YES BANK

December 19, 2016

Mr. Khushro A. Bulsara-
Senior General Manager
Listing Compliance & Legal Regulatory
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Corporate Relations Department
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Mumbai – 400 001
**BSE Scrip Code: 532648**

Mr. Avinash Kharkar
AVP – Listing Compliance
**National Stock Exchange of India Limited**
Exchange Plaza,
Plot no. C/1, G Block,
Bandra - Kurla Complex, Bandra (E)
Mumbai - 400 051
**NSE Symbol: YESBANK**

Dear Sirs,

**Re: YES BANK receives ratings from both CARE Ratings and India Ratings for Basel III AT1 Bonds**

Please find enclosed the Press Release being issued on the captioned subject which is self explanatory.

Kindly take note of the above.

Thanking you,
For **YES BANK LIMITED**

**Shivanand R. Shettigar**
**Company Secretary**

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*Encl: As above*

YES BANK

*PRESS RELEASE*

# YES BANK receives ratings from both CARE Ratings and India Ratings for Basel III AT1 Bonds

- ✓ Rating of CARE AA (Stable) from CARE Ratings
- ✓ Rating of Ind AA with Stable Outlook from India Ratings & Research

**Mumbai, December 15, 2016:**

YES BANK, India's 5th largest private sector Bank has announced that it has received ratings for INR 2100 Crores of Basel III Compliant AT1(Additional Tier-1) Bonds

- ✓ CARE Ratings - AA with Stable Outlook
- ✓ India Ratings & Research (a Fitch Group Company) – Ind AA with Stable Outlook

The detailed rating rationale is attached.

**About YES BANK**

*YES BANK, India's fifth largest private sector Bank with a pan India presence across all 29 states and 7 Union Territories of India, headquartered in the Lower Parel Innovation District (LPID) of Mumbai, is the outcome of the professional & entrepreneurial commitment of its Founder Rana Kapoor and its Top Management team, to establish a high quality, customer centric, service driven, private Indian Bank catering to the future businesses of India.*

*YES BANK has adopted international best practices, the highest standards of service quality and operational excellence, and offers comprehensive banking and financial solutions to all its valued customers.*

*YES BANK has a knowledge driven approach to banking, and offers a superior customer experience for its retail, corporate and emerging corporate banking clients. YES BANK is steadily evolving as the Professionals' Bank of India with the long term mission of "Building the Finest Quality Bank of the World in India by 2020".*

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**DECEMBER 19, 2016**

## CARE ASSIGNS 'CARE AA' TO ADDITIONAL TIER I BONDS (BASEL III) AND REAFFIRMS RATINGS OF VARIOUS INSTRUMENTS OF YES BANK LIMITED

**Ratings**

| Instruments / Facilities | Amount (Rs. crore) | Ratings[1] | Remarks |
|---|---|---|---|
| Additional Tier I Bonds (Basel III)# | 2,100 | **CARE AA; Stable (Double A; Outlook: Stable)** | **Assigned** |
| Infrastructure Bonds – I | 2,500.0 | **CARE AA+; Stable (Double A Plus; Outlook: Stable)** | **Reaffirmed** |
| Infrastructure Bonds – II | 2,500.0 | **CARE AA+; Stable (Double A Plus; Outlook: Stable)** | **Reaffirmed** |
| Lower Tier II Bonds | 3,534.9 | **CARE AA+; Stable (Double A Plus; Outlook: Stable)** | **Reaffirmed** |
| Tier II Bonds (Basel III) | 4,900.0 | **CARE AA+; Stable (Double A Plus; Outlook: Stable)** | **Reaffirmed** |
| Upper Tier II Bonds@ | 2,402.6 | **CARE AA; Stable (Double A; Outlook: Stable)** | **Reaffirmed** |
| Perpetual Bonds (Basel II)@ | 526.0 | **CARE AA; Stable (Double A; Outlook: Stable)** | **Reaffirmed** |
| **Total** | **18,463.5 (Rupees Eighteen thousand four hundred sixty three crore and fifty lakh only)** | | |

@CARE has rated the aforesaid Upper Tier II Bonds and the Perpetual Bonds after taking into consideration their increased sensitiveness to Yes Bank's Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in hybrid instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with conventional subordinated debt instruments.

#CARE has rated the aforesaid Basel III Compliant Tier-I Perpetual Bonds (Additional Tier I Bonds (Basel III)) after taking into consideration its key features as mentioned below:

- The bank has full discretion at all times to cancel coupon payments.
- The coupon is to be paid out of current year profits. However, if the current year's profits are not sufficient, i.e., payment of such coupon is likely to result in losses during the current year, the balance of coupon payment may be made out of revenue reserves and/or credit balance in profit and loss account provided the bank meets the minimum regulatory requirements for Common Equity Tier I [CET I], Tier I and Total Capital Adequacy Ratios and capital buffer frameworks as prescribed by the Reserve Bank of India [RBI].

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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- The instrument may be written-down upon CET I breaching the pre-specified trigger of 5.5% before March 31, 2019, and 6.125% on and after March 31, 2019, or written-off / converted into common equity shares on occurrence of the trigger event called point of non-viability (PONV). The PONV trigger shall be determined by RBI.

Any delay in payment of interest/principal (as the case may be) due to invocation of any of the features mentioned above would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of the rating compared with other subordinated debt instruments.

**Rating Rationale**

The rating factors in comfortable capital adequacy, experienced senior management team, good profitability and comfortable asset quality. The ratings are, however, constrained due to high reliance on corporate deposits and low proportion of retail loan book. Asset quality, resource profile and increase in the retail asset book are the key rating sensitivities.

**Background of Yes Bank Ltd. (YBL)**

YBL is a new generation private sector bank incorporated in November 2003. The bank had a deposit growth of 23% and advances growth of 30% in FY16. The number of branches and ATM stood at 860 (FY15: 631) and 1,609 (FY15: 1,194) respectively as on March 31, 2016. The bank has one wholly owned subsidiary, Yes Securities (India) Ltd. which is engaged in stock broking services and distribution of financial products. Yes Bank has also received in principle approval from SEBI to set-up an Asset Management Company in July 2016. Due to the expansion in the branch network, the employee count increased from 10,810 as at March 31, 2015 to 15,000 at March 31, 2016. Mr. Ashok Chawla is the Non-Executive Chairperson (effective October 2016) and Mr. Rana Kapoor is the MD & CEO of YBL.

In FY16, bank's total income grew by 19% to Rs.16,246 crore while the net profit increased by 27% to Rs.2,539 crore. The Gross NPA ratio and Net NPA ratio stood at 0.76% and 0.29%, respectively as on March 31, 2016. As per Basel III, the bank reported a Capital Adequacy ratio of 16.50% (Tier I – 10.70%, CET1 – 10.30%) as on March 31, 2016. CASA deposit proportion improved to 28.1% as on March 31, 2016 as compared with 23.1% as on March 31, 2015.

In H1FY17, the bank's net profit was Rs.1,533 crore on total income of Rs.9,745 crore. Gross & Net NPA stood at 0.83% and 0.29% as on September 30, 2016. Total CAR as per Basel III stood at 14.10% with Tier I CAR at 9.20% (Common Equity Tier1 Ratio: 8.90%) at the end of September 2016.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

*CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**CIN - L67190MH1993PLC071691**

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India Ratings & Research
A Fitch Group Company

# India Ratings Assigns Yes Bank 'IND AA+' and its INR21 billion AT1 Bonds 'IND AA'; Outlook Stable

Ind-Ra-Mumbai-19 December 2016: India Ratings and Research (Ind-Ra) has assigned Yes Bank Ltd a Long-Term Issuer Rating of 'IND AA+' with a Stable Outlook and Short-Term Issuer Rating of 'IND A1+'. The agency has also assigned Yes Bank's proposed INR21 billion of Basel-III Additional Tier-1 (AT1) bonds an 'IND AA' rating with a Stable Outlook.

The issuer ratings factor in the bank's demonstrated superior ability to manage its credit risk, high mix of better rated large borrowers, reasonably large and expanding franchise on both asset and liability sides, and strengthening of profitability buffers. The bank also generates a sizeable fee income, primarily from its corporate clients, which supports its profitability buffers. Yes Bank's proportion of bulk funding is higher than that of better rated peers though the bank's concentration on deposit side has shown an improving trend. However, the bank runs an asset-liability tenor gap on account of a lower share of the current account and saving account deposit ratio than larger peers.

Ind-Ra has notched down the rating for Yes Bank's AT1 bonds from its Long-Term Issuer Rating. For AT1 instruments, the agency considers 'discretionary component', 'coupon omission risk', and 'write-down/conversion risk' as the key parameters to arrive at the final rating. The agency recognises the unique going-concern loss absorption features that these bonds carry and differentiates them from the bank's senior debt (one notch in this case) factoring in a

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as a remote possibility in view of Yes Bank's financial strength, adequate revenue reserve buffers and its track record of consistent operating performance through cycles.

The Stable Outlook reflects Ind-Ra's expectation that any deterioration in Yes Bank's asset quality will be adequately absorbed by its operating profits without any impairment in its Tier 1 capitalisation (September 2016: Tier 1 ratio of 10.1%). The ratings also factor in the agency's expectation that the bank would maintain above average core capitalisation on an ongoing basis in line with its higher rated private sector peers.

**Key Rating Drivers**

**Consistent Performance through Cycles:** Yes Bank's performance on various credit metrics has been consistent and largely stable even in the face of the current cyclical downturn. This becomes all the more important in view of portfolio, which is largely inclined towards corporate borrowers, reflecting strong credit risk management practices. The agency also derives comfort from the bank's significant proportion of large exposure to better rated borrowers. Incrementally, the bank's focus is to increase the granularity of its loan portfolio by venturing into the retail segment, eventually translating into higher yields. In Ind-Ra's view, growth in the retail asset segment would come at lower incremental retail margins than for its large peers', highlighting their pricing power. Nevertheless, expansion in the retail segment should result in an improvement in the overall margins for the bank.

**Stable Asset Quality:** Yes Bank reported delinquencies compare favourably with peers' (gross NPL September 2016: 0.83%; September 2015: 0.61%). This is in contrast to the banking system's gross NPL ratio, which surged to 7.6% as of March 2016, while the ratio of private sector banks on a blended basis was 2.7%. The bank's credit costs have been under control (FY16: 57bp, average FY13-FY16: 34bp). This, in the agency's view, is underpinned by the bank's lower concentration in stressed sectors, proactive intervention and higher agility in resolving contentious exposure, backed by its limited presence as a consortium lender. In Ind-Ra's view, the banking system borrowers in the mid-corporate cycles, stemming from building-up of non-productive assets. The mid-corporate segment (business banking) constituted 10.7% (at end-September 2016) of Yes Bank's total loan book, with a bulk of its NPLs emanating from this segment over the past couple of years. Nevertheless, the bank has been slowing down expansion of its business banking book. Further, the bank's reasonable pre-provision profitability provides a reasonable cushion to absorb spike in the credit costs under Ind-Ra's stress scenarios.

**Moderate Funding Profile:** Bulk deposits contributed around 43.5% of Yes Bank's total funding at end-September 2016, significantly higher than better rated private banks'. Although Yes Bank's retail deposit franchise is improving, the cost of acquiring granular savings deposits has been high on account of the higher interest offered by it on savings deposits than by larger peers. The effect of normalising its savings deposit interest rate (aligning it to larger peers) on its CASA deposits would be a key monitorable. Yes Bank's proportion of bulk deposits to total deposits has shown an improvement over the last couple of years, highlighting the bank's focus to reduce its liability concentration by increasing branch presence (September 2015: 700; September 2016: 950). Yes Bank's funding gap (cumulative one-year mismatch as a percentage of average assets) has shown improvement, but continues to be higher than a few large peers'.

**Rating Sensitivities**

**Positive:** Increase in franchise scale, along with a considerable improvement in retail franchise with a more granular funding and asset mix, while building stronger capital and operating buffers could lead to a Positive Outlook.

**Negative:** Significantly higher-than-expected deterioration in the asset quality, weaker-than-expected capital buffers and impairment in the funding profile could lead to a Negative Outlook.

**Company Profile**

Yes Bank is a new generation private bank headquartered in Mumbai. It was incorporated in 2004 and has grown to become a full service commercial bank. The bank reached an asset size of

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950 branches and 1,756 ATMs spread across the country.

Additional information is available on www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Applicable criteria, 'Financial Institutions Rating Criteria' and 'Rating of FI Subsidiaries and Holding Companies' dated 1 December 2015, are available at www.indiaratings.co.in.

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