

First Annual Report of YES BANK Limited

November 21, 2003 to March 31, 2005



Annual General Meeting on April 26, 2005



BOARD OF DIRECTORS

Mr. Ashok Kapur, *Non – Executive Chairman*
Mr. Rana Kapoor, *Managing Director & CEO*
Mr. Hans ten Cate, *Non – Executive Vice Chairman*
Mr. Wouter Kolff, *Non – Executive Director*
Mr. Ajay Lal, *Non – Executive Director*
Mr. Ashish Dhawan, *Non – Executive Director*
Mr. Ajay Relan, *Non – Executive Director*
Mr. Kashi Memani, *Non – Executive Independent Director*
Mr. Bharat Patel, *Non – Executive Independent Director*
Mr. S. L. Kapur, *Non – Executive Independent Director*
Mr. Arun K. Mago, *Non – Executive Independent Director*
Mr. H. Srikrishnan, *Executive Director (Designate)*

COMPANY SECRETARY

Mr. Danish Shah,

REGISTERED OFFICE

9th Floor, Nehru Centre
Discovery of India
Dr. Annie Besant Road, Worli
Mumbai – 400 018
Tel: 56699000
Fax: 24900314
Email: investorrelations@yesbankltd.com
Website: www.yesbankltd.com

AUDITORS

M/s. S.R. Batliboi & Co., *Chartered Accountants*

REGISTRAR & TRANSFER AGENTS

Karvy Computershare Private Limited
46, Avenue, Street No. 1
Banjara Hills
Hyderabad – 500 034



DIRECTORS' REPORT

Dear Shareholders,

Your Directors have great pleasure in presenting the First Annual Report of YES BANK Limited together with the auditors report and audited financial statements for the period from November 21, 2003 to March 31, 2005.

A. FINANCIAL HIGHLIGHTS

	<i>(Amounts in Rs '000)</i> Period ended March 2005
Net interest income	181,298
Other income	181,682
Operating expenses	399,427
Provisions and contingencies (including tax)	1,140
Net Profit / (Loss)	(37,587)

For managements overview of the performance for the period ended March 31, 2005 and future outlook, refer section "Our Business".

B. CORPORATE GOVERNANCE

1. Philosophy

YES BANK is ordained to set the highest standards of Corporate Governance right from its inception, benchmarked with the best of class practices across the globe. Effective Corporate Governance is the manifestation of professional beliefs and values, which configure the organizational values, credo and actions of its employees. Transparency and accountability are the fundamental principles to sound Corporate Governance, which ensures that the organization is managed and monitored in a responsible manner for 'creating and sharing value'.

YES BANK believes that there is a need to view Corporate Governance as more than just regulatory requirements as there exists a fundamental link with the organization of business, corporate responsibility and shareholder wealth maximization. Therefore, the Bank is articulating a multi-stakeholder model (including shareholder value) of accountability that will manage the symbolic relationship between the various stakeholders. This approach will be central to the YES BANK's day-to-day functioning and in implementation of its business strategy.

2. Board of Directors

The composition of the Board of Directors of YES BANK is governed by the Banking Regulations Act, 1949, Reserve Bank of India requirements, the Companies Act, 1956, listing requirements of the stock exchanges and best of class practices. As at March 31, 2005, the Board consisted of 12 Directors.



All Directors who were appointed as Additional Directors of the Company during the year pursuant to the provisions of Section 260 of the Companies Act, 1956, shall vacate their offices as Directors on the date of the ensuing Annual General Meeting of the Company. They being eligible for re-appointment, your Board recommends their reappointment.

Mr. Ashok Kapur is the Non Executive Part-time Chairman of the Bank. (refer section on 'Our Promoters and Investors')

Mr. Rana Kapoor is the Managing Director & CEO of the Bank. (refer section on ('Our Promoters and Investors')

Mr. Hans ten Cate is the Non Executive Vice Chairman of the Bank. He holds a Bachelor's degree in Business Economics from Nederlandse Economische Hogeschool and an MBA from Interfaculteit Bedrijfskunde, Delft. He is a Member of the Executive Board, Rabobank Netherlands, the Chairman of the Supervisory Board of De Lage Landen International B.V., Member of the Supervisory Board of Robeco Groep N.V., Chairman of the Supervisory Board of Beurs Rotterdam N.V., Chairman of the Supervisory Board of Rabo Vastgoed B.V. and Chairman of the Supervisory Board of Gilde Investment Management B.V. He is a former Member and Chairman of the Board, AMRO Handelsbank A.G., Germany, General Regional Director Rotterdam, ABN AMRO Bank N.V. and Director of General Credit and Special Financing, ABN AMRO Bank N.V.

Mr. Wouter Kolff is a graduate in Economics from the Erasmus University, Rotterdam. After a 19-year career at ABN Bank, where his roles included Head, Guilder Group Treasury, General Manager Rotterdam Office and Chairman of the Management Committee at ABN Belgium, he moved to the international network of Rabobank Netherlands in 1990 and managed the corporate finance arm of Rabobank International. At present he is responsible for Rabobank International's Food and Agri-business, Asia, Australia and international retail initiatives. Rabobank International is Rabobank Netherlands' international corporate and investment banking division.

Mr. Ajay Relan is the Managing Director of Citigroup Venture Capital International, India. He is a former Chief Executive of Citicorp Securities & Investments Limited, a company focused on the equity and debt markets in India. He has had several years of corporate and investment banking experience in India, Saudi Arabia, Tunisia and Switzerland. He has an MBA from the Indian Institute of Management, Ahmedabad and a BA Honours (Economics) from the St. Stephen's College, Delhi.

Mr. Ashish Dhawan is the Senior Managing Director, ChrysCapital. He is the co-founder of ChrysCapital a private equity fund founded in India that manages US\$450.0 million of funds for leading institutional clients. He previously worked in the Proprietary Investment Group at Goldman Sachs in New York. He was formerly at GP Investments, a private equity fund in Brazil and prior to that worked at McCown De Leeuw & Co, a private equity firm in the USA. He holds an MBA with distinction from Harvard University and a dual bachelors degree (BS/BA) in applied mathematics and economics from Yale University.



Ajay Lal based in Hong Kong, is Senior Partner and Managing Director of AIF Capital. He is responsible for several investments in the telecom, power generation, financial services and specialty steel sectors across Asia. Prior to joining AIF Capital in 1997, he was India Country Representative of AIG Investment Corporation. Before moving to the private equity industry in 1995, Mr. Lal was with Bank of America as Vice President: Head Financial Institutions Group and Head Multinational Banking amongst other assignments.

Mr. Kashi Memani recently retired as the Chairman and Country Managing Partner, Ernst & Young, India, where he specialized in business and corporate advisory matters including foreign taxation, joint venture agreements, foreign exchange, financial consultancy and audit. He is a former member of the External Audit Committee of the International Monetary Fund and was also appointed its Chairman. Currently, he is the Chairman of American Chamber of Commerce in India, the Vice President of PHD Chamber of Commerce, member of the National Advisory Committee on Accounting Standards, a statutory authority for specifying mandatory Accounting Standards, and a special invitee of the National Council of CII. He has also been the President of Indo American Chamber of Commerce, Federation of Indian Export Organizations and member of managing committees of Federation of Indian Chambers of Commerce and Industry and PHD Chamber of Commerce and Industry and a member of the Governing Council of Indo-French Chamber of Commerce.

Mr. Bharat Patel is non-executive Chairman and a consultant on strategy, policy and external relations Procter & Gamble India Limited. He obtained an MBA in Marketing from the University of Michigan, Ann Arbor, Michigan, USA and an MA in Economics from the University of Notre Dame, South Bend, Indiana, USA. He joined Vicks International, New York as Marketing Trainee in 1969 and on its merger with Procter & Gamble, moved to Procter & Gamble and had a long and distinguished career there. He worked in various capacities for Procter & Gamble including as Operations Director, Associate General Manager, Category Manager, Country Manager and Executive Vice President.

Mr. Surrinder L. Kapur holds a M.A. (Maths) and is also an LL.B. He is presently working as an honorary adviser to the President, PHDCCI (a regional Chamber of Commerce covering 11 Northern States and Union Territories of the Union of India). Besides his duties as an adviser, he manages a Small Industry and Business Helpline for Small Entrepreneurs working in the jurisdiction of the Chamber. He retired from the post of a member of the Board for Industrial and Financial Reconstruction, with a mandate to revive and rehabilitate the sick industrial enterprises. He has also worked as Secretary to the Government of India, Department of Small Scale Industries & Agro and Rural Industries (Ministry of Industry) and Ministry of Food Processing Industries. He has also been a member of the Foreign Investment Promotion Board. Prior to this, he worked for 25 years in the Government of Punjab on various assignments including Chief Secretary to the Government of Punjab, Secretary, Industries and Chairman, Punjab State Industrial Development Corporation, Chairman of Punjab Tractors Ltd., Punjab Concast Ltd. and Punjab Small Industries Corporation. He also served as Joint Secretary in Ministry of Industrial Development (in-charge of Secretariat for Industrial Approvals and Industrial Policy). He has successfully completed a number of special assignments, including for international organisations like UNIDO, UNDP and the World Bank.



Mr. Arun K. Mago holds a M.Sc. in Physics, M.Phil. in Social Sciences, various diplomas in Public Administration, Public Finance and International Law and Diplomacy. A retired Government official, he has served for over 37 years in different capacities with the Government of India and the Government of Maharashtra, his last post being the Chief Secretary, Government of Maharashtra. He has also served as the Chairman of the Maharashtra State Electricity Board; Secretary (Energy), Government of Maharashtra; Joint Secretary, Ministry of Power, Government of India; Chairman, Mumbai Port Trust; Metropolitan Commissioner, Mumbai Metropolitan Region Development Authority; Additional Municipal Commissioner, Municipal Corporation of Greater Mumbai; Principal Secretary, Government of Maharashtra.

Mr. H. Srikrishnan is an Executive Director (designate) with the Bank. He holds a B.Com and an MBA from LIBA, Chennai. Prior to joining us, he was the Country Head, Transactional Banking and Operations, HDFC Bank, Mumbai where he was the part of the core team which set up the bank with focus on corporate, retail banking, treasury and capital market infrastructure businesses. He was member of the Boards of HDFC Banks affiliate companies viz. flexcel International (P) Limited, ADFC Limited and Solutions Net (India) Limited. He was also the Manager, Projects, Emirates Bank International, Dubai where he handled the merger/conversion project and branch automation projects. He has also worked in various branches of the Bank of America in India where he served as the Head, Operations, Head, Internal Audit and Country Personnel Officer. His appointment is subject to approval by RBI.

During the period ended March 31, 2005, 9 meetings of the Board of Directors were held on November 28, 2003, January 12, 2004, March 8, 2004, June 19, 2004, July 12, 2004, September 13, 2004, November 8, 2004, December 17, 2004 and March 1, 2005.

Dates of appointment of Directors and details of attendance at the Board Meetings of the Bank as at March 31, 2005 are as follows:

Name of director	Date of appointment	Status	Board meetings attended during the year
Mr. Ashok Kapur *	November 28, 2003	Non Executive	9
Mr. Rana Kapoor **	November 28, 2003	Executive	9
Mr. Wouter Kolff	November 28, 2003	Non Executive	4
Mr. Hans ten Cate	March 10, 2004	Non Executive	2
Mr. Ajay Relan	March 10, 2004	Non Executive	4
Mr. Ashish Dhawan	March 10, 2004	Non Executive	5
Mr. Ajay Lal	March 10, 2004	Non Executive	5
Mr. Kashi Memani	April 1, 2004	Non Executive Independent	5
Mr. Bharat Patel	September 13, 2004	Non Executive Independent	4
Mr. S.L. Kapur	January 27, 2005	Non Executive Independent	1
Mr. Arun K. Mago	March 14, 2005	Non Executive Independent	NIL
Mr. H. Srikrishnan #	April 7, 2004	Executive	6

* Appointed as Non Executive Part-time Chairman subsequent to RBI approval w.e.f. September 1, 2004

** Appointed as Managing Director & CEO subsequent to RBI approval w.e.f. September 1, 2004

Appointment subject to RBI approval

3. Board level sub-Committees



In order to comply with statutory norms, establish a sound corporate governance framework and ensure effective functioning of the Board, various sub-committee's have been set up with pre defined terms of reference. The composition of all board level sub-Committees is in compliance with the requirements the Companies Act, 1956, listing requirements of the stock exchanges, circulars issued by Reserve Bank of India and best of class practices.

a) Audit and Compliance Committee ('A&C')

Terms of reference

The A&C provides directions and oversee the operation of the total audit function in the Bank (internal as well as external). It creates an open avenue for communication between the Board of Directors, Internal Auditors and the Independent Auditors. It monitors the adequacy of the internal control environment including computerized information control system and security and Management Information Systems (MIS). Further, the A&C reviews the Annual Financial Statements and analyzes performance of the Bank, along with the Management, before the same are forwarded to the Board with primary focus on accounting policies and practices, compliance with accounting standards and legal requirements having financial statement implications. It scrutinizes reasons for default, if any, in payments to Depositories, Debenture holders, Shareholders, Creditors, etc. and legal matters that could have a significant impact on the financial statements. Importantly, the A&C independently reviews all related party transactions.

Composition

The A&C is chaired by Mr. Kashi Memani, Non Executive Independent Director. During the period ended March 31, 2005, there were three meetings of the A&C. The details of composition, attendances of meetings are as follows:

Name of member	Number of meetings attended
Mr. Kashi Memani, Chairman	3
Mr. Ashok Kapur	3
Mr. Ajay Lal (upto Dec 17, 04)	2
Mr. Hans ten Cate (upto Dec 17, 04)	Nil
Mr. Bharat Patel (inducted w.e.f. Dec 17, 04)	1

b) Risk Monitoring Committee ('RMC')

Terms of reference

The RMC primarily focuses on identification, monitoring and measurement of the risk profile of the bank (including market risk, operational and transactional risk and credit risk). Further, it oversees the Banks integrated risk measurement system and reviews the risk models as developments take place in the markets. All risk management policies and structures of risk management are reviewed and approved by the RMC. It assists in development of an integrated framework for charting/categorizing various types of loans, investments to determine implications on quality. The committee also develops policies and procedures for setting of quantitative prudential limits on various products and segments of the Bank's operations and monitors compliance of various risk parameters by operating departments.

Composition



The RMC is chaired by Mr. Ashok Kapur, Non Executive Director. During the period ended March 31, 2005, there were three meetings of the RMC. The details of composition, attendances of meetings are as follows:

Name of member	Number of meetings attended
Mr. Ashok Kapur., Chairman	3
Mr. Rana Kapoor, Vice Chairman	2
Mr. Wouter Kolff (upto Dec 17, 04)	Nil
Mr. Ajay Relan	1
Mr. Ajay Lal	3
Mr. Hans ten Cate (inducted w.e.f. Dec 17, 04)	Nil

c) Board Remuneration Committee ('BRC')

Terms of reference

The BRC reviews the overall compensation structures and related policies with a view to attract, motivate and retain employees of the Bank. The committee determines the company's policies on remuneration packages payable to the Directors including pension rights, performance/achievement bonus and perquisites, etc. Further, it considers grant of stock options to employees and administers and supervises the Employee Stock Option Schemes. The BRC also establishes the sitting fee payable to Directors for the purpose of attending board and Board level sub-Committee meetings.

Composition

The BRC is chaired by Mr. Ashish Dhawan, Non Executive Director. During the period ended March 31, 2005, there was one meeting of the BRC. The details of composition, attendances of meetings are as follows:

Name of member	Number of meetings attended
Mr. Ashish Dhawan., Chairman	1
Mr. Wouter Kolff	1
Mr. Ajay Relan	1
Mr. Ajay Lal	1
Mr. Rana Kapoor	1

d) Nominations Committee ('NC')

Terms of reference

The NC reviews the current Board composition, its governance framework, its Committees as well as determines future requirements and makes recommendations to the board. Further, it scrutinizes nominations for independent/ non executive directors with reference to their qualifications, experience, fit and proper criteria and makes recommendations to the Board for appointment/filling of vacancies.

Composition

The NC is chaired by Mr. Rana Kapoor. During the period ended March 31, 2005, there was one meeting of the NC. The details of composition, attendances of meetings are as follows:

Name of member	Number of meetings attended
Mr. Rana Kapoor., Chairman	1
Mr. Kashi Memani	1
Mr. Ashok Kapur (upto Dec 17, 04)	1

Mr. Ashish Dhawan	1
Mr. Bharat Patel (inducted w.e.f. Dec 17, 04)	Nil

e) **Investor Relations Committee (Shareholders' Redressal) ('IRC')**

Terms of reference

The IRC ensures redressal of complaints from shareholders such as non receipt of dividend, annual report, transfer of shares, issue of duplicate share certificates, etc. Further, it monitors transfers, transmissions, dematerialization, rematerialization, splitting and consolidation of shares and bonds issues by the Bank.

Composition

The IRC is chaired by Mr. Bharat Patel, Non Executive Independent Director. During the period ended March 31, 2005, there no meeting of the IRC. The details of composition of the IRC is as follows:

Names of members

Mr. Bharat Patel, Chairman
 Mr. Ashok Kapur
 Mr. Ajay Relan
 Mr. H. Srikrishnan

4. General Body Meetings

The details of the General Meetings of shareholders held during the period ended March 31, 2005 are as follows:

Meeting type	Date	Day/Time	Venue
Statutory Meeting	July 12, 04	3.00 pm	The Vetiver Room, Hotel Taj, Apollo Bunder, Mumbai 400 039
Extraordinary General Meeting	October 27, 04	2.00 pm	9 th floor, Nehru Centre, Discovery of India Building, Dr. A.B. Road, Worli, Mumbai - 400 018
Extraordinary General Meeting	December 17, 04	4.00 pm	The Parliament Room, The Chambers, Hotel, Taj Mansingh, New Delhi - 110 011
Extraordinary General Meeting	March 1, 05	4.00 pm	9 th floor, Nehru Centre, Discovery of India Building, Dr. A.B. Road, Worli, Mumbai - 400 018

5. Sustainability and Social Responsibility

Accountability, transparency, corporate governance, corporate social responsibility (CSR) and sustainability are fast becoming determinants of corporate brand value, reputation and indeed in many cases, corporate survival. In this rapidly changing business climate where the bank's risk profile encompasses a growing exposure to environmental, social and ethical risks (which in turn call for innovative business models on the part of banks), banks can only maintain sustainable profitability through client and risk benchmarking and forward looking business approaches which imbibe commercial linkages with triple bottom line concerns.



Further, in addition to their commercial role, banks are viewed as the trustees of public funds and have an inherent "social responsibility" to augment this trust. In recent times, the collapse of some banks and the resultant erosion of stakeholder value indicates an even stronger need for initiatives that address issues of corporate governance and wider responsibility to multiple stakeholders.

YES BANK is pioneering a business approach titled Responsible Banking which integrates Sustainability and Corporate Social Responsibility (CSR) within the bank's larger philosophy to banking. Here the bank is:

- adopting a social and economic value generation model and supporting businesses that do so;
- addressing responsibility to the Bank's various stakeholders;
- recognising the importance of change and managing change through Metanoia;
- operating in a "Sustainability Zone" to mainstream environmental and social issues and structure bankable projects and provide innovative financial services.

Thus far the traditional focus of banks has been to engage with society through largely philanthropic initiatives. However, YES BANK believes that in the long run, pure corporate philanthropy does not promote sustainability. Therefore, the key is to operate in a zone where the principles of pure profit and philanthropy are synergised to create a dynamic positioning i.e. a "Sustainability Zone", where wider economic, environmental and social objectives are met. Indeed, it is this niche that represents a rewarding and balanced market opportunity. YES BANK believes there are several sunrise sectors that can be profitable on a stand-alone basis. There is a strong business case for projects that deal with Blue (Air and Water), Green (Land) and Brown (Waste) Issues. Project opportunities in areas such as energy (particularly renewables), urban and rural regeneration, sustainable water management and solid waste management can be remunerative and can add substantial value to society. Similarly, carbon sequestration is a growing market and carbon services will increasingly become a critical component of the banking portfolio of services.

At YES BANK, Responsible Banking is being championed through a model that is geared to identify and provide innovative sustainable finance and services and which synergistically benefits from a bank-wide vision to develop strong internal governance and CSR processes and external outreach. More importantly, this model addresses cutting edge sustainability approaches which may be defined as Second Generation Sustainability (SGS) - a key component of new age banking. This includes:

- Socially Responsible Investing (SRI) - awareness and social capital building through sustainable financial literacy, SRI principles and SRI funds;
- Asset Management - SRI approaches, Sustainable Asset Management, assets under management with high social and environmental benefit;
- Specialised Banking - extending banking services to classes, communities or projects not traditionally included in the banking fold, e.g. microfinance, NGO banking, etc.

Specific and select initiatives undertaken by YES BANK include:

- Socially Responsible and Sustainable Investing (SRSI) - An MoU has been signed with BTS Investment Advisors, Switzerland, for sustainable finance and investment in India.