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   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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RISK MANAGEMENT PRACTICES IN YES BANK

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ABSTRACT
Risk management is a part of the growth strategy of any organization. The banks have to comply with Basel II and Basel III accord as per RBI guidelines. They have to achieve a minimum Capital Adequacy Ratio of 9% for existing banks and 10% for new private Sector banks under Basel II. New generation banks are more profit intensive and strictly comply to risk management practices to survive in the long run. The main aim of this paper is to measure the prevailing risk in Yes Bank, a new Private sector bank from Nov 21, 2004 - March 31, 2005 to April 1, 2013- March 31, 2014. The paper also emphasizes on the risk management practices followed by Yes Bank. An empirical model is constructed with Ratio analysis, Cluster analysis and Altman model. It was concluded that the bank had comprehensive risk management policy, rich clientele and low level of Non Performing Assets. Low Net Interest Margin was a matter of concern throughout the period.

KEYWORDS
Risk management Practices, Net Interest Margin, Private Sector Banks, Non Performing Assets, Yes Bank.

INTRODUCTION
Financial sector reforms in 1991 had a comprehensive impact on transformation in banking industry. Since then, liberalization, deregulation, increased competition and technological innovations are the key aspects of banking sector. Financial inclusion and issue of new bank licenses on 1993 and 2001 respectively and again in 2014 has lead to the proliferation of new Private Sector Banks. These banks offer products more professionally with best use of technology. They have more percentage of internet users and mobile users compared to Public and old Private Sector banks. For these banks, Profitability is the fundamental step for sustaining in the industry. The financial performance and efficiency of these banks are reflected in the profitability, Net Interest Margin, Return on Assets and Return on Equity besides bringing down NPAs sharply. These banks should have an efficient risk management system to achieve sustained growth.

ABOUT YES BANK
Yes Bank, one of the fastest growing, new generation banks has been recognized as the "The Strongest Bank Balance Sheet in India‟ by the Asian Banker, Singapore, 2013.The bank is promoted by the late Mr. Ashok Kapur and Mr. Rana Kapur and was included to the second schedule of the RBI Act,1934 with effect from August 21,2004. Within a short span of 10 years, the bank has steadily built full service, with corporate, retail and SME banking platform. The bank caters to comprehensive product suite of Financial Markets, Investment banking, Corporate Finance, Branch Banking, Business and Transaction banking and wealth management services. Yes Bank is the only Greenfield license awarded by the RBI in the last 17 years, associated with the finest pedigree investors. Yes Bank has a widespread branch network of over 560 branches across 375 cities, with 1139 ATMs, 8798 employees as on March 31, 2014.

NEED FOR THE STUDY
The New generation banks are highly competitive, customer centric and Profit oriented. Therefore, these banks are prone to more risks. The RBI has issued risk management guidelines for banks for effective management of various risks such as credit risk, market risk, operational risk and integrated risk in October 2002, with the view to enhance and strengthen their existing risk management practices. Yes Bank has achieved a steady growth within a short period of time. The bank aims to build counter cyclical strategies and proactive risk management practices. The risk management framework at Yes Bank is driven by well informed and knowledgeable board, largely comprised of independent directors and senior management. The board supervises the risk profile of the bank, monitor the business and the existing control mechanisms, ensure expert management and maximize the interests of all the stakeholders. Thus, a study is done to understand the risk management practices followed by Yes Bank.

OBJECTIVES OF THE STUDY
The main aim of this paper is to measure the prevailing risk in Yes Bank, a new Private sector bank from Nov 21, 2004 - March 31, 2005 to April 1, 2013- March 31, 2014. This paper also highlights the measures taken by the banks to manage and mitigate the risk.

RESEARCH METHODOLOGY
COLLECTION OF DATA
The study is based on secondary data. 10 key Financial Ratios are collected from annual reports of Yes Bank.
STATISTICAL TOOLS APPLIED
Ratio analysis is employed to find out the financial position to measure the risk. K-means cluster analysis is used to segment the years with respect to different financial ratios. Discriminant analysis and Altman's model is exploited to identify the measure of risk and risk management capabilities.
SCOPE AND PERIOD OF THE STUDY
This paper helps to find out the risk management and risk mitigation practices followed by Yes Bank from the year of inception 2004-2005 to the current year 2013-2014.
Yes Bank has implemented Basel I norms from the year of inception. The Bank is subject to the Basel II framework with effect from March 31, 2009 as stipulated by the Reserve Bank of India (RBI). The Basel II framework consists of three-mutually reinforcing pillars:
l Pillar 1 - Minimum capital requirements for credit risk, market risk and operational risk
l Pillar 2 - Supervisory review of capital adequacy
l Pillar 3 - Market discipline, a set of disclosure on the capital adequacy and risk management framework of the Bank.
The RBI guideline on 'Basel III Capital Regulation' was issued on May 2, 2012 for implementation in India in phases with effect from April 1, 2013 and to be fully implemented by March 31, 2018. YES Bank is subject to the RBI Master Circular on Basel-III Capital Regulations, July, 2013.
LIMITATIONS OF THE STUDY
The study is confined to 10 key ratios from the inception of the bank till the year 2013-2014 alone which will reveal the overall performance of the bank.

ANALYSIS AND DISCUSSION
The following ten ratios are taken into consideration for identification of risk in Yes Bank from the year Nov 21, 2004-March 31, 2005 to April 1, 2013-March 31st, 2014. The bank started its operation from Nov 21, 2004 - March 31, 2005. Hence for the year 2004-2005 alone, the ratios are computed for the period from Nov 21, 2004-March 31, 2005.

TABLE NO. 1: FINANCIAL RATIOS OF YES BANK

Year	Credit Deposit Ratio (%)	Capital Adequacy Ratio (%)	Net NPA Ratio (%)	Profit Per Employee (Rs ,in 000s)	Cost Income Ratio (%)	Net Interest Margin (%)	Non Interest Income to Total Assets (%)	Provision Coverage Ratio (%)	Return On Assets (%)	Return On Equity (%)
2004-2005	114.77	18.81	0	-1.82	109.92	2.84	2.72	0	-0.29	-1.75
2005-2006	82.71	16.43	0	882	46.49	2.96	3.85	0	2.03	14.01
2006-2007	76.51	13.6	0	386	52.88	2.79	2.96	0	1.24	13.88
2007-2008	71.05	13.6	0.09	635	49.36	2.74	2.73	0	1.42	19
2008-2009	76.71	16.6	0.33	1138	44.23	2.9	2.29	51.5	1.52	20.65
2009-2010	82.81	20.6	0.06	1675	36.7	3.1	2.16	78.43	1.6	23.7
2010-2011	74.80	16.5	0.03	2089	36.3	2.9	1.35	88.63	1.5	21.1
2011-2012	77.29	17.94	0.05	2042	37.7	2.8	1.38	79.18	1.5	23.1
2012-2013	70.20	18.3	0.01	2102	38.4	2.9	1.52	92.59	1.5	24.8
2013-2014	70.0	14.4	0.05	2045	39.4	2.9	1.71	85.1	1.6	25

Source: Annual Reports of Yes Bank

Cluster analysis is performed with the help of SPSS 16 to identify the radical changes in these 10 ratios for the period of 10 years. Accordingly, year wise clusters are arrived and classified as Cluster I, Cluster II and Cluster III.

TABLE NO. 2: CLASSIFICATION OF YEARS ON BASIS OF CLUSTER

Cluster	Years
I	2004-2005, 2006-2007
II	2005-2006, 2007-2008, 2008-2009
III	2009-2010, 2010-2011, 2011-2012,2012-2013 and 2013-2014

Source: computed data

The Strong (S), Moderate (M) and Weak (W) ratios under the cluster I, II and III are as follows.

TABLE NO. 3: CLASSIFICATION OF CLUSTERS

		Cluster 1	Cluster 2	Cluster 3
1	Credit Deposit Ratio	95.64(S)	76.82(M)	75.02(W)
2	Capital Adequacy Ratio	16.20(M)	15.54(W)	17.55(S)
3	Net NPA Ratio	.00(W)	0.14(S)	.04(M)
4	Profit Per Employee	192.09(W)	885.00(M)	1990.60(S)
5	Cost Income Ratio	81.40(S)	46.69(M)	37.70(W)
6	Net Interest Margin	2.82(W)	2.87(M)	2.92(S)
7	Non Interest Income to Total Assets	2.84(M)	2.96(S)	1.62(W)
8	Provision Coverage Ratio	.00(W)	17.17(M)	84.79(S)
9	Return on Asset	0.48(W)	1.66(S)	1.54(M)
10	Return on Equity	6.06(W)	17.89(M)	23.54(S)

Source: computed data

The strong (S) and Weak (W) ratios of all the three clusters are subject to further analysis. The moderate ratios are ignored as suitable inferences cannot be derived for measurement of risk. These Strong (S) and Weak (W) ratios are compared with the accepted benchmark ratios stipulated by RBI to determine the risk. In absence of the benchmark ratio, all bank's average is taken into consideration.

TABLE NO. 4: STRONG AND WEAK RATIOS OF CLUSTER 1

Cluster 1 (2004-2005, 2006-2007)	**Ratio (in %)**	**Benchmark**	**Result**
STRONG RATIOS			
1.Credit Deposit Ratio	95.64	Not less than 60%	Much higher than the benchmark Subject to Liquidity Risk **(Makesh,2008)**
2.Cost Income Ratio	81.40	Less than 40%	Much higher than the benchmark Subject to Operational Risk **(Maike Sundmacher, 2004)**
WEAK RATIOS			
1.Net NPA Ratio	0.00	Less than 1%	Risk-Free
2.Profit Per Employee	192.09	265*	Less than the accepted benchmark, leading to Operational Risk (**Timothy.W.Koch,2004**)
3.Net Interest Margin	2.82	More than 3.5%	Less than the accepted benchmark, leading to Interest Rate Risk **(Y.Sree Ramamurthy,2003)** and Capital Risk (**Peter .S. Rose, 1987)s**
4.Provision Coverage Ratio	0.00	More than 70%	Less than the accepted benchmark, leading to Credit Risk (**Peter Demenrjian, 2007)**
5.Return on Asset	0.48	More than 1%	Capital Risk (**Peter .S. Rose, 1987**), Interest Rate Risk(**Y.Sree Ramamurthy,2003)** And Credit Risk (**Peter Demenrjian, 2007)**
6.Return on Equity	6.06	More than 18%	Capital Risk (**Peter .S.Rose, 1987**), Interest Rate Risk(**Y.Sree Ramamurthy,2003)** and Credit Risk (**Peter Demenrjian, 2007)**
*Average of All Bank's average for the third cluster of years			

Table No 4 shows the first cluster of 2 years i.e., 2004-2005 and 2006-2007.This is the initial period of its operation. During the period, the strong ratios namely Credit Deposit Ratio and Cost Income Ratio and the weak ratios such a Profit Per Employee, Net Interest Margin, Provision Coverage Ratio, Return on Asset and Return on Equity indicated the existence of Liquidity Risk, Operational Risk, Interest Rate Risk, Capital Risk and Credit Risk. There were no NPAs during the first cluster years. Hence, the bank did not provide any provision coverage. The year 2004-2005 was the first year the bank started its operations, hence in this year the bank was exposed to various types of risk. In the year 2006-2007, though there was an increase in the profit, but the return in terms of employees, assets and equity was below the benchmark criteria. The bank made investments towards information technology, branch expansion and human resources to meet growth targets during 2006-2007.The bank was in the initial stage of implementation of Basel II norms during 2006-2007.

TABLE NO. 5: STRONG AND WEAK RATIOS OF CLUSTER 2

Cluster 2 (2005-2006, 2007-2008 and 2008-2009)	**Ratio (in %)**	**Benchmark**	**Result**
STRONG RATIOS			
1.Net NPA Ratio	0.14	Less than 1%	Risk-Free
2.Non Interest Income to Total Assets	2.96	More than 0.75%	Risk-Free Favourable
3.Return on Asset	1.66	More than 1%	Risk-Free
WEAK RATIO			
Capital Adequacy Ratio	15.54	More than 10%	Risk-Free Favourable

In the second cluster of 3 years viz., 2005-2006, 2007-2008 and 2008-2009, Yes bank has taken efforts to comply carefully with the risk management practices as there was no risk associated during this period. In the year 2005-2006, the Bank was in its growth phase and was making substantial investments towards branch expansion, human resources and technology to fulfil it developmental needs. Bank did not have any NPA as at March 31, 2005 and continued to maintain NPAs at zero levels as at March 31, 2006 in spite of commendable growth in advances.

TABLE NO. 6: STRONG AND WEAK RATIOS OF CLUSTER 3

Cluster 3 (2009-2010, 2010-2011, 2011-2012,2012-2013 and 2013-2014)	**Ratio (in %)**	**Benchmark**	**Result**
STRONG RATIOS			
1.Capital Adequacy Ratio	17.55	More than 10%	Risk-Free Favourable
2.Profit Per Employee (Rs in '000s)	1990.60	752*	Risk-Free Commendable growth
3.Net Interest Margin	2.92	More than 3.5%	Less than the accepted benchmark, leading to Interest Rate Risk (**Y.Sree Ramamurthy, 2003)** and Capital Risk (**Peter .S. Rose, 1987)**
4.Provision Coverage Ratio	84.79	More than 70%	Risk-Free
5.Return on Equity	23.54	More than 18%	Risk-Free
WEAK RATIOS			
1.Credit Deposit Ratio	75.02	More than 60%	Risk-Free
2.Cost Income Ratio	37.70	Less than 40%	Risk-Free
3.Non Interest Income to Total Assets	1.62	More than 0.75%	Risk-Free
*Average of All Bank's average for the third cluster of years			

Cluster 3 is the period the bank is likely to add on to NPA as it completed more than 4 years of its operation. In 2009-2010, there was a growth of Net Interest Margin (3.1%) on account of pricing power on predominantly corporate book and reprising of large proportion of interest sensitive liabilities. The bank has shown relatively a stable margin during the other years of the cluster 3. Throughout the period of the study, the ratio was below the accepted benchmark of 3.5% resulting in Interest rate risk and Capital Risk.

MAJOR FINDINGS

In recent years, i.e., in the third cluster of years the bank was exposed to Interest Rate Risk. It can also be noted throughout the 10 year span, the bank had the NIM comparatively less than the accepted benchmark of 3.5%. Despite increase in its yields, Yes Bank has been facing pressure on its margins. This was because the bank's share of total retail depositors is less. Moreover, it has been increasing its CASA deposits on the savings account side almost 73% of its total deposits by offering higher rate of interest, which is around 7%, while a majority of rival banks offer 4% interest rate. Hence, the costs of deposits are slightly on the higher side. In a falling interest rate scenario, net interest margin improvement for Yes Bank looks tougher as it will have to cut down interest rates on advances to sustain a healthy credit growth, while peers have been cutting down deposit rates.

As far as advances are concerned, Yes bank delivered a loan growth of 24% in 2012-2013 when the industry growth rate was 14%.when there was a slowdown in banking sector which is expected to moderate in the ongoing economic condition. Lending to the large corporate accounts for 64% of the bank's loan, maximum exposure to any single sector is capped at around 5%. 65-70% is working capital financing and project financing is less than 6% to reduce the risk.

CONCLUSION

The bank has built a robust risk management system for long term security and to avoid any default for its lending activates. The bank's board has approved a well defined credit policy. The management committee conducts periodical review to identify early warning signals and overall health of borrowing units. The bank also ensures that delinquencies are maintained at the minimum level through the post sanctioned follow-up monitoring process. The market risk management is governed by a comprehensive market risk policy, ALM policy, Liquidity Policy, Investment Policy, Hedging Policy, Derivative Policy and a Derivative Appropriateness policy to ensure that the risk underwritten across business activities are within a stipulated appetite of bank and also of similar risks. Bank regularly conducts stress testing to monitor the bank's vulnerability towards unfavourable shocks. Yes Bank along with the regulatory guidelines has implemented a comprehensive operational risk management policy and put in place a framework to identify access and monitor risk, strengthen controls, improve customer service and minimize operational losses. The bank has also institutionalized a strong compliance culture across the organization, pursuant to its strategic goals of transparency and trust amongst all its stakeholders as per RBI guidelines. With strong risk management strategies, higher provisioning and credit rich clientele, Yes Bank has managed to have low net NPAs in the Industry despite challenging economic environment during the study period. Though the increasing focus for higher penetration into the retail segment might be a challenge for the bank to sustain its superior asset quality, the bank will be able to maintain asset quality, and strengthen its profitability.

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