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### **A caselet on Asset Liability Mismanagement or Anti Money Laundering**

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**This caselet is intended to discuss how AML can lead to ALM for Banking Specialization students-Principles and Practices of Banking course- Semester-III- MBA Program**

The Reserve Bank had on March 5,2020 superseded the board of YES Bank due to its poor financial health and restricted withdrawals at ₹50,000 per account. Yes Bank Ltd. was placed under moratorium by an order notified by the Central Government on March 5, 2020. As per the RBI, the financial position of Yes Bank (the bank) has undergone a steady decline largely due to inability of the bank to raise capital.

The bank has also experienced serious governance issues and practices in the recent years which have led to steady decline of the bank. One such issue which we can refer in this context is of Rana Kapoor's arrest, following the allegation of Enforcement Directorate that Rana Kapoor, co-founder of Yes Bank, and his family allegedly used 97 companies to divert money for personal use. Kapoor and his family allegedly received kickbacks from high-value borrowers. The agency is probing the money trail.

Kapoor is under investigation for suspected money laundering worth ₹4300 crore, along with his family members, through several shell companies.

The agency has also issued summons to the big borrowers of Yes Bank, including Wadhawan brothers of Dewan Housing Finance Ltd, Anil Ambani, Sameer Gehlaut of Indiabulls group, and Subhash Chandra of Essel Group.

So far, only Anil Ambani has appeared before the probe agency. On 19<sup>th</sup> March, he was quizzed for nearly nine hours during which he told the investigative agency that all his loans availed from Yes Bank have been secured.

Grounded airline, Jet Airways Ltd founder Naresh Goyal is also under a separate money laundering probe by the agency for alleged malpractices, mismanagement through siphoning/ writing-off/ diversion of funds and other financial irregularities at Jet Airways.

The agency took up the money laundering probe against Kapoor and others after the Reserve Bank of India imposed a moratorium on the crisis-ridden Yes Bank earlier this month, restricting withdrawals to Rs 50,000 per depositor. An Enforcement Case Information Report (ECIR), which is equivalent of a police FIR, has been filed under the Prevention of Money Laundering Act (PMLA) on the basis of an FIR filed by the CBI. Kapoor is already facing an ED criminal case for receiving alleged kickbacks, through companies purportedly controlled by his family, for going slow on bad loans extended by his bank to some big corporates. This will be the second complaint against him under the Prevention of Money Laundering Act (PMLA).

Over 90 per cent of the gross bad loans in the books of troubled Yes Bank were added during the first nine months of the current fiscal, with sour debt swelling by ₹36,763.76 crore during April-December 2019.

Yes Bank posted the highest-ever loss reported by any private sector bank at ₹18,560 crore for the third quarter of 2019-20, as huge provisioning for bad loans hit profitability. The bank's gross bad loans by the end of the December quarter swelled to a staggering ₹40,709.20 crore. The bank made provisioning of ₹29,594 crore for these bad assets, the beginning of the fiscal on April 1, the bank's opening balance of gross NPAs stood at ₹7,882.56 crore, as per the bank's 'Disclosures under the Basel III Capital Regulations'.

Of the gross bad loans on the books of Yes Bank at end of December 2019, the bulk of loans - ₹30,447.97 crore -- were categorised as sub-standard. Loans of over ₹9,300 crore were in the doubtful category, with ₹7,904.49 crore falling into 'doubtful 1' list, ₹829.07 crore 'doubtful 2' and ₹573.75 crore classified as 'doubtful 3'. The rest ₹953.92 crore loans were in the 'loss' category. The bank witnessed withdrawals of over ₹72,000 crore of deposits in the last six months.

**Table: Maturity Bucket of Assets and Liabilities**

yr/ Rs in Crores	2019	2018	2019	2018	2019	2018	2019	2018
Maturity Bucket	Deposits	Deposits	Borrowings	Borrowings	Loans and Advances	Loans and Advances	Investments	Investments
1 - 14 days	14351.09	15937.71	2233.70	5293.72	6309.74	3730.51	27420.39	20371.56
15 - 28 days	9387.13	8189.76	2519.91	1413.55	8780.55	7290.60	4994.40	7588.76
29 days to 3 months	19657.67	25297.72	9479.43	5167.22	11392.20	11547.58	4150.61	4548.47
Over 3 - 6 months	29140.20	20268.21	9469.82	6998.20	13425.66	14876.72	5499.40	3548.73
Over 6 months to 1 year	53286.50	38925.14	8078.33	2433.51	26769.89	26579.52	8145.38	6156.37
Over 1 -3 years	25917.41	18187.33	22574.74	13199.17	81553.99	70865.07	10622.83	4411.04
Over 3- 5 years	74494.25	71965.75	23921.90	10178.34	45842.16	35878.66	17316.93	13428.46
Over 5 years	1375.94	1966.52	30146.28	30209.89	47425.41	32765.21	11372.09	8345.55
<b>Total</b>	227610.18	200738.15	108424.11	74893.58	241499.60	203533.86	89522.03	68398.94

(Source: Annual Reports of YES Bank, years 2019 &2018)

**Required:**

- (i) Compute Rate Sensitive Gap for the given time buckets starting from the periods of 1-14 days, 15-28days, 29 days to 3 months, over 3-6 months over 6 months to 1 year; over one year to 3 years and over 5 years along with comments on Liquidity risk profile.
- (ii) Explain Asset-Liability Management guidelines.
- (iii) Illustrate the stages of Money Laundering that occurred in Yes Bank.
- (iv) Critically analyse the Objectives of Prevention of Money Laundering Act- PMLA

(v) Is Yes bank crisis owing to Asset Liability mismanagement or Money Laundering, or both ? Validate your arguments by providing the justifications.