



“YES Bank Limited Q1FY18 Results Conference Call”

July 26, 2017



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Moderator: Ladies and gentlemen, good day and welcome to the YES BANK Limited Q1 FY'18 Results Conference Call. We have with us today from the management, Rana Kapoor – MD and CEO; Rajat Monga – Senior Group President, Financial Markets and CFO; and Pralay Mondal -- Senior Group President, Branch and Retail Banking. 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. In case 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. Thank you and over to you, sir.

Rana Kapoor: Thank you very much for the introduction. Good evening, ladies and gentlemen on the call. In addition to the top management who has been introduced, I also wanted to mention that we have at least another 15 to 20 leaders, top management leaders of the bank as well on this call so that they also get an opportunity to interact with the valued investors and analysts on this call. So we have taken the liberty to invite a number of people as well.

So before I comment on our "Financial Results", I am very pleased to share with you post the board meeting today. The Board has decided for 5:1 stock split, something that was being contemplated for a while, but based on retail shareholder demand, we have taken this decision. Naturally, this will now be referred to shareholders and Reserve Bank of India for further approvals. So this was one big development I thought I should share this with you upfront.

On Profit & Loss Outcomes, as I am sure, you would have seen from the analyst report which we have forwarded to you that we have had a fairly satisfactory quarter, a quarter which is being marked by improvement in our Retail growth, also underscored by sustained CASA improvements which have taken place and our Corporate book continues to grow as well. So by and large, we are seeing growth across the board and therefore we have recorded PAT of Rs.965 crores or Rs.9.65 billion, which reflects an increase of 31.9% Y-o-Y. Net interest income for this quarter grew by 44%. So it is one of our best quarters ever which too has been contributed by an expansion in NIM... NIM has expanded further sequentially to about 3.7% compared to 3.6% in the preceding quarter, and I am sure there will be questions on the break up and we will wait for the questions later. Non-interest income this quarter went up by only 17.8% despite fairly attractive increase in overall retail fees, particularly fee related to direct banking, but we have had a fairly subdued corporate fee outcome comparatively speaking and I can elaborate on that little later as well. The total net income of the bank went up to Rs.294 billion in the first quarter reflecting a growth of 32.7%. Operating profit went up by 30.4% and overall shareholder ratios, overall productivity and efficiency ratios looks fairly satisfactory with RoA at a stable 1.8% and RoE has fallen to 17.4% because of the capital raise that we did towards the end of March and is fairly satisfactory even then at 17.4%. The book value of the share is creeping up nicely; it is at 489.3. So it will be no surprise that we are well past 500 when we speak to you next quarter sometime in October.



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On key balance sheet data, we have seen fairly robust growth with improving CASA and improving capital ratios. On total assets as we continue to emerge as a large bank, we touched Rs.222,145 crores, so which is about Rs.2 trillion, Rs.222 billion.

This quarter was also fairly important from a deposit milestone standpoint in having crossed a milestone of Rs.150,000 crores in deposits, the first time in our life cycle, so overall deposits grew by 22.6%.

The CASA ratio which as you know has been growing quite steadily pre-demonetization, and most definitely, with the advantages of demonetization, it has accelerated a fair bit, now stands at 36.8% reflecting an increase of 7.2% compared to last year, which is a single biggest increase we have had in any single year since inception of the bank approximately 13-years ago, and overall CASA has increased by 52.2% Y-o-Y. CA and SA within that have increased by 66.6% and 45.8% respectively.

Another important deposit ratio which is CASA plus Retail FDs is also marching forward, now stands at a fairly respectable 61.8% as we have shared with you in the past. It is our target to get this composition of CASA plus Retail FDs to a level of around 70% by March 2020. So we are very well on our way to achieving this fairly significant milestone, and this represents an increase of 6.5% over the previous year.

Moving on to the Lending side: Our Advances grew by 32.1% and are fairly close now to Rs.1.4 trillion, stand at Rs.1,39,972 crores on the back of, as I mentioned, fairly robust Corporate and Retail growth including Core Retail businesses which have grown by 166% Y-o-Y.

Overall, our capital adequacy actually improved sequentially to 17.6% and total capital funds of the bank now stand at Rs.32,541 crores. The Tier-1 ratio and the CET-1 ratio expanded by 50 basis points compared to March '17 to a level of 13.8% as in Tier-1 ratio and the CET-1 ratio improved to 11.9%. So it is a fairly important increase of 50 basis points compared to one quarter ago, having raised approximately Rs.50 billion on the very last day of the last fiscal year.

The RWA of the bank stood at Rs.1,85,221 crores and the RWA-to-Total assets ratio is presently at 83.4%.

As I move on to our overall asset quality, I do want to reinforce a message that we had conveyed with fair amount of conviction when we declared our annual results for fiscal year ended March'17 on the 19th of April. You will recall that we had mentioned that there is a very high conviction in the bank that we will have meaningful recovery in one extraordinary account, which had adverse impact on the bank in our results in March. I am very-very happy to share with you that we have had 60% recovery in this account and there is approximately another 15%-odd which is going to stagger into July and August on this particular account, and by August, our recovery on this account should be almost 75% of the total NPA that we had booked on this one account of Rs.9.11 billion in the previous quarter.



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The credit cost for this quarter was 18 basis points which is in sync with the management credit cost guidance of 50-70 basis points for the year '17 and '18, which we had indicated in the April results meeting. This is despite the fact that there has been no reversal and no benefit whatsoever of the provision reversal on the one extraordinary account which has been retained in conformance with the regulatory requirements. So we have a situation where we have almost Rs.2.27 billion provision on the residual sustainable exposure which is left on this one extraordinary account, and therefore this is a very significant buffer on that particular account.

Moving on, our gross NPA ratio improved quite drastically to an overall level of 0.97% which equates to an absolute number of Rs.1,364 crores and net non-performing assets number came down to a very respectable 0.39% reflecting an absolute amount of Rs.545 crores. So these two numbers look fairly good after what happened to us in March.

As I mentioned to you that we have recovered roughly 60% on this one extraordinary account classified as an NPA. The NPA classification remains on this account and therefore it is part of our gross NPA and the provisioning on this account on a blended basis is approximately 58% effectively, and as I mentioned that there are some time-bound recoveries within this quarter, partly it has already happened, and slightly bigger tranche and the final tranche of this is expected in August.

Our overall provisioning coverage ratio has come back to our target levels of 60% which has been pretty much normalized provisioning coverage ratio for the best part of the last few years. So we are back at a respectable 60% and we do hope to maintain it at minimum 60% going forward.

Standard restructured loans stand at 0.24%, which is basically Rs.331 crores with no additional restructuring during this quarter, and one small account in the road portfolio which is very small, 0.07%, actually was upgraded during the quarter from restructured to standard asset due to satisfactory conduct during the prescribed period by RBI.

The next component of stress asset which is security receipts stand at 0.69%, which is Rs.977 crores, and in this quarter, we have had no sale to an ARC.

Next point is on standard SDR exposure which stands at 0.2%, and the absolute amount is Rs.287.4 crores and here too again, we did not have any further additional account which was restructured through SDR in this quarter.

On standard 5:25 refinancing exposure, we are all of 0.1% which in absolute terms is approximately Rs.139 crores and standard S4A exposure is almost negligible at 0.01% which is all of Rs.18.9 crores, and there were no additional accounts which were financed or refinanced either under 5:25 or under S4A during this quarter.



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One very significant development I wish to report to you is basically as you know, there were 12 systemic NPAs, sticky NPAs, large NPAs above Rs.50 billion above Rs.5,000 crores which were advised by a regulator on June 30 under the newly enacted Insolvency Bankruptcy Code (IBC) for the lead banks to refer after consultation to the NCLT. I am very happy to report that YES bank has only two outstanding accounts as part of these 12 accounts and our exposure to these two accounts is all of Rs.343.3 crores, so really very small even by our standards, and these two accounts are yet to be admitted into NCLT, but despite that, we have proactively decided to create a provision of 50% on both these accounts even though they are fully secured, they are standard as of June 30th and in conformity with the regulation, we have decided to proactively create this provision even though the regulator permits has a prescribed timeline of up till March 2018. So there is no follow-on impact of any of these 12 accounts, we have only two in the rest of the year considering that we have absorbed the overall provisioning in one quarter itself in this quarter.

I just wanted to elaborate also a little bit on the overall provisioning in this quarter which was Rs.286 crores and the breakup of that in anticipation of this question coming up is basically that the NPA provision was about Rs.158 crores, the anticipated proactive provision on these IBC/NCLT accounts is approximately around Rs.94.6 crores, the GLL provision was Rs.31.6 crores and miscellaneous was a very small number of just about Rs.1.2 crores.

I also wanted to highlight one other important aspect that when you look at the sigma of all our stressed assets, the gross NPAs and SDRs as well as security receipts, this as of March stood at an aggregate of 2.24%, which has been reduced to 1.63%. So there is a very sharp reduction of almost 60 basis points in one quarter itself and it is our endeavor to steadily reduce stressed assets including our investments in security receipts naturally over a period of time to bring down to the restructured low levels as well and continue to manage overall credit costs within our guidance of 50-70 basis points.

On Segmentation of Advances, basically our corporate book continues to dominate at overall 68.1% and our Retail and Business Banking which is predominantly our micro and small medium enterprises book, while it is growing in some parts, particularly, the Core Retail is growing rather well, is still just around 31.9%, so roughly less than about a third, but this is an area where we have had some slowdown in the MSME book, we have had some slowdown in the medium enterprises book, but overall, the Core Retail book is shaping up quite well and we are seeing a fair amount of momentum build up there.

On sensitive sector disclosures as we have done in the past we wanted to share that electricity being one of the protracted sensitive sectors in the economy in the last two or three years, our exposure as a percentage came down from 11.3% as of end of March to 10.6% as of end of June, and within the electricity portfolio, I would like to share the breakup which is basically "AAA" and "AA" rated investments are about 0.2%, transmission and distribution which is generally the good exposure is about 1.4% which has come down from 1.6% in the preceding quarter, renewable exposures which have always dominated our electricity exposure is presently at 4.9%, so almost 5%, around which 2.8% of this is operational and non-renewable is at 4.1%, which is



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practically entirely in operational, conventional energy projects. So this portfolio is fairly satisfactory. But as the strategy, we are proactively de-risking electricity and we will continue to do so at least for the next three quarters till we see tangible improvements particularly in the conventional energy portfolio.

The second sensitive portfolio which has been hanging in the system for quite a while is Iron & Steel. This as a percentage of our overall portfolio is roughly 1.9% and 1.4% of this 1.9% is 'A' and better rated. The one single NCLT account which is the predominant account out of the Rs.3.43 billion I mentioned is from this particular sector. So this differential between 1.9% and 1.4% 'A' rated actually factors that one particular account.

The third sensitive sector which is actually improving quite steadily is really the EPC sector. I do not think we should report this anymore because we have seen significant improvements driven by enhanced CAPEX in roads, in railways, we are seeing improvement in urban development spend by Government of India, the aviation sector included. So by and large, even the smaller EPC is seeing some improvement. But nevertheless, as an abundance of caution, we continue to reflect this as a sensitive sector, and this exposure is very much under control from 7.3% of our total portfolio, out of which approximately 5% is 'A' or above rated.

The fourth area which has been a matter of concern in the economy more lately with Reserve Bank of India also stipulating that boards create some provisioning policy with the telecom sector which we did promptly in our board meeting in April and duly reported that also in the April quarter. I am very happy to report to you that our telecom exposure which was at 4.9% as of end of March 2017 has actually improved to a level of only 3.9%. So there is a full 100 basis points improvement of telecom as a percentage of the total telecom portfolio, and within that 3.8% of the 3.9% is 'A' or above rated.

We had a concern and I am sure this was conveyed to you that we had one account which was a potential SDR. I am very happy that as of couple of weeks ago this account has been fully repaid by the group concerned and we have zero exposure to one of the weaker telecom companies and this was something that we took on as a challenge three months ago. So we have zero exposure to that particular telecom company. I am very happy that as we see that the bulk of our telecom exposure is actually to three of the four large telco groups in the country, and as I mentioned to you, it is 'A' or better rated. We are not concerned about telecom. Actually of all these four sectors, we are actually more concerned today with parts of the electricity portfolio. There is also some more detail breakup which is available in the analyst note which we have forwarded to you in terms of the breakup of telecom with 0.99% of the 3.9% being 'AAA' rated, the bulk is 'AA' rated, 0.58% is 'A' rated and only 0.09% is rated below 'A.' We have also in accordance with RBI guidelines dated April 18th made an incremental standard asset provisioning of 0.4% on these outstanding advances to the telecom sector based on our internal ratings, and this is naturally also factored into our overall provisioning coverage.



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Overall, our Corporate portfolio, more than 75% continues to be very well rated, 'A' or better based on our internal corporate rating metrics and we are fully seized with some of the challenges, and overall the complexion of this portfolio is getting better.

On sectoral distribution as we have reported to you in the past, our portfolio is fairly well distributed to particularly knowledge-driven new age sectors, very well segmented in the bank across all our businesses, not only corporate businesses, but including our MSME businesses and increasingly the same segmentation strategy is being adopted even in our Commercial Retail businesses. So by and large, the sectoral distribution is fairly balanced and is also part of the presentation that we have shared with you.

I am sure there will be some questions on overall asset quality. But I do want to mention that in the overall slippage during this quarter, the gross slippage was Rs.201 crores in this particular quarter and the breakup of that was basically Rs.128 crores, so that went into the Corporate portfolio. One very small account slipped into NPA from SDR and three accounts slipped into NPA from restructured during the quarter, but very-very small numbers, 0.03% and 0.03% in both cases. The small business banking book which is basically our loans to companies below Rs.150 million turnover had a slippage of Rs.20 crores, and our inclusive and social banking, which is a book that we have built on the back of our relationships largely through business correspondence quite akin to other banks, we also had some precipitation in this portfolio, and we had approximately 5% of this book deteriorate and that number as part of the overall slippage is almost 25% at overall of Rs.52 crores... and we can elaborate on this in the course of our Q&A.

So essentially, asset quality is back to normal at least we like to believe and as I mentioned to you, we have factored in the full impact of these two extraordinary IBC/NCLT accounts...the first IBC and then they become NCLT as you know in the sequencing.

Moving on to other aspects of the bank, the liquidity coverage ratio was at an overall level of 88.3%, which is our daily average liquidity coverage ratio compared to a regulatory requirement of 80%. Our rating profile continues to be fairly satisfactory; Moody's has renewed our international rating unchanged basis, and we are also in the process of getting a second international rating hopefully very soon which will qualify us for raising international bonds because international bonds require dual ratings.

On Social Media, the bank continues to outperform our peer banks in the country and also continues to excel as a bank globally. We have been ranked amongst the "Top Five Most Social Banks in the World" as per the league tables issued by the "Financial Brand." We are the highest followed global bank brand on Twitter with over 2.7 million followers and on Instagram with over 475,000 followers. We are also the second highest light global bank brand on Facebook with more than 6.8 million page likes. These are important data points because it is naturally the intention that as the bank's brand begins to resonate on these very important social media channels that we work towards converting them more and more because lot of these are sticky



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fan followings. We begin to convert them to new retail customers largely, and therefore, there is underlying methodology which has been implemented in the bank not only through the website but through some calling efforts to convert some of these to retail customers. So this is fairly important going forward.

On Digital Banking, the bank has overall 38% market share in the UPI ecosystem. I think we are ranked #1 and we continue to get this granular business. As I mentioned in the earlier press conference couple of hours ago that YES BANK is fully and positively exploiting the public stage but building frugal payment applications in-house largely on the back of the government's efforts to create more and more seeding through Aadhar, more and more seeding through mobility and building a number of public service applications as in Bharat Bill Payment System, actually, the UPI itself and also merchant transacting applications as well like BHIM for instance where the bank is gaining increasing traction.

We also as part of our YES Art Strategy, Art is as you know defined as alliances driven by relationship and technology. This is a very important facet of our growth strategy to how to build relationships not necessarily all through brick-and-mortar but increasingly through alliances with other partners who were very well engaged with the social media as well as with the eCommerce communities and with the messaging community as well. So this quarter, we had two important tie-ups -- One with Hike Messenger which I think is the second largest messaging service in the country as well as with Indus operating system to in a way catalyze more P2P and P2M payments with chat platforms including mobile top-ups as well.

There are quite a few other digital initiatives we can speak about those, our experts and leaders are very well I see practically all of them here, so I am sure there will be a few questions.

On some of the other fundamentals of the bank, I spoke to you on the 5:1 split. Our number of branches increased to 1020, total number of YES bankers increased to 20,850, ATMs are roughly around 1,800. But I do want to mention that in a certain special board meeting we had in May wherein we refreshed our remaining three-year strategy of this third phase of growth, we discussed with the board that our target for branches would get reduced from 2,500 by March 2020 to all of 1,800. So it is a fairly sharp reduction in the quantum of branches that we are planning by 2020. This is a very important disclosure that we want to bring it down from 2,500 to 1,800 by 2020. There are several reasons for that and these are not driven by cost or headcount, but they are driven by alternatives that are rapidly emerging in the digital space as well as through our centralized operations center that we are establishing in Chennai, which in many ways will substitute for branches through virtual banking, virtual relationship managers, virtual product managers and virtual service managers. So this is a very key decision and it is quite likely that we may not rapidly roll out ATMs, in fact, the well-performing ATMs may be converted to YES Smart and YES Xpress branches with no HR contact, purely driven by new age technologies and some of the ATMs roughly about 15% to 20% of the bottom-end ATMs may actually be shut down because we are finding that the way cashless transactions are improving as a data point in the first two months of this fiscal year April and May, cashless transactions have increased by



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29% in the first two months of this fiscal year... I do not have the June data but April and May, cumulatively they have increased by 29% compared to roughly around 13.5% last year. So it is almost like more than doubling compared to the corresponding period last year. So I think the less cash economy is really picking up and this is also reflected in increasing financialization of the economy, also reflected in our CASA, also reflected in mutual funds accreting significantly more and we have also seen after a long gestation period that even insurance companies are seeing better flows even in lean periods as in like typically the April to June quarter which is the leanest quarter even for insurance companies.

There are a number of other things: We signed up with Santander to become their major bank in India. Thanks to the effort of our international banking leader. We signed up with OPIC, the American government to do a second significant transaction of \$150 million for Women Entrepreneurship in India. We got recognized and this is the hat trick of sorts by FTSE which is the FTSE Emerging Index for the first time having entered the Dow Jones Sustainability Index two years in a row and having got "AAA" rating by the MSCI ESG a few weeks ago. So this is the third very significant entry into global indices reflecting on the bank's sustainability practice is one of the best in the world today.

In terms of a quality drive as we have been emphasizing in our small, medium and now, in a large phase, the bank's ambition and objectives to build a very high quality bank, the highest quality big bank in India and possibly by 2025, one of the finest quality banks of the world in India. In this respect, one more important achievement was that we got ISO 31000 compliant for our Enterprise Risk Management Frameworks. This is a very significant recognition reflecting on the emerging quality recognitions that the bank is getting globally despite being predominantly or rather almost entirely a home country bank.

We also tied up with the Entrepreneurship Development Institute of India which is acknowledged national resource institute for Entrepreneurship Education Research because we are partaking in Indian entrepreneurship with start-ups one and we are playing a key role in mobilizing YES FINTECH communities through cohorts and through even global alliances with accelerators in many countries such that we can create a FINTECH hub within YES BANK with YES BANK alliances around the world. This initiative has been brilliantly led by one of my colleagues.

In terms of global recognitions, I am very-very happy to report that in the Global Ranking of the Banker Magazine (world's number one banking magazine) owned by the Financial Times, we rose 129 places in the top 1,000 banks ranking to overall global ranking of 271. This is the single biggest leap forward we have had in any one single year and we are now in the world pegging order ranked 271. This is a very-very important achievement because this helps us tremendously to get correspondent banking limits with the top banks in the world to build global trade, sitting out of India, to get global remittances, nostro accounts and payment accounts, referrals by LCs, bid bonds, performance guarantees. So this stature is very important because this converts to business and is not only a good league table number two to appreciate.



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The second thing which was also something very important, The Forbes 2000 which captures the top 2000 companies of the world. We actually leapfrogged here by 493 notches to 1,239 having made a maiden entry only last year and now we are ranked globally at 1,239, I am given to understand that we are the youngest company, not only the youngest bank but the youngest company in the world to get into this banking of 1,239 in the Forbes 2000 Top Companies of the World. There are a few other recognitions.

I will stop here. They are largely captured in our analyst presentation shared with you.

With this, I, Rajat, Pralay, other leaders who are in this conference room, will take your questions. Thank you very much for your patience.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Mahrukh Adajania from IDFC Securities. Please go ahead.

Mahrukh Adajania: When you are naming this income, is there any one-off in the other interest?

Rana Kapoor: Actually, in the other interest income, there are no one-offs. If at all, as I shared with you, our corporate lumpiness this quarter has been significantly subdued. We do have treasury income of approximately Rs.200 crores. So that is the only one lumpy item. But besides that practically all the other corporate fee items are fairly subdued this quarter.

Mahrukh Adajania: But nothing in other interest number, because that seems to have gone up a lot sequentially?

Rajat Monga: That is because we have got the full benefit of capital funds in this first quarter.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss Capital. Please go ahead.

Kunal Shah: Sir, particularly on the power sector, so you also highlighted in terms of how it is distributed across the rating category, but when we look at most of the other banks in terms of the watch list, still significant part of their watch list is coming from the power side. So maybe as of now things are good but if we have to look at it from say next one to two years, how are we looking at the stress emerging on the power sector even for us and any watch list accounts in the power at the current level?

Rana Kapoor: Kunal, thanks for your appreciation. As I confessed that of the four sensitive sectors despite our reducing the overall concentration by almost 70 basis points in sequentially since March, we are concerned about the conventional energy portfolio, we continue to be extremely cautious and as we have reported that almost our entire conventional portfolio of 4.1% is fully operational, but we continue to monitor this very carefully because as you know there is a very significant drop in the overall tariff levels, they probably at all-time low, so naturally certain power projects may



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precipitate, so we are being cautious, we are on the lookout, we are not involved fortunately with two of the large ones in Gujarat who went through a bit of a bad patch more lately, but we are concerned that there may be potential activism by some of the states when it comes to power tariffs which have been locked in at very high rates. This is the concern I want to proactively share with you since you have flagged a very good question and therefore the bank is being very careful that tariffs which are at market levels which is presently let us say around Rs.2.5-3 to me are bankable but rich tariffs at some point I hope later than sooner will get questioned at a state level because some states are getting active in reviewing this high tariff PPAs. So I think there is concern on this portfolio, I am concerned going forward, we are proactively taking actions, we are not sharing this concern too widely.

Kunal Shah: With respect to the RBI's provisioning standard asset for say the stress sector, what we have done is purely on telecom or it is even done on the power sector side in terms of the incremental standard asset provisioning?

Rana Kapoor: We have basically got a board policy approved only for telecom very quickly after the announcement was made by RBI in April. So we have created 0.4% proactive provision on the telecom portfolio. But there is no specific provisioning as such on the aggregate power portfolio because as I mentioned to you that bulk of our portfolio is actually in renewable, that is an area where we have been building specialization and rest of the conventional portfolio is in operational at since. So we have not felt the need as yet to create any proactive provision on the overall portfolio.

Kunal Shah: Telecom, it is only on the loans or it is even on the corporate book which we would be having and purely on the loan book which is outstanding?

Rana Kapoor: Provisioning requirement will be only for loans akin to standard asset provisioning. They are all mark-to-market valuation. So they have their own ongoing provisioning.

Kunal Shah: In terms of margin guidance, we are seeing a significant scale up on the CASA and this quarter also because of the fund raising there would have been some benefit which we would have seen in the margin. So what are the sustainable margins which we are looking at going forward?

Rana Kapoor: I think if you look at our overall NIM at 3.7% and if you look at the overall sustainability of this, we have a reason to believe that 3.7% is definitely sustainable and we are very much on target to get to a 4% NIM as I mentioned in past media conferences and analyst calls, we are on target to get to 4% NIM by March 2020 and I tell you how it is going to come. The bank is extremely confident that it has the wherewithal to get to 40% CASA well before our April 2015 target of 40% by September of 2018. So in roughly five more quarters, we have a reason to believe that our CASA should ratchet to about 40% in these remaining five quarters till September '18 which would be about roughly 1.5-years ahead of schedule. So this is like one big contribution that I expect will help. Secondly, as you know, we have a fair amount of stored value in our SA. Our SA is effectively costing us between 6.1% to 6.2% and the trajectory as far as SA is concerned



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is that we should be gradually, very steadily being able to start reducing our SA interest rates not immediately but maybe when we get to an overall SA balance of let us say steady balance of minimum 25% to possibly even 30%. So we will refresh our SA rates gradually. So the stored value which should help at least 25 to 30 basis points as far as SA stored value is concerned. On the assets side as well, with a fair amount of green assets, with a fair amount of let us say transportation and logistics, very specific segments in infrastructure growing quite nicely in the bank and at the same time we are refraining from as I mentioned to you conventional sectors, we believe that our ability to raise infrastructure bonds will continue to sustain and that in itself gives you 1-1.25% advantage by raising SLR-exempt, PSL-exempt infrastructure bonds. So we will see every year give or take Rs.4000-5000 crores of infra bonds being raised which will contribute to our overall borrowings in the bank and naturally with long tenor. On the assets side, the in-house contribution of priority sector lending driven by both retail banking and driven by MSME and our rural retail banking, that is an area which is improving and I think it is still about meaningfully 18-24 months away from being able to fully manufacture, fully generate PSL in-house. Naturally as you know that any in-house generation of PSL is more market-friendly, it is more driven by MCLR rather than having to buy out participation certificates which are very lowly priced. So I think this is a very important asset-driven objective that our leadership and branch banking has to create more granular PSL, at the same time we want to be cautious because there is heightened risk particularly in the farming communities in the self-help groups. So there again we are moving more to JLGs where there is more resilience, the structure is better and more conforming and therefore we have to be steady and careful about how we build the PSL book as well because we cannot experiment with this book. But this in itself, the moment it becomes more and more in-house generated will also help our NIM. So on behalf of management I am very happy to share with you that we are 100% on target to get to NIM, 4% by March 2020 and we may even surprise you before that.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: Sir, in terms of your concern on power, can you help us understand why are you not really worried about the scheduled power part given that the same state have also cushioned the PPAs on that front?

Rana Kapoor: I did express that we are somewhat let us say there is heightened risk in the power portfolio and I at the cost of some repetition do mention that we have reviewed our renewable energy portfolio where there could be let us say new risk emerging and we are naturally trying to sell down our exposures where the tariffs may be high and keeping the well-priced as in like market-priced tariffs driven loans on our books. I think our conventional energy portfolio which as I mentioned to you is operational. There we are largely looking at a situation where we are reasonably well market priced on some of these loan assets. So I am not seeing immediate like threat to this portfolio but we continue to be cautious.



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Amit Premchandani: In terms of exposure to IBC-related accounts, can you share what is the exposure of the next 50 accounts which RBI has kind of given an indication to banks to move to NCLT post six months? Also, your views if any account moved to NCLT, does any of the bank has first right over the security or the entire security gets pooled together?

Rana Kapoor: I will tell you very honestly IBC or NCLT expert, but I do have data frankly to answer your first question which our risk management team has compiled. What we have done is in anticipation of let us say further actions under IBC heading towards NCLT, we have looked at literally systemic NPAs not only as of March '16 which is the current threshold date but also as of March '17 because March '17 therefore become more relevant to the overall let us say IBC cause as lead banks drive some of these processes. My point being that there are as you know the 12-accounts that have been referred are approximately Rs.1,90,000 crores and our number is all of Rs.343.2 crores and as I mentioned to you we have provided 50%. But when you start scaling this into the next lot of accounts which are also above Rs.5,000 crores which could potentially get referred to IBC/NCLT, we have analyzed that proactively, our number outstanding on those accounts above Rs.5,000 crores is all of Rs.290.4 crores which is 0.21% of advances. So our risk management department has given me this information and we have been working on it proactively because we know the writing is on the wall and this will happen sooner than later and then I go to the next level which is potential IBC/NCLT between Rs.2000 crores and Rs.5000 crores which is the external number is about Rs.28,000 crores and then I go to the next bucket of Rs.1000 crores to Rs.2000 crores which is Rs.12,150 crores and then I look at the debt of systemic NPAs to the level of Rs.100 to Rs.1000 crores, I looked at all these buckets, so these five buckets literally two of them being above Rs.5000 crores and potential for our bank which would go into this IBC is only Rs.290 crores. So we have sensitized this all the way across the banking system based on information available to us because this is in the public domain. So our downside is Rs.290.4 crores. I am glad you asked this question. It is only 0.21%.

Amit Premchandani: Finally sir, on the impact of the likely movement to IFRS on the credit cost fee income and market-gains or losses given that you would have not reported this number to RBI this quarter?

Rana Kapoor: As you know, IFRS June 2018 has many-many moving parts. So we have seen what could get impacted. I tell you what, where we will get somewhat affected is on our corporate fee bookings where there will be adverse timing impact. But there are also a certain advantages and when we net out the advantages in IFRS, we have actually discussed this proactively even at the board level the impact of IFRS including IND AS is fairly minimal on the bank. But as I mentioned to you that there are many moving parts for IND AS as well as for IFRS and I do not think a clear picture will emerge for the next few quarters. I also request Rajat to add to my comments.

Rajat Monga: Like Rana was saying, still not complete the IFRS process. I do not think banks have submitted IFRS numbers beyond September '16 which was the pro forma numbers that banks have submitted. So we are prepared broadly if there are consequences, one would be that we will have to increase our provisioning for Stage-II which would be about broadly a few more hundred crores, that would not be from P&L, that would be an opening adjustment when we prepare our



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first IFRS balance sheet. We will get gains from our bond books because bond books are valued positively on a mark-to-market point of view, but we do not recognize those gains, in IFRS we will be required to publish those gains into net worth. So that will oppose the outcome on Stage-II provisioning. Our basic calculations that we have been doing are net positive for us than they are net negative, but these numbers move over time. The third impact issue on IFRS like Rana was mentioning is on account of timing recognition of fees on account of lending which would be again essentially deferred over the tenor of the loan and therefore what we will present to you in a given year will be a part of that year's fee, a part of previous year's fee and a part of also the year before fee, all sort of amortized into the presentation. So there could be some single digit percentage let us say all in the presentation of corporate fee as such in terms of the migration. So I think these are the basic issues that we are dealing with on IND AS.

- Amit Premchandani:** Any impact on capital?
- Rajat Monga:** We do not know because this is something which RBI has to be a little bit more specific in terms of how does the capital computation get impacted by the new IFRS accounting. We have not heard from RBI and this will be clearly in RBI's space.
- Rana Kapoor:** The only positive impact that I can share with you is that perpetual bonds which we raise successfully are maiden issue... actually maiden issue we did a long time ago, but our second significant issue which was in December '16, that will now become part of permanent capital which is considered as borrowings at present, as you know, 81 perpetual bonds will become part of net worth.
- Rajat Monga:** Unfortunately, with capital RBI has to very clearly provide let us say requirement of how will that read mark-to-market gains, will they allow all of that as capital or they will ask us to take some haircut, those things are not yet known. We are unable to precisely comment on capital.
- Moderator:** Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.
- Alpesh Mehta:** This quarter the capital consumption has been lower. So the capital intensity, the risk weighted assets to total assets have actually declined by 300 basis points. Any specific reason despite growth being so strong?
- Rajat Monga:** Yes, broadly two reasons – one is just what we had mentioned in our last call that because of surplus liquidity and capital as at March 31st we had let us say taken up more capital-heavy positions at that time because the year-end transition also afford such opportunities and we had also mentioned that we will be able to wind down those opportunities in the course of Q1 and Q2 so that we will be able to release back our capital. In fact, I would have mentioned in our call that our capital trend is more than 11.3 as we reported on CET-1 in Q4 is possibly closer to 12 and this is essentially what you are seeing is kind of falling back on to that sort of outcome now in Q1 because those opportunities were wound down and capital was freed up essentially. So if

you look at the movement of capital, we would have generated about 43 basis points of capital from profits.

Alpesh Mehta: Just if I go to the notes to accounts #6, has there any capital relevance with this modification that you have done in March '18 scale and the credit leveling mechanism?

Rajat Monga: No, there is no impact, it is just internal ratings, we have just moved from a 10-point scale to a 20-point scale.

Alpesh Mehta: But it does not change any rating internally on the risk based supervision?

Rajat Monga: There is no consequences at all on capital computation. It is zero.

Alpesh Mehta: 45 basis points is because of post dividend addition to this CET1?

Rajat Monga: That is right.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: I have three-four questions. The first one is Mr. Kapoor, you alluded to and rightly so on the power sector on the renewable power essentially. So as a risk manager, how would you kind of look to insulate your portfolio against these possible risks – are we looking to kind of shore up any contingent provisions, of course you mentioned that you are looking to sell down these portfolios but given that the market conditions are kind of not really very-very pleasing right now, so how would you kind of think about that portfolio? The second question was CASA ratio of course your target of about 40%. But would you be able to share what would this target be if you were to include even retail term deposits say by 2020? Third is on the Consumer Banking growth, can we know what would that number be adjusted for any PSL?

Rana Kapoor: On renewable energy, as I mentioned to you, we have been building this portfolio which is roughly about 4.9% of our total portfolio. If you look at the characteristics of this portfolio, by and large there are fairly strong developers who we have banked both onshore and multinational developers or a combination thereof including some of your own Goldman Sachs portfolio companies. So we have a reason to believe that this portfolio is generally a very high quality. Because if you look at levelized tariffs in this business not only tariffs that have been committed, but when you look at levelized tariffs in this solar and wind business over let us say 10, 15, 20-years timeframe, I do not think there is any significant shock that can really disturb the renewable energy market given government's goals of getting to 170 GW by 2022. So I have a feeling that this particular portfolio it may have its own let us say simmerings in some of the states but generally it is being extremely strongly supported by the Ministry of Renewable Energy. So I do not think there is any real political risk frankly in this particular portfolio. I do believe that there are concerns on conventional for different reasons where we have seen cancellation of mines for



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reasons to do with coal commitments being somewhat entering into force majeure conditions as an Indonesian coal in a couple of cases that was contracted and the contracts frameworks were weak. But by and large we have done a full review of our renewable energy portfolio and we find that there are strong developers, there is recourse, there is absorption capacity for any refreshment of tariffs if at all it was to happen at even market levels. These are projects with the life of 15, 20, 25 years and some of them have had a run up for just 2, 3, 4 years. So there is a fair amount of padding, fair amount of earnings headroom in some of these projects. So I do not think we are really at this stage awfully concerned. We are tracking it in view of a recent development in the State of U.P. and recent development in A.P. for instance but none of this has precipitated any crisis so far. I think on the second point on the CASA, as I mentioned to you, we are fairly on course to get to 40% CASA by September '18. But to your additional component I also did mention that we want to get to CASA plus retail FD target of about 70% well before March of 2020, we are presently at 61.8%. So we need to stretch this combination. So give or take 4%-odd should come by way of CASA and another 4, 4.5% should come by way of granular FDs and our leadership is here and I do not know they are doing a lot of heavy lifting to build this granular portfolio. I think this 70% retail plus CASA is fairly doable and well before March 2020. I think to your third question, there are no bought-outs in our consumer portfolio, there is some bought-out in PSL portfolio, but not in the pure non-PSL consumer portfolio.

Rahul Jain: Last year first quarter, were there any buyouts on the PSL side, if I adjust the buyouts from both the quarters, what would the growth be?

Rajat Monga: Rahul, the bank has practically stopped doing new buyouts because the priority sector influence that used to be there on this portfolio have been moved to priority sector lending certificates incrementally so. So the book that you see has practically now almost fully run down the legacy of holdings that we had. Those holdings they have been higher on the last year numbers and on absolute basis also lower in the current year numbers because of the run down.

Moderator: Thank you. We take the last question from the line of Kaitav Shah from SBI CAP Securities. Please go ahead.

Kaitav Shah: Sir, my question pertains to the overall retail portfolio. While you all have made great progress on the deposit side and CASA target seem to be coming in much earlier, but on the assets side, if you can throw some light where we would like to be...are we on track, are we slightly early?

Pralay Mondal: What we have said is that we will be 40% between MSME, SME and Retail by 2020. Within that, when we look at always the first quarter in SME and MSME is little slow and it picks up in the second half of the year. So in fact, this year on YoY basis, we have done reasonably good on SME vis-à-vis what we did last year at the same time and hence I would like to believe by the end of the year we will do well on SME as well. On the Retail, we have seen that we have grown significantly YoY basis and now the portfolio is around 10.5%. Because it is spread across 12-13 products and each of the products are doing well. On a granular basis, this growth should happen as a part of our normal distribution strategy and hence there is no heavy lifting we have



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to do on any specific products but it will be happening across the franchise as the franchise grows. So to that extent, it is a lot more consistent, granular and scalable. The other point is that since we do not have too much of a bought-out book in the portfolio and all of it is now getting sales originated, growth from here should continue to scale based on what our vision for 2020 is. So overall in my view, we should be able to go to our vision of 40%, maybe little before March 2020 and within the Retail Consumer business which I just talked about, you have broadly the division is between Consumer Lending and the Commercial Lending business and Consumer Lending business has grown little faster than the Commercial Lending business though the Commercial Lending is slightly larger than the Consumer Lending as a book. One of the reasons for that is CV has been little slower in the last quarter and we expect that in a quarter or two, CV also to pick up in another two-three quarters time. So overall I think we are on a good wicket and we should be able to reach while we want to by 2020.

Kaitav Shah: So this was in context to the fact that our original branch expansion plan has also been lower. So in terms of customer acquisition, will anything change for you on the retail side?

Pralay Mondal: Branch expansion has nothing to do with the customers. Our growth whether it is in CASA, customer franchise, retail assets, everything we are actually exploiting compared to what we had our plans and hence our investment into sales and distribution... and distribution does not necessarily mean branch, distribution could be meaning dealerships, could be meaning digital distribution, could be meaning contact centers, could be partnerships on the digital side. So all of these is going to ensure that our quality customer acquisition is happening. The second part which is happening and which is I must talk about on the consumer side is now that we have all the products possible, whether it is on the payment side, on the digital side, or on the retail assets side, or on SME side, or broking, when you look at a franchise, we have everything which even the biggest bank has, we have almost nothing which the biggest bank does not have. So from that perspective, when our people are going to the customers, one good thing is happening because of the digital channels which have started things like chatbot, things like a lot of customized payment, those kind of stuff, our people are able to take the whole bank and all the products to the customers. So even there we see a productivity gain amongst our **(Inaudible) 75:17-75:20** and which should help us not only customer acquisition but multiple products in the same customer over a period of time and hence we are very bullish that branch distribution coming down a little bit, absolutely has no meaning in terms of franchise growth because that is happening because consumer preferences are changing in terms of which channels they want to talk about, we will continue to grow our franchise the way we have planned, if at all we will grow faster.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Rajat Monga for closing comments. Thank you and over to you sir.

Rajat Monga: Thank you, Umang and thanks everyone for taking your time off to listen to our quarterly earnings. We hope to see you all again next time.



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