Yes Bank YESB.NS YES IN

BANKS

NOMURA
EQUITY RESEARCH

Initiate with Neutral rating and TP of INR380

Yes, a long induction catalysis

March 1, 2012

Rating Starts at	**Neutral**
Target price Starts at	INR 380
Closing price February 24, 2012	INR 340
Potential upside	+11.8%

Action: Initiate with a Neutral rating and a TP of INR380

We initiate our coverage of Yes Bank with a Neutral rating and TP of INR380, as we believe current valuations fairly price in the balance between a robust asset franchise and a flat near-term outlook on asset-return ratios on increasing LLPs and operating costs. We would wait for a meaningful uptick in Yes Bank's low-cost (CASA) deposits and its retail loan book to turn more positive, while a sharp deterioration in NPLs from here would turn us more cautious.

CASA – a long gestation catalyst

Despite an impressive track record over the past few years, we believe Yes Bank will face an uphill course in the next one to two years. While Yes has started to focus on CASA, savings deposit accretion is a long gestation process. Current RBI regulations that require mandatory branch additions outside the CASA rich metro & urban areas heavily tilt the scales against a rapid growth in CASA per branch, which was possible for some of the earlier private sector banks (HDFC Bank and Axis Bank). Despite the increase in its savings deposit interest rate, Yes Bank is unlikely to realise significant market share gains. While a higher savings deposit rate is ensuring increased customer acquisition for Yes, we believe strengthening of these new relationships will take some time. A slow CASA growth could curtail the super-normal loan growth rates enjoyed by Yes Bank going forward, in addition to increasing the cost ratios.

Valuation

YES currently trades at 2.2x our FY13F ABV and 10.3x our FY13F EPS. At our TP of INR380, YES would trade at 2.4x our FY13F ABV and 11.6x our FY13F EPS for an ROA of 1.4% and ROE of 23.6%.

31 Mar	FY11		FY12F		FY13F		FY14F
Currency (INR)	Actual	Old	New	Old	New	Old	New
PPOP (mn)	11,904		15,336		20,255		24,701
Reported net profit (mn)	7,271		9,346		11,807		13,485
Normalised net profit (mn)	7,271		9,346		11,807		13,485
Normalised EPS	20.95		26.62		33.63		38.41
Norm. EPS growth (%)	44.5		27.1		26.3		14.2
Norm. P/E (x)	16.7	N/A	13.0	N/A	10.3	N/A	9.0
Price/adj. book (x)	3.2	N/A	2.6	N/A	2.2	N/A	1.8
Price/book (x)	3.1	N/A	2.6	N/A	2.1	N/A	1.8
Dividend yield (%)	0.9	N/A	1.2	N/A	1.7	N/A	2.1
ROE (%)	21.1		22.2		23.1		21.9
ROA (%)	1.5		1.4		1.4		1.3

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

Sustainable savings deposit accretion would be a key driver for building low cost deposit franchise and would determine future growth trajectory for mid sized banks

Nomura vs consensus

Our PAT is marginally lower than consensus for FY13 on rising LLPs and higher opex ratios offsetting improving margins. We are building in LLPs of 25bps for FY13.

Research analysts

India Banks

Abhishek Bhattacharya - NFASL
abhishek.bhattacharya@nomura.com
+91 22 4037 4034

Vijay Sarathi - NFASL
vijay.sarathi@nomura.com
+91 22 4037 4457

Amit Nanavati - NSFSPL
amit.nanavati@nomura.com
+91 22 4037 4361

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Yes Bank

Profit and Loss (INRmn)

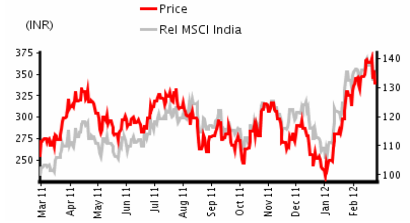
Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Interest income	23,605	40,417	63,515	81,368	97,985
Interest expense	-15,818	-27,948	-47,159	-58,981	-70,151
Net interest income	7,788	12,469	16,356	22,387	27,834
Net fees and commissions	3,746	5,984	6,598	8,370	10,143
Trading related profits	2,101	1,018	1,638	2,250	2,692
Other operating revenue	0	-769	0	0	0
Non-interest income	5,847	6,233	8,235	10,620	12,836
Operating income	13,635	18,702	24,592	33,006	40,670
Depreciation	0	0	0	0	0
Amortisation	0	0	0	0	0
Operating expenses	-2,569	-3,623	-4,885	-7,054	-8,934
Employee share expense	-2,433	-3,175	-4,371	-5,697	-7,034
Op. profit before provisions	8,633	11,904	15,336	20,255	24,701
Provisions for bad debt	-706	-359	-414	-1,164	-2,665
Other provision charges	-662	-623	-912	-927	-1,291
Operating profit	7,265	10,922	14,010	18,164	20,746
Other non-operating income	0	0	0	0	0
Associates & JCEs	0	0	0	0	0
Pre-tax profit	7,265	10,922	14,010	18,164	20,746
Income tax	-2,488	-3,650	-4,664	-6,357	-7,261
Net profit after tax	4,777	7,271	9,346	11,807	13,485
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	4,777	7,271	9,346	11,807	13,485
Extraordinary items	0	0	0	0	0
Reported NPAT	4,777	7,271	9,346	11,807	13,485
Dividends	-596	-1,012	-1,421	-2,072	-2,524
Transfer to reserves	4,181	6,259	7,924	9,734	10,960

Valuation and ratio analysis					
FD normalised P/E (x)	22.8	16.7	13.0	10.3	9.0
FD normalised P/E at price target (x)	22.2	16.3	12.7	10.0	8.8
Reported P/E (x)	23.4	16.2	12.8	10.1	8.8
Dividend yield (%)	0.5	0.9	1.2	1.7	2.1
Price/book (x)	3.6	3.1	2.6	2.1	1.8
Price/adjusted book (x)	3.7	3.2	2.6	2.2	1.8
Net interest margin (%)	2.93	2.88	2.63	2.86	2.95
Yield on interest earning assets (%)	8.87	9.32	10.20	10.39	10.39
Cost of interest bearing liabilities (%)	6.15	6.64	7.83	7.84	7.72
Net interest spread (%)	2.71	2.68	2.38	2.55	2.67
Non-interest/operating income (%)	42.9	33.3	33.5	32.2	31.6
Cost to income (%)	36.7	36.3	37.6	38.6	39.3
Effective tax rate (%)	34.2	33.4	33.3	35.0	35.0
Dividend payout (%)	12.5	13.9	15.2	17.6	18.7
ROE (%)	20.8	21.1	22.2	23.1	21.9
ROA (%)	1.61	1.52	1.36	1.36	1.28
Operating ROE (%)	31.6	31.7	33.3	35.5	33.7
Operating ROA (%)	2.45	2.29	2.04	2.09	1.97

Growth (%)					
Net interest income	52.3	60.1	31.2	36.9	24.3
Non-interest income	34.4	6.6	32.1	28.9	20.9
Non-interest expenses	19.5	41.0	34.8	44.4	26.7
Pre-provision earnings	63.6	37.9	28.8	32.1	21.9
Net profit	57.2	52.2	28.5	26.3	14.2
Normalised EPS	52.8	44.5	27.1	26.3	14.2
Normalised FDEPS	46.6	36.4	28.5	26.2	14.2

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	2.9	24.0	33.1
Absolute (USD)	5.6	32.3	23.2
Relative to index	-2.6	8.9	32.2
Market cap (USDmn)	2,442.8		
Estimated free float (%)	68.9		
52-week range (INR)	375/230.5		
3-mth avg daily turnover (USDmn)	18.72		
Major shareholders (%)			
Madhu Kapoor	10.0		

Source: Thomson Reuters, Nomura research

Notes

We are building in flattish ROA on account of higher LLPs and opex ratios.

Balance Sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash and equivalents	19,953	30,760	32,588	43,371	52,898
Inter-bank lending	6,779	4,200	4,410	7,925	9,539
Deposits with central bank	0	0	0	0	0
Total securities	102,099	188,288	276,779	332,135	396,484
Other interest earning assets	0	0	0	0	0
Gross loans	222,403	344,350	428,328	519,226	627,156
Less provisions	-472	-714	-855	-1,944	-4,411
Net loans	221,931	343,636	427,473	517,282	622,745
Long-term investments	0	0	0	0	0
Fixed assets	1,155	1,324	2,309	3,309	4,509
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other non IEAs	11,907	21,861	42,960	51,252	61,473
Total assets	363,825	590,070	786,519	955,273	1,147,648
Customer deposits	267,986	459,389	538,724	679,551	835,968
Bank deposits, CDs, debentures	25,638	33,330	100,784	100,784	100,784
Other interest bearing liabilities	21,852	33,579	39,216	45,216	55,216
Total interest bearing liabilities	315,476	526,298	678,724	825,551	991,968
Non interest bearing liabilities	17,453	25,831	61,475	73,667	88,665
Total liabilities	332,930	552,129	740,199	899,218	1,080,633
Minority interest	0	0	0	0	0
Common stock	3,397	3,471	3,511	3,511	3,511
Preferred stock	0	0	0	0	0
Retained earnings	27,499	34,469	42,810	52,544	63,505
Reserves for credit losses	0	0	0	0	0
Proposed dividends	0	0	0	0	0
Other equity	0	0	0	0	0
Shareholders' equity	30,896	37,941	46,320	56,055	67,015
Total liabilities and equity	363,825	590,070	786,519	955,273	1,147,648
Non-performing assets (INR)	602	805	1,084	2,594	5,967
Balance sheet ratios (%)					
Loans to deposits	83.0	75.0	79.5	76.4	75.0
Equity to assets	8.5	6.4	5.9	5.9	5.8
Asset quality & capital					
NPAs/gross loans (%)	0.3	0.2	0.3	0.5	1.0
Bad debt charge/gross loans (%)	0.32	0.10	0.10	0.22	0.42
Loss reserves/assets (%)	0.13	0.12	0.11	0.20	0.38
Loss reserves/NPAs (%)	78.4	88.6	78.9	74.9	73.9
Tier 1 capital ratio (%)	13.2	9.7	9.0	8.7	8.6
Total capital ratio (%)	21.0	16.5	15.2	14.7	14.8
Growth (%)					
Loan growth	78.9	54.8	24.4	21.0	20.4
Interest earning assets	64.1	62.1	32.2	21.0	20.0
Interest bearing liabilities	58.8	66.8	29.0	21.6	20.2
Asset growth	58.9	62.2	33.3	21.5	20.1
Deposit growth	65.7	71.4	17.3	26.1	23.0
Per share					
Reported EPS (INR)	14.50	20.95	26.62	33.63	38.41
Norm EPS (INR)	14.50	20.95	26.62	33.63	38.41
Fully diluted norm EPS (INR)	14.87	20.29	26.07	32.90	37.57
DPS (INR)	1.81	2.92	4.05	5.90	7.19
PPOP PS (INR)	26.20	34.29	43.69	57.70	70.36
BVPS (INR)	93.77	109.29	131.95	159.68	190.90
ABVPS (INR)	91.79	106.24	128.93	156.66	187.88
NTAPS (INR)	93.77	109.29	131.95	159.68	190.90

Source: Company data, Nomura estimates

Notes

We expect loan growth to trend down closer to the industry average.

Initiating coverage with a Neutral rating and a TP of INR380

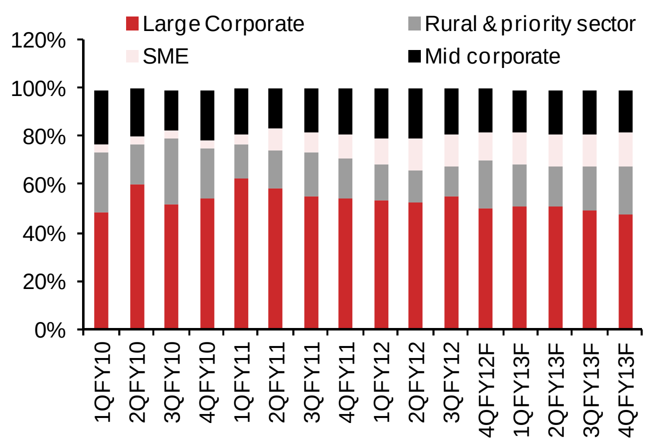
We initiate coverage of YES with a Neutral rating and a target price of INR380. While we believe in the execution capabilities of the bank, we don't foresee any meaningful uptick in near-term growth and return ratios. In our view, the current share price fully prices in the value from YES' expected loan growth of 21% and RoA of 1.4% for FY13F. We believe loan growth will be driven largely by SME and the mid-corporate segment, while we believe meaningful addition from the retail book would only come after FY14F.We expect NIMs to improve by 20bps to 3% by FY13F on improving CASA ratio and easing interest rate cycle. We expect LLPs to have bottomed out at 11bps for FY12 and forecast it to increase to 33bps by FY13F. We also estimate a 50bps uptick in the cost-income ratio to 38.1% for FY13F on new branch additions.

We expect 21-22% loan CAGR over FY12-FY14F

YES is India's youngest bank and has grown at a rapid pace since its inception in 2003, and has a loan book and deposit base of INR360bn and INR470bn, respectively, as of 3QFY12. Even since the 2008 crisis the bank has managed to grow its loan book at a CAGR of more than 50%. As shown in Fig 1, YES' growth has come largely from the large- and mid-sized corporate book increasing at a 58% and a 42% CAGR, respectively, since March 2009. Going forward, we expect YES' loan growth to trend down closer to system growth as it consolidates its exposure to large corporates in light of a slowdown in the infrastructure sector while expanding its SME and retail franchise.

Fig. 1: Loan book break down

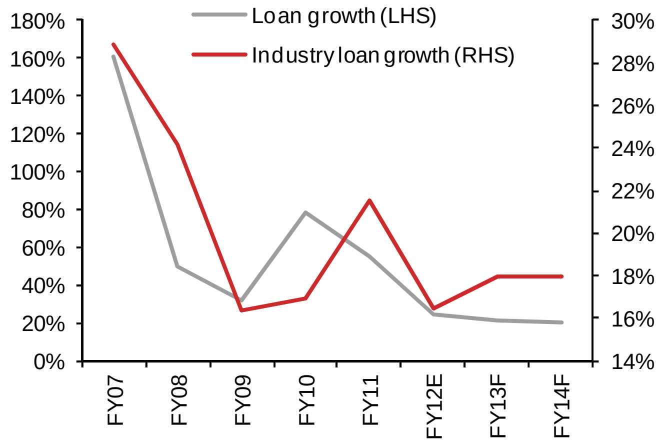
We expect proportion of SME and mid corporate book to increase



Source: Company data, Nomura estimates

Fig. 2: YES' loan growth vs system loan growth

Loan growth is coming off the previous highs



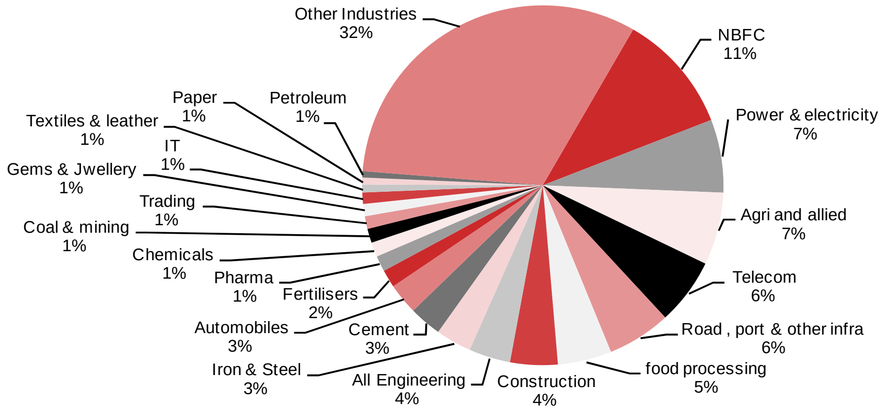
Source: Company data, Nomura estimates

For FY13F we expect the SME, mid-corporate and large corporate loan books to increase at 35%, 22% and 15%, respectively, while we are factoring a quarterly addition of INR500mn into its retail portfolio. The bank expects the proportion of large corporate, mid-sized corporate and SME/retail to be 40:30:30 of the non-priority sector book from the current proportion of 63:21:16. In SME loans, YES has been continuously increasing its origination capabilities, with its dedicated headcount now at 300 compared to 150 a year earlier.

On the retail loan front, YES announced entry into the auto loan segment in 3QFY12 with a book of INR70mn, while it initiated pilot ventures into commercial vehicle financing (CV), inventory funding for dealers, loans against property and loans against shares. It bolstered its small presence in the mortgage segment by tying up with mortgage lender Dewan Housing Finance for both loan sourcing and sell-down.

We believe that while the loan growth will still be higher than what we expect for the banking system over the next few years, the delta for YES will come from newer and unproven segments. On its existing large corporate book, we expect YES to keep consolidating given a higher exposure to sectors like power, telecom and other infrastructure (Fig 3). Over the last few quarters, YES has also seen some slowdown in its pure loan book while the incremental traction has come on its credit substitute book, mainly in the form of commercial papers and corporate bonds.

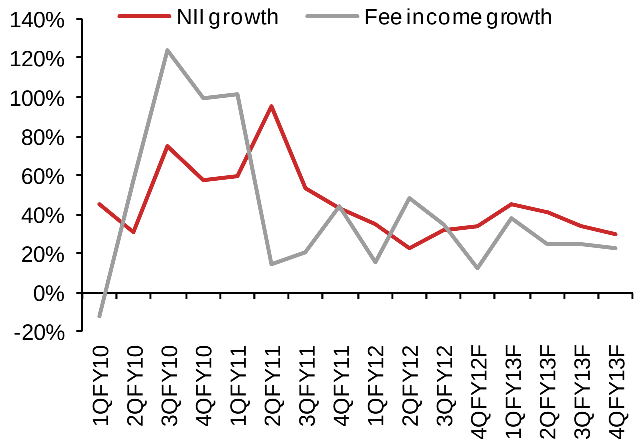
Fig. 3: Sector-wise loan book breakdown for Yes Bank (as of September 2011)



Source: Company data, Nomura estimates

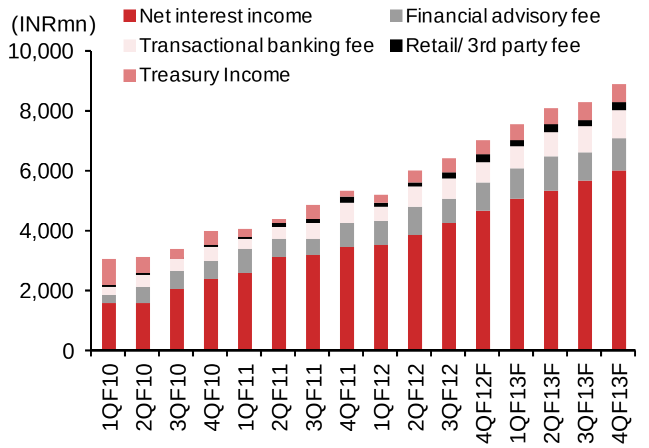
We forecast loan CAGR of 21% over FY12-14F (compared to our estimate of 18-20% CAGR for the system) to drive NII increase of 30% CAGR over the same period, helped by improvement in net interest margins (NIMs). On the fee income front, we expect a CAGR of 24% over FY12-14F as we see some moderation in financial advisory and loan syndication fees while loan processing fee would drive the growth. We estimate FY13F and FY14F net revenues to increase at 33% and 23%, respectively.

Fig. 4: Net interest income and fee income growth



Source: Company data, Nomura estimates

Fig. 5: Revenue breakdown

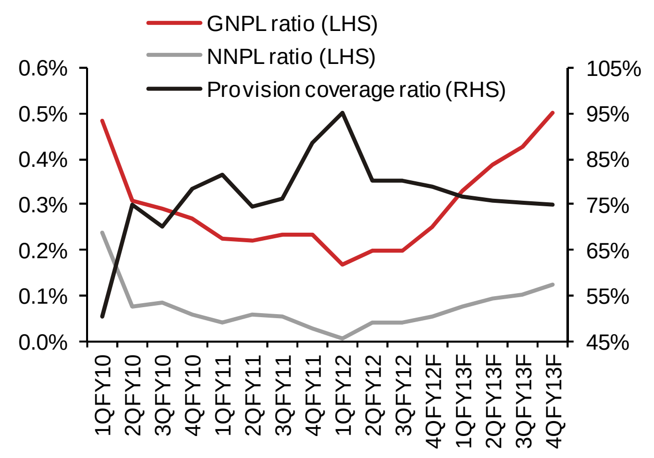


Source: Company data, Nomura estimates

LLPs likely to bottom out in FY12F, inch up in FY13F

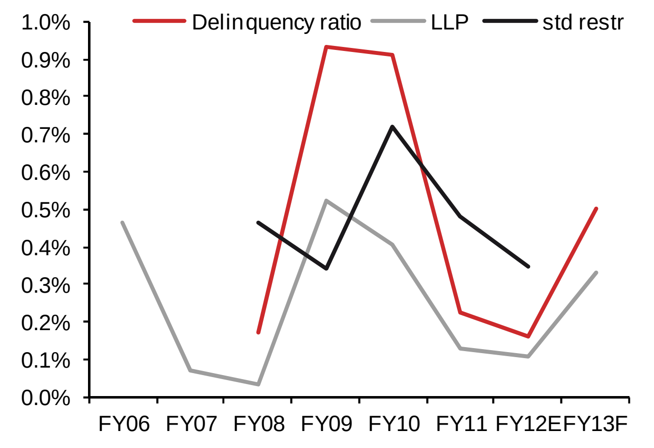
In our view, YES has best-in-class asset quality among India's banks, reporting GNPL and NNPL of just 20 and 4bps, respectively, for 3QFY12 compared to the corresponding sector average of 2.9% and 1%. YES has managed to maintain its asset quality on account of: 1) technology driven centralized risk management processes; 2) lower exposure to cyclicals, SME and retail so far; and 3) very low proportion of walk-in business. However going forward, we expect LLPs to inch up on higher proportion of retail and SME book, higher exposure to the stressed infrastructure sector and a cyclical uptick driven by the strong growth of past few years.

Fig. 6: Non-performing loan ratios and coverage



Source: Company data, Nomura estimates

Fig. 7: Delinquency ratio and loan loss provision ratio



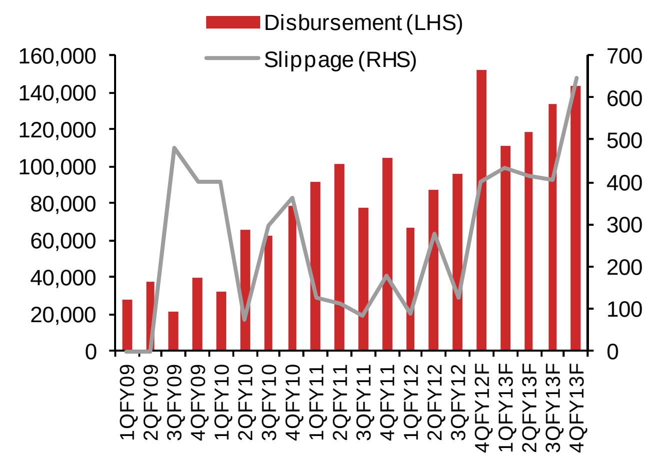
Source: Company data, Nomura estimates

Thus far, YES has reported a downward trend in both delinquency ratios and LLPs, while the restructuring during the first nine months of the fiscal year has been just around 35bps of the opening book.

YES restructured around INR900mn of its INR2.5-3bn MFI book during the year, and we expect some further stress to come from this book. As per YES' internal rating, around 150bps of its book is below investment grade including 50bps of outstanding restructured book. On its corporate infrastructure book too, although YES has largely extended working capital loan, we expect some stress arising out of the policy linked slowdown. Besides this as the proportion of SME and retail increase for the bank, we expect both delinquency and LLPs to trend up from here.

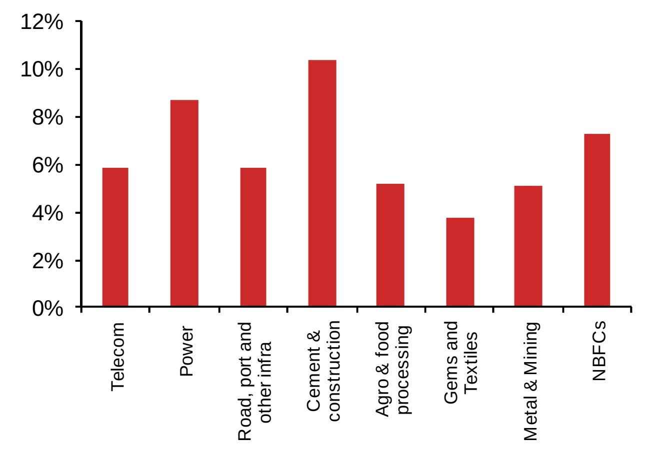
We expect YES Bank's annualized loan loss provisions (LLPs) and delinquency ratio (slippages as proportion of opening book) to bottom out at 11bps and 20bps for FY12F. For FY13F, we expect LLPs to inch up to 33bps (the management had guided towards being confident of controlling their LLPs within 35bps through the rate cycle).

Fig. 8: Slippages and disbursals



Source: Company data, Nomura estimates

Fig. 9: Exposure (funded /non-funded) to some key sectors



Source: Company data, Nomura estimates

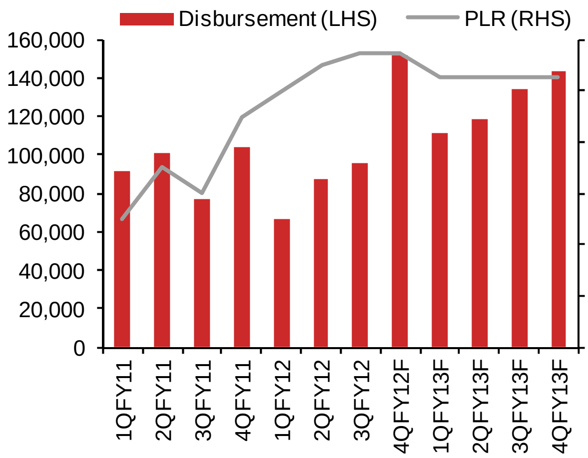
On the positive side, YES's greenfield coal exposure is just 90bps of overall book, while it has minimal exposure to the troubled aviation sector (around 15 bps).

So although we still expect YES to maintain the best-in-class asset quality among its banking peers, we believe it would be difficult for the bank to better its asset quality trends from here going forward.

We expect NIMs to improve on CASA uptick, rate cycle reversal

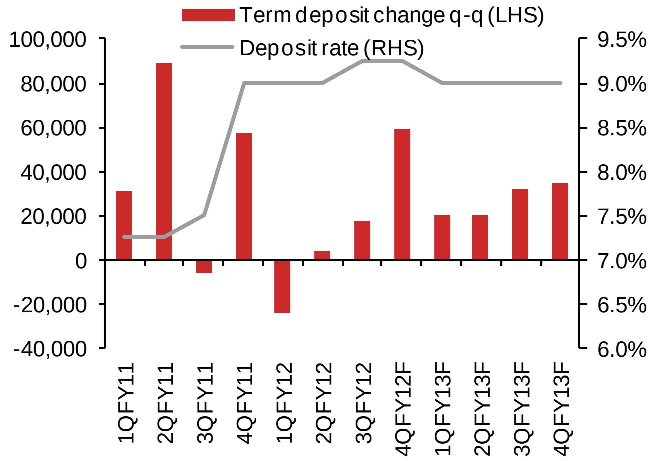
We expect YES to benefit from the impending turn in the rate cycle, as it is still largely a term-funded bank, while improving its CASA ratio would also support margins.

Fig. 10: Quarterly loan disbursals and lending rate



Source: Company data, Nomura estimates

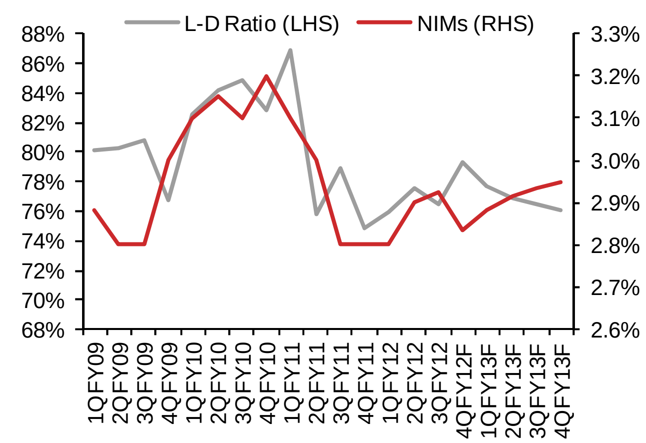
Fig. 11: Net change in term deposits and deposit rate



Source: Company data, Nomura estimates

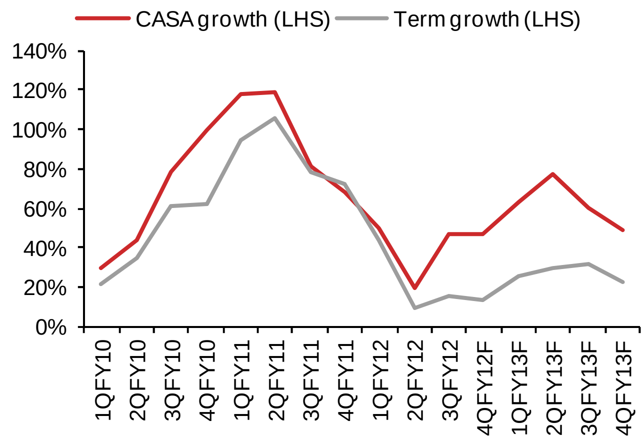
On the other hand, we expect its shortfall on the priority sector targets given its rapid pace of growth and some amount of incremental volume on the credit substitute book (which typically yields 100-125bps lower than the blended loan book) to have some impact on spreads. However, we still expect NIMs to improve by 10bps to 2.9% for FY13F from 2.8% for FY12F largely on CASA ratio improvement. We expect NIMs to inch up for the bank after a dip until 2QFY13, as its fixed deposit base (87% of total) with 6-9 month maturity would get repriced, while its loan yields would get cushion from its pricing power and increasing mix of retail and SME loans. We have not factored any capital raising into our model. If YES goes to the market for equity raising in the next six to nine months, that could provide further fillip to its margins.

Fig. 12: Net interest margin vs loan-to-deposit ratio



Source: Company data, Nomura estimates

Fig. 13: CASA and term deposit growth



Source: Company data, Nomura estimates

YES currently has a CASA ratio of 12.6% (10% in current accounts and 2.6% in savings deposits). We expect YES' branch count to increase to 386 by March 2012 from 336 in December 2011, while we are factoring in another 100 branches in FY13F. We detail our take on savings deposit accretion for YES in the next section of this report.

CASA ratio uptick likely to be gradual and cost-intensive

As per our estimate, India had a savings deposit base of INR13.8tn (US$275bn) in savings account deposits as of March 2011 in c.630mn accounts. Private sector banks account for c.15% of this, with an average ticket size of INR37,000 ,while public sector banks (PSU) account for 75% with an average ticket size of INR22,000. The household sector in India accounts for over 85% of the savings deposit base. For private sector banks, almost 82% of their savings account base comes from urban and metro cities (classified as Tier-1 cities as per Indian census), while given the larger geographic presence of PSU banks, Tier-1 cities account for 61% of their savings deposit base.

In our view, two recent regulatory changes have made the savings account landscape very dynamic in recent months.

1) As shown below, India's cities are classified from Tier-1 to Tier-6 according to population count, and RBI used to regulate the issue of fresh branch licenses for these cities previously for every bank. In December 2009 RBI opened up Tier-3 to Tier-6 cities for any bank to open branches without RBI approval, while in November 2011 it opened up the Tier-2 cities, too. The current regulations applicable for new branch licenses are detailed in the table below.

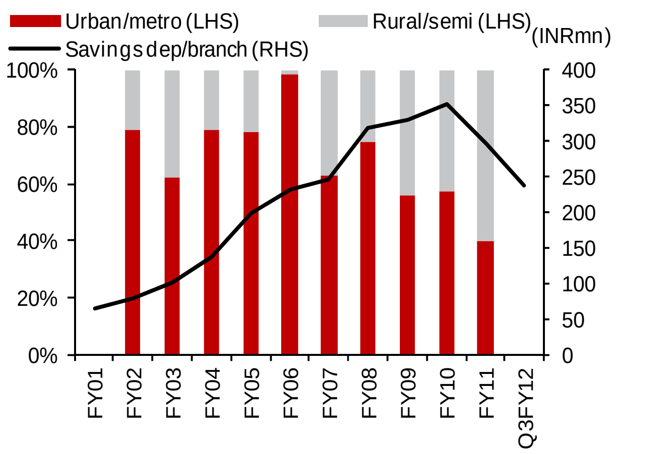
Fig. 14: RBI regulations on branch additions and city classification wise breakdown of savings deposits

City Classification by Census	Population range	RBI classification	Branch license regulation	Proportion ofsavings deposit for pvt sector banks	Proportioof savings deposit for PSU banks
Tier-1	Greater than 1 mn	Metro	Need license from RBI. Banks would get 1 tier-1 license for every branch opened in tier-2 to 6 besides the 25% mandatory in unbanked rural centres	54%	36%
Tier-1	0.1 mn to 1 mn	Urban		28%	25%
Tier-2	50,000 - 0.1mn	Semi-urban	Opened up in Nov'11	14%	23%
Tier-3	20,000-50,000	Semi-urban	Opened in Dec'09		
Tier-4	10,000- 20,000	Semi-urban	Opened in Dec'09		
Tier-5	5,000- 10,000	Rural	Opened in Dec'09. Banks need to add 25% of all new branches in unbanked centres in these cities	4%	16%
Tier-6	Less than 5,000	Rural			

Source: RBI

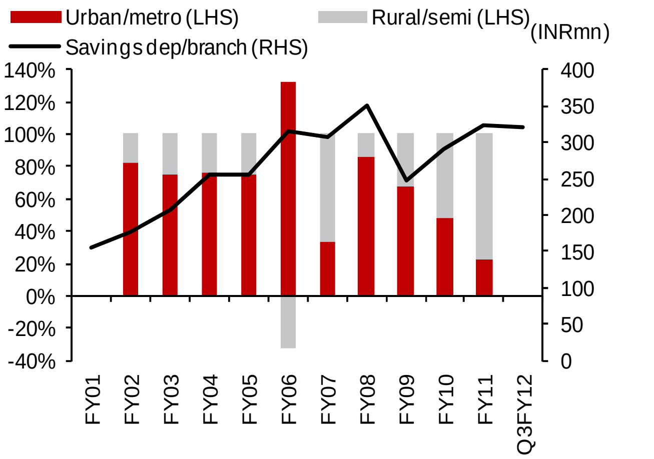
These regulations state that for getting fresh licenses in Tier-1 cities (which constitute 82% of savings base for private sector players) going forward, the banks would need to open 25% in unbanked centres and a proportionate number of the balance in Tier-2 -6 cities. For example – for every new 100 branches, Yes Bank plans to add in a year – 25 would have to be opened in unbanked rural centres and the balance (75) would have to be largely divided equally between Tier-1 cities and a mix of Tier-2-6 cities. This implies that banks would get to open only about 40-45% of newer branches in the CASA rich metro or urban centres, unlike in the past when many of the private sector banks opened up a disproportionate number of branches in Tier-1 cities. We highlight the movement in savings deposit per branch for two big private sector banks YES models it after – Yes Bank and HDFC Bank – and we compare it with the proportion of branches added in urban/metro vs semi urban/rural centres.

Fig. 15: Axis Bank – savings dep/branch vs branch addition



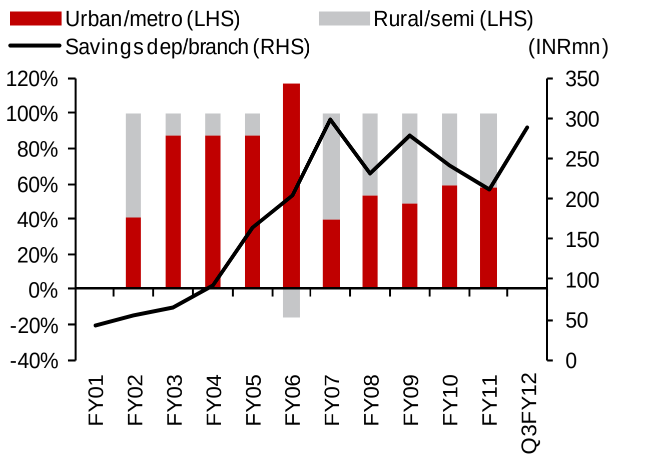
Source: Company data, Nomura estimates

Fig. 16: HDFC bank – savings de/branch vs branch addition



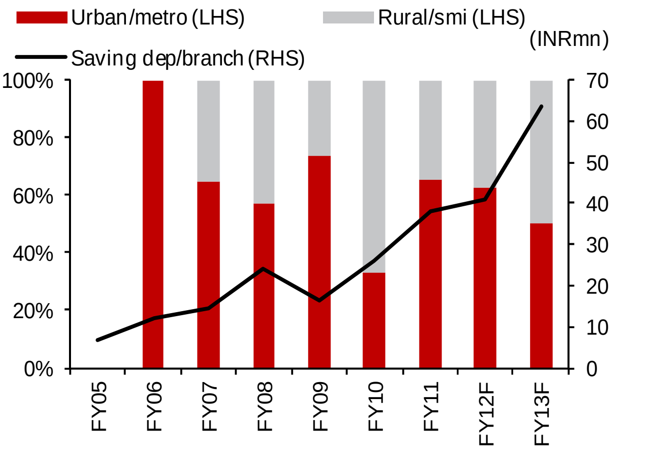
Source: Company data, Nomura estimates

Fig. 17: ICICI Bank - saving dep/branch vs branch addition



Source: Company data, Nomura estimates

Fig. 18: Yes Bank - saving dep/branch vs branch addition



Source: Company data, Nomura estimates

As is evident from the charts above, a big driver for the surge in savings deposit per branch for the private sector banks – Axis Bank, HDFCB and ICICI – was the higher proportion of branch expansion in the urban and metro centres from FY03 to FY06. After that period, this ratio has flattened at close to INR300mn per branch for HDFC and Axis as they added a lower proportion of urban/metro branches. Similarly ICICI, which added close to 60% new branches in the urban/metro cities in FY11 thanks to its acquisition of Bank of Rajasthan, has seen a surge in FY12. This period from FY01 to 3QFY12 has seen two entire interest rate cycles with savings rate per branch expanding from FY04 to FY08 despite RBI tightening rates. Hence, the argument of cannibalization of savings deposits can't be used to fully explain the flattening of savings per branch ratio.

Going forward, we expect the proportion of urban/metro branch addition to be lower than 50% given the regulatory stance outlined in the table above.

2) The second regulatory change has been the deregulation of interest rates on savings deposits from October 2011. Banks can now fix their own interest rates on savings accounts compared to a fixed rate of 4% earlier. After this announcement, three private sector banks – Yes Bank, IndusInd Bank and Kotak Mahindra Bank – increased their respective interest rates on savings deposit to 6%. YES recently went a step ahead and increased the rate on deposits with ticket size greater than INR0.1mn to 7%. Although it's still very early to comment on the trends in new account accretion, we highlight the initial trends we have seen in the recent quarterly results.

Fig. 19: Recent trends from hike in savings deposit rate

Bank	Savings accounts in mn (as of Mar'11)	Monthly account accretion in mn (as per Q3FY12 estimate)	Annualized accretion run-rate
SBI	132.0	1.83	17%
PNB	28.0	0.35	15%
BOB	25.0	0.30	14%
ICICI	19.0	0.22	14%
AXIS	13.5	0.25	22%
HDFCB	20.0	0.25	15%
YES	0.2	0.04	209%
IndusInd	0.9	0.06	83%
Kotak	1.0	0.10	120%
Total Base	630.0	7.35	14%

Source: Company data, Nomura estimates

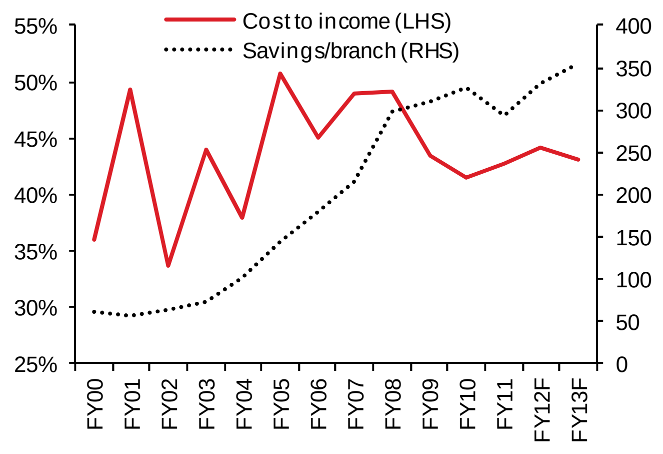
The three highlighted banks have raised their savings deposit rates and have seen some surge in account additions as per the first two months of data.

The market share of new additions in terms of accounts is still limited to 2-3% according to our estimates above. Some banks have given a ballpark figure of 90-95% of their accounts belonging to less than 0.1mn in ticket size and accounting for just around 30% of total savings deposit base. Even if we factor that, and assume that the market share gains are happening in the greater than 0.1mn ticket size accounts, still the amount wise market share gains appear to be around 5-6% of new savings deposit additions. We believe this number would still be within the comfort range of bigger private and public sector banks and hence we don't expect any immediate rate action from them.

So to summarize the impact for YES, we do expect some near-term traction in its savings account accretion from its recent move, and we are building in around 0.05mn customer accretion every month until FY13F. YES would continue to benefit from an increase in branch efficiency, deeper penetration given a bigger scale and also its lower network turnaround time. In addition, we expect YES to benefit from expanding its footprint in many upcoming cities which qualify as Tier-1 cities as per the 2011 census but are still classified as Tier-2/3 cities by RBI as per the 2001 census (our estimate is 80 cities with a population of over 9 mn in this bracket). This implies increase savings deposit per branch from INR40mn in FY12F to INR60mn by FY13F and CASA ratio improvement of 230bps to 15.2% by FY13F.

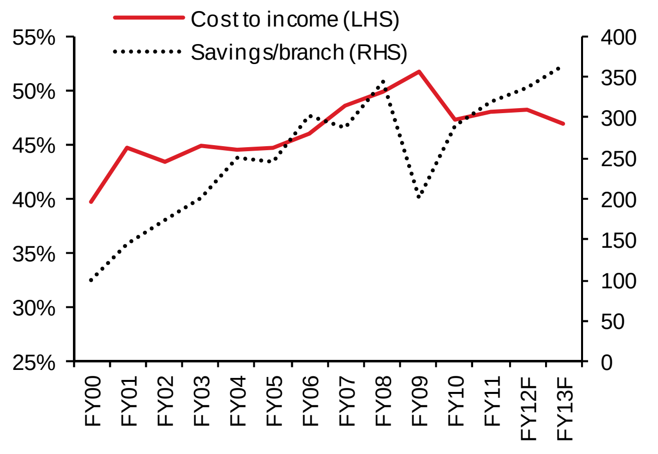
However, as detailed in point 1, we believe the journey from a savings base of INR60mn to INR300mn per branch would be more arduous and cost intensive. And with Yes Bank's focus on NIMs and profitability, a sluggish increase in the low-cost deposit franchise would entail lower-than-budgeted asset growth.

Fig. 20: Axis Bank – cost to income ratio vs savings deposits per branch



Source: Company data, Nomura estimates

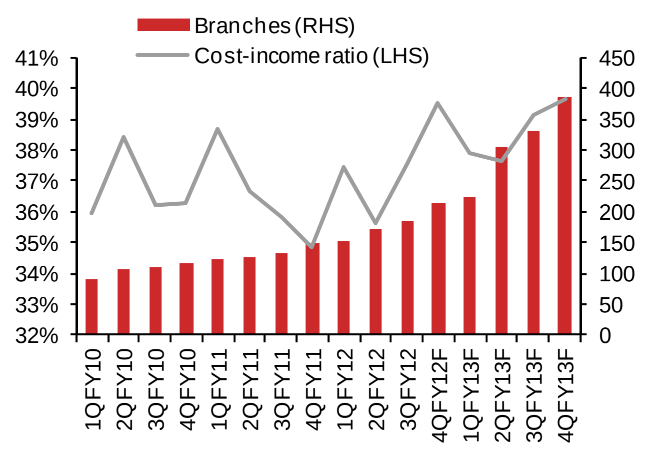
Fig. 21: HDFC Bank – cost to income ratio vs savings deposit per branch



Source: Company data, Nomura estimates

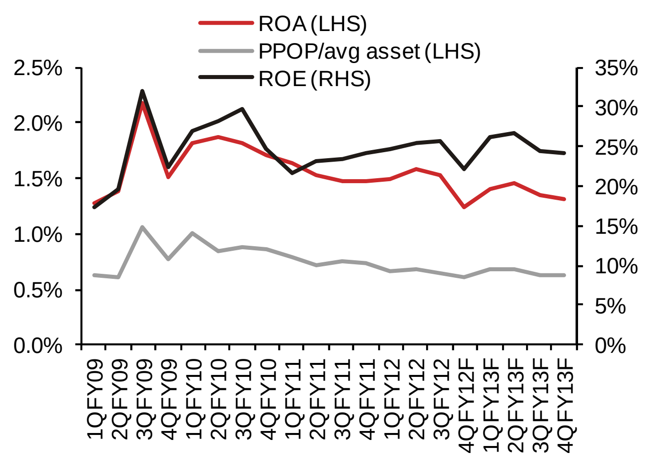
As can be seen in the graphs above, for both HDFC and Yes Bank, the improvement in savings deposits per branch was accompanied by a structural increase in their respective cost-income ratios. While we believe YES's model of hub-and-spoke expansion to be more cost-effective than its peers, we expect cost-income ratios to trend up to 40% from a level of 36-38% seen over the past three years. Even the bank's management has been guiding towards a cost-income ratio of 40% going forward.

Fig. 22: Yes Bank- Cost to income and branch network



Source: Company data, Nomura estimates

Fig. 23: RoA and RoE



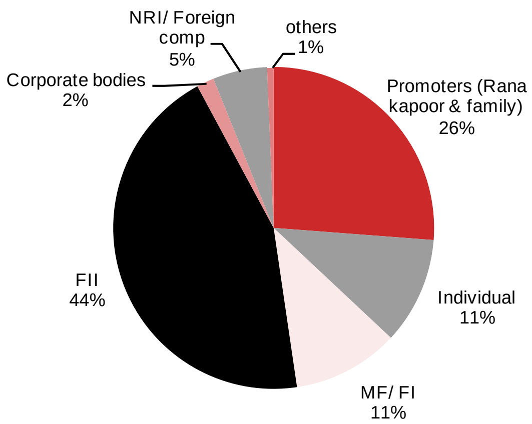
Source: Company data, Nomura estimates

As indicated in the chart above, we expect average RoA to remain flat at 1.4% for FY13F. We expect adjusted average RoE to be 23.6% for FY13F compared to 22.8% in FY12F on marginal increase in leverage.

On the capital adequacy front, YES is comfortable with a Tier-1 ratio of 9.7% and overall CAR of 16.6% (including nine-month profits). The bank reduced its risk-weighted asset to total asset (RWA/TA) ratio to 71% in 3QFY12 from 78% in 2QFY12 on the rating of some of its previously unrated corporate book. The bank further expects another 70bps improvement in Tier-1 from capital-efficiency measures. However, we believe the bank will keep its capital-raising plans open given higher future capital requirements under soon-to-come Basel-3 guidelines. We haven't built any capital dilution into our estimates, although we expect the bank to raise capital around 4QFY13.

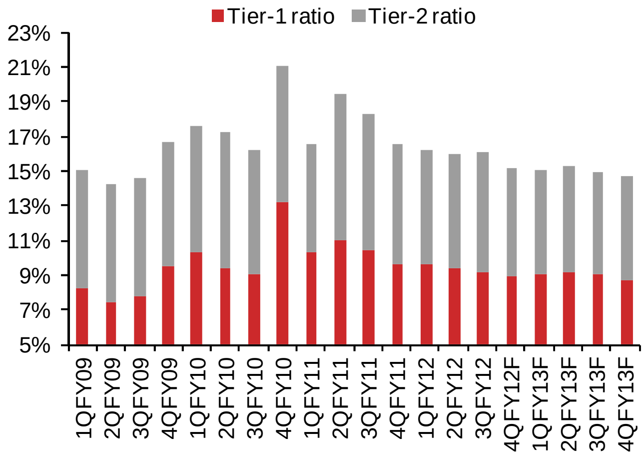
Building in all the above, we expect YES' net revenue and earnings to increase 34% and 26%, respectively, for FY13F.

Fig. 24: Shareholding profile



Source: Company data, Nomura estimates

Fig. 25: Capital adequacy ratios



Source: Company data, Nomura estimates

Fig. 26: RoA decomposition

Y/E March	FY08	FY09	FY10	FY11	FY12F	FY13F	FY14F
% of Average assets							
Interest Income	9.29%	10.05%	7.96%	8.47%	9.23%	9.34%	9.32%
Interest Expense	6.94%	7.48%	5.34%	5.86%	6.85%	6.77%	6.67%
Net-Interest Income	2.35%	2.56%	2.63%	2.61%	2.38%	2.57%	2.65%
Non-Interest Income	2.57%	2.18%	1.97%	1.31%	1.20%	1.22%	1.22%
Fee income	1.46%	1.18%	1.26%	1.25%	0.96%	0.96%	0.96%
Treasury	0.58%	1.01%	0.71%	0.21%	0.24%	0.26%	0.26%
Net Income	**4.92%**	**4.74%**	**4.60%**	**3.92%**	**3.57%**	**3.79%**	**3.87%**
Operating Expenses	2.43%	2.10%	1.69%	1.43%	1.34%	1.46%	1.52%
Operating Profit	2.49%	2.65%	2.91%	2.50%	2.23%	2.33%	2.35%
Provisions	0.31%	0.31%	0.46%	0.21%	0.19%	0.24%	0.38%
Taxes	0.76%	0.81%	0.84%	0.77%	0.68%	0.73%	0.69%
RoA (%)	**1.42%**	**1.52%**	**1.61%**	**1.52%**	**1.36%**	**1.36%**	**1.28%**
Avg.assets/avg equity (x)	13.6	13.9	12.9	14.2	16.8	17.4	17.4
RoE (%)	**19.32%**	**21.15%**	**20.76%**	**21.67%**	**22.76%**	**23.55%**	**22.30%**

Source: Company data, Nomura estimates

Valuation

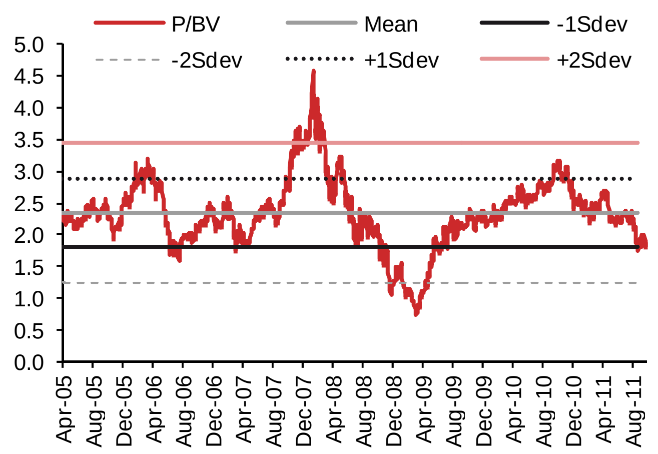
Initiate with Neutral; TP of INR380

We estimate Yes Bank's loan book to grow at a CAGR of 21% over FY12-14F. We expect this to drive a revenue and PAT CAGR of 29% and 20%, respectively, over this period after factoring in LLPs of 25bps for FY13F. We expect Yes Bank to show ROA and adjusted ROE of 1.4% and 23.6%, respectively, for FY13F. Yes Bank currently trades at 2.2x FY13F ABV, slightly below its historical mean of 2.6x one-year forward ABV. At our TP of INR380, the implied P/ABV for FY13F is 2.4x. We arrive at our TP of INR380 using a three-stage residual-income valuation method that uses the following assumptions:

- We estimate loan book growth of 21% for both FY13F and FY14F, vs management's guidance of 20-22% over FY12-14.
- We estimate fee income to grow at 27% in FY13F and by 21% in FY14F.
- We expect NIMs to show 2.9% and 3.0% for FY13F and FY14F, respectively, from 2.8% for 3QFY12.
- On the bad-loan front, we are building in an increase in GNPLs to INR2.6bn (0.5% of loan book) by FY13F from the INR0.7 bn in 3QFY12. We're also taking NNPLs to INR650mn for FY13F from INR144mn in 3QFY12.

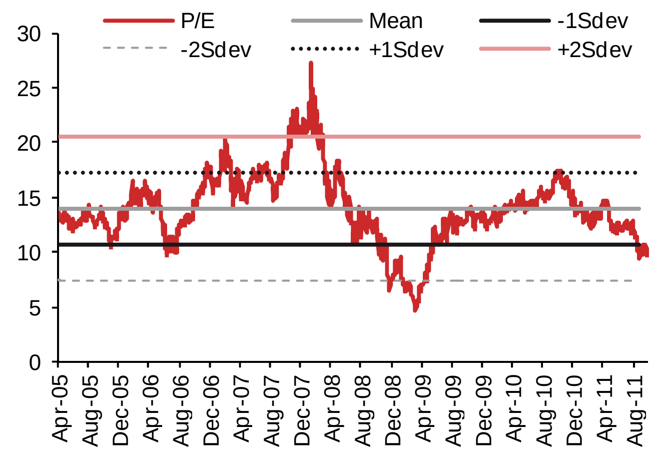
- Yes Bank currently has a capital adequacy ratio of 16.1% with 9.2% in Tier-1.
- Yes Bank currently had an employee count of 5,013 as at 3QFY12; we expect an addition of 2,840 new employees by FY14F. We estimate the cost-income ratio to be at 38.6% in FY13F from 36.3% in F11 and we expect the cost-asset ratio to remain flat at 1.46% for FY13F compared to 1.43% in FY11.
- We expect a pro-forma diluted EPS of INR32.9 for FY13F and INR37.6 for FY14F. At 2.2x our FY13F ABV and 10.3x our FY13F diluted EPS, we believe the stock looks fairly priced. Our TP of INR380 implies 2.4x our FY13F-adjusted BV (adjusted ROE of 23.6% for FY13F) and 11.6x our FY13F EPS.

Fig. 27: 1-yr fwd P/ABV



Source: Company data, Bloomberg, Nomura estimates

Fig. 28: 1-yr Fwd P/E



Source: Company data, Bloomberg, Nomura estimates

Key catalysts: continued traction on savings account accretion, strong uptick in retail/ SME portfolio, interest rate cuts.

Key risks: A sharp spike in NPLs would be a key downside risk, while a strong uptick in CASA and retail loan base would be a key upside risk.

Residual income valuation

We have built the following assumptions into our three-stage residual-income model:

- We estimate Yes Bank's interest earnings assets at a CAGR of 15.3% over FY13-20F, in our forecasts. We expect this to be followed by a terminal growth rate of 4% beyond that.
- We have modeled for average ROE of 19.9% over FY13-20F and a 17% terminal value ROE. Our discount rates range from 15.4% (current cost of equity) for FY12-14F to 12.5% for FY15-20F, along with a 10% terminal rate.

Fig. 29: Assumptions for Residual Income Valuation

Valuation Table	
Terminal Growth rate	4.0%
RFR	7.5%
BETA	1
ERP (Equity Risk Premium)	5.0%
Cost of equity	12.5%
Sum of Future Residual Income per Share	251
Beginning Book Value per Share	129
Value Per Share	380
Implied FY13E P/ABV	**2.4**
Implied FY13E P/E	**11.6**

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

We, Abhishek Bhattacharya, Vijay Sarathi and Amit Nanavati, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

The term "Nomura Group Company" used herein refers to Nomura Holdings, Inc. or any affiliate or subsidiary of Nomura Holdings, Inc. Nomura Group Companies involved in the production of Research are detailed in the disclaimer below.

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Yes Bank	YES IN	INR 340	24-Feb-2012	Neutral	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Yes Bank	Not rated	29-Feb-2012

Yes Bank (YES IN) **INR 340 (24-Feb-2012)** Neutral (Sector rating: Not rated)

Chart Not Available

Valuation Methodology We have arrived at our target price of INR380 using a three-stage residual-income valuation method that uses the following assumptions: We expect Yes Bank to grow its loan book at a CAGR of 21% over FY12-14F. We expect this to drive a revenue and PAT CAGR of 29% and 20%, respectively, over this period after factoring in LLPs of 25bps for FY13F. We expect Yes Bank to clock ROA and adjusted ROE of 1.4% and 23.6%, respectively, for FY13F. At our target price of INR380, the implied P/ABV for FY13F is 2.4x.

Risks that may impede the achievement of the target price Key risks to the achievement of our target price include a sharp spike in NPLs, and delays in the implementation of power sector reforms.

Important Disclosures

Online availability of research and conflict-of-interest disclosures

Nomura research is available on www.nomuranow.com, Bloomberg, Capital IQ, Factset, MarkitHub, Reuters and ThomsonOne.
Important disclosures may be read at http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport-eu@nomura.com for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Any authors named in this report are research analysts unless otherwise indicated. *Industry Specialists* identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear. *Marketing Analysts* identified in some Nomura research reports are research analysts employed by Nomura International plc who are primarily responsible for marketing Nomura's Equity Research product in the sector for which they have coverage. Marketing Analysts may also contribute to research reports in which their names appear and publish research on their sector.

Distribution of ratings (US)

The distribution of all ratings published by Nomura US Equity Research is as follows:
35% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 11% of companies with this rating are investment banking clients of the Nomura Group*.
59% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 2% of companies with this rating are investment banking clients of the Nomura Group*.
6% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 0% of companies with this rating are investment banking clients of the Nomura Group*.
As at 31 December 2011. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Distribution of ratings (Global)

The distribution of all ratings published by Nomura Global Equity Research is as follows:
47% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 40% of companies with this rating are investment banking clients of the Nomura Group*.
43% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 45% of companies with this rating are investment banking clients of the Nomura Group*.
10% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 21% of companies with this rating are investment banking clients of the Nomura Group*.
As at 31 December 2011. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS

A rating of '**Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: http://go.nomuranow.com/research/globalresearchportal);**Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS

A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A '**Buy'** recommendation indicates that potential upside is 15% or more. A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce'** recommendation indicates that potential downside is 5% or more. A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
Securities and/or companies that are labelled as '**Not rated'** or shown as '**No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

This document contains material that has been prepared by the Nomura entity identified at the top or bottom of page 1 herein, if any, and/or, with the sole or joint contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or identified elsewhere in the document. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the 'Nomura Group'), include: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('NIplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Capital Nomura Securities Public Company Limited ('CNS'), Thailand; Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia ('PTNI'), Indonesia; Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034, MCX: INE261299034); Banque Nomura France ('BNF'), regulated by the Autorité des marches financiers and the Autorité de Contrôle Prudentiel; NIplc, Dubai Branch ('NIplc, Dubai'); NIplc, Madrid Branch ('NIplc, Madrid') and NIplc, Italian Branch ('NIplc, Italy').

This material is: (i) for your private information, and we are not soliciting any action based upon it; (ii) not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal; and (iii) based upon information from sources that we consider reliable, but has not been independently verified by Nomura Group.

Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible all warranties and other assurances by Nomura group are hereby excluded and Nomura Group shall have no liability for the use, misuse, or distribution of this information.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. Nomura Group is under no duty to update this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. Nomura Group does not provide tax advice.

Nomura Group, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. Nomura Group companies may also act as market maker or liquidity provider (as defined within Financial Services Authority ('FSA') rules in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Any MSCI sourced information in this document is the exclusive property of MSCI Inc. ('MSCI'). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

Investors should consider this document as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Nomura Group produces a number of different types of research product including, among others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. Nomura Group publishes research product in a number of different ways including the posting of product on Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements.

Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns.

Certain securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment.

The securities described herein may not have been registered under the US Securities Act of 1933 (the '1933 Act'), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.

This document has been approved for distribution in the UK and European Economic Area as investment research by NIplc, which is authorized and regulated by the FSA and is a member of the London Stock Exchange. It does not constitute a personal recommendation, as defined by the FSA, or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are 'eligible counterparties' or 'professional clients' as defined by the FSA, and may not, therefore, be redistributed to retail clients as defined by the FSA. This document has been approved by NIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC. This document has also been approved for distribution in Malaysia by NSM. In Singapore, this document has been distributed by NSL. NSL accepts legal responsibility for the content of this document, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934.

This document has not been approved for distribution in the Kingdom of Saudi Arabia ('Saudi Arabia') or to clients other than 'professional clients' in the United Arab Emirates ('UAE') by Nomura Saudi Arabia, NIplc or any other member of Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or to any person located in Saudi Arabia or to clients other than 'professional clients' in the UAE. By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are a 'professional client' in the UAE and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of Saudi Arabia or the UAE.

NO PART OF THIS MATERIAL MAY BE (I) COPIED, PHOTOCOPIED, OR DUPLICATED IN ANY FORM, BY ANY MEANS; OR (II) REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF A MEMBER OF NOMURA GROUP. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

Additional information is available upon request and disclosure information is available at the Nomura Disclosure web page: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx