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Yes Bank Limited: Too Big to Fail?

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March 2020. The Ministry of Finance, Government of India approved the scheme of reconstruction for Yes Bank Limited ('Yes Bank') whose financial position had rapidly deteriorated over the past year.[i] Yes Bank, one of the largest private sector banks in India, was on the verge of collapse as a result of burgeoning non-performing assets. All attempts made by the bank to raise capital had failed, resulting in a severe liquidity crunch. In fact, a week prior to the announcement of the reconstruction scheme, the Ministry of Finance had issued an order of moratorium restricting the bank from allowing payments or withdrawals exceeding INR 50,000, except for limited purposes.[ii] A former economic affairs secretary commented:[iii]

> The financial sector shock that would happen if the bank is allowed to go under makes it important for any regulator in any country to take control. Imagine the ripple effects if the bank was allowed to go under.

The reconstruction scheme envisaged an investment by State Bank of India, India's biggest public sector bank, to acquire 26% to 49% of Yes Bank's share capital at INR 10 per share. The scheme also allowed investments by other interested investors at the same price. Pursuant to this, a number of other major banks in India contributed to the capital of Yes Bank, primarily to protect the trust of the public in the banking system. A new board of directors was constituted with appointments from State Bank of India and Reserve Bank of India. Prashant Kumar, the former Chief Financial Officer and Deputy Manager of State Bank of India, was appointed as the new Chief Executive Officer and Managing Director of the reconstituted Yes Bank. Kumar immediately signaled a shift in the strategy of Yes Bank by seeking to increase focus on retail portfolio and reduce exposure to corporate lending.[iv] The key question was whether the capital infusion, revised strategy, and new management would enable Yes Bank to regain the confidence of the investors, depositors, regulators, and other relevant stakeholders.

VERSION 1.0: THE BEGINNING

Yes Bank was incorporated in November 2003 by Rana Kapoor and Ashok Kapur. The two of them, along with Harkirat Singh, had earlier played a crucial role in setting up and managing a non-banking financial company Rabo India Finance in partnership with the Dutch-based Rabobank.[v] Rana Kapoor, an MBA graduate from Rutgers University, started his banking career at the Bank of America in 1980, headed ANZ Grindlays' India operations between 1996 and 1998, before finally setting up Rabo India Finance in 1998.[vi] Ashok Kapur, Rana Kapoor's brother-in-law, was also a career banker who had worked at Grindlays Bank in various capacities since 1962 and was the first Asian to be appointed the "Country Manager" of ABN Amro Bank, India.[vii] Monies from the sale of their stakes in Rabo India Finance along with investments from private equity investors such as Citicorp International Finance Corporation, ChrysCapital II LLC, and AIF Capital enabled Rana Kapoor and Ashok Kapur to meet the minimum paid up capital of INR 2,000 million required to start a bank. Rana Kapoor took up the role of chief executive officer and managing director while Ashok Kapur took up the role of chairman of the board of Yes Bank. Wouter Kolff, vice chairman of Rabobank International who was on the board of Yes Bank from 2004 to 2012, compared the two by saying "Kapur was a banker of old times: very solid, good at risk management. Rana is much more of an entrepreneur and won't take no for an answer.[viii]"

The Reserve Bank of India (RBI), the banking regulator in India, granted Yes Bank (and Kotak Mahindra Bank) the license to commence banking operations in India in May 2004. Historically, the banking sector in India has been heavily regulated with strict controls on critical aspects such as entry, interest rates, and asset allocation. Following economic liberalization in 1991, the sector has been progressively deregulated and new private sector banks were allowed entry. New entrants were required to obtain a license from RBI, who determined if the proposed bank could protect depositors, had adequate capital and earning prospects, and if public interest would be served on grant of license. Banks were required to maintain capital adequacy requirement, cash reserve ratio and statutory liquidity ratios as specified by RBI. There are also guidelines on income recognition, asset classification, provisioning and write-offs, and valuation of investments. The banks were permitted to determine their lending rates but there were prescribed limits on credit exposure to individual borrowers and companies belonging to the same group.

Growth Strategy

At the time of Yes Bank's entry, the banking sector in India comprised 20 nationalized banks, 196 regional rural banks, 30 private sector banks, 32 foreign banks, a number of cooperative banks and non-banking finance companies.[ix] Nearly 70% of the 67,118 bank branches in the country were located in rural or semi-urban areas,[x] especially since the regulations required the banks to lend 40% of its credit to designated 'priority' sectors. In this heavily regulated and competitive environment, Kapoor explained what he perceived to be the advantage of Yes Bank:[xi]

> Investors like our lack of legacy problems, be they in technology, human resources or NPLs [non-performing loans]. They recognize that a new bank is a barometer of success for India as a whole, and we've also got what quality investors want to see.

Yes Bank launched corporate and institutional banking and business banking operations in August 2004, financial markets and treasury operations in September 2004, and transaction banking operations in October 2004. In 2005, despite having only two branches and limited operations, Yes Bank went public. According to Kapoor, being a public trust institution, a bank requires internal and external confidence, highest levels of governance, transparency and accountability, and should be responsible to the public – all of which is achieved through an initial public offering (IPO).[xii] The IPO that was oversubscribed by over 30 times met with a high level of participation by institutional investors.

Yes Bank's strategy involved providing customers sector-specific expertise, leveraging technology, and empowering its employees as professional entrepreneurs, while also practising responsible banking that served the community. Kapoor sought to attract experienced banking professionals to head critical initiatives, encourage them to act as 'owners-managers-partners' and share the value created by the growth by granting generous stock options to the senior employees.[xiii]

Knowledge Banking

The bank chose a range of sunrise sectors such as food and agriculture, life sciences, engineering, technology, media, entertainment, telecommunications, auto, infrastructure and retailing[1] to develop its knowledge expertise. It identified the sectors based on (i) the growth potential of the sector; (ii) potential for innovative banking products; (iii) recognition and appreciation of knowledge as a differentiator; (iv) competitor activity; and (v) sector's competitive position internationally.[xiv] A Development and Knowledge Banking group staffed with experts in the chosen sectors was set up. Product and relationship managers across different business segments coordinated with the Knowledge Banking group in designing appropriate products for different clients. For example, Yes Bank came up with innovative products and solutions to meet with RBI's priority sector lending targets, which other private banks often struggled to achieve.[2] For instance, in 2007, Yes Bank launched 'Yes Sampann' in partnership with Acccion International, a pioneer in microfinance, to offer microfinance at the bottom of the pyramid. This was seen as a bold step for a young bank since microfinance involves high transaction costs and limited returns.[xv] The bank leveraged its technological advantage and innovative methodologies to create credit histories for urban populations that were traditionally excluded from formal finance.[xvi] Kapoor explained:[xvii]

> For a young bank like ours, non-achievement of PSL targets had particular regulatory implications. It could have translated into restrictions on branch expansion and mandatory low-yield NABARD deposits, not to mention informal sanctions from the RBI. But while we had to meet PSL targets, we simply could not afford to run any non-profitable business – and in banking non profitable means erosion of shareholder values.

Technology as a Competitive Advantage

To enable it to achieve high standards of customer service at lower cost structures, the bank set up its information technology systems in consultation with Gartner.[xviii] It entered into long-term arrangements with technology vendors to offer customized solutions.[xix] To focus on the core business of banking without losing the ability to scale in future, the bank outsourced most of its technology requirements to Wipro Infotech, a major IT services company based out of India. The bank had generally been early in identifying the latest technology trends, which later also allowed it to take advantage of the growth in online payment transactions in the 2010s.

Risk Management Process

Since RBI guidelines place the ultimate responsibility for risk management on the board of directors of a bank, the board of Yes Bank instituted a multi-tier credit approval process.[xx] First, all loans were to be

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[1] The list of knowledge sectors Yes Bank had expertise in evolved over time to include other sectors such as arts, sports, information technology, healthcare, e-commerce, travel & tourism, renewable energy, strategic government advisory, and smart cities.

[2] RBI guidelines require all commercial banks to lend 40 % of their credit to specific sectors such as agriculture, small scale industry, small businesses, and house finance. Agriculture advances were required to be 18% of the total credit, advances to weaker section at 10%, and 1% was required to be lent under the differential rate of interest scheme. Any shortfall was required to be deposited with government sponsored developmental banks.

approved not only by the team leader of the relevant business segment but also by two other authorized approvers, one of whom had to be from the credit risk management department.[xxi] This process was to ensure that credit approval was not made on the basis of one functionary alone. Second, if the total exposure to the client exceeded threshold limits specified by the risk monitoring committee of the Board, the proposal was to be taken to the credit committee, a committee comprising senior executives, for approval.[xxii] Finally, the minutes of all credit committee meetings were to be reviewed by the risk monitoring committee.[xxiii]

Performance and Accolades

Yes Bank reported excellent growth and profits every year since the IPO (see **Exhibit 1**) and received numerous awards for its banking philosophy. The bank maintained a good balance between interest income and non-interest income, the latter primarily arising from financial advisory, transaction banking, trade finance activities, financial markets, and other fee income.[xxiv] However, lending exposure was strongly skewed with assets arising out of corporate banking at INR 202,436 million while retail banking was at INR 21,097 million for the year ending 2010. Even liabilities showed a similar mismatch. Though the global financial crisis came very early in the bank's existence, it managed to not just hold fort but also grow during the period. Ashvin Parekh, partner at Ernst and Young, noted that "[T]he leadership team's ability to assess the risks and rewards has held them in good stead".[xxv]

Kapoor was recognized as the prime mover behind the bank's performance and received various accolades, including the 'Entrepreneur of the Year Award' in 2007 by the PHD Chamber.[xxvi] He was also known in the industry as someone who saw the big picture and did not strictly go by numbers and ratings.[xxvii] For instance, Shekhar Bajaj, managing director of Bajaj Electricals, who found it difficult to receive a loan for a company acquired by his group, explained why he went to Kapoor:[xxviii]

> Instead of just looking at the balance sheet and the rating of that company, Rana Kapoor looked at the parent company. He charged me 2% to 3% higher interest and made his extra money without really any additional risk because of the corporate guarantee that he got from us.

VERSION 2.0: EXPANDING FRICTION

In April 2010, Yes Bank announced a five-year vision, dubbed as 'Version 2.0 – Building the Best Quality Bank of the World in India', that set the target of having 750 branches, 3000 ATMs and 12,000 employees and achieving deposit base of INR 1,250,000 million and loan book of INR 1,000,000 million.[xxix] Kapoor claimed "[Our] mission is to uncompromisingly work towards building a high-quality institution… Quality filters are best achieved by changing gears.[xxx]" The strategy based on 'relationship-driven, service-centric approach'[xxxi] signaled a shift towards branch banking and creating retail/emerging business assets.

To achieve the stated targets of version 2.0, Yes Bank's focused on increasing the quantum of current and savings accounts deposits, optimizing risk management to maintain high asset quality, and diversifying revenue generation across different segments and products. It made significant investments in establishing high quality, state-of-the-art branch infrastructure in premium high street locations. The bank launched a number of customized business solutions to cater to the specific requirements of business and individual customers.[xxxii] It focused on emerging entrepreneurs and SME[3] businesses from identified sunrise sectors. The bank used a business to business to customer (B2B2C) strategy that tapped into the existing corporate customer base to offer specialized products to their owners, promoters, directors and employees.[xxxiii] It targeted the supply chain of large corporate customers by offering superior cash management and liquidity management solutions.[xxxiv] Yes Bank received a boost in October 2011 when RBI announced the deregulation of savings account interest rates and allowed individual banks to set their interest rates. Yes Bank was the first to react to this by offering 6-7 % interest rate to savings account customers, which was significantly higher than the 4% offered by public sector and large private sector banks then[xxxv] (see **Exhibit 2** for cost of funds, CASA ratio, margin, and segmental breakup benchmarked with other select banks).

Promoters Battle for Board Seats

Even as Yes Bank remained on course to achieve its Version 2.0 targets, there were governance concerns emerging from the growing divide between the two promoter families. As per the agreement between Ashok Kapur and Rana Kapoor as well as the articles of association of Yes Bank, the two promoters were entitled to jointly recommend the names of the chairman, CEO/MD, and three directors to the board of Yes Bank. The articles of association, which was approved by the RBI, also permitted the board to appoint whole time directors on the recommendation made by the promoters. In November 2008, Ashok Kapur tragically died in the terrorist attack that took place in Trident Hotel in Mumbai. Ashok Kapur had held approximately 16% of Yes Bank's shares[4] and the same was bequeathed to his wife Madhu Kapur and their children – Shagun Kapur and Gaurav Kapur. In 2009, the Nomination and Remuneration Committee (NRC) of the board of Yes Bank had discussed and rejected a proposal to induct Madhu Kapur to the board since she failed to meet the 'fit and proper' guidelines issued by RBI. Madhu Kapur later rejected that she had ever proposed her name for director and claimed that the move was engineered by Rana Kapoor. In 2011, Madhu Kapur met Rana Kapoor to discuss if her daughter Shagun Kapur could participate in the management of Yes Bank. Shagun Kapur, a double major from Tufts University and an MBA graduate from Indian School of Business, had earlier worked in private equity firms and later founded her own investment firm in 2007. Rana Kapoor had allegedly asked them to consider selling their shares at this point.

In 2013, Madhu Kapur sought to enforce the right to jointly (with Rana Kapoor) nominate three directors to the board. As a compromise, she proposed that two promoter groups would individually nominate one director each and appoint the third nominee director on a rotating basis. Rana Kapoor did not agree to this proposal. Shagun Kapur's name was considered but rejected by the board as 'she did not meet the standards of Yes Bank and its peer banks'. The dispute between the two promoter groups escalated when Madhu Kapur approached the Bombay High Court[xxxvi] to challenge the re-appointment of Rana Kapoor as

[3] Businesses with turnover between INR 50 million and INR 2000 million.
[4] Rana Kapoor and group also held around 16% shares around this time.

CEO and MD and the recent appointments of five directors[5] for failure to consult under the joint nomination clause. Rana Kapoor said:[xxxvii]

> The appointment of directors is the responsibility of the board of directors. No shareholder, especially non-board ones, can direct the bank or its board on whom they should appoint. The appointment has to be in line with the fit and proper guidelines…One cannot just induct his or her relatives on the board of a bank. Bank governance is completely driven by RBI's regulations and not by the shareholders. Yes Bank has always adhered to the guidelines of RBI while appointing directors on its board.

Regulation of Banking Sector

In 2005, RBI issued 'Guidelines on Ownership and Governance in Private Sector Banks',[xxxviii] which sought to diversify ownership in a bank by discouraging any entity or group of related entities from holding more than 10% of the paid-up capital of private sector banks without prior RBI approval. Those holding more than 10% of the share capital were required to indicate a timetable to RBI for reducing their holding to the permissible level. It was believed that diversified ownership reduces the risk of misuse or imprudent use of leveraged funds (see **Exhibit 3** for promoter holdings in different private banks). Further, any individual or group seeking to acquire or holding more than 5% of the shares in a bank were required to satisfy 'fit and proper criteria' specified by RBI and the bank was required to obtain prior acknowledgment from RBI prior to recognizing the transfer. Fit and proper criteria include assessment of factors such as the applicant's integrity, reputation, track record in financial matters, compliance with laws, and source of funds.

Similarly, the directors sought to be appointed to the board of directors of a bank were also subject to a satisfaction of a set of 'fit and proper criteria'. The bank was required to undertake a due diligence to determine the suitability of the person based on qualification, expertise, track record, integrity, and other criteria such as those specified for shareholders holding more than 5%. Proposed directors were mandated to enter into a 'Deed of Covenants[6]' with the bank which provides a detailed list of duties to be met by the directors and the bank. The regulations required at least half the number of directors to have special knowledge or experience in matters such as accountancy, banking, co-operation, economics, finance, law, small-scale industry, agriculture and rural economy, information technology, human resources, and other matters specified by RBI.[7] Importantly, the appointment of the Chairman, CEO and whole-time directors required approval of the RBI, even if the shareholders had voted in favor of the appointments. The regulations also prevent directors, other than whole time directors, from being on the board continuously for more than 8 years. RBI is also empowered to appoint additional directors to the board if it is in the interest of banking policy or public interest. Importantly, RBI has the power to supersede the board of directors of a bank for up to 12 months if it is necessary to prevent affairs of the bank being conducted in a manner detrimental to the depositors or to secure the proper management of the bank.

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[5] Additionally, the appointment of two independent directors (Ajay Vohra and Diwan Nanda) was also challenged on procedural grounds.
[6] <https://www.rbi.org.in/scripts/PublicationReportDetails.aspx?ID=279#an3> accessed July 7, 2020.
[7] Not less than two directors should have special knowledge or practical experience in agriculture and rural economy, co-operation, or small-scale industry.

The appointment of auditors of a bank too is subject to approval from RBI. The bank is responsible for quarterly reporting to RBI on aspects such as assets, liabilities, exposures, risk weighting, asset quality, concentration of exposure, capital adequacy, and other prudential parameters. RBI is also empowered to conduct periodical on-site inspections on various matters relating to risk management systems, internal controls, credit allocation and compliance. The inspection report and the actions taken by the bank to rectify identified issues are to be placed before the board of directors. In summary, RBI has extensive oversight capacity and responsibility to protect the banking system.

High Court Verdict

The directors whose appointments were challenged included three whole-time directors (Rajat Monga, Sanjay Palve, and Pralay Mondal) appointed by the board based on Rana Kapoor's nomination, and two directors (Ravish Chopra and MR Srinivasan) who were appointed in October 2012 as additional directors pursuant to nomination by Rana Kapoor and subsequently elected by a shareholder vote in June 2013. MR Srinivasan was later appointed as the non-executive chairman in January 2013 with RBI approval. The relevant questions before the court pertained to whether Rana Kapoor could have nominated these individuals without consulting Madhu Kapur and if such nomination could anyway be valid by ratification by shareholders. The re-appointment of Rana Kapoor as CEO in 2012 was also challenged for failure to consult with the other promoter group.

Rana Kapoor argued that the nominations made by him were only 'suggestions' which were subject to regulatory requirements (fit and proper criteria as assessed by NRC/board) and approval by shareholders. However, the Court drew a distinction between the procedure when directors are elected pursuant to nomination and the procedure followed ordinarily in election of directors. In the event a nomination is made, the NRC and board do not have the power to reject the name suggested as long as the regulatory requirement is satisfied. On the other hand, for ordinary director appointments, the NRC and board have the scope to decide potential candidates based on factors that went beyond the minimum regulatory requirements before placing them before the shareholders.

In June 2015, the Bombay High Court allowed Rana Kapoor to continue as CEO/MD. The court noted that the appointment of CEO/MD is ordinarily a power vested on the board. In this instance, the joint nomination clause granted this power to the promoter groups, but in the event the promoter groups failed to exercise it, the power vested back on the board. By this reasoning, since Rana Kapoor was approved by the board and the shareholders, his appointment was held valid. However, the court struck down the appointments of the five directors for failure to consult with the Madhu Kapur group and the independent directors for not following the prescribed legal procedure, respectively.[8] The court also recognized the right of Madhu Kapur as a promoter to jointly nominate three directors but refused to grant a reserved seat on the board for Shagun Kapur or some other nominee.

Interestingly, during the course of the court hearings, it was revealed that Rana Kapoor had been communicating with RBI to declassify Madhu Kapur (and her family) as promoters since 2010. RBI had,

[8] The two nominee directors and the independent directors were re-inducted on the board through a fresh shareholders vote in the AGM held in June 2015. The Bank had not inducted the other three as whole-time directors; thus, the judgment did not have an impact on board composition.

in line with its policy on ownership of private sector banks, directed Yes Bank to reduce the shareholding of promoter and promoter group to less than 10% by March 2014,[9] but the bank sought additional time from RBI to comply with the requirement.[xxxix]

VERSION 3.0 AND GROWING CONCERNS

By 2015, having successfully established itself as the 'largest medium' size bank, Yes Bank launched its next 5-year plan – 'version 3.0' – to grow into a 'Large High Quality' bank. Despite growing substantially every year, the bank only had a market share of 1%, which it sought to grow to 2.5% by 2020 by adopting a two-pronged strategy of 'Deepening Mind Share' and 'Growing Market Share'[xl] (see **Exhibit 4** for market shares of other prominent banks and **Exhibit 5** for performance of Kotak Mahindra Bank). Apart from continuing with its knowledge banking strategy to capture the mind share, the bank launched a brand campaign '*India bole Yes*' [India Says Yes] to get the attention of retail banking customers. It completed its retail assets portfolio with the launch of credit cards in 2016-2017. The bank started partnering with financial technology companies to drive its foray into digitized banking. The bank was the first to launch a United Payment Interface (UPI) based mobile payments application in partnership with PhonePe, which allowed it to capture a significant share of the growing digital payments market in India. Nevertheless, the primary focus was to grow the market share by significantly scaling up the retail franchise. Kapoor said:[xli]

> Today, 70 per cent of our human resources are deployed in retail sales and services. Yes Bank as a retail brand itself is beginning to resonate…We expect retail on the loan side to be roughly about 40 per cent including SME. On the liabilities side, retail deposits should be 60 to 65 per cent by the time we end version 3.0.

Asset Quality Review

As Yes Bank launched Version 3.0 and sought to become a large bank, concerns started emerging about the quality of the assets accumulated by Yes Bank. RBI guidelines required banks to declare as non-performing assets (NPA), among other things, any principal or interest repayment of a loan that remained overdue for longer than 90 days. The guidelines also dictate the amount of provisions required to be made for different categories of NPAs. By the mid-2010s, there emerged worries about a twin balance sheet problem in the economy – stressed banks and heavily indebted corporates. From 2003-2008, India had an annual GDP growth rate of more than 7.5% each year. Even though the growth rate reduced for a year due to the global financial crisis, India's growth rebounded quickly to ~8%, leading to projections of double-digit growth rates. Based on these aspirational forecasts, companies launched new projects worth trillions of rupees especially in infrastructure-related areas such as power generation, steel, and telecom.[xlii] The investment was financed by an equally significant credit boom, with the total bank lending to industry increasing from INR 3.35 trillion in 2003-04 to INR 26.16 trillion in 2013-14.[xliii] However, the growth rate assumptions were misplaced, and the annual growth rate slowed to 5–6% for consecutive years. A number of other factors such as inflation, financial cost, and delay in regulatory clearances

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[9] As of March 31, 2014, Rana Kapoor group held 13.64% of the shares and Madhu Kapur group held 11.91% of the shares.

reduced corporate cash flow to such an extent that by 2015, more than 40 % of the debt owed by companies had an interest coverage ratio[10] of less than 1.[xliv] Raghuram Rajan, former governor of RBI, said:[xlv]

> It is at such times that banks make mistakes. They extrapolate past growth and performance to the future. So they are willing to accept higher leverage in projects, and less promoter equity… One promoter told me about how he was pursued then by banks waving checkbooks, asking him to name the amount he wanted.

Yes Bank's growth story was remarkable since it managed to maintain a strong asset quality portfolio. From inception until 2015, the bank had never reported either gross non-performing assets or net non-performance assets[11] (NPAs) of more than 1%. A senior analyst with a brokerage firm stated that "questions were being asked why Yes Bank was yet to report any significant NPA build-up while others were literally bleeding".[xlvi] Kapoor defended by arguing that the size of the bank and its watertight structures allowed it to maintain superior asset quality. He often used the example of Yes Bank being one of the few lenders which recovered almost all the money lent to Kingfisher Airlines before it collapsed.[xlvii]

In July 2015, UBS Securities India released a detailed report[xlviii] that identified the lenders who were most exposed to a sample of 100 stressed companies. The report noted that banks in India had continued to lend to these stressed companies in FY12-15 despite their high leverage and low cash flows; loan approvals by Yes Bank to these stressed companies increased 3*x* during the time. Estimated loans approved to these stressed companies as a percentage of net worth was highest for Yes Bank (125%) among the banks studied. Based on these numbers, UBS believed that Yes Bank was most vulnerable to a large corporate default and downgraded its stock. The bank, whose stock plummeted over 7%, took issue with the findings of the report and reiterated that:[xlix]

> The bank has demonstrated exceptional credit quality outcomes over the past five years despite the challenges in the Indian economy. The quality of our portfolio is reflected in the net NPA, restructured loans and credit costs across cycles… It is highly improper for a reputed institution such as UBS to publish unconfirmed, outdated data and draw misleading conclusions.

Across the industry, even though the extent to which corporates were stressed became obvious, the financial statements of banks continued to report relatively low bad loans rate. The quantum of restructured loans grew more than 50 times from 2006 to 2015.[l] This prompted fears that the banks were evergreening loans to postpone the problems to a later date, permitted due to regulatory forbearance[12] by RBI.[li] There was also a high concentration risk as a large portion of the money was loaned to a few business groups. For instance, an analyst report in 2015 found that the total debt owed by just 10 business

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[10] Interest coverage ratio= earnings before interest and taxes divided by the interest payment obligation in that particular year.
[11] Gross NPA is the total amount of the money lent which has become non-performing, calculated as per the guidelines provided by RBI. The guidelines also dictate the amount of provisions to be made, which is dependent on the time period for which an account has been classified as non-performing. Net NPA is the portion of bad loans which has not been already provided for in the books, i.e. Gross NPA minus provisions.
[12] Regulatory forbearance refers to the policy for restructuring of loans which allowed the loans to retain their standard asset classification as opposed to NPA classification. Such policies are typically adopted during times of financial crisis.

groups stood at INR 7.34 trillion and the interest coverage ratio of these 10 groups as a whole was only 0.8.[lii]

Amidst growing concerns about the bad loan problem, RBI announced an asset quality review (AQR) of banks to identify the accuracy of the reporting of NPAs by banks. Governor Raghuram Rajan explained:[liii]

> Banks were simply not recognizing bad loans. They were not following uniform procedures – a loan that was non-performing in one bank was shown as performing in others. They were not making adequate provisions for loans that had stayed NPA for a long time. Equally problematic, they were doing little to put projects back on track.

The AQR revealed that a number of public sector and private sector banks had failed to reveal the true extent of their NPAs by a big margin. Each year, RBI released a forecast of bad loans rate under different stress scenarios,[liv] including a severe stress scenario, but the actual bad loan rate often turned out to be worse than the severe stress scenario.[13] Yes Bank also showed large divergence between its reported NPAs and the RBI assessment: the Bank had reported a Gross NPA and Net NPA of INR 7,490 million and INR 2,845 million, respectively as on March 31, 2016, while RBI assessed it at INR 49,256 million and INR 36,031, respectively. Despite the large divergence, some analysts pointed out that the overall percentage of stressed assets remained low at Yes Bank compared to peer banks.[lv] The subsequent AQR conducted by RBI yet again revealed a large divergence of Gross NPA of INR 63,551 million and Net NPA of 48,193 at Yes Bank as on March 31, 2017, though Yes Bank managed to recover or upgrade a large proportion of the divergence in FY 2018. The auditors or the directors did not make a specific observation about the reasons for the divergence, beyond reporting the divergence in the format prescribed by RBI. A former deputy governor of RBI commented:[lvi]

> It's not RBI's job to go through all loan accounts and identify NPAs as they don't have the skills. It's the role of statutory auditors. If RBI has found large divergences during audit, then they should take supervisory action against bank management and auditors. Instead, RBI has only asked banks to make disclosures in the balance sheet. The problem is that most of the regulations are not rule based, but discretionary…That's the reason why NPA classification is not transparent in this country.

Failed Qualified Institutional Placement

In September 2016, Yes Bank sought to raise up to $1 billion by selling new shares to institutional investors through qualified institutional placement (QIP). The Bank had last raised equity in 2014. Thereafter, it had raised capital using Subordinated Perpetual Additional Tier 1 bonds (AT-1 bonds) which were unsecured and non-convertible to equity shares. These quasi equity instruments are issued by banks to shore up its tier 1 capital adequacy ratio and are redeemable at the option of the bank issuing them and not at the option of the investors (see **Exhibit 6** for significant capital raised by Yes Bank over the years). The new equity shares in 2016 were offered in the range of INR 1,350 to INR 1410 per share, which was marginally below the price that the shares were being traded in the market at the time. The

[13] To cover for the bad loan problem, the government, apart from merging poorly performing banks with better performing banks, recapitalized public sector banks to the tune of INR 2.46 trillion.

issue was subscribed 1.1 times within the first day, but the offer continued to remain open even after it was fully subscribed. The extension of the timeline resulted in the price of the share dropping to INR 1321 in the secondary market, which crucially was below the lowest band price of the offer.[lvii] A number of institutional investors who had earlier bid for the shares withdrew their bids and Yes Bank was forced to withdraw the QIP issue. Kapoor blamed the bankers for wrongly advising him to keep the issue open even 'after fantastic investor responses',[lviii] and Yes Bank clarified further that "there was a misinterpretation on the period for which the QIP had to be kept open; and therefore, there was some uncertainty, as a consequence of which there was unusual volatility in the stock.[lix]" Subsequently, in March 2017, Yes Bank successfully raised approximately $750 million by selling equity shares at INR 1,500 to institutional investors.[lx] The bank had another QIP round of $275 million in August 2019.[lxi]

VERSION 4.0 AND TURMOIL

In April 2018, the board of directors of Yes Bank, based on the recommendation of nomination and remuneration committee, recommended the re-appointment of Kapoor as CEO and MD for another 3-year term until September 2021. The re-appointment was confirmed by an overwhelming majority of the shareholders in June 2018. In August 2018, RBI granted approval to Kapoor's reappointment, but the approval was caveated to further notice from RBI. Subsequently, in September 2018, RBI rejected the 3-year re-appointment of Kapoor,[14] allowed him to continue only until January 31, 2019, and directed the board to find a successor by then. A reported statement of RBI laid out its concerns:[lxii]

> The serious lapses in the functioning of and governance in the bank and, in particular, the poor compliance culture, other serious violations of statutory and regulatory guidelines during the past three financial years, notwithstanding the subsequent corrective actions stated to have been initiated by the bank, reinforce our grave concern and regulatory discomfort with the role of the incumbent MD & CEO in the governance, management and superintendence of the affairs of the bank.

The share price of Yes Bank's share fell by 34% when news of RBI's decision regarding the re-appointment came out.[lxiii] One analyst commented:[lxiv]

> The event of non-extension of MD & CEO's tenure is an eventual outcome, but what are those reasons which led RBI to take the decision are still unknown… In past, in many other banks, we've witnessed divergence in NPA reporting. We believe, there must be other reasons as well.

It was later revealed that RBI had sent multiple letters to Yes Bank prior to September 2018 that flagged governance failures and violation of regulations by Yes Bank.[lxv] In one such letter in April 2018, RBI mentioned about the "highly irregular credit management practices, serious deficiencies in governance and a poor compliance culture" at Yes Bank.[lxvi] In the letter which rejected Kapoor's reappointment, RBI highlighted the lack of adequate response received from Yes Bank about the concerns raised by RBI:[lxvii]

[14] At around the same time, RBI had also asked Axis Bank to reconsider the decision to grant Shikha Sharma another term (4th term) as its CEO. Axis Bank was another major private sector bank which had reported significant divergence pursuant to the AQR exercise; and interestingly, also had the same audit firm (SR Batliboi & Co.) as Yes Bank during that period.

> It is a matter of concern that the bank's letter (to RBI) dated May 31, 2018 seeking approval for reappointment of Shri Kapoor did not even mention, let alone respond to, our letter of April 11. The extracts of the minutes of the meetings of the Nomination and Remuneration Committee (N&RC) held on April 25, 2018 and the board held on April 26, 2018, to consider re-appointment of the MD & CEO are, similarly conspicuously silent on this aspect.

After receiving RBI's rejection letter, the board of Yes Bank appointed a 'search and selection' committee[15] to find a successor and requested RBI to allow Kapoor to continue until September 2019 but this request was rejected by the regulator. Based on directions from RBI, the board also decided to claw back the bonus paid to Kapoor for 2 years ending FY 2016 and pay bonus to him for FY 2017, FY 2018, and FY 2019.[lxviii] While the committee was in the process of finding a successor to Kapoor, three directors of the board, including the chairman Ashok Chawla, resigned citing different reasons (see **Exhibit 7)**. Rentala Chandrasekhar, who had only joined the board in April 2018, clarified:[lxix]

> One must understand that the bank is now in a transitory phase, where a selection committee is looking to find a new CEO, after the RBI declined to give an extension to the current CEO. However, over the past few weeks, the board chairman, the head of the audit committee and an external member of the selection committee have quit. These exits do not create a conducive environment and the impact of all these developments is that I was not comfortable staying on the board and hence decided to step down.

Ravneet Gill was announced as the next CEO and MD of Yes Bank, effective March 1, 2019. Gill had spent his entire professional career at Deutsche Bank with his previous role being the India CEO of Deutsche Bank. Meanwhile, in February 2019, Yes Bank announced that RBI's risk assessment had found 'nil divergences' for FY 2018 from Yes Bank's asset classification and provisioning. A prominent analyst noted "that the nil divergence report will also be seen as a vindication of Rana Kapoor's performance at the bank and underscore his pivotal contribution in building this institution amid multiple challenges during his tenure as MD & CEO…RBI's report on divergence has removed challenges that the new management might have otherwise had to tackle to align the bank's asset quality standards to the RBI's requirements.[lxx]"

One Year of Ravneet Gill

Gill identified risk management, compliance, and governance as the critical areas to focus on to improve perception with the regulators and investors.[lxxi] The extent of the balance sheet clean-up surprised many when the bank reported the results for the quarter ending March 31, 2019. Gill wanted to move into the 'realm of very prudent conservative accounting' and took a provision of about INR 36,617 million for the quarter which led to a loss of INR 15,066 million,[lxxii] the first reported quarterly loss in the company's history (see **Exhibit 8** for NPA ratios and capital adequacy information for different banks). The bank also created a watch list of loans worth INR 100,000 million pertaining to companies operating in

[15] The committee consisted of (i) 3 internal members from the board – Brahm Dutt, Mukesh Sabharwal and Subash Chander Kalia; and (ii) 2 external members – TS Vijayan (Chairman, IRDAI and LIC) and OP Bhatt (CMD, State Bank of India). OP Bhatt resigned from the committee in November 2018 citing 'potential conflict of interest'.

infrastructure, entertainment, and real estate that may potentially turn bad in the future.[lxxiii] In May 2019, RBI appointed R Gandhi, the former deputy governor of RBI, as an additional director on the board. RBI also banned the audit firm SR Batliboi & Co, who had been the auditor of Yes Bank from inception until 2016, for a period of 1 year for lapses in statutory audit.[lxxiv] Yes Bank's share price fell precipitously. Gill explained:[lxxv]

> Currently, our numbers are not being trusted. It is a question of once bitten twice shy…They have seen lightning strike twice, and the normal tendency is if it has struck twice, it can strike a third time. The understanding around the issue has to be more nuanced.

Another major priority for Gill was to raise capital since the tier 1 capital adequacy of the bank was progressively diminishing and was further expected to fall due to stressed assets. The bank's exposure to few stressed groups was reportedly close to 50% of its tier 1 capital,[lxxvi] implying that a collapse of these groups would bring the capital adequacy ratio to much below the prescribed floor level. In September 2019, the bank revealed to the exchanges that it had received strong interest from multiple foreign and domestic investors and was on course to raise growth capital.[lxxvii] In subsequent updates, it was revealed that the bank had received binding offers from investors to raise up to $2 billion, including a $1.2 billion from a foreign investor. Though there was a marginal rally in share price, concerns emanated about the reliability of the investors. The Hong Kong based SPGP Holdings was rumoured to be the investor seeking to bring in $1.2 billion but prior history suggested statutory and regulatory issues surrounding the company.[lxxviii] Similar questions were raised about the UK-based Citax Group which was rumored to bring in $500 million but had only fixed assets of 6.6 million pounds and shareholder funds of 20,000 pounds in its balance sheet.[lxxix] Gill had mentioned the allotment would be at INR 78 per share which would have meant that both groups would hold over 10% of shares in the bank. RBIs stringent guidelines for any acquisition over 5% in a bank led to doubts about RBI approving the two investors, even if they produced the money. The concerns about the investment round came to full public attention when an independent director Uttam Prakash Agarwal (also chairman of audit committee) resigned from the board and revealed that the management had misled the public and the board regarding the capital raising exercise. In a subsequent letter to the finance ministry, he also questioned the independence of the board by claiming that Gill exercised undue influence over majority of the directors through *quid pro quo*, and suggested the removal of the CEO and suspension of the board.[lxxx]

As the bank attempted to raise capital, it was revealed that Kapoor, who had earlier said that "I will eventually bequeath my Yes Bank promoter shares to my 3 daughters and subsequently to their children, with a request in my will stating not to sell a single share, as diamonds are forever!!",[lxxxi] had sold his entire stake in the bank. Apparently, he had sold his entire stake on direction from the lenders to whom Kapoor had pledged the shares to raise loans.

By March 2020, the situation turned south for both Yes Bank and its founder. The Enforcement Directorate, the law enforcement agency responsible for economic crimes in India, arrested Kapoor on charges of money laundering arising out of the loan approved to Dewan Housing Finance Corporation Limited (DHFL) in 2018 which turned into an NPA. The Enforcement Directorate charge sheet revealed that Yes Bank had invested INR 37,000 million in short-term bonds debentures of DHFL.[lxxxii] DHFL had in turn granted a loan of INR 6,000 million to a company controlled by Kapoor's[16] family even though the security provided for the loan was grossly inadequate.[lxxxiii] By this time, the sentiment had completely turned against Kapoor who was reportedly known for his lavish lifestyle, for spending millions on publicity, and for his networking with politicians and businessmen.[lxxxiv] Reports started emerging in the media about how Kapoor used to decide on most major loan proposals himself and leave only the formalities to the bank's credit committee.[lxxxv] The bank's performance and asset quality continued to deteriorate, causing concerns about its survival,[lxxxvi] and prompting the Government of India, on advice from RBI, to intervene. Gill was asked to leave by the RBI appointed administrator and the entire board of Yes Bank was superseded.

VERSION 5.0: GOING CONCERN

On March 13, 2020, the Government of India announced the 'Yes Bank Limited Reconstruction Scheme 2020' pursuant to which the State Bank of India and other banks invested a total of INR 100 billion at INR 10 per share (see **Exhibit 9** for Yes Bank's share price movement). The investors were given an exemption from having to pay any capital gains tax for any deemed profits or gains from subscription of shares of Yes Bank. The reconstruction scheme included important conditions on Yes Bank such as the requirement to continue all employees (except key managerial personnel) with the same remuneration and terms of employment for a minimum period of one year. The scheme imposed a lock-in period of 3 years for 75% of the shares held by existing shareholders as on the date of the scheme and new investors[17] acquiring shares pursuant to the scheme. Within a month of the reconstruction scheme, some investor banks had disposed part of the shares they acquired in Yes Bank (see **Exhibit 10** for investment amounts and subsequent shareholding). The lock-in on the shares was criticized, with one leading market analyst noting:[lxxxvii]

> It is unprecedented that a scheme is being introduced disallowing the existing shareholders to sell their shares…minority shareholders will be forced to go to court against this one-sided treatment.

Another major concern that arose out of the reconstruction scheme pertained to the treatment of the additional tier 1 (AT-1) bonds worth INR 84,150 million. As per the terms of the contract with the investors, these bonds are permitted to be written down in the event the common Tier 1 capital ratio of the bank falls below a specified percentage, making it a relatively risky instrument. As part of the reconstruction plan, the bank wrote down the entire value of the AT-1 bonds. When the news about the write down was first reported, it also emerged that Yes Bank's executives had allegedly mis-sold these AT-1 bonds to retail investors as 'super FDs' that yield higher returns than standard fixed deposits but without explaining the risks involved.[lxxxviii] A retail investor who had invested in the bonds commented:[lxxxix]

[16] Based on reports of anonymous complaints to stock exchange against Kapoor in September 2018, the bank had also engaged an external firm to investigate the allegations against Kapoor. Though the investigation was not yet complete, the draft reports from the external firm was shared with the Enforcement Directorate who arrested Kapoor.

[17] The lock-in for State Bank of India was to the extent of 26% of the total shareholding of Yes Bank. The lock-in was not applicable to retail investors holding less than 100 shares.

> Even graduate textbooks tell us that equity is subordinate to debt. But debt holders are being wiped out even as equity holders survive. Alternatively, they should convert our bonds to equity to allow us to benefit from any future recovery.

In general, RBI's role came under the scanner for its failure to adequately monitor Yes Bank and stop the impending collapse of the bank. One senior investment banker said:[xc]

> There have been murmurs around Yes Bank for a few years now. And from what I know, many people have been going to the RBI over the years to tell them that things are not fine at Yes Bank. The buck really stops with the RBI.

Raghuram Rajan clarified the extent to which a regulator can monitor the functioning of a bank:[xci]

> Bankers, promoters, or their backers in government sometimes turn around and accuse regulators of creating the bad loan problem. The truth is bankers, promoters, and circumstances create the bad loan problem. The regulator cannot substitute for the banker's commercial decisions or micromanage them or even investigate them when they are being made. Instead, in most situations, the regulator can at best warn about poor lending practices when they are being undertaken, and demand banks hold adequate risk buffers. The RBI is primarily a referee, not a player in the process of commercial lending. Its nominees on bank boards have no commercial lending experience and can only try and make sure that processes are followed. They offer an illusion that the regulator is in control, which is why nearly every RBI Governor has asked the government for permission to withdraw them from bank boards.

Postscript

July 2020.

Yes Bank raised another INR 142.7 billion by issuing new shares in a follow-on public offer (FPO). The FPO closed with 95% subscription with majority of the contribution received from institutional investors (~INR 104 billion). To attract this capital, the bank had priced the shares at a discounted price band of INR 12–13, which was approximately half the price at which the shares were trading at the time of the announcement of the FPO. The pricing of the FPO resulted in the price of the shares falling nearly 21% in 3 days.[xcii] Interestingly, unlike the reconstruction scheme, there was no lock-in on the shares issued pursuant to the FPO except for anchor investors who could not sell their shares for 30 days. Prashant Kumar claimed that the capital raised would increase the tier 1 capital adequacy 500 basis points above the regulatory requirement and would take care of the bank's growth requirement for 2 years.[xciii]

Exhibit 1

Relevant Numbers from Financial Statements (Standalone: FY2006 to FY2020)

Result (as on March 31) # **	2006	2010	2015	2016	2017	2018	2019	Q4-2019	Q1-2020	Q2-2020	Q3-2020	2020
BALANCE SHEET												
Capital, Reserves and Surplus	5,727	30,896	126799	137866	220,541	257,583	269,042	269,042	NA	273,792	NA	217261
Deposits	29,104	267,986	911,758	1,117,195	1,428,739	2,007,381	2,276,102	2,276,102	NA	2,094,973	NA	1,053,639
Borrowings	4,648	47,491	262,204	316,590	386,067	748,936	1,084,241	1,084,241	NA	931,309	NA	1,137,905
Cash and Balance with Banks	2,156	26732	75,572	82,185	195,495	247,343	268895	268895	NA	306,141	NA	83,831
Investments	13,501	102,099	466,052	488,385	500,318	683,989	895,220	895,220	NA	673,402	NA	439,148
Advances	24,071	221,931	755,498	982,099	1,322,627	2,035,339	2,414,996	2,414,996	NA	2,245,046	NA	1,714,433
Fixed Assets	347	1,155	3,190	4707	6,835	8,324	8,170	8,170	NA	8,857	NA	10,091
PROFIT AND LOSS STATEMENT												
Interest Earned	1,902	23,697	115,720	135,334	164,246	202,674	296,247	83,882	90,888	83,322	62,974	260,666
Other Income	997	5,755	20,465	27,121	41,568	52,238	45,902					34,415
Interest Expended	1,047	15,818	80,842	89,667	106,273	125,304	198,157	53,506	55,353	52,004	45,773	192,614
Operating Expenses	861	5,002	22,847	29,764	41,165	52,128	62,643	17,142	15,944	16,734	17,328	67,292
Provisions and Contingencies	438	3,865	12,442	17,631	25,074	35,235	64,146	36,617	17,841	13,363	247,657	262,325
Net Profit	553	4,777	20,054	25,294	33,300	42,246	17,203	(15,066)	1,137	(6,001)	(185,642)	(164,180)
RELEVANT RATIOS												
Gross NPA (%)	0	0.27	0.41	0.76	1.52	1.28	3.22	3.22	5.01	7.39	18.87	16.80
Net NPA (%)	0	0.06	0.12	0.29	0.81	0.64	1.86	1.86	2.91	4.35	5.97	5.03
Provision Coverage Ratio (%)	-	78.43	72.01	62.02	46.88	50.02	43.10	43.10	43.10	43.10	72.7	73.80
Total Capital Adequacy Ratio (%)	16.43	20.6	15.6	16.5	17	18.4	16.5	16.5	15.7	16.3	4.1	8.5
Common Equity Ratio-1	NA	NA	11	10.3	11.4	9.7	8.4	8.4	8.0	8.7	0.6	6.3
OTHER INFORMATION												
Number of Employees	627	3034	10810	15000	20125	18238	21136	NA	NA	NA	NA	22973
Number of Branches	30	150	630	860	1000	1100	1120	NA	NA	NA	NA	1135

#All figures provided are in INR millions, unless mentioned. All figures are adjusted to the nearest million, in cases where it was reported in any other multiple.
** All the figures are reproduced as provided in the annual reports from the relevant years. Adjustments have not been made for any changes in accounting standards.
Source: Annual Reports and Quarterly Statements

Exhibit 2

Relevant Data on Cost of Funds and Segmental Breakup

Details	**2011** (%)	**2013** (%)	**2015** (%)	**2017** (%)	**2019** (%)
Yes Bank					
Cost of Funds	9.0	8.6	8.2	6.6	6.5
CASA Ratio	NA	18.9	23.1	36.3	33.1
Net Interest Margin	3.1	2.9	3.2	3.4	3.2
Segmental Assets Ratio	8.78	10.53	13.85	16.35	24.57
Segmental Liabilities Ratio	14.85	29	47.10	66.12	67.11
Kotak Mahindra Bank					
Cost of Funds	NA	NA	5.5	NA	5.5
CASA Ratio	31	29	36	44	52.5
Net Interest Margin	6.3	4.7	4.87	4.49	4.27
Segmental Assets Ratio	257.90	209.08	207.10	152.95	129.55
Segmental Liabilities Ratio	272.39	222.78	220.75	163.43	131.77
Canara Bank					
Cost of Funds	5.65	6.96	6.84	5.59	5.24
CASA Ratio	29.85	25.12	25.47	32.85	30.86
Net Interest Margin	3.12	2.39	2.25	2.23	2.63
Segmental Assets Ratio	37.65	45.95	54.08	NA	71.26
Segmental Liabilities Ratio	99.26	86.71	137.12	NA	72.71
ICICI Bank					
Cost of Funds	NA	6.21	6.17	5.45	5.10
CASA Ratio	45.06	41.89	45.46	50.37	49.61
Net Interest Margin	2.64	3.11	3.48	3.25	3.42
Segmental Assets Ratio	41.78	32.15	49.66	81.79	106.47
Segmental Liabilities Ratio	194	190.59	256.36	245.99	260.82
Union Bank of India					
Cost of Funds	5.19	6.43	6.54	5.53	4.79
CASA Ratio	31.76	30.95	29.24	34.00	36.10
Net Interest Margin	3.33	2.96	2.48	2.23	2.23
Segmental Assets Ratio	50.87	52.17	68.56	51.47	71.18
Segmental Liabilities Ratio	50.87	52.17	68.56	51.47	71.18

(Segmental Assets Ratio: (Assets from Retail Banking/Assets from Corporate & Wholesale Banking) * 100; Segmental Liabilities Ratio: (Liabilities from Retail Banking/Liabilities from Corporate & Wholesale Banking) * 100)
Source: Annual Reports, Author Analysis

Exhibit 3

Promoter Holdings in Select Private Sector Banks

Bank	2006	2010	2015	2019
Yes Bank	38.61	27.16	22.06	19.80
HDFC Bank	21.99	23.73	21.67	26.50
Kotak Mahindra Bank	58.55	48.23	40.02	29.99
IndusInd Bank	31.34	22.17	15.09	16.80
Axis Bank	43.71	38.54	27.93	18.70
Bandhan Bank	N/A	N/A	N/A	82.26
ICICI Bank	0	0	0	0
IDFC First Bank	N/A	N/A	53	40

(All figures are in % terms to the total shareholding in the bank as on March 31 of the relevant year; N/A means the bank was yet to commence operations)

Source: CMIE Prowess

Exhibit 4

Market Share and Presence of Banks

Bank (Rank)	Market Share (%)			Number of Branches		
	2011	2015	2019	2011	2015	2019
State Bank of India (PSB) (1)	16.82	16.89	22.25	13506	16303	22002
HDFC Bank (PrB) (2)	3.67	4.79	7.61	1980	4010	4967
ICICI Bank (PrB) (3)	4.40	4.40	5.41	2526	4056	4874
Punjab National Bank (PSB) (4)	5.52	5.18	4.95	5001	6175	6567
Canara Bank (PSB) (7)	5.02	4.72	4.48	3270	5734	6310
Union Bank of India (PSB) (9)	3.52	3.36	3.11	3010	4077	4287
Yes Bank (PrB) (10)	0.80	0.98	2.05	214	630	1120
Kotak Mahindra Bank (PrB) (13)	0.58	0.83	1.88	322	684	1499
IndusInd Bank (PrB) (16)	0.60	0.84	1.66	301	804	1602
Andhra Bank (PSB) (17)	1.63	1.65	1.65	1629	2506	2878

(Market share is calculated based on business size which refers to advances and deposits; rank specified is as per the market share in 2019. PSB – Public Sector Bank; PrB – Private Sector Bank)

Source: CMIE Industry Outlook

Exhibit 5

Performance Indicators for Kotak Mahindra Bank (Standalone)

Performance Indicator	2006	2010	2015	2017*	2019
Balance Sheet					
Capital, Reserves and Surplus	8,527	44,851	141,411	276,160	428,984
Deposits	65,659	238,865	748,603	1,574,259	2,258,804
Advances	63,485	207,751	661,607	1,360,821	2,056,948
Investments	28,555	125,127	304,211	4,50,742	711,890
Profit and Loss					
Net Profit	1,182	5,611	18,660	34,115	48,653
Provisions and Contingencies	923	7,359	11,315	25,733	34,829

***** ING Vysya Bank was merged with Kotak Mahindra Bank on April 1, 2015. #All figures provided are in INR millions, unless mentioned. All figures are adjusted to the nearest million, in instances where it was reported in any other multiple.

Source: Annual Reports, CMIE Industry Outlook

Exhibit 6

Significant Tier 1 Capital Raised

Year	Nature of Capital Raised	Issue Price (INR) /Coupon Rate (%)	Total Amount (INR million)
2005	Equity Capital	INR 45	3150
2007	Equity Capital	INR 225	3307.5
2010	Equity Capital	INR 269.5	10338.75
2014	Equity Capital	INR 550	29420.75
2016	AT-1 Bonds	9.5 %	30000
2017	Equity Capital	INR 1500	49066.5
2017	AT-1 Bonds	9 %	54150
2019	Equity Capital	INR 83.55	19304.65

* The shares were split into 5 in 2017 (after the equity capital raising round).
# AT-1 Bonds refer to the Unsecured, Non-Convertible, Additional Tier 1, Subordinated Perpetual Bonds issued by the bank.

Source: Annual Reports

Exhibit 7

Board Composition from 2011 to 2020

Name / Type	Significant Experience	Start Date	End Date	Reasons / Observation
Rana Kapoor (WD)	MD and CEO, Yes Bank	Nov 21, 2003	Jan 31, 2019	EOT
SL Kapur (NE-NI-D) (C)	Secretary, Department of Small-Scale Industries & Agro and Rural Industries	Jan 27, 2005	Jan 27, 2013	EOT
Bharat Patel (ID)	MD, Procter & Gamble India	Sep 13, 2004	Sep 13, 2012	EOT
Arun Mago (ID)	Chief Secretary, Government of Maharashtra	Mar 15, 2005	Mar 14, 2013	EOT
Wouter Kolff (ID)	Vice Chairman, Rabobank International	Nov 21, 2003	May 24, 2012	EOT
Radha Singh (ID) (C)	Secretary, Agriculture and Cooperation	Apr 29, 2008	Oct 29, 2016	EOT
Ajay Vohra (ID)	Managing Partner, Vaish Associates	Apr 29, 2008	April 28, 2016	EOT
Mukesh Sabharwal (ID)	Lt. General, Indian Army	Apr 25, 2012	June 10, 2019	Resigned to devote time to academic pursuits
Diwan Nanda (ID)	Chairman and MD, Rediffusion	Oct 23, 2012	Oct 22, 2016	EOT
Ravish Chopra (NE-NI-D)	MD, HSBC	Oct 23, 2012	Mar 30, 2016	Resigned on personal grounds due to other engagements.
MR Srinivasan (NE-NI-D) (C)	Chief GM, Department of Banking, RBI	Oct 23, 2012	Oct 22, 2016	EOT
Brahm Dutt (ID) (C)	Former Secretary, Ministry of Road Transport and Highways	July 24, 2013	March 2020	Board superseded
Saurabh Srivastava (ID)	Co-founder, NASSCOM	April 23, 2014	April 22, 2018	EOT
Vasanth Gujarathi (ID)	Partner, PwC	April 23, 2014	Nov 14, 2018	Resigned due to personal commitments
Ajai Kumar (NE-NI-D)	Chairman and MD, Corporation Bank	Jan 29, 2016	June 9, 2019	Resigned for personal reasons
Ashok Chawla (ID) (C)	Chairman, Competition Commission of India	Mar 5, 2016	Nov 14, 2018	Resigned by stating that the transition period requires a chairman who could devote more time and attention
Debjani Ghosh (ID)	MD, Intel South Asia	May 15, 2017	April 26, 2018	Resigned due to preoccupation with full time engagement as president of NASSCOM
Subhash Kalia (NE-NI-D)	ED, Union Bank of India	April 3, 2018	March 2020	Board superseded
Pratima Sheorey (ID)	Director, SCMHRD	April 26, 2018	March 2020	Board superseded
Rentala Chandrashekhar (ID)	Secretary, Electronics and IT	April 26, 2018	Nov 19, 2018	Resigned due to concerns with recent developments at the bank
Uttam Prakash Agarwal (ID)	Chartered Accountant; President, ICAI	Nov 14, 2018	Jan 10, 2020	Resigned due to concerns with serious regulatory issues
Thai Salas Vijayan (ID)	Chairman, IRDAI	Dec 3. 2018	March 2020	Board superseded
Maheshwar Sahu (ID)	Additional Chief Secretary, State of Gujarat	Jan 24, 2019	March 2020	Board superseded
Anil Jaggia (ID)	Group Head, HDFC	Jan 24, 2019	March 2020	Board superseded
Ravneet Gill (NE-NI-D)	CEO, Deutsche Bank, India	Mar 1, 2019	March 2020	Board superseded
Ravinder Kumar Khanna (ND)	Promoter, Techcraft and Kwik-form	Apr 26, 2019	March 2020	Board superseded
Shagun Kapur (ND)	Founder and MD, Tuscan Ventures	Apr 26, 2019	March 2020	Board superseded
RS Gandhi (ND) (RBI)	Deputy Governor, RBI	May 14, 2019		Still on the board

WD- Whole time Director; ID – Independent Director; NE-NI-D - Non-executive Non-Independent Director; ND: Nominated Director; C – Chairman; EOT – End of Term

Board meetings held in each financial year:

FY 2006, FY 2007, FY 2008, FY 2010, FY 2011, FY 2012, FY 2015, FY 2016 – 4; FY 2009, FY 2013, FY 2014, FY 2017 – 5; FY 2018 – 8; FY 2019 – 13; FY 2020 – 12

Source: Annual Reports; BSE

Exhibit 8

Non-Performing Assets and Capital Adequacy[18] in Relevant Years

Result (as on March 31)	2010	2012	2014	2016	2018	2019
Yes Bank						
Gross NPA (%)	0.27	0.22	0.31	0.76	1.28	3.22
Net NPA (%)	0.06	0.05	0.05	0.29	0.64	1.86
Provisions Coverage (%)	78.43	79.18	85.10	62.02	50.02	43.10
Total Capital Adequacy (%)	20.6	17.9	14.4	16.5	18.4	16.5
Tier-1 Capital Adequacy (%)	12.9	9.9	9.8	10.7	13.2	11.3
HDFC Bank						
Gross NPA (%)	1.43	1.02	0.98	0.9	1.30	1.36
Net NPA (%)	0.31	0.18	0.27	0.3	0.4	0.4
Provisions Coverage (%)	78.42	82.38	72.57	69.94	69.78	71.36
Total Capital Adequacy (%)	17.4	16.5	16.1	15.5	13.3	17.1
Tier-1 Capital Adequacy (%)	13.3	11.6	11.8	13.2	14.8	15.8
Kotak Mahindra Bank						
Gross NPA (%)	2.2	1.1	2.0	2.4	2.22	1.94
Net NPA (%)	1.1	0.5	1.1	1.1	0.98	0.70
Provisions Coverage (%)	58.34	70.14	55.50	63.68	65.68	71.93
Total Capital Adequacy (%)	18.4	17.5	18.8	16.3	18.2	17.89
Tier-1 Capital Adequacy (%)	15.4	15.7	17.8	15.3	17.6	17.48
IndusInd Bank						
Gross NPA (%)	1.23	0.98	1.12	0.87	1.17	2.10
Net NPA (%)	0.50	0.27	0.33	0.36	0.51	1.21
Provisions Coverage (%)	60.14	72.72	70.35	58.58	56.56	43.04
Total Capital Adequacy (%)	15.33	13.85	13.83	15.50	15.03	14.16
Tier-1 Capital Adequacy (%)	9.65	11.37	12.71	14.92	14.58	13.70
Canara Bank						
Gross NPA (%)	1.52	1.73	2.49	9.40	13.22	8.83
Net NPA (%)	1.06	1.46	1.98	6.42	11.84	5.37
Provisions Coverage (%)	77.71	67.59	60.11	50.11	58.06	68.13
Total Capital Adequacy (%)	13.43	13.76	10.63	11.08	13.22	11.90
Tier-1 Capital Adequacy (%)	8.54	10.35	7.68	8.80	11.84	9.04
Union Bank of India						
Gross NPA (%)	2.20	3.01	4.1	8.7	15.73	14.98
Net NPA (%)	0.81	1.70	2.3	5.25	8.42	6.85
Provisions Coverage (%)	74.02	62.2	59.9	50.98	57.16	66.24
Total Capital Adequacy (%)	12.51	11.85	11.89	11.14	11.46	11.78
Tier-1 Capital Adequacy (%)	7.91	8.37	8.13	8.23	9.03	9.48
ICICI Bank						
Gross NPA (%)	NA	NA	NA	NA	NA	NA
Net NPA (%)	1.87	0.62	0.82	2.67	5.43	2.29
Provisions Coverage (%)	59.5	80.4	68.6	50.6	47.7	70.6
Total Capital Adequacy	19.4	18.5	17.70	16.64	18.42	16.89

Source: Annual Reports

[18] The RBI guidelines on capital adequacy (based on Basel III regulations) provides the minimum amount of capital adequacy to be maintained by banks. Capital adequacy ratio is calculated based on dividing the relevant tier capital by risk weighted assets. The guidelines provided for the capital adequacy to be improved in a phased manner. As on March 2018 and March 2019, the banks had to maintain a Common Equity Tier Ratio (CET1) of 5.5%, Tier 1 Capital Ratio of 7%, Total Capital Ratio of 9% and a conservative capital buffer (CCB) of common equity of 1.875 \%. By March 2020, the CCB had to be increased to 2.5%.

Exhibit 9

Recent Price Movement of Yes Bank's Shares

Source: BSE Data

Exhibit 10

Investment and Post Investment Shareholding

Sl. No.	Name of Investor	Amount (in INR million)	Shareholding as on March 31, 2020
1.	State Bank of India	60,500	48.2
2.	ICICI Bank	10,000	8
3.	HDFC Bank	10,000	8
4.	Axis Bank	6,000	4.8
5.	Kotak Bank	5,000	3.6
6.	Bandhan Bank	3,000	2.4
7.	Federal Bank	3,000	1.9
8.	IDFC First Bank	2,500	1.7
9.	Others (existing shareholders)	-	21.4

(Note: Kotak Bank, Federal Bank and IDFC First Bank sold some of the newly acquired shares prior to March 31, 2020. Between March 13 (announcement of reconstruction scheme) and March 31, the share price of Yes Bank traded between a low of INR 22 and a high of INR 60).

Source: Yes Bank's Financial Statements, Investor Presentation, BSE Data

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