



“Yes Bank Hosted by Morgan Stanley India Company Limited”

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Moderator: Ladies and gentlemen good day and welcome to the Yes Bank conference call hosted by Morgan Stanley India Company Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anil Agarwal from Morgan Stanley. Thank you and over to you Mr. Agarwal.

Anil Agarwal: Thanks Terrence. Thanks to all of you for joining this call. It gives us a great pleasure to be hosting Yes Bank management team for the post results conference call for full year results 2012. As you know they announced numbers yesterday. The numbers are very strong especially the pace at which savings account deposits are growing. Without taking too much time, I will just pass on the phone to the management team. As of now, we have Mr. Jaideep Iyer, Senior President, Financial Management and Mr. Aparajit Bhandarkar, EVP and Head of Investor Relations; Mr. Rana Kapoor will be joining in some time. So Jaideep if you can start with some opening remarks and then later on we can open up for Q&A. Thanks.

Jaideep Iyer: Thank you Anil for hosting Yes Bank for the call and for the introductory remarks. Let us start on the call. Thank you for joining. I will probably take a few minutes and just give a little bit of the flavor for the results that was declared yesterday. Sincere apologies, we had to change the call timing from yesterday evening to today afternoon because of some logistics reasons there. We couldn't schedule the call yesterday because of some media commitments which were being done in the evening.

In terms of our quarterly results, I think since we are having this call one day old, I will not focus too much on the numbers. I think most of the numbers would have been reasonably well absorbed by the participants. So overall I think the flavor was that it was a difficult year for Yes Bank and industry in general in terms of macroeconomic environment that we were dealing with and in this context, I think the bank has performed exceedingly creditably over the last one year including the last quarter in terms of overall performances, return ratios, asset quality, quality of growth and more importantly I think we have continued to progress very well on our very well laid out plans that we did as a part of our version 2 that we launched in April 2010. The broad message in that was that we are going down the path of higher granularity on assets and liabilities and we are positioning ourselves for building scale. I think a lot of that has happened over the last two years specifically in the last few quarters both on the assets and liabilities. So we are very happy to report that we are really very much on track or better in terms of our own plans that we had launched two years ago.

Some of the specific highlights for the quarter, we continued to maintain asset quality income growth has interestingly been higher than balance sheet growth or customer asset growth or loan growth. So that is one of our strategies that we kind of implemented during the year where we

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focused on a lot more churn in the business, wanting to become more granular. As a result of which, we have been able to be more efficient in terms of our income earnings capabilities and therefore most of the last 4-6 quarters we have possibly outperformed revenues and profitability in line or higher than overall balance sheet growth. Again in a fairly rapidly rising interest rate environment and tight liquidity conditions, the other standout point for us has been that we have maintained net interest margins fairly stable around the 2.8 range. Specifically in the last quarter, I think buildup of CASA helped in compensating for the effect of short-term tight liquidity and increasing non-CASA rates that went up quite substantially as well as the fact that we have increased a little bit of our book on investments which typically is low yielding, so the impact of that was compensated by improvements in CASA.

The other interesting feature for us has been that we have continued to raise lot of tier II capital. It really demonstrates significant domestic appetite for Yes Bank paper including reasonably landmark transaction in our own way where we raised \$75 million of upper tier-II 15-year money from International Finance Corporation. This is again overall I think very competitive cost of borrowings that is again an important factor for us in maintaining and improving our liability profile in terms of duration as well as quality of investors.

In terms of the other important factor was capital overall. We have given generally not the best environment for capital raising. We have therefore ensured to become more and more capital efficient over the last two quarters where we have extracted capital efficiency through as I was mentioning balance sheet churn, rating benefits for our corporates since we are largely still in the mid and large corporate businesses, we get the benefit of lower risk weights with corporates who are better rated than A and better. That has resulted in keeping our tier I ratios quite healthy despite sequential growth. So if you look at the December numbers, our tier I capital was 9.2% and we ended the year March 31st with 9.9 and overall capital of more than 17%. So this is again very, very important and conscious attempt on the bank to kind of remain capital efficient and be very well stocked up for capital.

I think besides that the bank continues to be getting further awards and recognitions. In the last quarter, we were given the CII-ITC Sustainability Awards. We have actually proactively already complying with the recent SEBI directive which came out recently where top 100 market cap companies have to comply with certain responsible and sustainable practices. So we are already compliant with that and that will be published as a part of our annual report and we continue to get recognition from prestigious institution from that front. Besides that, Dr. Rana Kapoor, our MD-CEO who was awarded the Business Standard Banker of the Year Award. He was also honored by the Godfrey Phillips Bravery in National Special Social award in the last quarter.

In terms of infrastructure, I missed out on that. We continue to kind of invest in branch, ATM and people growth. So we reported 356 branches across the country. We have added 142 branches during the year. It is again a very large investment on our scale and which really helped us in actually benefiting from the regulatory opportunity that we got through SA deregulations.

So the fact that we invested in branches ahead of time really helped us in good stead. Along with that, our employees have grown substantially. So we are now 5400 plus people and obviously as branch additions is expected to continue over the coming years, we will continue to add people. I think those were my opening remarks. We will be open to questions now.

Moderator: Thank you so much management. We can now begin with the question and answer session. We have our first question from the line of Manish Ostwal from KR Choksey. Please go ahead.

Manish Ostwal: Good afternoon all of you. My question on margin front. We have seen that yield on asset side, we have improved 220 basis points on a full year YoY basis. On cost of funds, we have improved 170 basis points and the trade we have 50 basis points on a positive side whereas we have reported net interest margin 2.8% vis-à-vis 2.9% previous year. So there is contraction of 10 basis points. So could you explain this maths because it is difficult to digest this thing.

Jaideep Iyer: Manish thanks for that question. I think the numbers that you are mentioning are yield on advances and cost of funds. There is a large proportion of investment which sits in the book. If you look at our balance sheet, we have actually increased our investment book as a proportion of balance sheet. This is something we have discussed in the past few calls as well. These are opportunities that we are faced with where we because of our debt capital market business we invest and underwrite and sell down syndicate high quality corporate bonds. These are typically AA, AAA bonds and typically the investment book along with of course the G-sec book which is SLR would typically be lower yielding than loans and the non-SLR book has grown in proportion as compared to the balance sheet than the loans. So the mix of the interest bearing assets has got skewed in favor of not exactly in favor of, but from a comparative purpose, yes in favor of investments.

Manish Ostwal: Secondly sir as you said in previous call also, the improvement in CASA ratio will drive our margins going forward, but this year we have seen that the CASA ratio improved by almost 460 basis points on point-to-point basis on yearly basis, but the margins are not improving so and we have seen other banks where the CASA improvement drive the margins, but in our bank we have not seen that. What is the reason sir?

Jaideep Iyer: Within CASA also Manish, basically when we first raised our rates on savings from 4-6% as a part of the deregulation that happened in October, we first had to compensate for the increase of 4-6 on the existing book. For example if other banks with 25% savings account balances when increased their rates, they will actually decline margins. So we have to compensate for our existing balances and then again this quarter bore the brunt of the 7% rate that we are offered during end December when balance is more than Rs. 100,000. So somewhere during the quarter, we kind of managed to breakeven and now improve and part of that improvement has been lost to as I said increased investment book. So going forward now when we are starting with the current CASA book, I think we will definitely see improvement. Plus also last quarter it was obviously very tight liquidity condition so marginal cost of funds had its own impact, the non-

CASA, marginal cost of funds. So when you see the total cost of fund going up by 10 basis points, in reality the non-CASA has obviously gone up higher.

Manish Ostwal: And the last data point, can I have breakup of provision for the full year?

Jaideep Iyer: Well, we have broadly about 35-40 crores of provisioning for NPAs for the full year, net of recoveries. We would have about, I am not carrying the numbers, but about 35-40 crores of general loan loss provisioning and I think there will be some marginal investment provisions, single digit crore investment provision.

Manish Ostwal: Sir in terms of this year, we have very tough year in terms of asset quality for this sector and we haven't made any floating provision, although we have enough profit to provide for the floating provision, but any specific reason why we are not providing when we have a good amount of profit in the book?

Jaideep Iyer: What we do is we have a board approved policy for providing for loans which are not NPAs, but which are rated below investment grade as per internal ratings. So we have increased those provisions, but they sit in general loan loss provisions. If you look at our general loan loss provisioning, it would have gone up by more than what is normally would have required because of increase in advances.

Manish Ostwal: One thing is digestible because your asset quality is good that is why your credit cost in lower side, but the other thing when you grow faster and when you have a profit, you can build the general provision on higher side.

Jaideep Iyer: Two things as I said. We are providing for loans which are not NPAs, but which are below investment grade and that provision sits in general loan loss provision. If they are building buffers that in fact we started this in 2008-09 when we were heading into a difficult macroeconomic condition, so that is continuing to build. Second is we also consciously keep our specific provisioning quite high. So we don't like to carry baggage. For example, if your specific provision is 40-50% that means you are also carrying from current baggage. Since we are close to 80% and our expectation from recovery will be more than 20%, there is some cushion in terms of counter-cyclicality that is being built by taking higher provisioning on current NPAs.

Manish Ostwal: Thank you very much and all the best for next quarter.

Moderator: Thank you. We have our next question from the line of Kunal Shah from Edelweiss. Please go ahead.

Nilesh: Yes, hi Jaideep, Nilesh here. Just one thing on the foreign currency borrowing, what is the outstanding amount that we are carrying, how much did we raise during this?

- Jaideep Iyer:** During the quarter, we raised 150 million which is basically \$75 million of tier II capital from IFC as I mentioned and another 75 million three-year borrowing that we did from couple of foreign Indian banks. So that is the fresh increment that was raised in the last quarter, but on an average, we would be having about \$500-600 million of foreign currency borrowings.
- Nilesh:** And what was the blended cost on all inclusive?
- Jaideep Iyer:** Well, non all inclusive in dollar terms?
- Nilesh:** No, rupee, like-to-like.
- Jaideep Iyer:** Yes, it depends on when one would have raised borrowings in the past. I think the cover cost is quite less, quite cheap because rupee was stable. I think in recent times, rupee volatility means covered cost is higher and therefore one doesn't necessarily take a long-term cover or a long-term hedge. So one will proactively manage that exposure, but I would say on an average if I look at the last year history where our borrowings have gone up as compared to the previous year we would expect like-to-like cost cheaper by at least 2%.
- Nilesh:** So the borrowings that we are doing is more from capital perspective right? These are tier II specifically.
- Jaideep Iyer:** No, in fiscal 2012, IFC is the only foreign currency tier II. The rest is either 6 months, 1 year borrowings or 3-year borrowings.
- Nilesh:** As a percentage overall what is the sense do we take this percentage, is the proportion higher going forward or depending on the differentials?
- Jaideep Iyer:** That is a hard one to predict. I don't think this is something which is consciously done. I think if you see appetite for Yes Bank's risk with counterparty banks and that is one of the reasons why we got ourselves internationally rated by Moody's. We want to make our liabilities even more diversified, get more counterparty limits and if we see opportunities and at that point in time if the covered cost is cheaper, then we will keep doing this depending on the situation. So I don't think one can model this honestly.
- Nilesh:** Is there internal cap on this?
- Jaideep Iyer:** Yes, there is a cap. Total foreign currency borrowings can't be more than 50% of net worth excluding tier II.
- Nilesh:** And on the coming especially to the SA balances in terms of traction, in terms of number of accounts that would have opened.

Jaideep Iyer: So what used to be a 15-20-25,000 a quarter is now tracking a lakh of quarter in terms of accounts. In terms of savings, we are looking at a 60-65% skew in favor of salary accounts and non-salary accounts will be about 30-35.

Nilesh: In terms of accounts between above one lakh and less than one lakh.

Jaideep Iyer: 50-50 roughly in terms of accounts.

Nilesh: And in terms of balance?

Jaideep Iyer: Balances will be more skewed towards more than one lakh. If the accounts are 50-50, naturally it will be more than like 70-30.

Nilesh: And your average SA balance?

Jaideep Iyer: I think the incremental is around 80-85,000. It is tracking that range.

Nilesh: Just in terms of numbers in terms of the total number of accounts that we have.

Jaideep Iyer: Looking at SA accounts?

Nilesh: Yes, SA.

Jaideep Iyer: We should be close to 300,000.

Nilesh: All the best sir.

Jaideep Iyer: Thanks Nilesh.

Moderator: We have our next question from the line of Aditi T from RBS. Please go ahead.

Aditi T: Hi Jaideep, just a quick question. Do you think that some of the retail term deposits, the branch banking deposits could be cannibalized by the retail savings deposits?

Jaideep Iyer: One cannot deny that possibility, but I think that is a good thing because instead of paying 9 to a customer, you are paying 6 or 7. So I don't know what else are you driving at.

Aditi T: These retail term deposits, how do you define them?

Jaideep Iyer: From individuals.

Aditi T: No, I meant in terms of ticket size typically I believe it is now defined by most private sector banks as deposits with balances of less than one crore.

Jaideep Iyer: No, we are more comfortable in saying mostly individuals. If an individual keeps two crores, so be it.

Aditi T: And two crores you give whatever is the stated rate. There is no premium over and above whatever would be the card rate for the related maturity?

Jaideep Iyer: Absolutely, correct.

Aditi T: So 300,000 savings deposit individual accounts now, what was that number last year?

Jaideep Iyer: Last year about 150 or so.

Aditi T: And December?

Jaideep Iyer: We would have added about close to as I said 90,000 to 100,000 in the last 3 to 4 months.

Aditi T: So 200,000, okay. Now on priority sector lending, the bank is overall compliant with whatever are the priority sector norms, priority sector requirements on 40%.

Jaideep Iyer: No, this year we probably will have fallen short a little bit on direct.

Aditi T: On which one, direct agricultural and weaker sections etc.?

Jaideep Iyer: Weaker sections also we would have fallen short, yes.

Aditi T: Right and this year the fiscal that has gone by, portfolio buyouts from NBFCs for priority sector lending, what is the size. Does it show in your loan book? Does it show under branch banking?

Jaideep Iyer: Yes, that will be a part of the 18% correct.

Aditi T: And what is the size of these buyouts?

Jaideep Iyer: So totally outstanding tools according to me should be somewhere around 2000 plus crores.

Aditi T: And this is separate from the NBFC exposure that you will show for the corporate launch?

Jaideep Iyer: Correct, absolutely.

Aditi T: I heard Mr. Kapoor on television saying that the CASA target is 20% for 2013. What is the branch target? How many branches do we see you add in the coming year?

Jaideep Iyer: We should be adding somewhere around 125 plus minus every year may be with an upward bias.

Aditi T: And just want to check banks are still adding branches as per the earlier census or?

- Jaideep Iyer:** So far it is earlier census, correct.
- Aditi T:** Just generally if you could help us understand how do the pending priority sector guidelines, the Nair Committee report and whatever version of it gets implemented impact your branch expansion and generally the retail rollout?
- Jaideep Iyer:** I think we have already taken steps in the right direction. So we are obviously the retail asset rollout is also being done keeping in mind the fact that some of that should help in getting direct PSL. So within the retail asset program, we will be more excited about those products which are also helping us satisfy PSL. Having said that, I think direct agri targets will be tough, but given our side I think the problem is still manageable for us. So as and when it gets implemented, first tier 6% of the book is not a very large number. We will have to look at, making our rural branches, putting our rural branches in catchment areas of our customers where we are anyway currently doing business through structured transaction. That is where the strategy will be where we will make that more branch oriented and HO oriented.
- Aditi T:** And fresh set of branch licenses, when do they get signed out by the RBI?
- Jaideep Iyer:** We are currently still executing the last year's. So we are exhausting that by somewhere between June and September, after which we will go back to RBI.
- Aditi T:** And just on the size of the priority sector shortfall, how much could that be the range?
- Jaideep Iyer:** It will be in the range of somewhere around 5-7% I think.
- Aditi T:** And what does that translate to in terms of say a penalty or actual monetary ?
- Jaideep Iyer:** We had a PSL shortfall in 2005 because that was our first hard set of operations and during those days the PSL was on the 40% of the closing advances unlike the current situation of previous year. So it was a circular requirement and the RIDF deposit demands for that shortfall, we were doing till 2010. So I think the thing is that it is spread out over a period of time. Obviously the agencies which take the deposits have to find use of those. It is not that if there is shortfall and the next..
- Aditi T:** Right, it is not drawn down immediately.
- Jaideep Iyer:** There has to be schemes between NABARD, NHP and appropriately when allocations are asked from all banks.
- Aditi T:** And in the 2000 crore approximate portfolio buyout that you have, what is the size of the buyout from the gold loan NBFCs?

- Jaideep Iyer:** Well, gold loan NBFC buyouts obviously stopped because of the non-PSL angle a few months back. So after that obviously we haven't done anything. So before that I think those are pretty short-dated pools. They come back very quickly. I am not even sure whether we have anything. Even if it is, it will be very insignificant. By definition, it is very insignificant.
- Aditi T:** Thank you.
- Jaideep Iyer:** Thanks.
- Moderator:** We have our next question from the line of Rahul Bhangadia from Lucky Securities. Please go ahead.
- Rahul Bhangadia:** Thank you for taking my question. If you could just help us understand given the overall difficult environment and sluggish scenario, if you could help us understand the buoyancy in your other income particularly the financial advisory and the banking transactions in the other income side?
- Jaideep Iyer:** Hi Rahul, well I think the other head we have focused more on churn businesses and in the last 3-6 months, we would have sold down close to 2000 crores of loans. So when we do that, while the origination or like the period end balances look like a 10% growth and a 20% growth. I think the origination is much more because we are churning our book. So that results in some sell down syndication, underwriting kind of income which is structured finance which goes and sits in financial advisory. In terms of treasury, yes it is a little above trend quarter and that is being helped by some gains made on sale of bonds, both government and corporate. So that is a natural consequence of having a DCM book.
- Rahul Bhangadia:** So how do you see going ahead on the overall front?
- Jaideep Iyer:** The financial markets above trend income will be obviously subject to interest rate behavior and it is conducive in a falling interest rate regime and less conducive in a stable or a volatile interest rate regime, but yes it is hard to kind of predict that on a quarterly basis.
- Rahul Bhangadia:** What about the financial advisory side and that side of, not the market side of the business?
- Jaideep Iyer:** So I was completing the financial market part. Otherwise, our stable part of financial market I think we have customer related flows, treasury, foreign exchange remittances business I think we have hardly scratched the surface. We have a long way to go and tapping more and more SME, micro SME customers for all their small remittances business. We are also now benefiting from the liberalization on the NRI deposit front. So like our savings rate has seen a quantum jump, our NRI deposit because of the even smaller base has seen a much higher jump, 8x kind of a jump in terms of acquisition per month or per quarter. That also results in FX close plus as we are spreading our branches, we are going and getting more and more liability oriented or banking services oriented MSME and SME customers, not necessarily credit. That is a big opportunity for most retail banking services fees including FX. So I think I would expect the stable part of

that business should keep growing as the franchise grows, but the trading related income will be more dependent on the interest rate scenario in that period.

Rahul Bhangadia: In branch related fees business that is reasonably in a range right now for the last 5-6 quarters, so where do you see that going?

Jaideep Iyer: As far as a percentage, it has been in a range, but there has been some traction in absolute and I think that is where a massive upside is going to be at least over the next two years if not immediately in the one year. As I said, we are acquiring customers which are three times what we were acquiring 6 months, 9 months back and all of this will start resulting in some cross sell opportunities over a period of time including retail assets. So all of that should give big flip to retail fees.

Rahul Bhangadia: And just one final question on broad basis. Where do we see the liquidity scenario going given that in the leanest period of the year, we are still running huge repo window. So where do you see that going?

Jaideep Iyer: I think it will continue to be more on the tighter side because I think the fresh problems on rupee is also not helping. So I would imagine that we have to live with a negative one lakh crore scenario for some time to come.

Rahul Bhangadia: Okay, thank you so much.

Moderator: Thank you. We have our next question from the line of Nitin Kumar from Quant Capital, please go ahead.

Nitin Kumar: Hi, congratulations on very good results. Just one color on the fee income part. Can you give me some sense on the granularity in the financial advisory fees like for instance say to what level like what proportion biggest 10 transactions would constitute there of the total financial advisory fee?

Jaideep Iyer: Nitin, well it is reasonably spread across. I wouldn't have the number of the top 10 transactions, but I can tell you there will be no more than 1-2 transactions which will be in excess of 3-4 crores. Handful of transactions will be in excess of 3-4 crores.

Nitin Kumar: So do you see this stream as equally sustainable because this has been one of the biggest fee income stream for you?

Jaideep Iyer: Yes, I think it is obviously dependent on activity in the economy because unfortunately unlike net interest income, non-interest income has to be earned every time. So there will always be that element of uncertainty in that, but I think having shown a reasonable traction and track record over the last three years, I think it is reasonable for us at least for me to believe that yes it should continue. Whether it will continue at the same pace or whether it will continue every quarter is I

mean obviously is not an easy answer, but I think generally the trend should be looking up as we grow our franchise and balance sheet.

Nitin Kumar: And secondly on the credit substitute parts like where do we classify these substitutes either in the AFS or the HTM bucket because there is a lot of bearing on the next year PSL targets as well.

Jaideep Iyer: Right, HTM is not possible for non-government securities by regulation. It is only in either HFT or AFS. So if we are intending to hold it for more than 90 days, then we will anyway put it in AFS.

Nitin Kumar: So then this would help you in lowering the targets for PSL in next year also?

Jaideep Iyer: In the sense that, yes, these bonds do not attract PSL, it is only on advances correct. So for our PSL reckoning for this year, the number that will be in reckoning will be the 38,000 crore number.

Nitin Kumar: And lastly what is the total RWA figure and the guidance on the C/I ratio?

Jaideep Iyer: I think the total RWA we are tracking somewhere around 55-58,000 crores. I think I don't have the number handy, but yes it should be in that range. C/I ratio for the year we are at 37.5, we did have some one-off cost in Q4 and which is why we are closer to 40 on C/I ratio of 54, but I think broadly the range should be 38-40 for the next year kind of a number with an upward bias.

Nitin Kumar: Jaideep if I use this 58,000 crores of RWA, this implies a growth of 34% in the risk-weighted assets which is far higher than the balance sheet growth. So I would normally assume that given the rising..

Jaideep Iyer: You are comparing it with March 11?

Nitin Kumar: Yes, March 11.

Jaideep Iyer: Sorry 52,000 crores. I am just getting corrected. So it is easier to calculate. We would have given our total capital or tier I capital in our disclosures and if you divide that by 9.9, you will get the risk-weighted assets.

Nitin Kumar: Yes, thank you so much.

Jaideep Kumar: The risk-weighted assets will definitely be growing at lower than balance sheet or lower than loans and credit substitutes or customer assets because typically the bond growth will all be in rated instruments and on an average AA or better which is at 30% risk weight.

Nitin Kumar: Thank you.

- Moderator:** Thank you. We have our next question from the line of Subaramanium PS from Sundaram Mutual Fund. Please go ahead.
- Subaramanium PS:** Very good evening sir. Basically wanted to know what is your outlook in terms of balance sheet growth given that this year by your standard has been a slower year, what is it that your outlook is for?
- Jaideep Iyer:** I think the challenge for us is also that it also depends on how we churn our balance sheet. As I said last fiscal, we would have sold down 3500 crores of thereabout. So if I adjust for that, the growth is definitely significantly higher than the 20% that is reflected in the period end numbers. So the strategy was clearly to continue to do large ticket business but not necessarily retain that business on the book. So we do not want to deny opportunities with very good corporates on doing \$200-300 million kind of businesses, but whether we want to retain it all off on our books, the answer was no. So therefore we are focused on being more efficient and doing churn in the business. Having said that, I would say the medium trend growth for us in terms of balance sheet as well as loans plus credit substitute should continue to be as per our guidance of 35% over the next 3 years, but I would expect given what we are seeing in the near term, we will probably underperform that number for the next 2-3 quarters and then over-perform later based on our current expectations on how things will pan out generally from a macroeconomic perspective, but we are not yet toning down our medium term targets.
- Subaramanium PS:** But if you look at your advance mixer, lot of this balance sheet growth has been driven more by the branch banking piece wholesale banking seems to have grown much lower and if I also look at it in conjunction with spreads, I think they have declined significantly during the year. So how do you kind of relate these two?
- Jaideep Iyer:** The reason is that the large corporate banking is the one which is amendable for underwriting and then taking it on the books and selling it down. So that is where you see the maximum churn.
- Subaramanium PS:** Correct which means your reported margins should be higher, if you churning more?
- Jaideep Iyer:** No, margins are actually on a daily average basis.
- Subaramanium PS:** But even if you look at the calculated spreads, they seem to have come down right. Even if you look at balance sheet spreads on a year-on-year basis, they seem to have declined.
- Jaideep Iyer:** No, when you say spreads, you are indicating...
- Subaramanium PS:** Assets minus cost of interest bearing liabilities.
- Jaideep Iyer:** Interest bearing asset management is bearing liability.
- Subaramanium PS:** Yes.

- Jaideep Iyer:** Yes, they would have marginally come down correct.
- Subaramanium PS:** But given that if you are churning more and on the balance sheet, the mix of branch banking is going up and wholesale banking is coming down plus added to the fact that you had some CASA.
- Jaideep Iyer:** No, the two things that were happening is obviously CASA as I mentioned we also have to take the pain of the past savings increase. In terms of interest bearing assets, the mix of corporate bonds being higher was the result of risk bearing assets not increasing as much as let's say loans would have gone up and in general, I would expect that. So I think that spread would have been flattish according to me. Interest bearing assets management is bearing liabilities wouldn't have changed. I think on a daily average basis as we see it is not changed by more than few basis points.
- Subaramanium PS:** And also would your near term growth also be toned down by the fact that you need to prepare yourself to meet the new priority sector guidelines, would that be something which you would evaluate before deciding on growth.
- Jaideep Iyer:** Yes, that is definitely one of the factors, but I don't think that is a factor which would have influenced us currently for growing slow. We are putting together a plan on wanting to kind of get granular and therefore part of the story is retail assets and the part of the story is to kind of make rural branches more meaningful through utilizing them for these purposes. I don't think we are being influenced terribly on the fact that since there are going to be new PSL norms, we are growing slowly. I think the slower growth was more in relation to our own risk appetite and our churn, but yes the outcome is that the PSL burden is over.
- Subaramanium PS:** And one last question. You time and again highlighted your strategy of this hub and spoke branch model where you said you created lot of hubs and even now the incremental investment is only in the spokes. Just wanted to know if you wanted to open more rural branches, do you think you again need to reinvest in a few hubs again or would these also be kind of smaller branches that you would be investing in?
- Jaideep Iyer:** Definitely I don't think we will want to make any rural branch hub. I think our strategy is that if we are in a semi-urban city, we will want the spokes around that in rural areas to be connected to that semi-urban branch. So rural branches are for that matter tier IV, tier V branches will typically be spokes being supported by the nearby urban hub. So the cluster model will continue definitely and I don't think we already have 130 hubs and according to us, we may not add more than 20-30 hubs even when we reach 700-800 branches.
- Subaramanium PS:** Okay and one last question sir. What would be your mix of branches in terms of semi-urban, rural and metro?

- Jaideep Iyer:** Metro and urban would be about 250 or thereabouts.
- Subaramanium PS:** Sure sir, thanks, that is it from my side.
- Jaideep Iyer:** Thanks Subu.
- Moderator:** Thank you. We have our next question from the line of Sachin Sheth from HSBS. Please go ahead.
- Sachin Sheth:** Hi, congratulations. Just a quick question on the credit substitutes. Remember in the last call, Rajat mentioning that lot of this is because of demand from corporates given the fluctuations and rates and the rate outlook. Given that rates have certainly peaked and maybe they won't go down to much more, what is the outlook for credit substitutes growing now in the remainder of this year?
- Jaideep Iyer:** Hi Sachin, I think absolutely right. I think it is hard to predict for us. It will depend on the rate environment. The only addition I have is that typically in a fairly steep yield curve, we will not have this business as active as it is when it is a very flat yield curve because even the corporates don't like to have a negative carry to begin with. So if we see some steepening in the yield curve over a period of time, I think yes there will be, may be this business traction will come down, but I think our market shares are still very, very small. I mean we are still in the top 5, top 6 players in this market at least on the banking segment. So we have still a lot more to gain from that perspective. So we will have to wait and watch how this pans out for us, but we are reasonably indifferent as long as our risk reward is getting satisfied and the advantage on some of the credit substitute size is that we typically in the large corporate scheme of things, you get to eyeball with the CFO and try and extract a lot more cross-sell business because these are slightly more strategic decisions for corporates when they do medium term bonds as compared to simple loans.
- Sachin Sheth:** And just on the last question on the risk part of that. When you said the risk reward is beneficial, what has been the experience on the risk part of these credit substitutes?
- Jaideep Iyer:** I said, we will be indifferent as long as the risk reward stacks up. Risk experience on the corporate substitute so far absolutely no issues at all. These bonds are reasonably I would say liquid if not very liquid, they are mostly on an average AA or better. So absolutely no issues at all on that front.
- Sachin Sheth:** Okay, great. Thanks a lot.
- Jaideep Iyer:** Thanks.
- Moderator:** Thank you. Our next question is from the line of Mahesh Matkar from Major Trend Capital. Please go ahead.

- Mahesh Matkar:** Hi, RBI has reduced repo rate. So are you planning to pass it on to the customers in the near future?
- Jaideep Iyer:** We haven't seen as much of a dramatic impact in general on market rates. Yes, rates have come down and there will be some benefits through a combination of the past CRR cuts as well. So we are still waiting and watching the competitive environment and we will take a decision appropriately. I think there is a chance we will bring down the rates over the next 2-3 months.
- Mahesh Matkar:** So is it that the CRR rate cut would lead to a base rate cut going forward or does repo rate has an influence over it?
- Jaideep Iyer:** I think both influence, CRR also helps reduce the cost of fund and obviously policy rates are a clear indication of the direction. Both will have their influence ultimately resulting in some benefit on cost of funds to banks and depending on the risk environment and competitive environment, one will have to look at passing on some of that to customers. Since we are more in a corporate environment, I think generally we have seen customers less influenced on base rate as compared to the headline grabbing mortgage rates and those kind of rates.
- Mahesh Matkar:** And sir one more question. Your credit substitute for Q4 would be?
- Jaideep Iyer:** I think total book outstanding as of Q4 is about 7000 odd crores. It is basically the difference between the customer assets number and the loan number that we have given.
- Mahesh Matkar:** Okay, thank you. That is it from my side.
- Jaideep Iyer:** About 8000 crores.
- Moderator:** Thank you. We have our next question from the line of Jyoti Khatri from Systematix Shares. Please go ahead.
- Jyoti Khatri:** Hello, sorry sir I am being repeated. Just want to understand you have increased the saving deposit rate to 7% right now and you have seen good traction in this line item. So going ahead when you will see a declining interest rate scenario, would you take a call to slash your saving deposit rate and if so then how you see the growth shaping up on in this line item?
- Jaideep Iyer:** I think more importantly we will continue to be having a reasonable difference between us and the general market on savings. So even if we decrease, I think the difference will be quite healthy for us to continue to have traction on that front. We will also benchmark this with one year fixed deposit rate. So as long as one year fixed deposit rate don't come around 7.5 -8%, we can still sustain a 7% saving rate. So this is not really short term. I don't expect this to come down in a hurry. We are happy to kind of give that benefit to our retail customers and currently we are in an acquisition mode for customer. So we are wanting to build a large retail customer base which

will then allow us to cross-sell distribution products, allow us to cross-sell retail products. So clearly we are right now in our phase of evolution in a customer acquisition mode.

Jyoti Khatri: So do you sense that it could come at the cost of the margins and you might take a call on compromising some of the margins and still the benefit of the customer acquisition in the long run would be large but you will be compromising on the margin side.

Jaideep Iyer: Jyoti, we are getting this savings at 7% on the margin, it is substituting term deposits. So I don't think it is compromising margins. It is compromising the improvement in margins at best. It is not compromising margins.

Jyoti Khatri: And can I have the numbers of your tier I CAR exploding hybrid capital and secondly if I look at your leverage ratios, they are quite high at around 16 times. So if I just look at the Basel-III guidelines, it talks about capping on leverage ratios. So how do you read this and what are the strategies here?

Jaideep Iyer: So tier I ratio without perpetual bonds will be close to 9 because we have approximately 12-13% of our tier I will be through perpetual bonds. In terms of leverage, I think the indicative numbers by RBI, it is not even a guideline yet is 20 times, so 5%. So we are still quite some way to go on that front, but that is where the advantage is for us because since we are doing businesses with lots of rated companies, our tier I ratio will be disproportionately higher as compared to leverage or balance sheet. So like-to-like if another bank has a similar balance sheet and similar tier I capital in absolute, they will typically have a lower tier I ratio. So we can leverage more from the same tier I because of the RWA being significantly lower than total.

Jyoti Khatri: And is it true that if overall rating of your advances is better than there could be some release of the capital on that side in Basel III?

Jaideep Iyer: No, Basel III is nothing to do with ratings actually because that is already there in Basel II. In Basel III, it is more to do with liquidity and quality of capital. So I don't think rating benefits is going to change from Basel II to Basel III.

Jyoti Khatri: Lastly on the balance sheet growth side, we have grown at very high rates in FY11 considering the fact that you have been in a consolidation mode, but growing at around 10% level in advances. So going ahead considering the fact that if the current macro scenario continues, then would you see that we will not be growing the growth rate that we have seen in FY11 or periods prior to that and secondly on the credit substitute side, growth has been in FY12 is being more than 4 times odd. So the profitability drivers if I look at it have changed, slower growth on advances and more on credit substitutes. What is the strategy here?

Jaideep Iyer: Well so your first question was on growth in credit substitutes? Sorry, what was the first part of your question?

Jyoti Khatri: I am saying that if the macros remain the more or less same what was in FY12 then would you be comfortable growing at around 25% plus or even high rates that we have seen in FY11 and other periods prior to that.

Jaideep Iyer: So FY11-FY10 obviously were significantly higher growth through a combination of opportunity that we had in that environment where risk appetite in the banking system especially foreign banks had come down and we were well positioned to capture that growth and the base was lower. So I don't think we are looking at returning to a 60-70% kind of a growth and I answered the question in the earlier part of the con-call when I said that the medium term growth from advances plus credit substitutes continue to be in the mid 30s as a range because we think that if the overall credit in the system is going to grow at 17-18%, then a bank like us should be able to beat that with a significant margin. Having said that, I think in the near term given the risk environment and given the overall macroeconomic conditions, we will underperform that and we will have to do a catch up in the later part of our three year remaining version 2 period. So I clearly said, I think the first half of the current fiscal will be possibly on the lower end of the range and the second half should get better that is the current expectations. In terms of growth in credit substitutes, I think that is an opportunity which has allowed us to tap high quality businesses with very large well rated corporates. So the benefit of that is that one is able to penetrate into normal banking arrangements with these corporates on the result of a relationship that we are able to forge with senior management of these corporates on the bond front and as a result of which, one is able to get normal banking, trade, FX, working capital kind of opportunities which are routine banking. So it is helping us on both fronts plus it allows us to also churn our business. So it is positive for fee income and positive for overall efficient balance sheet management. So we will see if opportunities persist, we will continue to do this.

Jyoti Khatri: Okay, thanks.

Jaideep Iyer: Thanks.

Moderator: Thank you. We have our next question from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

Amit Ganatra: See apart from this mark-to-market risk, what are the other potential risks from these credit substitutes?

Jaideep Iyer: Well, Amit no different from a loan credit. So like-to-like rating I think the credit risk will be similar, though generally bonds tend to be done only by better rated corporates.

Amit Ganatra: But in the end, you basically end up churning lot of it right?

Jaideep Iyer: Yes, absolutely. So they are more liquid than loans. We will churn the loans as well through syndication but typically here the investor appetite and set is wider because you can have

insurance companies and other fixed rate instrument investors can also look at participating. The risk is that one is also increasing the duration of the book generally speaking on interest bearing assets. So one will have to be conscious of that in terms of which part of the interest rate cycle you are in.

Amit Ganatra: Also you talked about financial advisory fees. Just for understanding purpose, the financial advisory fees basically that income gets generated only from credit substitutes or also from normal churning of the loan portfolio?

Jaideep Iyer: No, it is actually more from the normal churning of the loan portfolio, not necessarily only churning, if you are underwriting a large loan, we will take fees, we will take structuring fees and then when you sell it down, if you are able to sell it down at a coupon which is lower, you make more fees from the customer.

Amit Ganatra: Basically last three or four years you seemed to have gained a very significant traction in this part of the business. So what is the key strength which is required to basically become a large player and gain market share in this business?

Jaideep Iyer: I think ability to assess and credit risk and project risk for project kind of exposure or term loan kind of exposure and very strong relationship with public sector banks for them to enable them risk participation.

Amit Ganatra: Is there a track record kind of a thing which gets....

Jaideep Iyer: Not really. This is very, very OTC kind of business. So if you are looking at what kind of market share or what is the total opportunity?

Amit Ganatra: No, not for that perspective. What I am looking at is that suppose as you mentioned that you need relationship with public sector banks, so suppose if public sector banks have bought basically loans from you earlier and depending on the performance of that....

Jaideep Iyer: Yes, it will make a difference naturally if it turns out after or if it turns out that we have sold out a lot of lemons then it will have an impact. So we don't do that as much as we know at least and we also by the way retained 10-15% of the book. So that is the difference an advantage that a bank has vis-à-vis a nonbank or vis-à-vis let's say an intermediary who doesn't have the ability to participate in the risk.

Amit Ganatra: Then also the worst case scenario for you would be that you basically, suppose if you underwrite certain projects after assessing the risk and if you are not able to find any papers, then basically you have to take it entirely on your balance sheet.

Jaideep Iyer: So when we assess the risk, we are obviously conscious of the fact that we should be okay with taking the full thing. That is how the risk approval is done. It is very clear. We can't afford to do

an underwriting basis the fact that we will be able to sell down. That does not work in terms of internal risk approvals. Internal risk approval is given for the full amount. Only knowing that there is a possibility that it will stay with us.

Amit Ganatra: What are the typical threats which one gets in this?

Jaideep Iyer: (Inaudible)

Amit Ganatra: Suppose if you have underwritten at 12.5 basically, about 12.25 basically you are able to sell or something?

Jaideep Iyer: We will have a range Amit, but I would say 25-50 basis points could happen many times and typically since these loans are 3-5 years in maturity or even longer, you get the benefit of multiplier there.

Amit Ganatra: And is there anything from equity capital markets under this financial advisory fees?

Jaideep Iyer: Very little. We have investment banking which is also not so much capital market driven, so we will have M&A private equity advisory business in investment banking. In the last couple of quarters, we have done open offers, we have done bonds syndications for few NBFCs where we have arrangers for bonds to public. So yes, but it will be very small.

Amit Ganatra: Okay, thank you.

Jaideep Iyer: Thanks.

Moderator: Thank you. We have our next question from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Hi Jaideep, two questions. One QoQ improvement in tier I ratio from 9.7 adjusting for profits for 9 months in 3Q to 9.9, yet balance sheet has grown, you have seen almost growth in almost every line item of the balance sheet. So just trying to understand where is this come from given the fact that this quarter also saw dividend payout?

Jaideep Iyer: Yes, 150 crores of perpetual bonds was raised in Q4.

MB Mahesh: So the entire benefit has come because of that.

Jaideep Iyer: Yes absolutely. I would say yes. The entire benefit would have come from that correct.

MB Mahesh: 150 crores right.

Jaideep Iyer: Yes.

- MB Mahesh:** Just one other question. What will now be the run rate which will be there in the business which is being sourced in terms of savings accounts on the month-to-month basis right now per employee?
- Jaideep Iyer:** About in the range of 13-15.
- MB Mahesh:** The reason I am asking is currently you are generating about a lakh of savings account every month. Now assuming a 60-40 split between corporate and salary, you need about.....
- Jaideep Iyer:** Hold on, one lakh was for the quarter, not for the month. I wish it was. It is for the quarter.
- MB Mahesh:** It is for the quarter, is it? Is it fair to assume that you need roughly about close to about 1000-1500 odd employees who are there just for sourcing of this savings account?
- Jaideep Iyer:** No, see the advantage is that we also do a lot of salary account. So there the productivity can be much higher because the conversion aspect is a lot easier, it is more an execution aspect that one is dealing with this.
- MB Mahesh:** So even if you assume that there is hundred, every person will have about 100 accounts which is getting sourced to the corporate salaried accounts. Is it fair to assume that you have a retail sourcing team of close to about 1000 odd employees?
- Jaideep Iyer:** Yes, we have about 12-1300 employees on retail, absolutely.
- MB Mahesh:** On the sourcing side?
- Jaideep Iyer:** Correct.
- MB Mahesh:** You don't use agents or intermediaries for sourcing, is it?
- Jaideep Iyer:** It is not allowed. On liabilities, it is not allowed. What banks do is they have employees on contract.
- MB Mahesh:** Sorry, let us put it that way.
- Jaideep Iyer:** No we don't have any.
- MB Mahesh:** Thanks a lot.
- Jaideep Iyer:** Thanks Mahesh.
- Moderator:** Thank you. We have our next question from the line of Prashant Shah from Vantage Securities. Please go ahead.

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- Prashant Shah:** Thank you very much. Good evening sir. Just wanted to ask you, you are giving your savings account at about 7% for a 1 lakh plus and 6% for sub-1 lakh and you will also have an incremental cost to generate these accounts. So your savings accounts experienced significant traction during the quarter, but your cost of fund was more or less flat and you said high levels of borrowings which elevated interest rates during this quarter, but what allowed you to keep your cost of funds flat on a sequential basis as well as maintain your margins?
- Jaideep Iyer:** I think these borrowings, when you said borrowing, high level borrowing, I think there is an underlying assumption that borrowings are more expensive, I think that is not true. CD will sit in deposits. Borrowing actually get it reasonable amount of tier II foreign currency borrowing, so the cost will be any way lower. Then we also take some refinance borrowing where you get refinance from institutions like SIDBI and NHB against your SME portfolio or export portfolio from Exim. Those are also slightly more competitive than average market rate. In terms of savings, when you mentioned that we have gone ahead and given 7% and yet our cost of funds has not grown so that is actually beneficial because an increase in savings at 7% is better than an increase in term deposits at 9. A mix naturally helps because even if the savings has gone from 4 to 7, the mix helps because it is still cheaper than term deposits. So on the margin, the substitution has happened through savings, so that also helps.
- Prashant Shah:** Okay got it. And sir you mentioned that there was a one-off charge in the operating expenses. Could you identify what led to one-off charge?
- Jaideep Iyer:** These were fees related to the borrowings that I mentioned. So tier II, 15-year money from IFC had fees that we had to pay and the other foreign currency borrowings that we did earlier in the quarter had some fees which we had to expense off.
- Prashant Shah:** Would you not amortize the fees over the period of the loan?
- Jaideep Iyer:** Not necessarily very easy to do that and we wouldn't want to do that.
- Prashant Shah:** Okay fine and sir just one last point. You mentioned that your advances book is expected to underperform in FY13 as relative to your medium term targets, but could you just identify from where do you expect your loan growth to come from in terms of your segmental book, are you expecting more from retail or from wholesale or from corporate institutions?
- Jaideep Iyer:** Well, I think generally speaking we will continue to move towards the trend where we will do more SME, more micro SME in retail and more mid market than large corporate. So I think the mix should be stable to increasing in favor of the more diversity and granularity which is more mid market and more SME plus retail.
- Prashant Shah:** Okay, thank you very much sir.
- Jaideep Iyer:** Thank you.

- Moderator:** Thank you. We have our next question from the line of Aashish Sharma from Enam Asset Management. Please go ahead.
- Aashish Sharma:** Hi, thanks for the opportunity. Just wanted to get a sense on the credit cost Jaideep. Going forward, do you expect this normalized level of lower credit cost to sustain in even 2013, what is the take on that?
- Jaideep Iyer:** Aashish I think that is a tough one to answer in the sense that it is hard to predict generally speaking, but there is no significant visibility that this will dramatically deteriorate or anything of that sort. Having said that, I think it is a dynamic world. One way to look at it is that we have if you look at the performance across the cycle from 2008 to 2012 which will say have one and a half cycle if I can use that word **(Inaudible) 1.5.5** would have more like 30-35 basis points credit cost of loans on an average.
- Aashish Sharma:** So 35 should be sort of worst case scenario or 35 should be the normalized levels at which we should look into going forward?
- Jaideep Iyer:** I think it is difficult to be giving guidance on that honestly.
- Aashish Sharma:** And one just clarification you mentioned there was one-off in the OPEX in Q4, what was the quantum of that one-off?
- Jaideep Iyer:** About 12-13 crores.
- Aashish Sharma:** And one more data point. What was the split in current accounts and savings account because I do not think there is a split given in the business update?
- Jaideep Iyer:** So the savings account was approximately 2503 crores. Current account should be around 4800.
- Aashish Sharma:** Thank you and all the best for the next quarter.
- Moderator:** Thank you. We have a follow up question from the line of Nitin Kumar from Quant Capital. Please go head.
- Nitin Kumar:** Hi Jaideep, which segments in the loan book have grown during the quarter because as I see all the infra sectors, engineering, metal have all reported a sequential decline in terms of loan mix composition and whereas others have gone up substantially.
- Jaideep Iyer:** I think some of the tools naturally fit in others. So we would have done some tools for agri so that has gone there. Other than that, I think it has been roughly no trend honestly on sectoral. We have only reduced through sell down and syndication some of the power and related sectors on infra, but otherwise no specific trend that is different from the past.

- Nitin Kumar:** So then despite the fact that most of the segments typically account for a larger share of term loans where the yields are typically higher. The loan yields have still improved. So what were basically the yield drivers during the quarter?
- Jaideep Iyer:** Yield drivers basically I mean I think we had a base rate increase sometime in the last quarter. So the full impact had come in this quarter. Otherwise, I am not too sure whether we can have a blanket statement that term loans are over expenses and working capital loans are shorter term loans. I think in fact we have seen in a rising interest rate environment, the shorter term loans actually reprice up faster. There is less fuss by the customers on that front because these are not long term in nature for them as well and therefore it is more dynamic and therefore one is more acceptable to a higher rate plus incremental growth would have come at a higher given the interest rate regime and the tight liquidity conditions. So incremental business would be coming at higher than the average which would have resulted in that 10 basis points which is not much in any case.
- Nitin Kumar:** Okay thanks so much.
- Moderator:** Thank you. We have our next question from the line of Nag Deepika from Capital Markets. Please go ahead.
- Nag Deepika:** Hello sir, all my questions have been answered, but just one data point on the breakup of investment book?
- Jaideep Iyer:** Between what?
- Nag Deepika:** G-Sec?
- Jaideep Iyer:** G-Sec will be about 16,000 crores.
- Nag Deepika:** And the borrowing apart from the foreign currency borrowings?
- Jaideep Iyer:** In terms of borrowings, first of all we will include tier II there. So if we remove tier II, then the rest would be between refinance, foreign currency and term borrowings would be the major component.
- Nag Deepika:** And you said we have got some borrowings from the refinance companies, what was that to the tune?
- Jaideep Iyer:** I think overall outstanding book should be in the range of couple of thousand crores.
- Nag Deepika:** It's a small book?
- Jaideep Iyer:** It's not very large, yes.

- Nag Deepika:** Okay, thanks a lot.
- Moderator:** Thank you. We have our next question from the line of Adarsh D from Prabhudas Lilladher. Please go ahead.
- Adarsh D:** Hi Jaideep, this is on the balance sheet churn about 3000-3500 crores, just wanted to understand what will be the breakup broadly between bonds and say loan syndicated down?
- Jaideep Iyer:** No, that number actually is predominantly loan. We have not included bonds in that number. Bonds during the last 9 months would be in the range of another couple of 1000 crores.
- Adarsh D:** Okay, so that is basically loans. And so just related to that when we said that the credit substitute, the outlook there is a little uncertain, does that mean that some part of the fee related business that we do on selling down bonds or syndicating bonds, that is also a little uncertain, would that or?
- Jaideep Iyer:** I think this will obviously depend on how macroeconomic conditions generally improve. I mean if you look at a scenario where risk appetite further goes down, then yes, we will have less risk appetite from even other participating banks. So one cannot deny the fact that this will depend on. Also it will depend on how much companies are wanting to raise resources, but I think broadly while there will be a dependency on these factors, I think we still have the size versus opportunity stacks in our favor by which I mean that we are still overall a very, very small player in general whether if you look at market share on loans or whether we look at the market share on these businesses vis-à-vis the access to opportunities that we have as a bank unlike let us say retail where you need to have a few thousand branches to really capture that market, but I think in these businesses you need more a franchise rather than distributions. So access to opportunity for us is not very different from the larger players.
- Adarsh D:** And what would broad indication be in terms of the fee that we could have earned put all three combines underwriting, syndication, and also probably the sell down of the bonds approximately?
- Jaideep Iyer:** No, I think the financial advisory is predominantly of that. Maybe 15% of that would be from investment banking or so. Otherwise it is predominantly that.
- Adarsh D:** And then some part of it would be sitting down in the financial markets in terms of the profit?
- Jaideep Iyer:** It is the bonds that will be sitting there correct.
- Adarsh D:** Okay. Thank you so much.
- Jaideep Iyer:** Thanks Adarsh.

- Moderator:** Thank you. We have next question from the line of Nilesh Karani from Magnum Equity Broking Limited. Please go ahead.
- Nilesh Karani:** Hello. Good evening sir. Most of the questions have been answered. Just one last question on that. Today Rabobank has sold stake under Yes Bank. So any particular reason for that or any rational behind that?
- Jaideep Iyer:** No Nilesh, Rabobank if you recall had sold the 11% stake that they had about roughly 15.8 in June of 2010 and that was as a part of their wanting to get a banking license for their single nonbanking finance company that they had. Because of which they had to come regulatory below 5% in any other private bank. After that, I think it was a pure financial stake because they then relinquished the board seat that they had after that stake sale. So this was more a financial opportunity. I think they would be driven by their own internal consideration fees what is happening in Europe and whether they want to have an investment or whether they want to a kind of capitalize on the gains that they have and make their own balance sheet stronger. So it could be driven by any of those reasons.
- Nilesh Karani:** Thank you. Thank you very much and all the very best for your future quarters sir.
- Moderator:** Thank you. We have the next question from the line of Hatim Broachwala from Fortune Financial. Please go ahead.
- Hatim Broachwala:** Sir, my question relates to deposit growth. Despite good accumulation under saving account, deposit growth is only 7%. So is it that we are less aggressive in the term deposit market and what kind of outlook will be there for the future?
- Jaideep Iyer:** Hatim, I think on the margin, we obviously are on the bulk side on deposits. So naturally if we are seeing traction in savings and current accounts and if we have some competitive borrowings that have happened in the recent past, we will naturally go slow on, we drop our prices on the margin on term deposits. So because we will not want to take term deposits for the sake of it and invest in SLR when you don't have the deployment. That will go hand in hand. So on the margin, it will be driven by how CASA shapes up and how loan growth shapes up. So it is a discretionary on the margin.
- Hatim Broachwala:** Okay and what kind of balance sheet growth we are targeting for FY13?
- Jaideep Iyer:** No, I think we should be somewhere in the late 20s, early 30s plus minus.
- Hatim Broachwala:** Okay. Thanks a lot.
- Moderator:** Thank you. We have the next question from the line of Saikiran Pulavarthi from Espirito Santo. Please go ahead.

- Saikiran Pulavarthi:** Good evening guys. I have a couple of questions from credit substitutes. What would be the average duration of the credit substitute portfolio and the average yield?
- Jaideep Iyer:** So the non-SLR would be in the range of about two and half years or so in terms of duration and we would be somewhere around 1075 or thereabouts.
- Saikiran Pulavarthi:** In terms of funding, how we funded on the liability side?
- Jaideep Iyer:** Well, I think that is a tough one to answer. Money is fungible. So I don't think we look at doing a like-to-like, but we obviously maintain our ALM ratios. So naturally we have also done for example, reasonable amount of tier II borrowings almost 860 crores of tier II borrowings in the last quarter itself which will be typically 10-year, 15-year money. So we are conscious of duration, but I don't think we do a like-to-like on how these are funded.
- Saikiran Pulavarthi:** And in terms of growth you mentioned for the first two quarters at least that the balance sheet growth will be underperforming, so does that mean that the overall growth would still be driven by credit substitute size and advances?
- Jaideep Iyer:** No. What I mentioned was that we will be slightly under the trend depending on the current visibility on overall customer asset business and I don't think we are necessarily very clear on being able to guide the mix between customer assets and our credit substitutes and loans because that is more opportunity driven rather than us wanting to influence that beyond the point.
- Saikiran Pulavarthi:** Okay. That is all from me. Thanks.
- Jaideep Iyer:** Thanks Saikiran.
- Moderator:** Thank you. We have our last and final question from the line of Lalit Srivastav from Dalal and Broacha. Please go ahead.
- Lalit Srivastav:** Hello sir, congratulations on very good quarter. Almost all the questions have been answered. Just a small view, basically this new line item that you have this credit substitute, how does that change your NIM expectations for next year sir? Thank you.
- Jaideep Iyer:** So as I mentioned in the call earlier, I think overall the credit substitute book is lower yielding the loans and that is a reflection of liquidity and rating on a blended average as compared to the loan book. So the benefit will also be there which is reflected in yields. The other thing that the investment book or the credit substitute book does is it lengthens the overall duration profile of interest bearing assets because by definition fixed rate instrument. So that is the impact. So if rate falls, one will benefit. So if rate stable, then it will be neutral. If rate go up, then it will be negative on the margin.
- Lalit Srivastav:** Okay, fine sir. Thanks a lot sir.



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Jaideep Iyer: Thank you everybody.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. Anil Agarwal for closing comments. Please go ahead sir.

Anil Agarwal: Thanks a lot Jaideep for taking the time off and answering all the questions. Thanks a lot everybody.

Jaideep Iyer: Thanks Anil for hosting the call and thanks everybody for being on the call. Just one request, we are having our investor stakeholder day tomorrow at 5 o'clock. So whoever is in town, we would really request and appreciate if you could take your time out and come for the event. It will be chaired by Rana and most of the top management team will be there. So it will be a good opportunity to kind of interact with the larger management team as well. So look forward to seeing some of you there at least. Thank you very much.

Anil Agarwal: Thank you.

Moderator: Thank you. On behalf of Morgan Stanley, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.