (IRRBB)

The Bank assesses its exposure to interest rate risk in banking book by taking into account both earnings perspective and economic value perspective. The Bank measures monthly the interest rate risk in banking book using the following tools:

1. Earnings at Risk (EaR)
2. Duration GAP Analysis (DGAP)
3. Value at Risk (VaR)
4. Sensitivity Analysis

Apart from this, the Bank also conducts a sensitivity test, under which interest rates are shocked upto 200 bps to assess the impact of change in interest rate on the equity.

Further, RBI has stipulated monitoring of interest rate risk at monthly intervals through a Statement of Interest Rate Sensitivity (Repricing Gaps) to be prepared on the last 'Reporting Friday' of each month. Accordingly, Asset Liability Committee (ALCO) reviews Interest Rate Sensitivity statement on a monthly basis.

### Key Assumptions used based on behavioural studies

Saving deposits: Volatile portion treated as non-interest bearing and placed in the maturity bucket of 1 day to 28 days. The core portion is placed in the maturity bucket of 1 year to 3 years as per behavioral studies. Current deposits: Considered as rate sensitive for DGAP purpose based on behavioral analysis as per RBI guidelines

### Impact of Interest rate Risk

1. Impact on Net Interest Income (with 1% change in interest rates for both assets and liabilities) Rs. 130,061 thousands
2. Impact on Market Value of Equity [MVE] (with 1% change in interest rates for both assets and liabilities) Rs. 2,198,429 thousands

*Note:*

*(i) The above impact is for 100 bps parallel shift in the interest rates for both assets and liabilities.*

*(ii) The Bank's turnover in any foreign currency is not more than 5% of the total turnover in the Banking Book. The impact on MVE includes the Bank's exposure in INR, USD, JPY, CHF, GBP and EURO.*