

Rating Action: Moody's places Yes Bank's ratings under review; direction uncertain

Global Credit Research - 16 Jan 2020

Singapore, January 16, 2020 -- Moody's Investors Service has today placed Yes Bank Limited's long-term foreign currency issuer rating of B2 under review, with the direction uncertain.

Moody's has also placed the bank's long-term foreign and local currency bank deposit ratings of B2, and its foreign currency senior unsecured MTN program rating of (P)B2, under review, with the direction uncertain.

At the same time, Moody's has downgraded Yes Bank's Baseline Credit Assessment (BCA) and adjusted BCA to caa2 from b3.

For a detailed list of the affected ratings, please refer to the end of this press release.

RATINGS RATIONALE

The placing of Yes Bank's deposit rating of B2 under review reflects Moody's expectation that the bank's standalone viability is getting increasingly challenged by its slowness in raising new capital.

Moody's points out that the potential credit risk to the bank's senior creditors is uncertain, because there are a number of diverse scenarios that could affect the rating in either positive or negative directions.

Moody's says that because the viability of the bank absent a large capital injection is in question, Moody's has downgraded the bank's standalone credit profile or its BCA to caa2 from b3.

Yes Bank is in discussions with a number of investors to raise new equity capital, which would be credit positive if executed successfully. If the bank successfully recapitalizes and repairs and cleans its balance sheet, its ratings could stabilize or face upward pressure.

If a private sector solution is unsuccessful, and a regulatory led resolution is implemented, Moody's expects that the Indian authorities will strive to maintain systemic stability and avoid losses to depositors and senior creditors. Any concrete measures from the Indian authorities to resolve the bank without losses to the bank's depositors and senior creditors could also lead to a stabilization or upward movement in the bank's ratings.

A scenario where neither a private sector recapitalization nor balance sheet repair are forthcoming would be credit negative, and could lead to a downward movements of the bank's ratings.

Moody's maintains a negative adjustment for corporate behavior in Yes Bank's BCA, leading to a one-notch negative adjustment to the bank's BCA when compared to its financial profile. The corporate behavior adjustment reflects the Reserve Bank of India's identification of several lapses and regulatory breaches in the bank's operations in fiscal 2018 (the 12 months to March 2018). The

corporate behavior adjustment also takes into account the divergence in reported asset quality and profitability based on RBI's inspection which indicated higher NPLs and lower profitability as compared to the metrics disclosed by Yes Bank in fiscal 2019.

WHAT COULD CHANGE THE RATING UP

Moody's could change the ratings outlook to stable or upgrade the bank's ratings, if Yes Bank concludes a material capital raise that strengthens its equity capital ratio, after providing for the potential stressed assets, to a level in-line with other similarly rated Indian banking peers.

Moody's could also upgrade Yes Bank's ratings if the bank receives further government support that benefits its senior creditors and depositors.

WHAT COULD CHANGE THE RATING DOWN

Moody's could downgrade the bank's ratings if the bank is unable to secure a large capital increase within the review period, or its funding or liquidity deteriorates.

Moody's could also downgrade Yes Bank's ratings if the Indian government's propensity to support the bank diminishes, and the likelihood of burden-sharing by Yes Bank's senior creditors increases.

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating

Methodologies page on www.moody's.com for a copy of this methodology.

Yes Bank Limited is headquartered in Mumbai and reported total assets of INR3.5 trillion (\$49.1 billion) at 30 September 2019.

List of affected ratings

Yes Bank Limited

- Long-term foreign currency issuer rating of B2, placed on Review Direction Uncertain, Outlook changed to Rating Under Review from Negative
- Long-term foreign and local currency deposit ratings of B2, placed on Review Direction Uncertain, Outlook changed to Rating Under Review from Negative
- Short-term foreign and local currency deposit ratings affirmed at NP
- Foreign currency senior unsecured MTN program rating of (P)B2, placed on Review Direction Uncertain
- Baseline Credit Assessment (BCA) and adjusted BCA downgraded to caa2 from b3
- Long-term Counterparty Risk Assessment (CR Assessment) of B1(cr), placed on Review Direction Uncertain
- Short-term CR Assessment affirmed at NP(cr)
- Long-term domestic and foreign currency counterparty risk rating (CRR) of B1, placed on Review Direction Uncertain

- Short-term domestic and foreign CRR affirmed at NP
- Outlook Action: Outlook changed to Rating Under Review from Negative

Yes Bank, IFSC Banking Unit Branch

- Foreign currency senior unsecured MTN program rating of (P)B2, placed on Review Direction Uncertain
- Foreign currency senior unsecured debt rating of B2, placed on Review Direction Uncertain, Outlook changed to Rating Under Review from Negative
- Long-term CR Assessment of B1(cr), placed on Review Direction Uncertain
- Short-term CR Assessment affirmed at NP(cr)
- Long-term domestic and foreign currency CRR of B1, placed on Review Direction Uncertain
- Short-term domestic and foreign currency CRR affirmed at NP
- Outlook Action: Outlook changed to Rating Under Review from Negative

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