

Rating Action: Moody's upgrades Yes Bank's rating to B2 from B3; changes outlook to positive

10 Nov 2021

Singapore, November 10, 2021 -- Moody's Investors Service has upgraded Yes Bank Limited's long-term foreign currency issuer rating and long-term foreign and local currency bank deposit ratings to B2 from B3. Moody's has also upgraded Yes Bank's Baseline Credit Assessment (BCA) and Adjusted BCA to b3 from caa2.

At the same time, Moody's has changed the outlook on Yes Bank's ratings where applicable to positive from stable, reflecting Moody's expectation of a further improvement to the bank's credit profile, driven by a cleanup of legacy stressed assets and/or improvements to its capital and profitability.

For a detailed list of the affected ratings for both Yes Bank Limited and Yes Bank, IFSC Banking Unit Branch, please refer to the end of this press release.

RATINGS RATIONALE

Moody's has upgraded Yes Bank's issuer rating to B2 from B3 because its funding and liquidity have substantially improved in the past year, which have strengthened depositor and credit confidence in the bank. The rating action also reflects the fact that despite the significant economic challenges since the onset of the pandemic, Yes Bank's asset quality has deteriorated only modestly while its capital has remained stable.

The improved financials metrics are reflected in the two-notch upgrade of the bank's BCA to b3 from caa2. Moody's has also lowered government support assumption for Yes Bank to moderate from high, which results in a one-notch uplift to the B2 issuer rating from the b3 BCA. The support assumption is in line with the support expected for other private sector banks in India.

Yes Bank's deposits have increased over 65% between 30 September 2021 and 31 March 2020, after Indian regulators rescued the bank. Its deposit quality has also improved; current and savings account and retail term deposits represent 45% of total funding as of 30 September 2021, compared with just 31% as of 31 March 2020.

Concurrently, the bank has reduced its share of market funding, while its average liquidity coverage ratio (LCR) improved to 118% as of 30 September 2021 from 40% as of 31 March 2020.

Yes Bank's asset quality remains weak and continues to pose risks to its profitability and capital. While its reported nonperforming loan (NPL) ratio declined moderately to 15% as of 30 September 2021 from 17% as of 31 March 2020, the bank's off-balance sheet exposures to NPLs, restructured loans and loans overdue for more than 60 days, which represent 5.5% of total loans as of 30 September 2021, pose risks.

The bank plans to transfer a large share of NPLs to an asset reconstruction company over the next 12 months. Subject to the terms and conditions of the transaction, Moody's expects the NPL transfer will be credit positive as it will ease management burden on resolving legacy problem assets and help the bank focus on growing its assets and liabilities.

High NPLs and a moderation in credit growth have hurt Yes Bank's revenues, while operating costs remain high relative to its revenues. Moody's expects that boosting profitability will remain a credit challenge until the bank manages to stabilize its franchise, lower NPLs and grow its assets.

The bank's Common Equity Tier 1 ratio of 11.5% as of 30 September 2021 provides moderate cushion against unexpected risks. Moody's expects Yes Bank will need to raise new equity capital in the next 12 months to support asset growth because its modest profitability does not support internal capital generation.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the positive outlook, Moody's could upgrade Yes Bank's ratings if the bank's asset quality and/or capital

materially improve.

Moody's could downgrade the bank's ratings and BCA if its capital deteriorates significantly because of a strain on its asset quality, or if its funding and liquidity deteriorate.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Yes Bank is headquartered in Mumbai and reported consolidated assets of INR2,886 billion (\$38.8 billion) as of 30 September 2021.

LIST OF AFFECTED RATINGS:

..Issuer: Yes Bank Limited

.... Adjusted Baseline Credit Assessment, Upgraded to b3 from caa2

.... Baseline Credit Assessment, Upgraded to b3 from caa2

.... Long-Term Counterparty Risk Assessment, Upgraded to B2(cr) from B3(cr)

.... Long-Term Counterparty Risk Rating (Local and Foreign Currency), Upgraded to B2 from B3

.... Short-Term Counterparty Risk Assessment, Affirmed NP(cr)

.... Short-Term Counterparty Risk Rating (Local and Foreign Currency), Affirmed NP

.... Short-Term Deposit Rating (Local and Foreign Currency), Affirmed NP

.... Long-Term Issuer Rating (Foreign Currency), Upgraded to B2 from B3; Outlook, Changed To Positive From Stable

....Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)B2 from (P)B3

....Long-Term Bank Deposit Rating (Local and Foreign Currency), Upgraded to B2 from B3; Outlook, Changed To Positive From Stable

....Outlook, Changed To Positive From Stable

..Issuer: Yes Bank, IFSC Banking Unit Branch

.... Long-Term Counterparty Risk Assessment, Upgraded to B2(cr) from B3(cr)

.... Long-Term Counterparty Risk Rating (Local and Foreign Currency), Upgraded to B2 from B3

....Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)B2 from (P)B3

....Senior Unsecured Regular Bond/Debenture (Foreign Currency), Upgraded to B2 from B3; Outlook, Changed To Positive From Stable

.... Short-Term Counterparty Risk Assessment, Affirmed NP(cr)

.... Short-Term Counterparty Risk Rating (Local and Foreign Currency), Affirmed NP

....Outlook, Changed To Positive From Stable

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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