YES BANK

December 20, 2016

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Listing Compliance & Legal Regulatory
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Mumbai - 400 051
NSE Symbol: YESBANK

Dear Sirs,

Re: Press Release on - FY18 Budget will be pivotal in incentivizing a 'behavioural shift' in order to drive 'clean financialisation'

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

Encl: As above

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FY18 Budget will be pivotal in incentivizing a 'behavioural shift' in order to drive 'clean financialisation'

Key Recommendations include Direct Tax Incentives for Working Youth; Lowering Cost of Funds; Revamp of FRBM Act & Centralized Data Repository Portal for MSMEs

NEW DELHI, December 20, 2016: In the current year, passage of structural reforms like the Bankruptcy Code and GST has boosted Confidence and Conviction in India's economy. The Government has done a stellar job this year by **introducing vital institutional reforms** which will have wide economic implications, such as **Removal of distinction between plan and non-plan expenditure; Advancement of Budget by a month; and Merger of Railways budget with Union Budget.**

Speaking on the sidelines of the Hon'ble Finance Minister's Pre Budget Consultation with bankers, **Mr. Rana Kapoor, MD & CEO, YES BANK and Chairman, YES Institute**, said, **"For the upcoming fiscal, ensuring seamless implementation of GST & Bankruptcy Code is vital; and the Demonetization drive is a logical precursor to this. Following the success of Demonetization, the banking sector will have high liquidity; I believe this Budget will be pivotal in incentivizing a 'behavioral shift' in order to drive clean financialisation of consumers & households. I am confident that with the right mix of fiscal & monetary policy actions, our Govt. will successfully steer India's economy to the next level of growth in the coming year."**

Mr. Rana Kapoor elaborated on the following FOUR PRIORITIES for the Government for Budget 2017-18:

1) **Direct Tax Incentives on the back of demonetisation - which will be critical for newly generated savings of the working youth and also to boost spending**
2) **Progressively enable lower cost of funds by 100-150 basis points for both corporate & retail borrowers**
3) **Usher in FRBM Version 2.0 to revamp fiscal responsibility guidelines in line with the changing economic and financial order**
4) **Create Centralized Portal (akin to Adhar/UID) for for all MSMEs to increase access to timely credit**

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Key Recommendations made by Mr. Rana Kapoor, MD & CEO, YES BANK, to the Finance Minister for consideration in the Union Budget FY18

1) **Usher in FRBM Version 2.0 to revamp fiscal responsibility:**
   The FY18 Budget can consider:
   a) Sticking to a point target for fiscal deficit (instead of a range target) to avoid policy ambiguity & uncertainty for financial markets
   b) Fixing medium-term consolidated fiscal deficit target (for Centre & States) at 6% of GDP & placing a ceiling on Govt debt at 60% of GDP (to be achieved over the next 3 years)
   c) Frame detailed Expenditure Rules in favour of capital spending & set up a Fiscal Council to ensure adoption of rule-based fiscal policy

2) **Enhance Savings in the Economy for Investment Revival**

   Adopt a **GEAR (Growth - Efficiency - Attractiveness - Reach) approach** to augment domestic financial savings:

   ✓ **Enhance economic GROWTH to increase per capita incomes**: Income Tax slabs could be carved out as per recommendations of the Direct Tax Code (DTC) Committee to provide immediate thrust to household incomes & financial savings

   ✓ **Focus on EFFICIENCY in financial transactions:** Increased use of technology to improve ease of transactions, enhance saving propensity, monetize the economy and help bring down demand for floating currency *(Every 1% reduction in currency in circulation is likely to add 0.4% to the savings rate).* Towards this, **Govt. and RBI can consider appropriate incentives for wider spread of POS terminals**

   ✓ **Make financial savings ATTRACTIVE:** Increase inflation adjusted post tax returns & introduce product innovation.

   a) **E-Gold:** Grant exemption from reserve requirements for Gold Monetization Scheme to reduce costs for banks by 50-100 bps. For high net worth entities such as religious trusts, Govt. can make participation in GMS mandatory with relaxed declaration norms.

   b) **Tax Incentives: Critical for newly generated savings of the working youth and also to boost spending:**

   - **80C limit can be increased to INR 3 lakhs from current INR 1.5 lakhs** to help deepen the MF industry & Capital Markets (large pool can be incentivized from Pay Commission roll out).
   - **Encourage bank deposits** by reducing lock in for tax rebates to 1 year (from 5 years) & enhance threshold for mandatory TDS on interest income to INR 50,000 a year (from INR 10,000 currently).

c) **Financial Diversification & Safety Net:** Household savings in pension instruments in India is restricted to just 1.2% of GDP.

- o Address disparity in post-tax returns of EPF/ PPF/ NPS by moving towards uniform tax treatment
- o Reintroduce inflation indexed bonds to promote financial savings & significantly lower reinvestment risks for pension/ provident/ gratuity funds.

✓ **Expand financial REACH:** Aided by better digital & communications infra in rural areas, **Indian Post Payment Bank (IPPB)** can be a game changer to financialise a large base of the economy at low costs & boost rural savings.

✓ Activate the post offices in India, by getting Banks to open extension counters in their premises.

3) <u>Create & Incentivize cash-less transactions</u>

✓ **Equip debit cards with smart chips** for public transport payment (on lines of T-money in South Korea). The chip should be modified to fit credit/debit/SIM cards (which means people can tap their mobile phones to take the bus/ metro).

✓ Develop mechanism for change for payments at retail outlets not in cash/coins but through **e-wallets**

✓ Create progressive, enabling **regulatory and licensing framework for the vital, high growth Fintech sector** – safeguard all stakeholders, ensure cost and time-efficient remittances. Enable creation of Regulatory Sand-box for quicker turn around as well as limiting the risks.

4) <u>Lower Cost of Funding for Transformational Growth</u>

✓ A vibrant **Corporate Bond Market** is essential for infra growth - a new Trading Platform for Corporate Bonds (on lines of Govt Bonds) can be institutionalised; further, banks should be allowed to hold 0.5-1.0% excess SLR in high quality corporate bonds (AAA/ AA+)

✓ **Calibration of sectoral risk weights** in select sectors such as Affordable Housing, Renewable Energy, to drive credit appetite

✓ Relax guidelines for end use of ECBs, with relevant risk mitigants – will reduce cost of funds, **allow IBUs wider ambit**, include lending for refinance of ECBs (currently not permitted). Tax holiday for IBUs can be extended from 5 years to 20-25 years (similar to Dubai)

✓ Building on success of GIFT City, set up **new IFCs in Mumbai and Noida/ Gurgaon**, along with enabling regulatory environment

✓ **Refinance window at RBI can be opened up (under SIDBI) at prevailing repo rate** to help SMEs tide over short term liquidity crunch (likely stress due to demonetization). Will also cushion the sector during transition to a new 'less cash' norm.

✓ Create Centralised Portal/ Repository for updated bank a/c details of all MSMEs - ~90% MSMEs are partnerships/ proprietorships - such a portal, with Udyog Adhaar linkage, will increase transparency of MSME financial data, enable automating financial assessment real time, reducing decision making time & leading to further reduction in interest costs by ~1%

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5) <u>Recommendations for 'High Output, Growth Multiplier' Sectors</u>

1. **De-risking Infra & Energy Financing Sectors**
   - ✓ **Enhance Take-out Financing Schemes for Renewable Energy Sector**
   - ✓ Encourage setting up of domestic **Warehousing Facility** by structuring a large number of small projects together to attract Institutional investors
   - ✓ Set up **Credit Enhancement schemes** to facilitate investment from institutional investors in infra projects.
2. **Integrated growth through Smart Cities & Affordable Housing**
   - ✓ Akin to recently unveiled Municipal bonds, allow **Smart City Bonds** (within infra bonds category)
   - ✓ Award incremental F.A.R. if project are completed on time
3. **Unlocking India's Soft Power through Tourism**
   - ✓ Lower tax rate for tourism & hospitality Industry in GST to minimum bracket, preferably less than 10%
   - ✓ Special incentives like tax-free bonds & income tax exemptions on profits invested back
   - ✓ Permit LTA every year (Vs. current restriction of 2 times in 4 years) – in addition to transportation, also include lodging related expenses
4. **Develop India as a Food processing powerhouse**
   - ✓ **Widen ambit of PSL to reduce cost of funds** - qualify loans to units as PSL (Agriculture) without any upper cap on lending (currently Rs. 100 Cr) (will reduce cost of funds by 1-2% p.a.).
   - ✓ **Increase access to low cost institutional credit** - Credit Guarantee Scheme, with 75% risk coverage (up to Rs 20 Cr for each unit) & corpus of INR 5,000 Cr for Greenfield units

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