



“YES Bank Limited Q4FY15 Results Conference Call”
April 22, 2015



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*YES Bank Limited
April 22, 2015*

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the YES Bank Q4FY15 Results Conference Call hosted by Macquarie Capital Securities Private Limited. 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. Should 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 would now like to hand the conference over to Mr. Suresh Ganapathy from Macquarie Capital Securities. Thank you, and over to you, sir.

Suresh Ganapathy: Good Evening, everyone. Today, we have with us Mr. Rana Kapoor and his senior management team to discuss the Fourth Quarter and Full Year Results of YES Bank for Financial Year 2015. Without much further ado, I would like to hand over the floor to Mr. Kapoor. Over to you, sir.

Rana Kapoor: Good Afternoon, everyone. Thank you, Macquarie for hosting this call. Ladies and Gentlemen, as you know, we have announced our Fourth Quarter Results a short while ago which naturally also included our full year results as well. Before I get into the financial commentary on the bank, as you know, this March fiscal ending 2015 was a fairly significant quarter and fiscal year because this in a way was completion of a 5-year phase in our life cycle which we had in April 2010 named as Version-2.0. So Version-2.0 for your benefit was a version where we had planned to convert the bank from a small size bank as of March 2010 into a medium size bank and I am very happy to share with you that many of the quantitative and the qualitative milestones that we had established and shared with the financial community have been significantly achieved despite all the forms of crisis that the Indian economy face, the global crisis, followed by the euro zone crisis which is still not over and India's own challenging circumstances which started perpetuating in October of 2011.

As we also know that YES Bank emerge as the largest medium size bank during this phase and we have just been pushed down from #4 to #5 because of the recent merger of Kotak and ING, but as a bank which has grown organically with the risk as well as most quality filters in place we are very happy to have ended this phase of Version-2.0 and have shared more recently last couple of days in fairly in-depth meetings the next phase of the bank's growth which we have basically nicknamed as the 'Large Phase of the Bank' which is driven by a very simple equation...this is the first time I am sharing this equation with external stakeholders is action plus quality equals growth and scale equals large bank. This is the vision which I presented to the board, I have shared with key management, and I am now sharing this with you. This phase is hopefully going to establish us not necessarily as a large bank but in many respects as we have demonstrated as a Greenfield bank established in 2004 that we have the ability even under fairly adverse and demanding circumstances to grow in certain sectors while derisking many others. So therefore, even in this large phase, we will grow in certain focus sunrise sectors and continue to calibrate our risk strategies in some of the more stressful sectors in the economy. So, this is a very important call for us with you today.

You also know before I get into the numbers that the last few months since Rajat Monga and my other top management team spoke to you we have had a couple of important events — we have seen two 25 basis points reduction in the repo levels as part of the overall monetary policy, we have seen a budget which has come out with a few good things, I am sure many more to follow, but at least structurally the improvements of the passage of bills in insurance, the developments on telecom spectrum sales, the recent coal mine auctions and the approval of the Mines and Minerals Bill and all, at least we have reason to believe will at least take care of a lot of the legacy issues where a lot of the time in Indian parliament of the policy in Delhi has been spent. So a number of issues have been cleared and also a number do remain outstanding. We have also a reason to believe that these developments of the last 2-3 months should augur well for an improvement in the economy at least in my judgment and I also wear the honorary hat of the President of ASSOCHAM, I have a reason to believe that we have reasonable visibility for an improving economy most definitely in the second half of this fiscal year. More on this as we exchange questions later.

Coming into the “Financial Comments” now, the bank has basically posted a growth in Loan Advances of 35.8% and our Loan totals have gone up to slightly over 75,500 as of fiscal March 2015 and the Retail and SME growth has been a key contributor and I am sure Pralay, my colleague will talk about that as well. So, we are seeing fairly diversified growth in the bank and not just in the Corporate segments. Deposits grew by approximately 23% to a level of Rs.91,176 crores and there is a fairly steady growth in our CASA balances as well as the granularity underlying this CASA growth. Overall, CASA has grown by 29% and year-on-year to Rs.21,079 crores taking the CASA ratio to 23.1% as of fiscal year ending compared to 22% a year ago.

On the profit front, as you know, the quarter profit has gone up by 28.1% to Rs.551 crores, led by a fairly robust NII growth and also supported by Non-Interest Income overall growth; NII increased by 35.8% year-on-year to Rs.977 crores on account of strong growth in Advances, also coupled with improvement in expansion in our NIMs which have improved to 3.2% compared to 3% in the fourth quarter 2014; Non-Interest Income grew by 32.5% to Rs.590 crores. Yield on Advances, declined marginally by about 20 basis points and while the cost of funds came down by about 28 basis points resulting in some improvement in NIM which is not fully yet reflected in the NIMs disclosure because we have given the numbers up to the first decimal place. ROA at 1.7%, ROE approximately 19%, as you know, we had raised capital just about 6-odd months ago, \$0.5 billion of that time. So we are seeing steady improvement in ROE and we are hopefully not very far away getting back into the 20s.

On Asset Quality, as you can see despite the heightened risk environment, which is reflected in the results of public sector banks last quarter also some private sector banks, as you can see, our gross non-performing advances as a percentage of total advances was at 0.41% and net NPAs were only marginally up at 0.12% and this is practically the 28th quarter, so last 7-years 28 quarters where we have been able to prove to our stakeholders, to our management, naturally to regulators and to the board that the bank has developed a strong risk culture to be



*YES Bank Limited
April 22, 2015*

able to proactively manage risk and this is amply reflected in our asset quality performance over a long period of time, not just the corresponding comparisons, but also a sequential data that we have been sharing with you. So, I am very happy that it is not a one quarter or a one year track record but last 7-years during which are still very young bank, only 11-years old, has seen exogenous shocks from the global and euro zone crisis and India's own economic challenges as I very briefly referred to.

I am also very pleased to share that there is no sale to ARC and more and more we are averse to sales to ARCs because in our judgment not necessarily a best practice and we will try as much as possible to refrain from such sales, face the problem rather than defer the problem.

I do not want at this stage to talk about the industry issues but I am sure if they come up I will be very happy along with Rajat and my other leaders to talk about specifics of total focus. I do not know whether we had spoken about our overall asset quality. On provisioning, we have maintaining provisioning at a level of 72% and our overall restructured book has been maintained at 0.5%.

Moving on, our capital adequacy was at overall level of 15.6% with the Tier-1 capital standing at 11.5% and core CET was at 11%.

Two or three important developments: We have taken board approvals enabling approval for raising a billion dollars of capital in the form of an ADR and possibly GDR or QIP. We believe that this enabling approval subject to shareholder approvals in our AGM in June which usually is valid for a year is an important approval that should an opportunity arise and should the growth data points stack up as they have in the last 2-3 quarters, at least we will be well conditioned internally to be able to raise capital although there is no urgency and we are also exploring whether we should consider and pursue an ADR which can help us to create many more long investors in our shareholder register.

We have also taken board approvals to apply for an offshore banking unit in the recently approved center in Gujarat in the GIFTCity which will allow us as and when we get requisite approvals from Reserve Bank of India it will allow us to improve our foreign currency borrowing capacity given the fact that we have a fairly good overall rating of Baa3 which is the same as the top three private sector banks and is equivalent to India's sovereign rating. So, as we get this approval from RBI and set up this office, which we believe can happen in the next 60-90 days it will significantly enhance our dollar funding book and naturally in the process also help us to improve our trade finance earning capacity as well as our ability to finance the activities of Indian clients overseas.

In the quarter gone by, we signed a very significant MoU with the American government's arm OPIC for \$220 million facility which was enabled by Wells Fargo and the OPIC arm which gave us \$200 million and this is being finalized and will cater to micro SMEs and our SME



*YES Bank Limited
April 22, 2015*

portfolio. Apart from that, the bank has been getting regular recognitions at various awards including trade finance and CMS awards at the Asian Banker in Hong Kong recently.

Since we are important shareholders on this call, I am very happy to share with you that the board has approved subject to final shareholder approvals a dividend of 90% Rs.9 practically in our 10th full year of operations and which is an increase of about 12.5% over last year and we paid Rs.8.

With this I request my colleague, Rajat Monga to add a few comments and we will take questions thereafter.

Rajat Monga:

Thank you. I think we had a drop in the call while we were speaking, so I will use this opportunity just... maybe some of them might be repetition but I will just highlight some of the facts and figures that we were presenting. Starting with the developments on the restructuring of loans, the bank has had a small increase in its restructured loan book and that book stands at about 0.5% or 50 basis points of total advances and that has primarily been driven by one single account that we have restructured which was on account of a shorter delay in the commencement of operations of a Road project which had as a moment of truth occurring in this March quarter. The restructuring has been done under the RBI dispensation which has been withdrawn of late...the point I was making here is that this account will continue to be classified as standard restructuring even in the new RBI prescription for restructuring. So it continues to be an allowable condition in which loans can be restructured and continue to be held as standard in terms of asset classification. It was just a timing issue where we had to prepone the restructuring in this quarter itself.

A little bit more detailing on the provisioning for the current quarter:

Total stood at a number of Rs.126.2 crores for this quarter as compared to Rs.72 crores of the fourth quarter last year. This is mostly good provisioning and the breakdown is as follows: The NPA provisioning is about Rs.12.6 crores, the general loan loss provisioning is Rs.47 crores on account of increase in loan book. We have stepped up our excess provisioning and we have taken Rs.51 crores in terms of our countercyclical provisioning buffer in the current quarter and another Rs.16 crores of provisioning has been taken for unhedged foreign currency exposure related as well as some residuary provisioning matters and these two add up almost equally to about Rs.16 crores. And our countercyclical provisioning basis we add in the current quarter continues to be at 50 basis points and has just been kept at that level to compensate the increased base of loans as well and the loan growth has been a little bit sharp in this current quarter.

We also wanted to put some facts on a couple of sectors in this presentation:

Starting with one sector which has possibly been mentioned in a recent coverage from a research house, on steel sector, the bank has about 3.3% exposure to this sector and I just

wanted to highlight the fact that two-thirds of this exposure is rated 'AA' or better, it is overall 3.3% of the bank's exposure segment and has fairly good sort of borrower base here, this also includes bonds and credit substitutes. So the two-thirds of the steel sector has a rating of 'AA' or better and these are the best of steel NIMs that we can get in our country.

Some of the other exposures while they are highlighted in our result summary, we have 1.7% exposure to power projects on a loan book and these are predominantly in the renewable energy space, maybe one odd exposure is there to a project under construction which is in the thermal space and that too a small project and it is not in the stressed account category either. We have a total exposure to the road sector at 1.3% of the bank's loan book and like we were discussing, one of the exposures in that has been restructured in the current quarter. So, we thought we will just put some of these pertinent numbers as part of our presentation. I think we will take a pause here and possibly open out to questions.

Rana Kapoor:

One or two other points, I am sorry, we missed out; our single biggest investment in people has now gone up to 10,810, so we crossed the 10,000 mark at the end of Version-2 which is an increase of 2,012 executives in the last 12-months. So it was a single biggest increase in headcount in a single year since we started business in 2004 and we will hopefully continue to hire even 3,000 people a year in order to expand our Retail businesses both on the liability side as well as Consumer Lending and SME Banking. The branch network has increased to 630 and the ATM network is up to 1190 ATMs. Book value is approximately Rs.280 after fully accounting for the Rs.9 dividend.

Moderator:

Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania:

I had a couple of questions: Firstly, on capital adequacy, what is your threshold Tier-I, CET-1 maybe?

Rana Kapoor:

It is right now at 11%. Threshold for our bank given the fact that we have predominantly a domestic lending book it could be at a level of around 9% or so.

Mahrukh Adajania:

It has not gone up to like say 10.5% because other banks say it is 10.5% or maybe even 11%, so that is not the case for you?

Rana Kapoor:

If I was talking to RBI, I would say 9%, because we have that kind of eligibility in headroom, but from an overall prudent standpoint in the past we have triggered capital raising levels of around 9-9.5%

Mahrukh Adajania:

So, in that sense, there is really no hurry to raise capital even...?

Rana Kapoor:

There is no hurry, our ROE is just creeping up, back to 19% and we have enough capital stocked up for at least the next 12-18 months of growth, but if there is a good opportunity, why

not, especially if a window for ADR opens up, we would like to be one of the first ones to tap that window. I do want to mention here that we are going in for a sponsored ADR level-1 and have appointed JP Morgan as our depositary, so next 30-60 days as the notifications come through, we will be looking at a sponsored area level-1.

Mahrukh Adajania:

Could you discuss your non-fund strategy because again a lot of private banks have started building up their non-fund book in a very strong manner, so your thoughts on that and associated with those? Will the profile of your non-fund corporate exposures be similar to your loan breakdown in terms of exposure to mid-corporate, large corporate?

Rana Kapoor:

This is a two-fold question; on the first part, as you know, our Non-Interest Income as a percentage of total net income was at 37.7% in this quarter which is slightly lower than last year at 38.2%. As you would know, the bulk of this non-funded income comes from predominantly four different sources. Two or three areas which are growing very nicely is our transaction banking revenue which contributed almost Rs.156 crores in this particular quarter. Treasury has been steady, was at about Rs.116 crores which is including Rs.21 crores bond gain. Financial advisory which is more lending related, corporate finance related was at about Rs.209 crores and the number that we feel happy is about which is steadily improving quarter-on-quarter and the trend lines there are very-very encouraging, has gone up to a level of Rs.109 crores. So, this is a very important part and composition of our future growth. The emphasis of the bank is to naturally work towards Non-Interest Income which is focused largely on annuity income sources. So Transaction Banking is accreting very-very well. Retail Banking which is more driven by our Branch Banking operations has been growing very steadily, if I share the numbers with you, in the first quarter of the fiscal year gone by, it was Rs.52 crores, second quarter went to Rs.58 crores, Rs.73 crores in the third quarter fiscal '14-15 and increased to Rs.109 crores. So a very-very good step up in Retail Fee contribution and I am sure Pralay will talk about it and be able to improve on these numbers further. Similarly, Transaction Banking Fees has been steadily improving from in the first quarter of fiscal 14-15 of Rs.128 crores it has improved in the fourth quarter to Rs.156 crores. And the other two components – Treasury and Advisory – continue to be stable at their present levels but in terms of percentage composition, Retail and Transaction Banking are growing quite well. This composition will start getting even more and more driven by annuity incomes. On the second part of your question, the credit profile of our fee income business is even better than the loan profile because a lot of this income really comes from clients driven by cash management mandates, ERP mandates, trade finance which is where there is a lot more let us say export and import activities. So the credit profile of the non-interest... is a very good question by the way is even better and within the credit profile roughly about 45% is non-credit revenue. It is very important for me to emphasize this point that out of the total pie approximately 45% is not driven by any form of credit consumption because Retail is not just Retail-lending driven, it is driven naturally more by Transaction Fees and similarly, the Cash Management business and the Trade business is far lower credit deployment. So this is a very important part of overall return on capital employed and rate of principles.



*YES Bank Limited
April 22, 2015*

- Mahrukh Adajania:** Actually, my question also related to the non-fund based exposure. So, fund, non-fund...
- Rajat Monga:** Let me narrow that answer down to your question a bit. All the non-fund business results in fee income. There is no interest income to be earned on non-fund business. The reason we do non-fund business is because it is generating fee. There you can include foreign exchange forwards, you can include LC, you can include guarantees, and you can include services which are related to many of these functions. So they all contribute to non-interest income. Like Rana was mentioning, the exposure that results from these businesses which are presented on off balance sheet are much better quality than let us say both in terms of NIMs as well as in terms of transactional design. LC will naturally be retiring by the transaction of goods. So, there is always goods sort of underlying which is moving, which is just supporting the LC transaction. If it is LC for any capital imports, it will always be supported by a term loan that will take out. So it is all part of within a financing design. It is not a standalone business. If some bank is doing this on a standalone business, I would be assuming that it is risky. All this has to be done as part of the same working capital and the same term structure of financing that we are setting up. It cannot be standalone. The only standalone business we do here is where we take FDs as collateral, so we do it against cash.
- Moderator:** Thank you. The next question is from the line of Vikesh Gandhi from Bank of America. Please go ahead.
- Vikesh Gandhi:** Rajat, I had a couple of questions: One is your loan book has grown strongly in this quarter sequentially. What I was looking for is I do not know if you have it handy but of the 90-odd billion done in this quarter customer assets, how much would be new customers and how much would be to existing customers, something in proportion of a percentage would be fine ballpark if you have it?
- Rajat Monga:** Vikesh, naturally I do not have hard numbers on this, but we can leave a little bit of a sense that we have may be in view of hard data here. You must have seen that our share of Retail and SME has gone up about 32% to 35% just in this quarter.
- Pralay Mondal:** So, if we look at it, I think that is a combination of both new and existing customers and it depends also a lot of cross sell which we are doing to our existing customers as well. So, definitely, when we are cross selling to existing customers they could be with us for a while but this has new penetration through the existing customers as well as new customers, which are coming to the bank.
- Rajat Monga:** Let us put in the sense in terms of both Retail and SME: These things also happen through expansion of our Supply Chain Financing Programs. So let us say we are financing vendors and dealers of some company which may also be a client of ours in the corporate segment or may not be, but if we are financing their vendors and their dealers, we work on ongoing expansion of that program. So last year we have agreed with them that we will look at the western region, this year we are looking at Pan India. So, the program is the same, sometime

risk is the same, but yes, actually it is getting spread over a wider sort of structure of borrowers. Again, while they might look like they are new borrowers, but they are part of old design in terms of structure and risk that we have been observing and working through may be in earlier months, etc. So, it will be ultimately very hard to come down to a number how much of this will be stand out brand new customers according to me a minority. If you allow me the linkage as a sort of criteria for deepening rather than brand new. So, a lot of our developments are happening through these reference links and not through outright lending on the let us say on the street as such. We work through (CRM) Customer Relationship Management framework, we know by name and by qualification how much we want to do with who in terms of our business including the companies who supply chains we want to bank, what kind of supply chain structure will be put there. So, all of this is preexisting in our planning and we are only executing and what you are seeing is the outcome of that execution which has picked the pace.

Vikesh Gandhi: A couple of small things if you can share: So what would be now the PSL bought out portfolio?

Rajat Monga: PSL bought out portfolio this year, let us say in terms of the PTC structure that we used to do if you remember, is zero. So, we have not bought any new loans through the PTC structure while we are continuing to hold the older purchases, which are running down as the underlying loans are getting repaid.

Vikesh Gandhi: What would be the outstanding as on date?

Rajat Monga: So, let me put it in a manner that if you have to fulfill 40% PSL, so 4 out of that 40, which means 10% a priority sector, so 4 out of 40 is the old declining PTC.

Vikesh Gandhi: Just circling back to the same original question what I was looking in that loan mix I found of that incremental roughly 35-40% of that was in the category called granular/retail. A large part of that I would assume would be around this PSL satisfaction, right?

Rajat Monga: Let us say main reason will not be PSL, but if I have to oversimplify a situation and if I divide the Retail Lending into Commercial Retail Lending and Consumer Retail Lending, the Commercial Retail Lending is almost entirely overlapping with PSL, not for us, for everyone and Consumer Retail Lending other than may be affordable housing or low cost housing does not overlap with PSL. The execution outcomes are clearer on the Commercial Retail Lending and a little bit early on the Consumer Retail Lending. Whatever is happening in the currency of our Retail execution right now is predominantly is also covering up for PSL. Let us say we would not have acquired any Commercial Vehicle Lending portfolio, which we would in the past years, for example, also because we have substituted that otherwise PSL by our own it could be a micro lending design, so we have a micro lending book which we do through to lend to self-help groups we have acquired our own origination and credit sort of design to support it, it is doing very well. We have moved into the SME space, we have been discussing

in the earlier question also. Predominantly qualifies for PSL. So, PSL which was a fulfillment issue because they did not have the organic plan to support it, is no longer a challenge. Our organic plan is not being designed to create PSL, it is a natural outcome, it happens to be PSL as well, and we still have a problem by the way on the natural PSL in direct agri small and marginal farmers. We do not have a great natural plan there. So, if we are buying anything or if we are exchanging any risk participation with banks we are doing that for small farmer exposures that we are not able to yet do by ourselves, which will also come once we get into a rural strategy properly that we are beginning to execute but the results will take some time to show up.

Vikesh Gandhi: Rajat, there are two small things if you can share; can I have the breakup of your provisions for the full year and also the NPL movement as well in additions for the full year?

Rajat Monga: Our total provisioning for the full year is Rs.340 crores, out of which there are some reversals as well, particularly related to investments so we have Rs.58 crores reversal on account of investments, because we have taken provisions on investments previous year and got reversed out in the current year. So you add that back that will be almost Rs.400 crores. Now that is being divided into general provisioning of Rs.98 crores, the NPA specific provisioning of Rs.130 crores, our excess provisioning, what we also call countercyclical provisioning was Rs.105 crores and the remaining is between unhedged exposures and some residuary provisioning that might come and I think that will stack to about total of Rs.50 odd crores.

Vikesh Gandhi: Also, the breakup of NPL movement for the full year; additions/reductions?

Rajat Monga: Addition of NPL is Rs.387 crores, recoveries and upgrades add up to about Rs.200 crores, write-off is Rs.50 crores... I am just giving round numbers.

Moderator: Thank you. The next question is from the line of Nitin Kumar from Prabhudas Lilladher. Please go ahead.

Nitin Kumar: We had a very strong year in terms of loan growth ending at almost 35% odd and now we are expecting environment to pick up in the second half. So, in that context, where do we see the loan growth for FY16? And related to that, where do we see the credit substitutes going ahead like it has been some decline for them this year?

Rajat Monga: Yes, the growth has been higher than recent years that we have been delivering. Naturally it is benefiting from the fact that the bank's view on the emerging environment has got far better. Our own internal lead indicators for asset quality are getting better, and when I say that NPAs and restructurings are not lead indicators, they would be lagged indicators, but the fact that there are other indicators on asset quality which are improving and we raised capital about 10 months back. All this has been helping us put our growth strategy together. So there is reason for us to take the strategy forward into the next year as well. I do believe that the growth numbers will be not as sharp as 35% that we have this year, but I think we will look to target

growth outcomes of somewhere may be low-to-mid-20 percentage points, also depends on how good the opportunity landscape is, so maybe notch higher or notch lower in case we are responding to something which is more current in that period.

Nitin Kumar: Secondly, for us the cost of funds has come down sharply during the quarter. Recently, we have made some changes in our SA rates. So, can you just elaborate as to what has driven this decline in cost of funds?

Rajat Monga: Yes, the cost of funds and yield on loans have both fallen, the cost of funds has fallen by 25 to 30 basis points, and yield on loans has fallen by 20 basis points in the quarter gone by. The growth also has been good in the quarter and the margins have begun to lower. So, one is that all the new growth that has happened has happened in new rates largely. There has been a little bit of an outperformance on the Deposit side. That is largely related to mix improvement. So whatever it is, CASA has been improving in a sense that will give decimal level improvements on margins as well. So, the influence is largely of both falling interest rates as well as of the growth that the balance sheet has added which comes clearly at the fresh rates. Mostly, you will see other banks would be reporting less changes on their yields that we are. The second part of your question was relating to change in pricing in Savings Account. So we have not changed the pricing as such, so the Savings Accounts continue to be at a level of 6% pricing and 7% pricing, we have raised the threshold for 7% pricing, but from 1st April 2015. So, there is no impact whatsoever in the fourth quarter other than just quantity, and we also are using the threshold movement to also calibrate the part of the Savings Account book which is at 6% and 7% so that we can have some balance between the two sort of price levels as well.

Nitin Kumar: So how much benefit can come with this change in the cut-offs on the SA side?

Rajat Monga: It will be about 20 to 25 basis points, that is the SA book potentially, the cost of SA can lower by. And again, it is a function of what could happen is that our customer who let's say has about Rs.1.5 lakhs in its Savings Account may also decide to deepen and may be increase it to Rs.3 lakhs. If that happens we will see volume growth, but we will not see reduction in the cost of Savings Accounts. If he let us say for whatever reason continues to be in status quo but his interest yield will fall to 6% then we can see as much as 30 basis points, let us say improvement in the cost of funds of Savings Accounts. Somewhere we think the latter will happen much more than the former. So, therefore 20 to 25 basis point sort of Savings Account costs that we are expecting will get lowered by.

Nitin Kumar: What is our target level on countercyclical provisioning, like now we have over 1% there?

Rajat Monga: We have about 50 basis points to loans. Our target is 1%. The target also gets harder when the loan book grows because that also creates... for example, we have taken about Rs.50 crores of such provisions in the current quarter, but I have not been able to improve the percentage to loans, they continue to be the same, because the base expanded sharply.



*YES Bank Limited
April 22, 2015*

Nitin Kumar: How is our Retail business shaping up particularly the Consumer Lending if you can give some more color on that?

Rajat Monga: I will borrow Pralay's help on this question since he heads our Retail Banking business.

Pralay Mondal: I think overall sentiment on the Retail side where the execution is happening is pretty good. And as I said before I would like to repeat that we don't want to look at a segment called retail assets separately, retail liability separately, Business Banking our part is separate, but a lot to do the Branch Banking. So, we are trying to build a franchise because even what previously Rajat was talking about the fee income, why we are seeing a consistent growth and that will happen whether the liability or assets or rural assets as well as low end business banking. This will all granularly grow over a period of time because we are growing all these on the growth of the branch network, the customer franchise and more and more customer acquisition. So the way I look at is that both retail assets as well as fee income and the granular Business Banking will be a lag effect of the liability franchise which we are creating. While three years back we started aggressive journey on the liability franchise which is starting to show some results. We could see as a lagged indicator of these in the retail assets as well as Business Banking. Now to give you some numbers, we have sort of on a very low base we have almost doubled the portfolio on the retail assets this year and we will continue to grow even at a faster pace next year, because, we believe that the liability franchise is going to grow at a rapid pace, but that is on a very lower base. In terms of contribution still it is very low when it comes to consumption part of the business. We have seen a much more rapid growth on the low end Business Banking side. We had started something called Emerging Business Banking which is between Rs.0 to 10 crores turnover and typical ticket size is around a Re.1 crore and that business by a number of customers in the last year has been significantly higher than the overall Business Banking which we build over the years. So, this is the beauty of retail the way I have seen it and today we are fairly confident the way the entire retail franchise is building up. There will be reasonably a positive impact of the retail franchise on everything, whether it is business banking, retail assets or liability franchise, because, we are looking at the core of customer franchise at the end of the day and which is true as I said before for the fee income as well. And in one of the calls I said before that we don't target fee income in Retail. We target cross sell of income to the customers and hence whatever we do, whether it is retail assets, business banking, or fees, will be a consistent growth always on the back of the retail franchise growth. So, that is a long answer to the short question. In terms of numbers, Business Banking has grown by whatever 35 to 40%, Retail has grown by almost 100%. So these depends on the base which we are talking about, but that is not the true story, true story is how we are building the consumer franchise in the Retail side.

Moderator: Thank you. The next question is from the line of Anish Tawakley from Barclays. Please go ahead.

Anish Tawakley: Rajat, I just wanted to go back to the off balance sheet exposures. The off-balance sheet non-funded exposures have gone up from Rs.290 billion to Rs.414 odd billion, last year was

Rs.229,000 crores, so that is gone up 45% almost, as you disclosed in the Basel statement. Could you quantify what is the RWA associated with these and how much that would have moved up? And then, like I just wanted to understand, if non-funded exposures go up that much, should not we see that in the Transaction Banking fee going up because that has not gone up as much?

Rajat Monga: RWA yes, so we have also put the RWAs here; RWA have gone up from Rs.13,000 crores to Rs.17,500 crores. So, there is about 30% increase there also.

Anish Tawakley: Rajat, if you could start disclosing this consistently that would help, some of the other banks do it on the off-balance sheet RWA?

Management: It is not a part of the Basel disclosure.

Anish Tawakley: No, it is not a part of the Basel disclosure, but some of it is in the presentation.

Rajat Monga: That is hardly a challenge, so I donot know if we have done for this time already, but if we have not we could include this,this is a straightforward number. We do have a little bit experience, Anish, on this side and margins are little bit under pressure on the off-balance sheet business, so I would definitely acknowledge that, if you are happening LCs and LCs the commissions are little bit falling.

Anish Tawakley: I understand that. Rajat, then can I just ask that is the strategy to build this RWA going forward or is it that you have surplus like you have got raised capital and you have a lot of capital now, so you are making the equity sweat by deploying this temporarily, so do I get this...?

Rajat Monga: There is clearly that factor, Anish,as well because these are very high churn businesses,so, let us say one year ago when we were not as endowed with capital,you would not do low yielding business, let us say we were going slow with government companies because if I have to do one crude container LC for a BPCL or RIL or anyother crude importer,it is a 6 to Rs.700 crores LC a single transaction and you earn pittanceon some of these.....

Anish Tawakley: So over time then I would expect this as you start deploying more capital in the fund-based business to deploy less capital in this?

Rajat Monga: It is a very fair assumption. Let us say we will begin optimizing; thresholds will be raised. So, rollover of some deals will become more challenging, that is correct.

Anish Tawakley: The business that you build through gift will it be treated as exempt from SLR, PSL because it is effectively offshore?

Rajat Monga: Yes, correct.



*YES Bank Limited
April 22, 2015*

- Anish Tawakley:** So that would be an advantage going forward?
- Rajat Monga:** It is actually we have been pursuing our wish list of having an international branch with the Indian regulators, have not succeeded so far. IBU is almost 100% proxy for that.
- Anish Tawakley:** So like in the 60-90 days, this will be operational?
- Rajat Monga:** I was asked this question and the example I gave is that this will be something like BKC, something will start right now, but there will be developments happening in the physical let us say outcomes in GIFT City over the next five to seven years.
- Anish Tawakley:** But how quickly could you transfer some of your book to this?
- Rajat Monga:** There is nothing to be transferred, it is all incremental, for example, if we have to do business with an Indian company subsidiary overseas, we today are not able to do that business.
- Anish Tawakley:** I understand that, but you could run down a domestic exposure and create equivalent exposure in that entity?
- Rajat Monga:** Theoretically possible, but no reason why we would do that because in any case the business that we are doing in the overseas subsidiary is going to be guaranteed by the Indian company very likely.
- Anish Tawakley:** But would not the SLR, PSL come down as a result, you would get an arbitrage benefit there, right?
- Rajat Monga:** Let us say there is a foreign entity which is a subsidiary of an Indian company that has the funding requirement, it is somehow managing it from local banking there. We will have our higher comfort on the same exposure because we have an Indian company we know very well who is guaranteeing it. So, that company continues to get some banking, but it is not optimized. We will be able to optimize it better for them, we can take longer tenor exposures because we have that comfort with the Indian parent. So, it will not result in us moving out of the Indian parent exposure, but, yes, we will have to still block the Indian parent exposure, because it is guaranteeing the child.
- Anish Tawakley:** I understand that, but if you lend to an Indian entity in India, you have to put SLR, PSL against that, right. Now, if you lend to the subsidiary of that same entity offshore, you would not have the SLR, PSL requirements, right?
- Rajat Monga:** But, we will have lower spreads in each mostly.
- Anish Tawakley:** But you will still get some benefit on the SLR?

Rajat Monga:

This is not being done for CRR, SLR benefit, let me at least emphasize that nor is it being done for PSL benefit. What we are facing today is an incomplete product offering to our Indian customers because we just cannot service them for their global expansion requirements, we have no approach. So, this will give us that approach and if I have to take this to the other extreme, we also have a poor approach to nonresident Indians, because, we do not have any distribution outlet nor can we package structure, any wealth management offerings for them. So, the challenge we had is not having that vehicle. This is just that vehicle which will allow us to complete our offerings. The design is not going to be saving because we firstly to save PSL, CRR, SLR, we might as well do more intra-bonds in the domestic market, for example, and nor can we scale this infinitely, after all this will be Indian exposure, dollar-denominated, there will be capacity limitations, funding design has to be set up under the aegis of this IBO. Thankfully, we have had an international rating from Moody's and for the last four years now, it is that 'Baa3', which is an investment grade rating. So the start can be good, but it will be reasonable hard work in terms of marking that happen.

Moderator:

Thank you. The next question is from the line of Chetan Vaidya from JHP Securities. Please go ahead.

Gaurav John:

This is Gaurav John here. If I see the Advances growth, it has picked up to about 36%. So, if I see the break up, the corporate share has come down to about 4% and the Retail and SMEs gone up. So can you just please explain that?

Rajat Monga:

The recent loan growth particularly over the last one year let us say has had higher share of loans being given out to SME and Retail category, and a lesser share given out to Corporate, So, 72% Corporate and 28% Retail and SME last year. We are now about 34 and 66, about 6% shift of business in favor of one segment and we have grown 35% in this period on the overall book, that broadly will mean that we have grown about 20% in Corporate and about 50% in Retail and SME. So, the recent growth has not been one-third/two-third, but possibly a little bit in the other way, such that the share has moved more in favor of Retail and SME, and we have seen recently significant shift in the fourth quarter as well, I am also factoring that, some of this change will correct also a bit, it will not just go only up because there is also a priority sector fulfillment bias which creeps in towards the end of the financial year and naturally SME and Retail benefit for that reason, it is also a seasonality in the Commercial Lending that we do in SME and Retail. So some of this share which are shifted in favor of SME may also reverse bit before it starts growing again. We ourselves have to see the stability of this, because these are the numbers which have moved quickly. So, we will not take them just a face value, we will also want to see how they are panning internal, the next in line developments, other concurrent indicators before we also begin to suggest that the shift is happening. We finally want to shift the mix between Corporate and on the other hand between SME and Retail to a 50-50 book that we are putting out a 4-5 year trajectory, because if I extrapolate the Q4, we will be there in one year, Q4 has its bias, it has its seasonality, we should look at some of the numbers only on a year-on-year comparison and not sequential quarterly comparison, because seasonality creeps in.



*YES Bank Limited
April 22, 2015*

Gaurav John: What would be our strategy in Retail in terms of contribution going forward and if I can have the number of only Retail?

Rajat Monga: We ourselves have not been able to define Retail. So, therefore what we are saying is that, okay, this is exposure which is corporate in nature, the other is SME or Retail in nature. SME will have a gradient from large SME to micro SME. We have micro borrowers that we lend to self-help groups and direct micro lending. Retail can also be a proprietor who is borrowing, it could also be for car loan, it could also be for credit cards or mortgages because the lines are not well drawn. Where we can draw line well is between, which is what we draw is between Corporate because the nature of business management, risk management, exposure management, cross sell is different from the nature that we have in SME and Retail. There is more homogeneity of business management between Retail and SME than there is between Retail and SME put together versus Corporates. That is the reason we draw this line. You will also see that our teams are different, risk people are different, a corporate risk person will not migrate to managing business banking risk, but a retail risk person can easily migrate to a business banking risk management role because of the homogeneity of those businesses. I don't know if you tell me what exactly you understand by Retail then I can maybe in narrow my answer better.

Moderator: Thank you. The next question is from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P: The question is on, we have had fairly a good year in terms of asset quality with credit cost being less than 50 bps including the floating provisions. Just wanted to check your sense on some of your marked accounts or say what you all think are stressed in your books as to how things are panning out in terms of the performance there and is there a risk to credit cost getting into FY16?

Rajat Monga: I was mentioning on an earlier answer was that there had been a reversal of provisioning in the last year. So, if you add it all up, we would have taken about 60 basis points to P&L on account of various types of provisioning not adjusted for the reversal of investment provisioning that was coming from the previous year. If I have to give an outlook for FY16, I would suggest that we will be giving a similar indicator that we gave at the beginning of last year, where we were anchoring our credit cost between 60 to 80 basis points. I would reckon that we will be approaching this year with a similar number.

Adarsh P: Some sense on how some of your internally difficult marked accounts have behaved or any stress that you see there?

Rajat Monga: Let us say there would be various indicators in terms of how you want to relate to stress. So, one of them could be let us say may be not necessarily related to the stressed accounts, but the not-so-stressed-accounts included one measure what we can look internally is rating upgrades and downgrades. So, for the last two to three quarters, we have seen the upgrades are higher than downgrades in our internal risk rankings and increasingly so over the last three quarters.

In terms of degree of delinquency, in our data we saw September was worse than June and previous March and December has been better and March yet better than December and this will be an indicator of what your question was in terms of, let us say the marked assets in terms of which have some otherwise observable stress indicator, in this case could be days of delinquency for example. Last year indicator seems to be that September was a bottom and December and March have been progressively better. I would love to extrapolate that, but I think we still have to go through the motions of the next year, not everything will improve equally, and therefore some will give us the reason to that is a worry about our credit cost budgets.

Adarsh P: And the 60 to 80 bps of credit cost hopefully would not include any drawdowns, right, because here you are allowed to drawdown 50% of that now, so?

Rajat Monga: Yes, last year also, Adarsh, for example, we did not use 60, we actually still were able to squeeze a bit into the countercyclical provisioning, and we also have taken a fairly decent load on general loan loss provisioning. So, let us say the credit environment worsens for whatever reason. Naturally, we will pull our growth back. So that will also take the share of GLL lesser or away from the credit burden that we are currently budgeting. If we are showing less NPA-related provisioning, then we are forecasting, it will also give us an opportunity to step up on our countercyclical provisioning, which is what we do but there is also a function of how revenues perform. So if we have a little bit of let us say out of line revenue trend we also can let us say increase our specific provisioning cover, etc., and may be also see if the countercyclical provisioning is needing a little bit more additions. So, it is a little bit of calibration and the worst case is that all of the 60 and 80 basis points is used up for a specific provisioning on account of NPAs.

Moderator: Thank you. The next question is from the line of Dhaval Gala from Birla Sun Life Mutual Fund. Please go ahead.

Dhaval Gala: My question was what would be the margin progression looking like say in FY16? Seeing that the cost of funds have reduced very well in the last 2-3 quarters, still, our margins did not go up and the base rates have not changed. So if you could explain how much of the spreads have reduced between the base rate and the actual lending rate and how does that go forward? And if you could also link that to maybe the change in concept of calculations of the base rates going forward? Second question would be your general view on interest rate and how will that impact say overall investment book and outlook on how the credit substitutes book will go forward in FY16?

Rajat Monga: I will firstly possibly put in a little bit of downside variable to NIMs, which we have experienced in the last 12 months or so. One of them we have been discussing on our calls is LCR, and the other which has become more relevant in the last two quarters is the leverage which is creeping in on account of growth. Our estimate is that LCR would have taken up about 15 to 20 basis points of margins away. So had we not the LCR regime beginning in the

middle of last year, our reported NIMs may have been as much as 3.3 to 3.4. The other factor which I was describing to you is leverage. So let us say our loan book has increased about 30% since we raised capital. That adds about 2x of leverage to the balance sheet, which basically reduces the share of equity in terms of funding to I would say, a factor which will result in may be 6 to 8 basis points of fall in NIMs.

Dhaval Gala:

But you also raised capital so you would have got more benefit?

Rajat Monga:

So, the capital gave us a benefit of 25 basis points, which we reported in our NIMs, so our NIMs were 3% in Q1 and they improved to 3.2% in Q2, they should have been 3.25%, but LCR was already kicking in, LCR coverage for us has increased in the March quarter as well, LCR has been taking away as much as 20-25 basis points progressively from NIMs. And the second factor which I was mentioning to you was the mathematical challenge which NIMs have because of increasing leverage. So, when I have a book which is a 3.2 margin because it is 10% equity funded, the business which does not include equity is only 2.3 to 2.4% margin earning.

Dhaval Gala:

But if you look at since first quarter your Tier-1 ratio or you look at the leverage ratios, would not have moved so much to impact your net interest margins considering the cost of fund drop which we have seen?

Rajat Monga:

No-no, so I will add cost of funds on top of that. So what we are seeing, Dhaval, clearly is the increase in spread. So, if you look at our yield on loans, trend, and compare it with a trend of cost of fund, you will see an increase. But the question I was answering which you raised is that but NIMs are not increasing because there are non-loan and non-fund related factors. Fund includes deposits and borrowings, which are LCR and the mix of equity in our balance sheet. These two both in advance factors. So, about 30 basis points of NIMs have been let us say sacrifice on account of these two developments. This is just mathematical outcomes. So, if I raise capital and my business construct is constant, let us assume, nothing changes. If we raise capital, our NIMs will increase, right. As we now leverage that capital, at the same let us say design, no change, same loan rate, same cost of funds. My NIMs will still fall because if I remove equity from my business we do not make 3.2%, we make 2.4%, which is what I was saying that any new business that we do is all 100% debt-funded or deposit-funded which gives me an incremental NIM of only 2.4%, everything else being the same. So my NIM will always have a corrective process on account of leverage increasing in the balance sheet and this year there has been, because there is a 30% growth. So, this 30% growth is what I was translating into 5 to 8 basis points loss to margins, but a bigger factor has been LCR, in the fact that we are maintaining 5 to 6% excess SLR all the time, you would get away with 1 or 2%, it is an overkill but we still have to do it. What will also happen is that naturally LCR is related to Retail Deposits. As Retail Deposits grow in our liabilities, we have done pretty well in the last few months, this year has been pretty good on the mix side as well. So LCR will keep reducing in time in proportion terms, maybe because our size is increasing, LCR might still

increase in absolute terms, I am sorry, HQL, liquid assets that we are holding. I do not know if I have answered your question at all.

Dhaval Gala:

No-no, the only thing I also wanted to know is when do you look to reduce base rates and how do you look at the new base rate guidelines?

Rajat Monga:

On NIMs if I just conclude, having said all of that, we still believe NIMs will increase progressively because CASA is increasing, granularity is increasing, non-CASA deposits are increasing, and Retail Loans are increasing. So, all that is doing well for us. Our dependence on purchase of PSL is reducing. That means we are doing loans which qualify for PSL by ourselves and we are doing that at market yields and not at purchase yields which can be 3-4% lower. So, all this is helping the headline of margins and I am assuming there is going to be an improvement lining up 10-15 basis points every year for two-three years that we can currently ballpark with. On the base rate question that you are raising, we currently have actually not so much of rate issue, we have a growth issue today. We are growing at a fairly decent rate despite whatever the current structure of our base rate is. Now, it is not making imminent sense to us to drop base rates and possibly put another factor to growth. So the balance for us which has been currently holding us away from taking a lead from what other banks have done in terms of dropping rates has been that we are clearly growing faster and we have not seen the compulsion that other banks may have, some banks for example are not growing, it could be that they are still piling on to deposits, I do not know I am just putting a small hypothesis here. If they are still getting deposits, but their deployment is getting challenged, they will have to cut deposit rates to balance that factor. We have been growing at a good rate. It will make me lag on the deposit pricing. I will not be able to drop my deposit pricing given the growth sort of requirements that we have in a hurry. On the base rate formulae that are in discussion with the regulator, etc., at some level, regulator is saying base rate is done, we will have to find something else, at another level they are saying is that base rate should be linked to marginal cost of funding. Now, what I can confirm is that we use marginal cost of funding for our base rate computation so that does not impact us. What they have also done is asked banks to link their base rate to the most popular deposits, which means that if my most popular deposit bucket is 36 months, I cannot price my base rate of a 1-year deposit bucket even though I am giving only 1-year loan. So it is a little, let us say, debatable sort of stipulation, but it exists, and therefore we have to adjust to it when it comes to setting a base rate, so we have to tweak our base rate which means that we have to move from let us say a 3-month bucket that we have in our base rate design to a 12-month bucket, which is because we get our maximum deposits between 12 and 15 months. So we have to move that, our base rate computation to link to that particular deposit pricing. We have also had exchange of suggestions with the regulator that if the shift results in a change in base rate, can we allow a basis in the computation, which means that we should be allowed the switch without a change in base rate, and any error should become a constant in that computation and we have to formulize this with regulator, maybe indicating that this can be possible. Because we are only rebasing our base rate, there is no need to change our base rate because we are changing our deposit reference. Thereon the base

rate should change if we drop our 12 to 15 month deposit rate or increase that deposit rate, base rate should get correspondingly affected. So, our base rate dynamics are a lot more challenged by the fact that we are not in a hurry to drop deposit rates, because we have growth requirements, and therefore base rate is not really on the table in terms of action, and in any case the competitive forces are not too serious at this point in time, a few banks have dropped base rates by maybe 15 to 25 basis points. We will also do, but I think our time has not yet come.

Dhaval Gala: And your outlook on your investment book, credit substitute book, what would be your rate, how do you look at interest rate scenario, and that impacting say the book, which has been built for the last two to three years and will that also bring in more treasury gains?

Rajat Monga: Hypothetically, yes, our view is still that rates will go down through the year, we still budgeting for 50 to 75 basis points cut from RBI as well in this current financial year, which means that we should see about 30 to 40 basis points drop in yields as well, on the medium, long end of the yield curve. So that will correspondingly have benefits on the credit substitute book. To be honest, Dhaval, I am not measuring those gains, because even if what I am saying all that happens, I will not be able to sell out that book overnight unlike a G-Sec book, that book will take 6 to 9 months for the monetization to happen provided we take that call that, yes, we have to distribute the positions in the books that we are holding. So let us say, not really counting our chickens in that respect, I don't even ask what the gain in that bond book is, because I know it is going to be distributed, I have to wait for the buyers like insurance companies and provident funds to also get the monies that they are managing increased before they can buy assets of us for example, unlike G-Secs because they can be more readily sold. So there will be benefits, the book is not growing as rapidly as it has in its prime, also because supply has not been very forthcoming on the corporate bond side, particularly in our emphasis area, which is private sector, while the government sector has been issuing, but private sector has been much weaker. We don't buy from market so our book is not therefore correspondingly growing as much, and I am not complaining so much because the loan book is, both are growing, but one of them is growing, the other is a bit more passive. So it looks like the scenario is going to be like this for some time.

Moderator: Thank you. We have next question from the line of Nilesh Parikh from Edelweiss Securities. Please go ahead.

Kunal: This is Kunal. In terms of this Version-3, are there any quantitative targets either with respect to say the balance sheet growth or say in terms of the liability franchise, where do we see CASA or say the Retail Deposits going to any kind of targets in terms of say the network expansion which we actually had during the Version-2 strategy?

Rajat Monga: Kunal, we have not put out a quantitative plan. Actually, the design of our approach is more qualitative this time, it is more quality oriented, it is more business structure oriented, because some of these objectives which were let us say not in momentum five years ago are clearly in

momentum. We will not have to give you a five year picture to convince you that we will get there. We will be able to give you deliverables if not three months, every six to nine months, in terms of progress on the quantitative variables. So it was not making that much sense in terms of being able to put out a sheer number picture, yes, we will grow, we could look at a compounded average growth rate between 20% and 30% even in the remaining five years, and naturally all our variables have to be aligned, CASA has to do better than this because our CASA objectives will settle finally only in the 35% to 40% mix handle, they are currently in the 23% to 24% range. So that part is fairly well under execution. We don't have to do a whole lot more to expect that it will take us to 35% or more in another 4 to 5 years' time. So there is no let us say relevance for having hard coated quantitative objectives, because we are wanting to become a more meaningful relevant bank, a larger bank as such in this particular space, we can extrapolate some of the numbers that we have discussed to coming to some quantitative outcomes, but really we have not put that out even internally as far as like the earlier Version-2 we had first put it out internally, management board and we had also externalized it because we had a compelling reason to put out there to sort of at least show our intent. Over the last five years, we have been able to prove a lot of our capabilities, and therefore, we believe it is more a quality sort of mission that we are now focusing on than quantity.

Kunal: Just touching upon this aspect of CASA, so at what level of the Savings rate would we actually think of lowering the rates, which we are offering as of now because maybe the other banks have actually started lowering it. So are there any targets in terms of okay, once we reach so much percentage of the Savings Deposits proportion of overall, we would look at say cutting down the rates in terms of customer acquisition?

Rajat Monga: Of course, let us say, when we are (+35%) CASA, and we are closer to 25% SA, by then much of what you said should have happened already.

Kunal: Okay, so it should have already happened, so it would be like say gradually maybe moving towards that?

Rajat Monga: Absolutely, we cannot shock the business in any case, we will have to keep balancing, rebalancing the portfolios, we also have 6% and 7% pricing, we have to make sure that both have some purpose in the market, it cannot be one without the other. If you ask me, on a 6-monthly basis, we will have to be doing calibration. So we have just beginning April 1st, raised the threshold at which 7% interest rates become available to our depositors. That is again part of the calibration exercise, where the desire is to finally make the SA book possibly I would not say at the same cost as some of the more established banks are, because I think it will take us more than one interest rate cycle to get there, but in the current interest rate falling cycle, we should be able to effect most of this and also achieve our both quantity and quality objectives in the Savings Account book.



*YES Bank Limited
April 22, 2015*

Kunal: Lastly, in terms of Retail and say the cross selling, which you highlighted, so where we are today in terms of the cross selling of the products to a particular customer and maybe like three years down the line, where would we want ourselves to see ourselves at?

Pralay Mondal: Today, depends on which kind of products are you talking about cross sell, if you talk about core products, I think it is a journey for us. So to start with, we have now all the products which we have launched in Retail Assets, Business Banking, now we are launching Rural Banking products as well, and in liability, we have all the products possible, the only product which is left is credit cuts, which we will be launching in the course of this year, and we are putting our processes for that as well. So that is the first step to ensure that we start doing cross selling. Secondly, if you look at some of the data, which we discussed in the beginning in terms of fee income, one of the reasons that we are building up granular fee income is where we are able to start cross selling, whether it is investment products or mutual funds, and some of the retail assets products, and, of course, within the SME community, the Business Banking Assets business and trade FX as a fee, this has been cross sold very aggressively this year, depending on the need the customer has. So this is the beginning of the journey as we said, and we are granularly building it up. If you look at the core products, because I am not looking at debit cards and net banking, and those kind of products, then we are somewhere below 2, when you look at the entire set of customers, and in my view core products when you look at it, if we are able to go to a level of 3 in the next three to five years, that should be a large number, because we will continue to grow the denominator at a very rapid pace, but the way I want to look at it is a little differently, we would say that if we are doing emerging business banking business for example which I talked about before, how much of that business we are able to do through the Branch Banking, or to our existing Branch Banking customers, that is almost 90% to 95% of that business which we have built up is happening through the Branch Banking customers. If you look at especially the consumption side of the Retail Assets, we are doing 50% of the business through the Branch Banking. And if you look at other products which I talked about like fee-based products and other insurance and that is 100% through the Branch Banking. So that is the way we are looking at it. We are also looking at systems like CRM and other things which will help the front end sales guys to also cross sell, etc., so this is the journey. We have just made a beginning out there and our beginning point is having all the products, and we are already seeing some successes there. So that is the sort of stage we are in at this point of time.

Moderator: We have next question from the line of Sachin Upadhyay from ICICI Securities. Please go ahead.

Sachin Upadhyay: Three quick questions: One is, I wanted to know the cost of Savings Deposits for Q4FY15. Second is, Rana did mention that we are going to see some aggressive growth in terms of total employee strength. So while I was looking at overall person per branch, which was 16 last year, has gone up to 17 in current year, and if we are adding 3000 more people it might go to 19 next year. So is there a particular thought in terms of what is a branch set up that

we are looking at? And the third is in terms of yields on credit substitute, given the fact that the credit substitute book QoQ has remained flat?

Rajat Monga:

Sachin, Savings Account rate is 7% on average. The second part of your question is about people per branch. We do not look at that number at all because the people that we need in the business will be a function of what business we are developing, let us say, if we are developing now Loans business in Retail, if that requires more people, we will have to put more people to back it up, and as a consequence, it might mean there is a higher headcount per branch, plus it also is a function of how rapidly we are expanding our branches, so if we are expanding our branches at a faster pace, the number of headcount per branch will come down, because branch as such does not take 19 people, a new branch will be taking at best 10 people if it is a big branch. So these numbers are naturally weighed by support headcount, other sales headcount, we are hiring more people in technology to look at now the growing needs of both the bank as well as the digital outcomes that we are anticipating in our business. We also do not observe this number as much, so maybe I am not able to give a very good answer, but there is no real inherent change in the business strategy other than what we have been discussing on this call.

Sachin Upadhyay:

What will be the branch addition in current year as in FY16 that we are looking at.

Rajat Monga:

We should be looking at 100 to 150 branches, branches will be added maybe 20% growth number. The yield on credit substitutes is, if I take out the noise of NABARD instruments and/or any very short term positions, our yield on core credit substitute book will be about 10%.

Moderator:

Thank you. We have next question from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh:

Just a couple of questions: One is just to follow-up actually, in the earlier part, you had kind of indicated that the base rate is calculated, it is already benchmarked to marginal cost. So if I look at your own cost of funds, that has actually declined by more than about 40 to 50 basis points over the last three to four quarters, so the marginal cost should have been lower than that. Why is there no corresponding linkage to the base rate? That is the first one. The second one, QoQ there has actually been an increase in cost of funds. So just if you could link both of these two?

Rajat Monga:

Let me maybe add a bit of clarity on base rate marginal cost of funds. Strictly speaking, it is marginal cost of deposit, it is linked to a deposit rate, and we use retail deposit rates for base rate.

M.B. Mahesh:

But should not that have seen a similar decline as well?

Rajat Monga:

Retail Deposits we have not dropped only. So all you are seeing is the mix impact on cost of funds, including the fact that borrowings have been relatively higher this year, because we have

signed up \$200 million long term facility with ADB, we did \$420 million cross model syndicated loan, where we were the borrower. All those have been affecting the cost of fund outcomes and foreign currency tends to be cheaper. The base rate is driven by Retail Deposit rates, those have barely moved. You can look at the history of deposits, maybe one small cut happened, 10 basis points, 15 basis points in the last 12-odd months. We did not move the needle enough.

M.B. Mahesh: QoQ increase in the cost of funds?

Rajat Monga: That we have not been able to sight, it is down.

M.B. Mahesh: So the 8.1% in the previous quarter and 8.2% in the current quarter?

Rajat Monga: We must be reporting 7.8% number this quarter for cost of funds.

M.B. Mahesh: The second question is while you have indicated the power sector, your exposure is fairly low, if I look at the electricity exposure, that has been on the rise. So if you could broadly explain this part of the equation?

Rajat Monga: Electricity is actually operating, electricity generating, or distributing company. So if I hypothetically have exposure to Tata Power, it will be in this category, but if I have exposure to let us say a project under construction, which could be renewable energy project or a thermal power project, it will be under power. So, our exposure to operating electricity generating companies, small increases have been there, yes.

M.B. Mahesh: The large part of the increase that you are seeing on the Corporate side, is it a fair assumption that essentially large part of it is coming through refinancing opportunities or there is a genuine pickup in the credit environment that you see out there in your set of customers?

Rajat Monga: Just taking a step back, the cost of funds that you are referring to at 8.2%, one number that we put out is for the full year, so in case you have sort of read that as per the quarter, then you can adjust for that, so 8.2% is the cost of funds for the full year. The question I was about to answer was on the growth which is coming from the Corporate segment is, okay, if I was answering this question 12 to 15 months ago, I would have said that it is almost entirely refinancing-oriented, while I cannot say that there is no refinancing happening as of now, but there is enough in terms of new business also that is being discussed and is also partly on the table, it is not from the sectors which were giving new opportunities in the last sort of business cycle, nor is the opportunity that large or brisk that, we are devoting our entire time to that, but there is a better balance. So if I speak to our syndication team, for example, they are looking at twice or thrice the throughput this year that they have seen in the previous year, and their confidence will come from new business or Brownfield expansion or capacity expansion type of lending that the bank would be making. So while I don't have let us say a great precise

number in terms of the mix between refinancing versus new financing, but the share of new financing is good enough in terms of the business prospects for this year.

Moderator: Thank you. The next question is from the line of Anish Tawakley from Barclays. Please go ahead.

Anish Tawakley: Rajat, just in terms of the growth that we talked about right, there could be an acceleration of growth. Would you be willing to let the CASA ratio drop if there was growth acceleration, and related to this are you also considering inorganic growth opportunities?

Rajat Monga: Just to possibly add a quick comment to one of the earlier discussions, we were comparing the revenue versus off-balance sheet, I think I forgot to mention to you that you should also include foreign exchange income in that comparison, I wanted to throw that into the balance, because a lot of our off-balance sheet business like LCs and export-related business or import-related business we do also results in FX income.

Anish Tawakley: Does that show up as market risk or is it just part of...? I don't know, let me check, I am not sure the market risk has gone up that much.

Rajat Monga: It will be in the counterparty risk, along with the credit risk itself. It will not be significant, that will not move the needle much, but revenue will move much, because there will be many examples where LCs have low commission, but FX compensates. To come back to this particular subject we were discussing on CASA, we seem to be somewhere comfortable 30 to 40% handle in terms of growth for sometime to come. So I don't think that we are worrying about CASA ratio falling. But, will growth be a burden on CASA outcome? Yes, in a good year, we could have grown CASA mix even higher, but we would have sacrificed the quantity of growth. We still think that our distribution opportunities are still very good if you believe that we are getting more growth than we want to keep, we can share it with other banks, we can accelerate our syndication objectives, we cannot do that in Retail, but we can do that more in Corporate, so there would have to be some calibration, I would not want to suggest that we will sacrifice CASA entirely, but there will be a tradeoff, we will be willing to look at the quality of growth and maybe postpone CASA objectives and vice versa as well. I would love to see everything growing in a straight line, but I don't think we can really always get that kind of an outcome. The second part of your question was about inorganic. I will not attach a high probability to inorganic in terms of adding to CASA.

Anish Tawakley: Not CASA, would you be willing to look at, there was some talk of at least in the press of YES Bank looking at NBFCs to acquire and stuff?

Rajat Monga: I would still put that in the low category in terms of probability. Pralay and his team are moving the needle pretty quickly on our own retail asset outcomes, not really, I don't think that is taking management time at all. The inorganic items which are taking the management time include some of the bank plus items like sometime back it was the Security Broking

business, Retail Broking, finally we ended up going that, on a build direction, of late we are looking at expanding our horizons into asset management, primary dealership, custody, we are looking at offshore branch, out of this maybe asset management is one medium probability business, where we will look to buy, I think all of the others are all built. So it is not more than this that I possibly already mentioned.

Anish Tawakley: And Rajat, if I just do the math, right, for you to get to 20% SA ratio, if I say, you keep growing your SA at the current rate of 35%, and if you grow your assets at 30%, then it takes 10 years?

Rajat Monga: SA growth this particular year has an element of consolidation in this also. So when Branch Banking as a business dominate the SA, we would have been saying that till last year about 80% of SA is Retail Banking, we still have government, others, etc., 95% of SA this year has moved to Retail Banking.

Anish Tawakley: You have shed some of the

Rajat Monga: A lot of the heaviness or non-granularity has been shed. So the business internally has moved, it is practically Branch Banking, Retail Banking only sort of outcome now. This year's development has an element of consolidation. So I am not checking that number already. We should have momentum.

Anish Tawakley: You would expect SA to grow faster than 35%.

Rajat Monga: I would put it as much as 40% also.

Moderator: Thank you. Ladies and Gentlemen, due to time constraint, that was the last question. I would now like to hand over the floor back to Mr. Suresh Ganapathy for his closing comments. Over to you, sir.

Suresh Ganapathy: Thanks everyone for participating in the call, and we would also like to thank the YES Bank management for giving us an opportunity to host the call.

Moderator: Thank you very much, sir. Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.