



“YES Bank Limited Q3 FY18 Results Conference Call”

January 18, 2018



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Moderator: Ladies and gentlemen, good day and welcome to YES Bank Limited Q3 FY18 Results Conference Call. We have with us today on the call, Mr. Rana Kapoor – MD and CEO; Mr. Rajat Monga – CFO; Mr. Ashish Agarwal – Chief Risk Officer; Mr. Pralay Mondal – Head of Retail and Business Banking; and other leaders of the YES Bank Management Team.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rana Kapoor – MD and CEO, YES Bank Limited. Thank you and over to you, sir.

Rana Kapoor: Good evening, everyone. Thank you very much. I believe we have almost 280 participants in this call today. So I am sorry if there has been any delay from our end

Let me just get straight into the numbers:

This quarter had 2 very big milestones for us:

First and foremost, total asset base crossed 2,50,000 crores, ended at 2,65,000 crores. And our loans crossed 1,50,000 crores for the first time, which is in itself a fairly significant milestone in our life cycle. Our total capital funds with the overall raising of perpetual bonds and Tier-2 compliant, Basel-III compliant capital was augmented to a high of 43,600 crores, which is an increase of over 62% year-on-year. Capital adequacy of the bank was at 19.5%, the overall CRAR. Tier-1 was at 14.7% and the CET1 ratio was at 10.7%. Loan growth was 46.5%, and within that roughly about 43% was corporate loan growth. And retail lending advances actually doubled from last year to 11.8%, which combined with our micro, small, medium enterprises now aggregate to a level of 32.3%. On the overall loan growth, it has been somewhat compelling to grow at this level because we are seeing a resurgence in the credit markets.

Two, we are one of the few banks who is well equipped with capital.

Number three, we have fairly good tax in place.

And number four, significantly the new credits are coming in from large new relationships, and therefore are important relationships for YES Bank to break into as we now emerge into a fairly meaningful, medium-sized large bank in our country.

So this is a bit more than usual, but it's a very important signal that there is a lot of customer receptivity and the overall quality of the credits that we are attracting are amongst the best in the country now.



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On asset quality:

The headline credit cost number was only 18 basis points and the YTD number is about 64 basis points. I also want to add that the bank has established and got approvals for a \$1 billion MTN program, and we intend at the right time to also list it on the India International Exchange in GIFT City. We would be the first one to do so in addition to London and Singapore as and when the program is launched. I am also pleased to report to you that for a bank which is approximately 13 years old, 13 years and 1 quarter, we were also inducted in the S&P BSE Sensex, the top 30 stocks in the country having made our second entry in the NIFTY over 2 years ago.

On international indices, which have a lot to do with our sustainability strategy, we have been also inducted on the MSCI ESG Global Indices based on our strong performance on Environmental, Social and Governance parameters, ESG. This is in addition to the bank being also a meaningful part, 3 years in a row as the only Indian bank to be on the Dow Jones Sustainability Index as well as being a meaningful participant in the FTSE4Good Index as well.

Some key profit and loss highlights:

Our profit, two quarters in a row exceeded 1,000 crores. We were at 1,077 crores, representing a growth of 22% year-on-year. This is despite almost 100 crores gap in our treasury income, treasury gains compared to the preceding period. So despite that, we have had a very satisfactory overall net profit growth.

Net income grew by 26.8%. Noninterest grew by almost 40%, at 39.9%. Total net income at 32.1%, operating profit at 2,001.8 crores, grew by 37.7%. NIMs were at 3.5%, which is the same level as last year, but were 20 basis points down compared to the preceding quarter and there are a couple of reasons for that, which I would like to mention now itself. One reason that accounted for about 10 basis points reduction in NIM is because we raised 9,415 crores of quasi-capital as in perpetual bonds 5,415 crores, the single biggest stand-alone AT1 bond exercise, which I am sure you are aware, from April 1 under IFRS will qualify as part of net worth, and therefore is serious quality capital, reflecting on the bank's financial standing and all of this was sourced from domestic wholesale investors, largely mutual funds and some corporate investors as well.

We also raised 4,000 crores of Tier-2 capital. So overall, 9,415 crores with a blended cost of 8.5% vis-à-vis our current cost of funds, which is around 6%. So this had an immediate impact of about 10 basis points, but the offsetting advantage is that our capital adequacy has improved quite significantly as I mentioned already.

The second point is also important to note that the 10 basis points approximate impact was due to the overall impact of security receipts/the NPA portfolio of the bank. So the sigma of these 2 actions is approximately about 20 basis points.



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I hasten to add that the bank is extremely well conditioned and in the right momentum to be able to achieve 4% NIM well before March 2020 given the overall momentum in CASA, which has improved to 38% and I will come to that a little later as well. The overall organic growth of PSL, which is being accelerated in the bank on a very high priority. So PSL in itself we need to grow because that cost today is a fairly high cost.

And thirdly, we will continue to accrete further CASA. So I am extremely confident that we will achieve our objective of 4% NIM well before our hardwired objective date of March 2020. As you can see, the overall operating and efficiency ratio of cost to income at 39.5%. This is 2 quarters in a row, we are sub 40%. And we are of the view that with further cost efficiencies, productivity and efficiency which is being worked on quite comprehensively that this ratio will steadily improve, may not happen in the next year or so, but we are working towards ensuring that the cost-to-income ratio of the bank sooner than later gets to a level of around 37% to 37.5%. The ROAs were at 1.7%, ROE at 18%. Book value per share, now stands at 106.8 rupees. I do want to mention that for the 9 months YTD, the overall PAT of the bank was 26% higher at 3,045 crores compared to 2,416 crores.

Moving on to some balance sheet numbers:

Total assets have grown year-on-year by 36.2% to 2,65,432 crores. Deposits grew 29.7% to 1,71,700 crores. CASA ratio has grown to 38%. As you can see, 2 years in a row, we are accreting CASA, by far one of our biggest successes in retail branch banking has been our number one objective of increasing CASA. And I am extremely confident that we will get to our 40% CASA ratio by September 2018, well before the original target date of March 2020. And therefore CASA growth of 4.7% in 1 year is on the back of 48% year-on-year growth. And if you look at the split, SA has grown by 45.4% and CA has grown by 53.4% year-on-year respectively. CASA plus Retail FD is around 61%. Risk-weighted assets stood at 2,23,680 crores with RWA to total assets stable at 84.3%. So overall, as you can see, this has been a fairly satisfactory quarter. I do want to mention very briefly that we had a marginal improvement in our gross NPA levels from 1.82% to 1.72%. So 10 basis points improvement after September, sequentially 10 basis points improvement. And net NPA has improved by 11 basis points to about 0.93% with an overall provisioning coverage improvement from 43.3% to 46.4%. Credit cost this quarter was 18 basis points and cumulatively for the 9 months stands at 64 basis points.

In terms of provisioning coverage, the bank's management team is making concerted efforts, as I reported also earlier in our media interaction, to achieve 60% coverage on our overall GNPA no later than June of 2018. We are of the view that a significant part of our NPAs as a consequence of the recent divergence in October are non-sticky NPAs, and therefore will be remedied in this quarter as in the fourth quarter which has commenced, and definitely quite significantly by no later than June of 2018. So through a combination of remedial actions, number one and two, enhanced provisioning for which the bank has excellent earnings momentum as demonstrated in the last 9 months of this fiscal year, even in a demanding quarter like September and as well as sustain even in this quarter despite the negative impact of treasury



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somewhat, we have been able to establish this as a clear-cut objective to take this provisioning coverage to about 60%. I also want to mention that the branches stand at about 1,050 compared to 964 branches a year ago, which is an overall increase of 86 branches. Headcount is flattish year-on-year, and we are being extremely conscious given the significant strides, the leaps the bank is making in digital banking. We are being extremely cautious, I would say, in terms of additional headcount and we are naturally hiring in proportion to our income flows, and we will continue to hire. We have a plan to take our headcount from the current levels to about 20,000 by about March 2019 and to about 21,000 by March 2020.

A little bit on the overall portfolio mix:

We are pretty much the same as we were last quarter. Corporate businesses which are actually spread over 8 relationship groups, constitute about 67.7% of the total composition of the bank and the more granular branch banking businesses segregated between Retail & Business Banking compile about 32.3%. And within that, medium enterprises are approximately 10% small and micro enterprises are about 10.6%. But the piece which is now growing very rapidly is the more granular retail banking portion, which has shown excellent growth, now constitutes 11.8% compared to about 8.6% last year. And this is despite the fact that corporate growth has been extremely robust in this particular quarter, as I mentioned, slightly more than 43%.

Moving on to more asset quality related observations:

First, sensitive sectors:

Quarter-on-quarter compared to September, our overall sensitive sector exposures have actually come down from 9.3% to 7.7% sequentially. And these comprise of nonrenewable energy, which is really thermal, which is roughly about 3.4%, all of which is operational projects. Iron and steel, we have no exposure, as you know, to SEBs as we have consistently reported. Iron and steel is 2%, out of which 1.6% is A or above rated, and this sector is turning around quite rapidly. In fact it has become a fairly attractive growth sector in the economy. Telecom, which was also going through a sensitive period, roughly about 6-7 months ago, significantly, systemically, it has been de-risked quite substantially. And at our bank, this number is now all of 2.3% compared to 3.9% in September. So just sequentially, telecom percentage concentration has come down from 3.9% to 2.3%. And out of the 2.31%, 2.1% is A or above-rated. Overall, the portfolio is roughly about 75% is A or better rated. And in the overall note, the analyst note that we have sent across, if I can share with you that in our corporate portfolio, spread over 8 segments. Our AAA exposure is 22%; AA exposure is 13.4%; our A exposure is 42.8%; BBB is 19%, which is as you know investment grade by more than a notch; and BB and below is only 2.8%. And that's the overall risk profile of our corporate portfolio which constitutes 67.7% of the total bank.

The sectorial distribution is fairly granular and has been represented in our release to you. The Three-Eye Principle in terms of our knowledge banking is consistently working for us, at least we like to believe, between the relationship, product and risk managers, who are assigned to all

our corporate relationships. And the three-eye principle also ensures fairly proactive risk management, including red flag management and more often than not, does spot early warning signals to be able to curtail credit damage.

On credit cost:

I mentioned 64 basis points cumulatively. Overall, GNPA is about 2,974 crores at 1.72% and net NPA is 1,595 crores at 0.93%. Both GNPA and net NPA have shown 10 and 11 basis points sequential improvement. Provisioning coverage has also improved by about 3.1% sequentially. And I have already mentioned to you as to what our future plans are over the next 2 quarters to get this to 60%. It is also important to highlight that while the overall growth slippage in this quarter is 495 crores, this however has a overall 245.4 crores, which is on account of accounts which have been adversely labeled and classified under SDR 5:25 and NCLT. So actually, if you offset this amount of 245 crores, which was already recognized as adversely labeled, the amount is only 250 crores, which is the fresh slippage, so to say.

The good news is that recoveries are looking a lot more encouraging and there was a total recovery of 228.2 crores and write-offs were only 12.7 crores. So you can see that the net credit cost absolute impact is only 289 crores. And compared to the overall provisioning level of 421 crores, so 289 crores is the net credit cost. Approximately slightly less than 100 crores is the incremental GLL and just about approximately 100 crores is the overall investment provisioning which aggregates to the 421 crores of provisioning that we have disclosed. I just also wanted to give you a short comment on the recent RBS review that was done in October.

As you know, in that one quarter alone, we were able to absorb almost the entire damage of the entire divergence for fiscal 2017 which was advised to us on the eve of our board meeting on October 26. I am quite happy to report to you that there is no slippage, there is nil slippage of in any of the standard accounts which were upgraded from NPA to standard. And there has been significant principal repayment in these standard accounts with no interest overdues. In terms of quantitative numbers, the total repayment is 450 crores in this quarter, out of which 282 crores is the repayment on a single classified standard account. This account has been fully repaid. So two accounts, which were part of the RBS, which was standard of aggregating into 1,050 crores has been repaid. There is also recovery of one of the 4 NPA accounts of 129 crores as of September, which was an NPA in September, has been recovered in December quarter, 129 crores. And other recoveries from multiple accounts aggregate to 39 crores, of which 21 crores is NPA and 18 crores is towards further reduction of the balance standard accounts that we have.

The next item on which there is considerable emphasis in the bank is security receipts:

These have gone up somewhat sequentially from an overall level of 0.94% as of end of September to 1.06%. Security receipts now stand at 1,834 crores and the net increase in security receipts for the quarter was 422 crores. And as well as the fact that one account, which was a standard account, was sold to an ARC, the net impact of that was 421 crores. So 421 crores was



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the net sale of this one standard account to an ARC and this was not in any way related to the RBS. This was not a standard account coming from the RBS list. So I do also want to reinforce that it is indeed a hardwired objective of the management team in this room and others to redeem at least minimum 30% to 40% of the net outstanding security receipts portfolio within the next 15 months by March 31, 2019. As you will recall, this was also documented in our October 26 media release. And I am reiterating that today to all of you that we do believe that in these next 15 months, because the nature of our security receipts sales and our NPAs is non-sticky and these are not acute cases, and therefore we are of the view that there can be a fair amount of resolution in a reasonable period of time, and certainly on the outside, no later than March 2019. The management team is accountable nationally for this commitment. The other numbers are relatively small. So I will not mention them, I won't expand on them but just quickly run through. Standard restructured advances are only 0.05%, so quite meaningless. Standard SDR exposure is only 0.21%, so fairly small at 362 crores. 5:25 refinanced exposure is all of 0.6% which is 112 crores, so very small. S4A exposure is all of 0.09%, which is only 153.5 crores, also very small.

Another important disclosure, and we take some pride in making this disclosure that, as you know, many large accounts were made part of RBI's IBC/NCLT process in June 13. 12 very large endemic NPAs were announced. And we had only 2 out of those 12 with an aggregate exposure of only around 350 crores. In the additional list that was brought out, I think sometime in September, where an additional 28 NCLT cases were highlighted by the Reserve Bank of India. I am very happy to share that YES Bank out of this list of 40 acute NPAs in the banking system has exposure to only 9 borrowers. But more meaningfully, the aggregate exposure to these 9 borrowers is all of 1,342 crores. And then if you further deep dive into this number, then out of the 1,342 crores, 75.2 crores is standard exposure, which is only 0.04% of our overall advances and with nil funded. So this is nonfunded exposure of only 75.2. And the balance exposure, which is 1,267.2 crores is 0.73% of gross advances, out of which 0.65% is funded. So all NCLT exposures have been fully accounted for. Further, I would like to add that the bank is maintaining 51% provisioning on the NCLT 1 list against the requirement of 50%, and that too well ahead of schedule because RBI has given a window till March '18. And we had made this provision, as you know, fairly early, in June itself. So on NCLT 1, 2 accounts is already at 51%. And on NCLT 2 accounts, the remaining 7, again, we are ahead of schedule of the provisioning and that quantum is 43% on the aggregate funded exposure in the subsequent NCLT list 2.

I will move on now to other parts of the bank:

On overall liquidity coverage ratio, as you know, the LCR maintenance regulatory requirement is 80%. YES Bank's daily average LCR was at 96.3% in this quarter of December, reflecting an overall fairly healthy liquidity position. The rating profile has continued to be strong, unchanged. Social media, overall ranking of the bank is fairly well intact and very much at the top amongst global banks in the world. In digital banking, we are making outstanding strides. We continue to be ranked since inception on merchant payments for UPI with 75% market share in December 2017 and our overall UPI market share is at 15%.



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To add, YES Bank's UPI transaction count has increased by 33x in the last 1 year from 0.65 million transactions to 22.4 million transactions. And this is a reflection of our frugal innovation payment systems which the bank has developed in-house and taking full advantage of the India public stack. And our digital banking team is leveraging this to become one of the foremost players in our country in frugal payments. YES Mobile has had over 3 million transactions worth over 50 billion in the fourth quarter which also is a significant increase both in value by 6x and volume by 3.5x year-on-year. We have also gone live on yet another significant IndiaStack enabled, Aadhaar Enabled Payment System in partnership with a new age startup, promoted by an ex-YES banker. And this has enabled us to cater to 2,000 business correspondents for Aadhaar-based cash withdrawals and cash deposits. And this is a very high growth area for building our more granular deposits and payment businesses.

One very interesting and significant development in terms of enhancing our overall customer experience and deepening engagement, while concurrently aspiring for higher productivity and efficiency as per our digital banking strategy. We launched YES ROBOT. We launched the website in December. But we launched with a very successful response of 1.2 lakh customer queries in a span of 3 months since October 2017 when this was first launched. The website was launched in December 2017, but the robot was launched in October 2017. It is India's first AI-enabled banking bot that offers banking assistance, such as funds transfer, check balances, recharges, bill payments and answering questions on FAQs of users. It also provides GPS assistance to locate the nearest YES Bank ATM branch and is accessible from the Facebook Messenger and the YES Bank website.

A couple of more points before we move on to questions:

The employee strength stood at 19,276, flattish compared to a year ago. Network of branches at 1,050. We are fairly well now vintaged with our hub branches, 180 hub branches nationally and need to grow only spoke branches largely and very limited hub branches going forward, at least for the next 1 or 2 years and we believe that the model that is emerging increasingly in our bank is digital and growing quite rapidly in terms of customer acquisition as well. Overall, in a year's time we have increased the number of branches by 86 compared to December 2016. We also signed a very significant transaction, one of the big pending ones, with the largest developmental financial institution, the European Investment Bank a \$400 million co-financing program for renewable energy projects in India. We also raised \$400 million of syndicated loans from relatively nascent markets for Indian risks, like Taiwan and Japan, where we did a tranche of \$250 million and fund \$50 million respectively. Further, YES Bank has also committed \$5 billion towards solar financing by 2030, and \$1 billion of which we wish to achieve by 2023 for financing solar energy projects. And this is part of our commitment towards, not only COP21, but also towards the International Solar Alliance, of which we are a meaningful part. We have also been a sole arranger for India's first social bonds apart from having engineered and pioneered green bonds in India in, I think it was February 16, 2015, if I remember right, on a Monday, when we did India's first green bond of 1,000 crores and we have done a few thereafter.



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So we have done India's first social affordable housing bonds and are working on some other new product offerings such that our DCM practice can grow on product innovation-driven debt mandates.

We are also the first institution, the first company, not only bank, to actually establish an MTN program on the Global Securities Market of India International Exchange at GIFT City, Gandhinagar. And this is part of our USD 1 billion MTN program for which we are in reasonable preparedness. Early to say, but we are in reasonable preparedness to get this program going sooner than later. Our YES FINTECH program, which is one of the most innovative in Indian banking, has more recently unveiled its second cohort, which is from an overall application base of over 500 applicants from 10 countries and we have shortlisted 8 companies as part of the second cohort. And one or two important recognitions; we were recognized as the Bank of The Year for 2017 by The Banker magazine, which, as you know is part of the Financial Times Group, the rank one banking magazine in the world. And this is the second time in the last 3 years, very demanding 3 years, that the bank has been ranked twice as the number one bank in India by this leading publication of the Financial Times Group. Rest of our recognitions are self-contained and explanatory in our press release and in our analyst note.

We open this now to questions, which I am sure are going to be fairly abundant. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Sir, firstly in terms of margin. This quarter obviously you have highlighted a twofold impact which has been there on margins. But looking at the way overall mix is also changing in favor of A and above rated category, there is improvement in that overall mix, plus the interest rate movement which has been there. How do we anticipate? Like initially, we were targeting around about 4% margin to come through. So do we still envisage that kind of guidance?

Rana Kapoor: Kunal, as you know, the temporary slippage in our NIM is on account of two reasons that have been specified. We are very clear that given the trajectory of our CASA growth, rank one, and this had been amply demonstrated over the last 2 years, as I mentioned, that we already have in 9 months 4.7% improvement in CASA over the corresponding period and are well on track to achieving 40% CASA well before September 2018. By September 2018 definitely, it could be even earlier but well before our original target of March 2020. So if we get to 40% CASA by September 2018 which is give or take only 3 quarters away, you can well assume that we will be somewhere between 43% to 45% CASA by March 2020. So to me, the biggest contributor of improvements in NIM is going to be rank one CASA. Rank 2, I do want to highlight that the SA part of our CASA which is roughly about 65% of CASA is the SA part, has fair amount of stored value. And as you know, the stored value is in our SA rates of 6% with the larger banks or the largest banks offering pretty much around 3.5% at current levels. So it is to be assumed, at some stage we will unleash the stored value and this will be yet another CASA-related contribution to



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improving our NIMs to minimum 4% by March 2020. A third factor which is extremely important objective because we are still buying and there is a dispensation, as you know, the PSLC program, under which we are buying some of our PSL requirements, we are working towards making this more and more self-sufficient, more and more organic and this is a very high priority of some of our leaders to make this more organic so that we do not incur a higher cost in meeting our quarterly PSL obligations. And this, in itself, this cost reduction will also contribute towards taking NIM trajectory towards 4%. So these 3 are the predominant factors which lead us to believe that we will achieve our uncompromising objective of 4% NIM by 2020, if not sooner.

Kunal Shah:

Yeah. And secondly in terms of growth, so phenomenal growth of 15% quarter-on-quarter, we have not seen such kind of a growth except for seasonally Q4. So obviously, you highlighted in terms of the confidence. But we are not seeing any major mix change in terms of the overall be it the Corporate, Retail or SME. So first is how much do we see this growth being sustainable? And secondly, whether do we see any kind of a major shift in the mix which we were highlighting in favor of Retail to come through over a period?

Rana Kapoor:

See Kunal, basically we don't think 46% is going to happen every quarter. But we think there is a period and there is a window that the bank has right now given a strong capital position to be able to grow, considering that there is credit growth lurking. And there are opportunities which are available to a bank like ours which were hitherto not available. We are now a bank with capital funds of 43,600 crores, which would put us in the top end category, in the top 10 banks in the country quite easily, and therefore the opportunity for a bank like ours to grow with groups, the top groups in the country where we have been a marginal player in the past. So we have seen growth with RIL. We have seen growth with groups like Tatas. We have seen growth with even the Aditya Birla Group. So a lot of our growth is coming in the upper end customers and which is a golden opportunity for a bank like ours to tap. Secondly, as some of the, let us say, unproductive capital assets which have been locked in for reasons known to all of us, as they become productive with accelerated steps under NCLT, IBC/NCLT, as we saw an illustration, the response on Binani for example. So we do expect that the next few quarters, I would say at least the next 5 quarters, till March 2019 at least if not beyond that, to provide a lot of opportunities for providing priority debt, for providing fresh lending structures and opportunities to some of these assets where there is considerable value preservation and therefore to make them more productive without taking Greenfield risks. This will be at most brownfield with some additional balancing CAPEX to get them going. So I think the environment for credit growth is very attractive and our bank is reasonably well conditioned, at least on the corporate growth side and in all our businesses, all our corporate businesses, including our medium businesses, emerging corporate business, corporate banking, corporate finance businesses, multinational banking included. However, to answer your main question, we don't see this altering our objective. Our objective will continue to ensure that by March 2020 that our retail banking businesses/branch banking businesses, which are presently at 32.3%, that this number continues to be hardwired to achieve 40% by March 2020. And as I mentioned in my

commentary earlier, that some parts are actually also outgrowing. Some part of these branch banking businesses are actually outgrowing the corporate growth. For instance, the more granular and the most important part of secured lending part of Retail banking, that has grown quite meaningfully. It has more than doubled in a year's time in absolute terms and has grown by roughly about 3.2% from 8.6% of the overall composition mix to 11.8%. We also are planning with the overall corporate revival. We have also seen some momentum acceleration in our small and micro businesses lending. And we will see some pickup, I am sure, even in the medium enterprises of MSME, which have been somewhat flattish to somewhat slower growth compared to the overall. So I think the objective remains at 40% of the overall composition with Corporate at 60%.

Moderator: Thank you. We have the next question from the line of Mahrukh Adajania from IDFC Securities.

Mahrukh Adajania: Sir I have 2 questions. The first one is on your Retail loans. So most of the growth would be priority compulsion driven or it is because of the growth strategy pursued and is also priority?

Rana Kapoor: I will request Pralay Mondal to answer this, please.

Pralay Mondal: Yes. Pralay here. So as you rightly said, obviously the Retail part, by nature will contribute significantly to the private sector lending. Having said that, the focus is not to just grow priority sector lending to build the Retail. Priority should come as a by-product of the franchise growth, which we will have, and there are 13 products in Retail and some of the businesses which we do in the SME part, of course, there is a focus on priority sector. And one more product, which you have launched, one more product line, I will say. We have launched 3 products in the product line, which is KCC small finance and that tractors and those kind of businesses, which will be purely for the agri kind of lending on the priority sector lending. So we are very clear that some part of the businesses we have launched for the priority sector. Some is to grow the book and ultimately building a retail franchise. Retail franchise because our branch customers are slightly on the higher end and quality of the customer base is very good, we have to offer them products, otherwise the CASA itself will not grow. So if it is a composite strategy, what is the by-product you will see; granular, priority sector lending will automatically show up in the book, which you are already seeing probably in the last few quarters.

Mahrukh Adajania: Would there be any breakdown on the consumer book, say, CVs? And how much are the products? I mean, any such rough breakdown?

Pralay Mondal: I think that breakdown is given, but if we look at it, CVCE is of the retail assets book, it's around 25%. CV is the LAP business, and auto 2-wheeler, all of these are more or less constitute to almost 70%-75% of the book. And rest, all of them put together is around 25% to 30% of the book. Having said that, as we mature, some of the businesses like affordable housing, and going into 2020, some of the other housing products as well as when our cost of funding starts getting more competitive and our tenure of our funding also becomes good for these kind of products. We will continue to grow because, obviously home loan is 50% of the retail, we cannot ignore



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that. But at this stage, almost 65%-70% of the businesses is on the secure side of the business right now, not only secured, primarily between CVCE, LAP, auto 2-wheeler business. And 2-wheeler, we only do the premium business. We don't do the 100cc and those kinds of bikes.

Moderator: Thank you. We have the next question from the line of Dhawal Gada from Sundaram Mutual Fund. Please go ahead.

Dhawal Gada: Couple of questions. Could you comment on the pace of CET1 capital consumption? And in your assessment, when will the bank need to raise next round of equity capital? And the second question is couple of quarters ago, you did indicate some concerns on high-tariff power PPA exposures. Could you update us on the same? And if you could specifically comment on the renewable portfolio that the line has? Thank you.

Rana Kapoor: Dhawal, thanks. One, I think on the capital consumption, overall if you see the capital adequacy is more than adequate at 19.5%. Overall, Tier-1 ratio, as you know, is 14.7. The CET1 is at 10.7%. And as you know, we also have a dividend policy in so much as we retain about 80% of our PAT. So you can pretty much iterate that we are reasonably self-funded for about roughly about 17% to 18% to even 20% of our growth. Up to 20% of our growth, we are actually self-funded. So we don't see any rapid, let's say, usage of our CET1 which is an important number to look at. Two, on capital raising, it is a little bit too early. We have had a very successful raise of \$750 million in March 2017. We did a very good perpetual bond issue of 5,415 crores at 9%, which, in retrospect, looks like a very good deal, considering that yields on that bond are somewhere between 9.35% and 9.40% now. And we also did 4,000 crores of Tier-2 at 7.8% the market for which is hovering presently around 8.4% to 8.5%. So there is enough capital stock available in the bank, including retention. We will discuss a capital raise in our board meeting in April 2018. It is a bit early right now, but the bank has proven and I want to highlight this point that a young bank like ours, which is fairly medium-sized now, medium-sized as in the large category, could raise literally in 2 days' time 5,415 crores with a AA rating of perpetual bonds, which is the single-largest issue done by any bank in India on any single AT 1 issuances. Banks have done them in tranches, but this was the single biggest. So perpetual bonds, as you know, are also going to be part of network under IFRS, which is coming into implementation from April 1, 2018. So we don't see any immediate rationale for raising money. But the bank, as in the past, will be instead of preparedness and we will discuss this in our year ending board meeting in April, whether we are targeting a capital raise and I will come back to you earliest on this in April. I think the second point is that, yes, there were some concerns on high priced PPAs in the solar and wind markets, particularly in solar, which was part of the incentivization given by state governments to encourage alternative energy sources. And I think that risk, which was getting active through some state activism 6 to 9 months ago, when we got a little concerned and we put a pause button on this portfolio, after in-depth reviews at both center level with leading agencies as well as with some of these states which were discussing this issue. I think we are of the view now that this risk is significantly mitigated. And I don't think this is going to cause any major concern because contractual frameworks, I think, Supreme Court decisions more recently

in the context of 3 power projects in Gujarat have proven that contractual frameworks cannot be disturbed, that is they are irrevocable. So I think we feel and believe that this risk is far mitigated. And two, there is a correction we have seen in the overall pricing of solar power which had sunk quite dramatically. We are seeing some levelization happening in the overall pricing which means more bankability and more solidarity. And there is lower cost capital also coming into the country to generate. There is a lot of interest in Indian solar industry right now. So overall, I would say what we were thinking of moderately high risk is, today, low to medium risk.

Moderator: Thank you. The next question from the line of Swati from East Capital. Please go ahead.

Swati M: I just wanted to quickly ask about the repayment with respect to the RBI divergence. So of the 65 billion, around 20 is now repaid. And how much would be fully repaid? And do you guys track the source of funds from which the repayments are made? Because my understanding was RBI does need proof that the repayments are coming from operational sources and not borrowings.

Rana Kapoor: So I will request my colleague, Ashish Agarwal, our Chief Risk Officer, to answer this.

Ashish Agarwal: Swati, with respect to the repayments that have happened on the RBI divergence cases, a couple of them actually have seen change of management. And once the change of management has happened, the new management has chosen to kind of completely repay the loans and those are the two loans which have been fully repaid for us. The aggregate outstanding against these loans were close to 900 crores to 1,000 crores. In the other situations, where we have seen repayments, it is basically an improvement in the underlying operating cash flows which is where we have seen certain prepayments, which have happened to us. In few situations, the underlying projects have become, what should I say, have been generating better cash with the pickup in the underlying traffic. One of these was actually a road project, which has resulted in repayment. So overall, I think it is basically a combination of strategic events which have happened in the underlying projects, the monetization of events that have happened. So in certain situations, there were impending monetization events, where the underlying promoter's group was looking at monetizing a few of their "group non-core assets", which unfortunately had got delayed in the first 6 to 9 months. Those events have got rectified, which is where we have been witnessing repayments.

Moderator: Thank you. We have the next question from the line of Manish Karva from Deutsche Bank. Please go ahead.

Manish Karwa: My question is on the corporate fees which have grown very fast. A, what is the nature of these fees? And under IFRS, would we see a significant impact on these fees? And a related question, some margin impact, is it also because of the structuring that we do in terms of getting some fees upfront, which may be a better cash flow thing from a bank perspective?

Rajat Monga:

So Manish, the corporate fees naturally has benefited from the sheer growth that has happened in this particular quarter. So there is about a high teens of sequential growth in the corporate book, so that has logically resulted in the corporate fee also doing better. In terms of IFRS, the treatment would be to the extent that where there is, let's say, a whole strategy of the loan, the corresponding fee will get amortized. And the part of the loan where there is a distribution strategy and there is, let's say, evidenced pricing which is also equivalent to our pricing, that fee on the loan will be also recognizable in the current period under IFRS. So it is of the same nature that we have been discussing in the past as well, where there would be a portion of our fee. And my guess is it will be, let's say, still a guess about 40% to 50% of our fee may be subject to amortization under IFRS. And, so will the reporting period also reflect the past amortization in of the earlier fees. So what will IFRS will be showing is the difference of these 2. One is the deduction or deferment of fees and then the addition of the amortizing in of the past fees.

Moderator:

Thank you. The next question is from the line of Rakesh Kumar from Elara Capital. Please go ahead.

Rakesh Kumar:

Firstly, a question is on margin. So if you see like there is an improvement in CASA number, that is quite good. But there is an increase in the credit risk weight and overall risk-weighted asset also, but still we see that. And credit to deposit and borrowing ratios, so that has also increased a lot but still the margin number is coming down and credit yield is actually down sequentially quite significantly. So what is the reason for that?

Rajat Monga:

So I do not get the question very well, but I will try and answer the linkage between the mix of our business and margins. So like Rana was explaining earlier what would have happened in the last 3 months is that we have taken a significant raising of additional Tier-1 and Tier-2 capital. Almost 10,000 crores of funds have been raised from this source. However, this source is an expensive source as compared to deposits. So what you have seen is basically that instead of us raising deposits and also therefore showing possibly lower loan-to-deposit ratios, we have, for capital planning reasons, have raised borrowings in the form of hybrid and subordinated instruments. Unfortunately, those borrowings are also high cost. So while what you should see is that the credit deposit ratio going up should increase margins, but in our case, credit-deposit ratio has not gone up by loans replacing investments. In fact, it has gone up by borrowings replacing deposits. So in fact, that has hurt margins and also mathematically will not help margins. The other part of your question was also on the loan yields. So loan yields, if you will look at these last few quarters of our trajectory, we are seeing about 20 basis points fall in loan yields almost every quarter. This quarter is between 30 and 40 basis points. It is also because the new growth is reflecting a little bit of a lower risk and therefore also lower pricing, which is showing up in terms of the loan yields falling. We have also begun the journey of raising our NCLR rates as well. After a long time, the NCLR rates were increased on 1st of January by 10 basis points, so that is not the Q3, it is Q4. So some of that is also going to reflect in betterment of margins. Hopefully, over the next couple of years, what will also show is that, so far we have built CASA in a falling interest rate environment. So we have not got the maximum benefit of

CASA in terms of value. So if you see, if our loan deposit ratio is 100%, if rates go up and if we are able to price our loans higher because a substantial part of our loan book is a floating rate loan book, CASA will not go up. And CASA now is nearly 40% of our deposit book. So as the rates go up, we will also be able to mathematically add to margins in the process. I mean, it will come a few basis points possibly every quarter. It will not come all in one shot. So if, hypothetically, interest rates go up by 1% and let's say we are able to also transmit those rates to our borrowers. So only 60% of my deposit book goes up in terms of pricing. Possibly 90% of our loan book goes up in pricing, but CASA does not go up. So that, itself, will give me 30, 40 basis points of added margins for every 100 basis point, let's say, pass through of interest rates, if interest rates go up by that trajectory. So I think it is a complex sort of give and take as far as margins is concerned. And naturally, as growth builds up, that also puts pressure. Leverage also puts pressure on margins. As CASA goes up, it will improve margins. As we become more and more self-aligned on PSL, it will improve margins. If we take more and more lower-risk business, it will hurt margins. If we add to more of the investment book, investment book is also not the most highly priced, that will also hurt margins. So it's a complex mix and we will have to weigh those into also the opportunities that we are seeing today. Like we were discussing earlier on the call, a lot of the opportunities today are coming because there are refinancing, there are assets changing hands in the economy. These are opportunities which will come only in this period. I mean, a year later, they will all be gone. And we will be looking at then more greenfield type of financing which is not always the sort of the best go, it is well yielding. So I think it is summary of all of this which we are saying is hopefully that we should continue to see a trajectory of improving margins, but not every quarter can be put on that sort of straight line. However, the underlying trend continues to be margins will be structurally improving. And as we approach 2020, we should also be able to publish margins which are as much as 4%. Sorry, long answer.

Moderator: Thank you. We have the next question from the line of the Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: One data question, the total amount of contingent provision and a question to Pralay to kind of elaborate how the overall savings pool in terms of salary, non-salary accounts by value, by number of customers. And any thoughts on the cross-sell ratios?

Rajat Monga: So before Pralay, I think the answer on contingent provision is a nonsignificant amount, and now they are mostly related to either NPAs or they are related to those special mention assets in terms of the various categories like S4A or SDR. So there is an insignificant number on top of that. So Pralay on the question on...?

Pralay Mondal: Yes. So if we look at inter-retail franchise adding customers, there are 3, 4 segments which are adding customers. One is, of course, as is rightly said, savings and current account. The second segment is the retail assets also do generate customers who are not necessarily coming through the CASA road, but they eventually go through the CASA road. The third segment of customers are again the SME segment of the customers who obviously has to have a CA but not necessarily

will have a CA first. So through that, should we get customers. And fourth one, of course is credit card because I'd always say that, at the highest end of the credit card segment, we will have customers. And because they will be the highest end will also acquire the savings account along with that. So if you add all of this together, we are adding almost close to around 1 lakh customers every month. And the good part is that we are not focused on adding number of customers, but we are focused on saying that what we do with these customers. Because unless the customers have a certain profile and cross-sell ability, then there is no point having those customers. So we do track whichever route they are coming through, whether it is credit card or CASA or retail assets or SME and then we track how are we cross selling to those customers. Also, we have securities, our subsidiary which is YES securities. They have also now 3-4 very attractive products and we are able to process those products also there. So I would say that we are doing extremely well but the cross-sell ratio does not work when you are adding so many customers every month because incremental number of customers on the denominator is very high. And even if you are able to cross sell and retain a cross-sell ratio, where we were, are slightly improved, then also it's a good job done. Because on a vintage customer base we will cross sell. So from that perspective, I think that is the cross-sell answer. Quality of the franchise, we have the best median and mean on the savings as well as current. And there are a lot of other leverages we are getting through them, whether it is assets, whether it is trade, whether it is FX. We are also getting a lot of customers on the NR side. So when you look at all of this together, we are building a very good quality franchise and hence we are not focused on number of customers. We are focused on quality of the customer franchise, which reflects in our CASA growth and the mix improvement.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will take our last question. That is from the line of Sandeep Jain from Birla Sunlife Insurance. Please go ahead.

Sandeep Jain: Just one question in terms of security receipts. So what kind of provision has to be made in that? Or is all the provision has been made in that? And I think there are 2 types of provisions in the security receipt. One is your NAV related, and another is your aging related kind of. So if you could highlight on that?

Ashish Agarwal: So, Sandeep, effective 1 April 2017, the RBI guideline very clearly say that if you are making a sale of an asset to an ARC, then irrespective of the sale and the MTM, from a provision perspective you have to treat that account as if it was on the books of the bank. And that the aging has to be calculated as on the date of sale assuming that had it continued, what would have been the aging of that particular underlying asset. That is one kind of provision that you need to make. Irrespective of that, if the MTM or if the NAV as given by the ARC is lower than the net book value after the provision, then you need to make additional provision. But for all the assets which was sold prior to 1st April 2017, the provision requirement is effectively you have to mark it to the NAV, which gets published by the ARC. And so depending on the what the NAV is, you need to mark-to-market the security receipt.



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Moderator: Thank you. Ladies and gentlemen, that was the last question. I would like to hand the conference over to Mr. Kapoor and management team of YES Bank for closing comments. Thank you and over to you.

Rana Kapoor: So I want to thank you very much for hosting the call, and our thanks to all the participants for listening in patiently to our commentary and our answers to the questions. I will hope to see you again after the next quarter results. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of YES Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.