PROSPERITY INSIGHTS

Global growth remains sluggish; India's Momentum Intact

As markets re-gained calm following the Brexit shock, the focus of the markets during the month of August was on the timing and magnitude of future rate hikes in the US. While robust US jobs data for June and July had raised expectations of a September rate hike by Fed, lower than expected job additions for August dampened such expectations.

August PMI readings globally signaled an improvement in manufacturing activity, albeit the improvement was uneven and failed to gain a broad based character. As such with the rate of global economic expansion remaining subdued overall, IMF hinted at another downgrade to global growth projection for 2016. Recall, in its latest economic outlook, the IMF had downgraded its global growth projections for 2016 and 2017 by 0.1% each versus April forecast.

Meanwhile in the Eurozone, while Britain's vote to leave the EU did not manifest into any adverse financial market shock, the pace of growth in Q2 moderated to slowest pace in two years and manifested divergent patterns within individual countries. For instance, while Italy and France's economy stagnated, improving labour market and booming tourism fueled economic activity in Spain.

On domestic front, although GDP growth for Q1FY17 came in lower than expected; sectoral activity as reflected in GVA suggested that economy continued to maintain momentum. Additionally, India's Aug-16 PMI readings showcased a solid expansion in business activity for both manufacturing and services sectors. Moreover, auto sales for August posted robust growth, reflecting a gradual uptick in domestic demand conditions.

On the downside, Jul-16 core sector growth witnessed a moderation led by weakness in steel, crude oil and electricity sector. This was also corroborated in the continued sluggishness in credit offtake to industrial sector. While growth in non-food credit offtake improved in Jul-16 relative to the previous month, it was led primarily by improvement in credit to services and continued robustness in personal loan segment. Lending to industry recorded a tepid growth of 0.6% YoY unchanged from the previous month.

Going forward, we expect India's economic recovery to gain traction led by improvement in consumption as increase in disposable incomes following 7th CPC implementation and recovery in rural incomes following satisfactory performance of monsoon amid benign inflation pave way for improved demand conditions. We expect FY17 GVA growth to improve to 7.8% from 7.2% in FY16.

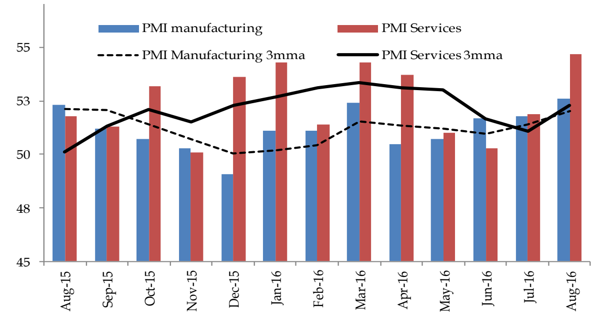
Shubhada M. Rao
Chief Economist

Kanwar Vivek
Senior President and Head
Wealth Management & Global Indian Banking

Domestic Market Macro Economics

	Weight (%)	May-16	Jun-16	Jul-16	Apr-Jul FY16	Apr-Jul FY17
IIP	**100**	**1.1**	**2**	**-2.4**	**3.5**	**-0.2**
Sectoral Classification						
Mining	14.2	1.4	5.3	0.8	0.6	2
Manufacturing	75.5	0.6	0.7	-3.4	4	-1.4
Electricity	10.3	4.7	8.3	1.6	2.6	7.1
Use Based Classification						
Basic	45.7	3.8	5.8	2	4.8	4.1
Capital	8.8	-12.3	-16.3	-29.6	4.2	-21.3
Intermediate	15.7	3.9	5.7	3.4	1.7	3.8
Consumer	29.8	1	2.7	1.3	2.2	0.7
Durables	*8.5*	*6*	*5.6*	*5.9*	*6*	*7.3*
Non-Durables	*21.3*	*-2.3*	*0.9*	*-1.7*	*0.2*	*-3.6*

Headline IIP in July slipped into negative territory led by sharp de-growth in manufacturing index

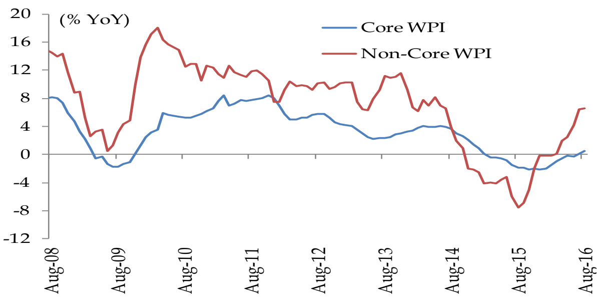


August PMI's signal robust pace of private sector activity

- GDP growth in Q1FY17 surprised on the lower side coming in at 7.1% compared to 7.5% in Q1FY16 led mainly by continued weakness in investment demand and some moderation in the pace of private consumption growth. On the activity side, while GVA growth surprised us on downside clocking a growth of 7.3% versus 7.2% growth in Q1FY16. While, services GVA growth was recorded at robust 9.6%
- Reflecting solid improvement in the pace of growth of manufacturing sector, NIKKEI India Manufacturing PMI surged to a thirteen-month high in Aug at 52.6 (Previous: 51.8)
- NIKKEI India Services Business Activity Index increased to its highest level in over three-and-a-half years at 54.7 in August (Previous: 51.9)
- Output of eight core infrastructure industries moderated to 3.1%YoY in July compared to 5.3% in Jun-16. On FYTD (Apr-Jul) basis, output growth advanced to 4.9%YoY compared to 2.2%YoY during the same period in FY16
- August CPI came in at a 5-month low of 5.05%, expectedly led by food price disinflation. Core CPI continued to remain range-bound in the 4.5-5.0% range
- India's July IIP print contracted 2.4% YoY vis-à-vis a 2.0%YoY expansion in June; on back of a broad based moderation in all three sub-segments, namely-mining, manufacturing and electricity

%YoY	June	July	August	Apr-Aug FY16	Apr-Aug FY17
CPI	**5.77**	**6.07**	**5.05**	**4.54**	**5.62**
Food	7.5	8	5.8	4.4	6.9
Pan & Tobacco	7.4	6.8	6.9	9.6	7.3
Clothing	5	5.2	5.2	6	5.3
Housing	5.5	5.4	5.3	4.6	5.4
Fuel	2.9	2.7	2.5	5.7	2.8
Misc	3.8	4	4.2	3.6	4.1
Core	4.6	4.6	4.7	4.4	4.7

Aug CPI came in at a 5-month low, led by food price disinflation



Return of inflation seen in Core WPI in August

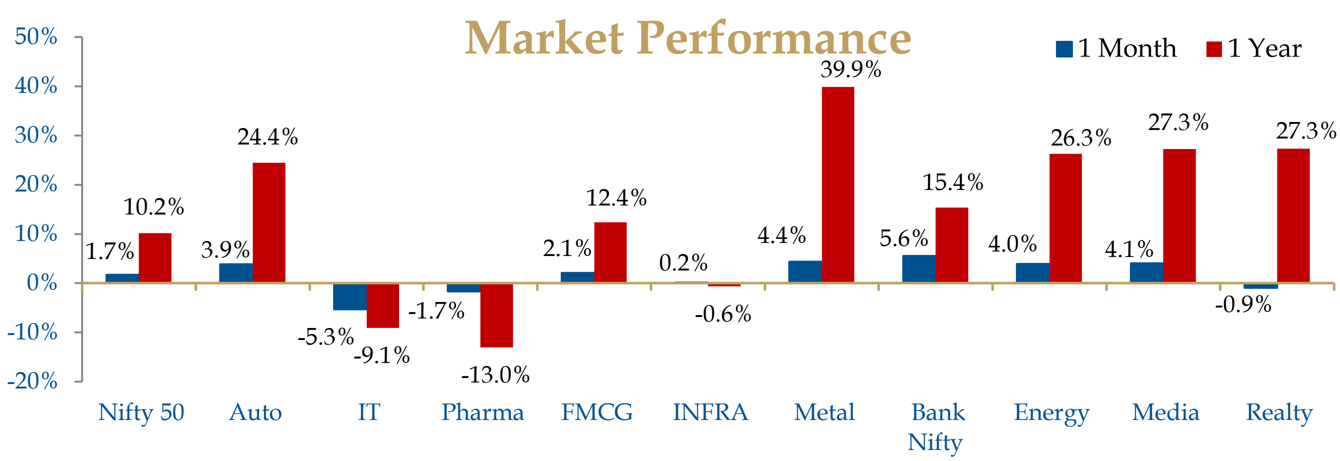
We expect:

- We continue to expect GVA growth to improve to 7.8% from 7.2% in FY16. We expect FY17 growth to be led mainly by recovery in consumption on the back of improved prospects for revival in rural. A recovery in consumption demand however is unlikely to support a robust revival in investment demand given the still prevalent excess capacity in manufacturing sector and leveraged balance sheet of some corporates.

- We expect USDINR to remain in the range 67-69 due to continued global headwinds such as monetary policy uncertainty from central bank actions and financial volatility; though strong domestic macros would keep sharp depreciation pressures contained. Medium-term INR direction would depend on the execution and pace of domestic reforms. As such, passage of GST and Bankruptcy code remains supportive

Equity Market Insights

- The month of August saw Indian markets rally upwards. However, midcaps were the stars of the month with the Nifty free float Midcap 100 Index moving up by 4.05% during the month. BSE Sensex closed at 28,452, higher by 1.4% for the month while the Nifty closed at 8,786; up by 1.7% during the same period. The Nifty free float Smallcap 100 Index was up 1.4% during the month.
- During August, foreign investors pumped in USD 1.27 bn in the Indian equity markets but remained net sellers in the debt markets, which consequently saw an outflow of USD 0.31 bn taking the total tally to a net inflow of USD 0.96 bn. DII's were net seller in equity with outflow of USD 0.67 bn during the same period.



Factors to Watch

- Indian markets have been on an upward trajectory over the past months. This has been driven by expectations of economic revival and a flow of foreign institutional funds. The recently concluded June quarter earnings were a mixed bag. For the Nifty companies (excluding BFSI), top line was up 3% YoY while adjusted profits were up ~7% YoY (due to strict cost control)

- The next trigger for the domestic market would be the festive season. We expect consumption related stocks to outperform in the medium term given expected revival in rural demand on the back of healthy monsoons and Pay Commission related payouts. However, in the near term, in the absence of any major domestic trigger, our markets too would take cues from the global markets

- Fundamentally, India still continues to remain attractive on the global stage on account of (i) Economy on an upward trajectory (ii) pro reform focus of the Government (iii) Government's continued emphasis on reviving manufacturing sector through structural steps (iv) easing monetary policy (iv) better monsoons expected to lead to a pickup in consumption (v) 7th Pay Commission hike to give a further fillip to consumption led growth

- Geopolitical developments across the world

Outlook & Expectations

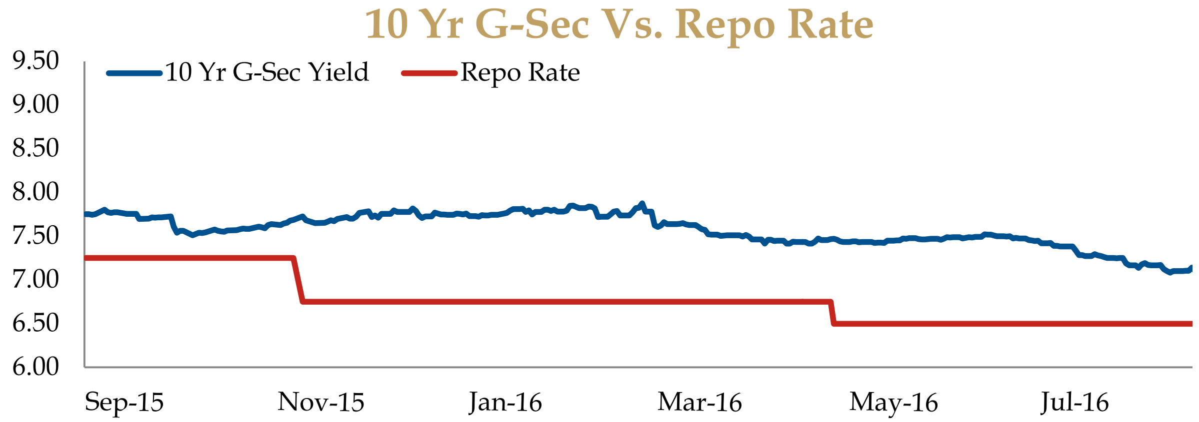
- In terms of valuations, the Sensex is trading at a trailing twelve month PE multiple of 21.3 times which is higher than its long term historic average. However, given the expectations of recovery in demand due to factors mentioned above, earnings are expected to improve towards the second half of the year. Building an assumption of a robust improvement in earnings in FY17, we believe that the markets are still attractive from a medium to longer term perspective, i.e. for 2 to 3 years
- Going forward, we believe revival of the rural economy would have a multiplier effect on sectors that are driven by consumption. This includes consumer goods, FMCG, autos (2 wheelers in particular), etc. Revival in rural demand would eventually translate to revival in private capex as well. We recommend investments in quality stocks in infrastructure, consumption and agri sectors
- We recommend equity investments through a Systematic Transfer route with a minimum investment horizon of 36 months

Debt Market Insights

- The average systemic liquidity in the banking system improved to a surplus of INR 305 bn from INR 139 bn in July 2016. Government's spending, RBI's dividend payment and continued purchase of Gsecs by RBI through OMOs helped create durable liquidity surplus.
- Average 10 yr yield during Aug declined to 7.13% from 7.30% amid comfortable liquidity conditions and expectations of a continued accommodative stance of RBI.
- OMO purchase worth INR 100 bn was conducted by RBI during the month. RBI transferred INR 658 bn surplus as dividend to Government this fiscal, unchanged from last year.
- The new 10 year benchmark security that was issued this month saw a cut off of 6.97%- lowest since 2009- and 15 bps lower than the prevailing 10 year security yield.

Outlook and Expectations

- We now see a downside risk to our CPI forecast of 5.1% for the year, with the number more likely to average below 5% for FY17 compared to 4.9% in FY16. We maintain our expectation of a 25 bps repo rate cut by the RBI during Q3FY17, with RBI now likely to remove its reference to "upside risks to inflation", on the back of a comfortable inflation trajectory from here on
- We also anticipate the provision of comfortable liquidity to maximize the impact of the current accommodative monetary policy stance.



Model Portfolios – September 2016

Asset Class	Conservative	Cautious	Moderate	Growth	High Growth
I) Debt (%)	95	70	50	25	10
Ultra Short Term Funds	20	15	15	5	-
Dynamic /Income Funds	35	30	20	15	5
NCD/ Bank Deposit	40	25	15	5	5
II) Equity (%)	-	15	30	45	55
Large Cap	-	15	25	30	35
Mid cap	-	-	5	10	15
Sector/ Thematic	-	-	-	5	5
II) Alternate (%)	5	15	20	30	35
Gold ETF	5	5	10	10	10
Structured Products	-	10	10	10	10
PE/ Real Estate Funds	-	-	-	10	15
Total (%)	**100**	**100**	**100**	**100**	**100**

Glossary:

- ✓ Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.
- ✓ Wholesale Price Index (WPI): An index that measures and tracks the changes in price of goods in the stages before the retail level.
- ✓ Open Market Operations (OMO’s): is the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases inject money into the banking system and stimulate growth while sales of securities do the opposite.
- ✓ Cash Management Bills (CMB): A short-term security sold by RBI to meet any temporary shortfalls.
- ✓ Purchasing Managers Index (PMI) is based on surveys on private sector service /manufacturing companies. An index level of 50 denotes no change since the previous month, while a level above 50 signals an increase or improvement and below 50 indicates a decrease or deterioration.
- ✓ Net Demand and Time Liabilities (NDTL): It is the sum of demand and time liabilities (deposits) of banks with public and other banks wherein assets with other banks is subtracted to get net liability of other banks.
- ✓ Current Account Deficit (CAD): A measurement of a country’s trade in which the value of goods and services it imports exceeds the value of goods and services it exports. A current account deficit represents negative net sales abroad. A country can reduce its current account deficit by increasing the value of its exports relative to the value of imports.
- ✓ West Texas Intermediate (WTI): also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

YES BANK Ltd., Registered Office: Nehru Centre, 9th Floor, Discovery of India, Worli, Mumbai 400018. | Tel: + 91 22 6669 9000
Fax: + 91 22 6669 9018.

Northern Regional Corporate Office: 48 Nyaya Marg, Chanakyapuri, New Delhi 110 021. | Tel: + 91 11 5556 9000 Fax: +91 11 5168 0144

Contact Details

Garima Kapoor
Economist
garima.kapoor@yesbank.in

Shubhada M. Rao
Chief Economist
shubhada.rao@yesbank.in

Kanwar Vivek
Senior President and Head
Wealth Management & Global Indian Banking
kanwar.vivek@yesbank.in

About YES BANK

YES BANK, India's new age private sector Bank, is the outcome of the professional & entrepreneurial commitment of its Founder, Rana Kapoor and its top management team, to establish a high quality, customer centric, service driven, private Indian Bank catering to the future businesses of India. YES BANK has adopted international best practices, the highest standards of service quality and operational excellence, and offers comprehensive banking and financial solutions to all its valued customers.

YES BANK has a knowledge driven approach to banking, and a superior customer experience for its retail, corporate and emerging corporate banking clients. YES BANK is steadily evolving as the Professionals Bank of India with the long term mission of "Building the Finest Quality Bank of the World in India".

Disclaimer

In the preparation of the material contained in this document, Yes Bank Limited has used information that is publicly available, including information developed in-house. Information gathered & material used in this document is believed to be from reliable sources. Yes Bank Limited however does not warrant the accuracy, reasonableness and/or completeness of any information. For data reference to any third party in this material no such party will assume any liability for the same. Yes Bank Limited does not in any way through this material solicit any offer for purchase, sale or any financial transaction/commodities/products of any financial instrument dealt in this material. All recipients of this material should before dealing and or transacting in any of the products referred to in this material make their own investigation, seek appropriate professional advice.

We have included statements/opinions/recommendations in this document which contain words or phrases such as "will", "expect", "should" and similar expressions or variations of such expressions, that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws ,regulations and taxes and changes in competition in the industry. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated.

Yes Bank Limited and any of its officers directors, personnel and employees, shall not liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner. The recipient alone shall be fully responsible/ are liable for any decision taken on the basis of this material. All recipients of this material should before dealing and/or transacting in any of the products referred to in this material make their own investigation, seek appropriate professional advice. The investments discussed in this material may not be suitable for all investors. Any person subscribing to or investigating in any product/financial instruments should do so on the basis of and after verifying the terms attached to such product/financial instrument. Financial products and instruments are subject to market risks and yields may fluctuate depending on various factors affecting capital/debt markets. Please note that past performance of the financial products and instruments does not necessarily indicate the future prospects and performance thereof. Such past performance mayor may not be sustained in future. Yes Bank Limited or its officers, directors, personnel and employees, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation in the financial instruments/products/commodities discussed herein or act as advisor or lender / borrower in respect of such securities/financial instruments/products/commodities or have other potential conflict of interest with respect to any recommendation and related information and opinions. The said persons may have acted upon and/or in a manner contradictory with the information contained here. No part of this material may be duplicated in whole or in part in any form and or redistributed without the prior written consent of Yes Bank Limited. This material is strictly confidential to the recipient and should not be reproduced or disseminated to anyone else.

The views and opinion specified herein are suggestive in nature and based on in depth market analysis and appreciation of facts considered critical by us. However, this does not mean or exclude the possibility of any alternate investment strategy. The opinion/views mentioned herein is only one of the strategies which can be adopted by you at your sole discretion for achieving your financial objectives and all investment decision made by you are at you sole risk and discretion and we shall not be liable for losses if any caused to you. Further past performance of you investments in accordance with our views may not be presumed as a guarantee for similar performance in future. All views/opinion stated herein shall be subject to the additional conditions, qualifications and riders if any specified for securities/investment options in the offer documents/Offering memorandum for such securities/investment options and we request you to peruse the same.