

YESBANK - Q3 2014 Yes Bank Ltd Earnings Conference Call

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CORPORATE PARTICIPANTS

Rajat Monga *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Operator

Welcome, and thank you all for standing by. At this time, all participants are on a listen-only mode. We will conduct Q&A at the end of the presentation. (Operator Instructions) Today's conference call is being recorded. If you have any objections, you may disconnect at this time. And now I will hand the call over to your host, Mr. Keshav Sanghi. Sir, please go ahead.

Keshav Sanghi - *Goldman Sachs - MD*

Thank you very much. Good afternoon, ladies and gentlemen, my name is Keshav Sanghi from Goldman Sachs. It gives us great pleasure to host the Q3 earnings call for YES Bank. Today on the call from the management, we have **Rajat Monga, Senior Group President, Financial Markets and the CFO; Pralay Mondal, Senior Group President, Retail Banking; Jaideep Iyer, Group President, Financial Management; and Aparajit Bhandarkar, Group Executive Vice President and Head, Financial Investor Strategy Team.** Thank you very much, gentlemen. Rajat, over to you. Thank you.

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Thanks very much, Keshav, and welcome all to the Q3 results presentation call for YES Bank. As I'm sure all of you have been observing, the last few weeks and months have been reasonably volatile, to some extent dramatic in the Indian context, especially related to some macroeconomic backdrop and variables. We've seen extraordinary action taken by the Central Bank in the earlier quarter through money market and interest rate measures. Thankfully we are now seeing a reasonably prolonged period of lower volatility on the currency. We are also observing some of the local macroeconomic variables stabilizing or improving for the better. We are looking at a stabilized but a lower range for the GDP growth in the economy. We've also seen some good moderation in the inflation reading on both the consumer and the wholesale price front, which is also helping the broader macroeconomic picture. Have also been witnessing increase and somewhat significant increase in government kind of action in terms of projects and closures, while we continue to deal with the uncertainty of the general elections, which are due in the current calendar year.

I think in this backdrop, at YES Bank, we are quite pleased to report a respectable performance, starting with the profit after tax of INR415.6 crores; that's INR4.16 billion; that represents a increase of 21.4% over the corresponding quarter of last year. This is in tandem with our strategy, where we are balancing productivity and growth metrics quite closely, while we are continuing to be reasonably on our guard as far as risk issues are concerned in the current operating environment in the country.

The profit after tax was supported by a 17% increase in the total net income, which comprises the net interest income and the non-interest income. We've seen a 14% increase in the net interest income line, in line with the growth in balance sheet, in which advances grew by 14.7% on a year-on-year basis. There has been a slightly moderated performance on the net interest margin front, both in the current quarter as well as in the previous quarter. Sequentially, previous quarter, we are reporting a net interest margin position of 2.9%. However, in line with the growth versus optimization of returns dynamics, I think we're reporting fairly satisfactory return ratios in this current quarter, where our return on assets is stacking up to 1.6%. This is an annualized number. And our return on equity is totaling to 24.4%, again, on an annualized basis.

The total net income, as I was mentioning earlier, besides the more moderated net interest income line growth has been supported by a relatively higher growth from the non-interest income lines, which is comprised of transaction banking, where we have generated revenues of INR110 crores or INR1.1 billion in the current quarter. We have generated INR70.5 crore of revenues from the financial market stream; a INR1.63 billion or INR163 crores from the financial advisory stream, and INR2 crores from the retail banking stream as well.

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Overall, I would say, reasonable contributions coming from all the four subdivisions of the non-interest income presentations that we give, with some moderation in transaction banking income resulting from the cyclical slowdown in throughput coming from trade, correspondingly an increase in revenues in the financial markets line with the both a distributed strategy, as well as volatile dollar-rupee market assisting the flows and throughput in the Bank's remittance business. As such, the non-interest income was in a stable range of contribution to total income, which was at 36.8% for the current quarter and we have seen this number range between low-to-high 30s in terms of percentage share of the total income line.

The cost to income has inched up, also on account of the one-off charge that we have taken of fees that we paid on a borrowing tranche of \$150 million that I will elaborate later. Nevertheless, we are reporting a 41.6% cost to income ratio. This would have been about 1 percentage point to 1.5 percentage points lower had the one-off charges not been taken in the current quarter.

On the balance sheet highlights, we are mostly on expected lines, in-line growth with industry as far as advances is concerned and a slightly higher than industry growth observed on the deposits line. The deposits in the current quarter have increased about 21% on a year-on-year comparison as compared to loans, which have grown by 14.7%. The loans and credit substitutes combined have slightly lower growth at about 13.5%.

Within deposits, the growth in CASA continues to be respectable. The momentum which got little compromised in the tight interest rate period has picked up again and hopefully has more to go as far as the pickup of mobilization of savings accounts and current accounts is concerned. We are reporting a 55% increase in savings account deposits. This is a year-on-year comparison and a 38% increase in the composite CASA book, which now totals to a little over INR142 billion, so little over INR14,250 crores on the gross CASA book.

The share of liabilities from retail banking continues to increase. We've also been reporting a supposed share, which could constitute the bulk deposits that the Bank is taking, which would be deposits in excess of about \$4 million per ticket size or INR25 crores in equivalent rupee terms. This ratio in terms of the total deposit funding book of the Bank now stands at little over 31%, which is an improvement from same period last year, where it stood at little less than 36%. So both CASA as well as the liability structure continues to get more distributed and more granular and we do expect ongoing improvement in this metric in the near future as well.

Some statistics on the asset quality front. The position that the Bank is reporting as at December 31 is an 8 basis point net NPA position and a 39 basis point gross NPA position. In addition to the net NPAs, we have a restructured asset position of 21 basis points. We've seen increases in both gross and net NPAs, however, the delta increase continues to be minimal. On a net NPA basis, the position has worsened from 4 basis points to 8 basis points. That continues to be a very nominal downside position.

On the other hand, the restructured book has reduced in absolute terms as well as in percentage terms, with the majority recovery efforts on account of restructured loans and a minority slippage from restructured position to a non-performing position. The resultant remaining restructured book is in absolute terms now INR1.07 billion or INR107 crores, which is continuing on the books of the Bank.

Just some statistics on some of the other reported ratios as well and we could discuss others during the question and answers after our presentation. The few statistics on the capital adequacy position of the Bank; as at December 31, the total capital adequacy stands at 16.1%. The Tier I capital is stacking up to 9.9% and the core equity Tier 1, the CET 1 under Basel III is at 9.3%. These numbers take into account the unaudited profits for the nine month period. However, they adjust for a dividend amortization, which is at the moment the amortization is running at the same rate of dividend that was paid for the previous year. We are not putting any assumptions on the dividend. Adjusting for the dividend amortization and also including the unaudited profits on nine months, the Core equity Tier I stands at 9.3%.

The diluted [EPS] for the current quarter on a non-annualized basis stacks up to INR11.4 and the book value per share is stacking up to INR194.9 as at December 31, which has increased from INR158.8 per share as compared to December 31, 2012.

Some more commercial highlights as far as the developments of the operations of the Bank is concerned. We are now in receipt of approvals from both the Central Banks of India and the UAE for our debut representative office, which is proposed to be set up in the Abu Dhabi geography. We should be beginning work in this direction sooner than later and also move towards our debut international branch presence in an international jurisdiction also in due course.

Our branches now total to 517 in number. We still expect to grow this network anywhere between 100 to 150 branches in the next 12 to 15 months. I was mentioning a little bit earlier on the fund raising that the Bank completed of \$150 million from the IFC, which was the first facility that IFC extended to any company under their Managed Co-Lending Portfolio Program, which they have started afresh. This was a two-part facility. Part A which was \$105 million, was a seven-year door-to-door maturity structure with an understanding with the IFC that the money will be used to on-lend for SMEs, women-managed companies, as well as in states where income averages are still lower than national averages, which fits very well with our directed lending program as well.

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The Bank also received some recognition in the quarter gone by. We were ranked as the Best Mid-Sized Bank in India by an Indian Publication called Business Today, which runs the award program along with KPMG. The Bank was also recognized as the India Bond House by the IFR Asia in their 2013 review. And we continue to be ranked for the calendar year 2013 respectably on the Thomson Reuters and Bloomberg league tables for bond business and we are fourth in the national league tables on both these publications.

So that was the summary we wanted to present on our results as a prelude to the question-and-answers. I think, at this stage, we will possibly take some questions. Moderator, if you may please open the Q&A lines please?

QUESTION AND ANSWER

Operator

(Operator Instructions) Manish Oswal, KR Choksey Securities.

Manish Oswal - KR Choksey Securities - Analyst

Yeah. My question on this- during the quarter we have provided around INR13 crores towards the provisioning contingency line item. So my question is, we grew our loan book 5% sequentially during this quarter and on top of that gross NPA increased during this quarter and the PCR declined during this quarter in this line item during this quarter. Could you explain it?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yes. So the line item, Manish, you are observing is the total provisioning for the quarter. That is a number we present net of fresh provisionings and also provisioning reversals. In this quarter, we have taken a reversal of provisioning of INR52 crores on account of mark-to-market provisioning on bonds.

So, if you would recall, in the last quarter we had taken fresh provisions of about INR110 crores on account of mark-to-market losses on the bond portfolio and the Bank at that time also had decided not to amortize or carry forward those provisions, as our Reserve Bank of India had allowed to do so for the remaining part of the financial year. As the interest rate environment has restored and some yield curve correction has happened, the provisions that we took in the previous quarters have reversed to the extent of INR 52 crores.

So, in effect, we have, other than bonds, the provisionings will stack up to between INR65 crores and INR70 crores on account of credit items, which will include general provisioning on account of the loan book increase. We also have a general provisioning reversal on account of the reduction in mark-to-market exposures on foreign exchange contracts. So, in September 30, rupee level had moved to a lot worse from current levels and therefore all the export side contracts that we had were out of the money and therefore attracting general provisionings. Since rupee has reverted to a lower level, these exposures have come down and therefore the provisions also have been correspondingly released and have also been taken up for new provisioning on account of the new loan growth that has transpired during the quarter.

We've added to the counter-cyclical provisioning as well in the current quarter. So the general provisioning, specific provisioning and the counter-cyclical provisioning will stack up to between INR65 crores and INR70 crores in the current quarter, which will as adjusted for INR52 crores will reconcile with the INR13 crore number that you see.

Manish Oswal - KR Choksey Securities - Analyst

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And lastly one very small clarification. In a reported yield on advance and cost of funds the movement is 20 and 10 respectively and the NIM is flat. So it is a decimal effect because 20bps is the move in the yield on advance and cost of funds moved by 10 basis points sequentially however NIM is flat?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yes. So decimals only, yes, exactly.

Manish Oswal - KR Choksey Securities - Analyst

Okay. And lastly, what is the outlook on loan book growth? It is 14% and some of the retail cum corporate banks, they have risen strongly during this quarter. So what is the outlook for the next couple of quarters?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Our growth outlook for the time being continues to be more like an industry growth outcome. Our retail banking franchises is growing, developing, but it is not large enough to change the overall growth outcome of the Bank. So let me also give you the high-level breakdown of our loan exposures today between segments. So we have about a 68% exposure to large companies. We have a 17% of a loan book, which is extended to branch banking segment and the remaining 14% is to the mid corporate segment.

So while there is a growth in large corporate business, there is growth in retail, there is moderation in the mid-corporate business and the aggregate growth of these segments is about 14% to 15% that we are exhibiting and expecting in the near term. Retail banking naturally is growing faster, but their base is smaller. In terms of the contribution to the overall growth of the Bank therefore gets correspondingly prorated.

Deposits, on the other hand, you should continue to see a good traction from our side. We are reporting a 21% growth on deposits and I'm expecting the growth rates to continue in that range, including the growth share, more growth share coming from CASA and retail deposits.

Manish Oswal - KR Choksey Securities - Analyst

Okay sir. Thank you for answering my questions.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yeah Manish, you're welcome.

Operator

[Anand Vasudevan, Franklin Templeton]

Anand

Yeah, thanks. Hi. A couple of questions. One is, I understand that on your non-performing assets that become non-performing during the quarter, I believe that you made some sales to an ARC. So, firstly, I'd like to know what the total amount of slippages was, how much did you sell to ARC? Also, how much is the total security receipts currently outstanding on your books, receivable from ARCs? And I'd like to understand the reason for you are having done this deal, please.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

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Yes, Anand, so I will just put the numbers first up. So we've had about a INR140 crore fresh slippages in the current quarter that will be short of 27-28 basis points to total loans, is the fresh slippages. The sale to ARC in the current quarter was INR62 crores. The total ARC book cumulative holding is INR180 crores. So that will be about 36 basis points, 37 basis points of the loan book.

The reason that we sell to ARCs is largely to bank on their recovery, let's say, channels. The single most reason of sale to the ARC is because the collateral is a properties-type collateral between land and buildings, flats mostly, wherever there is property of that kind, which is in our current resource capability estimated to be better done through an ARC, which has more established contacts they know. They are in the know of distressed assets being transacted lot more than we are. So we ride on that capability predominantly, instead of building that or in-housing that capability and all of it already. That's our predominant reason. It also helps us, let's say, establish a relative valuation to the collateral in terms of its ultimate, let's say, recoverability.

So the predominant reason is the efficiency that the ARC brings and there would be some minority reasons like debt consolidation, but those reasons have not been the drivers of the sales that have been happening of late.

Anand

So, which is the ARC that you've dealt with?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Sorry, Anand, can you repeat the question please?

Anand

Which is the ARC that has purchased the paper from you?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Well, I'm not sure if I can share the names, but I can share the process. So typically we deal with three or four ARCs, which are more active in the current operating environment. We will share our asset with all of them and ask for their respective interests and quotations on the sale price. We typically will go to the one which we think is offering us the best value. And the value is largely two-fold, the majority decision on the value is on account of the full value that the ARC is willing to ascribe to the underlying collateral and therefore transact on that basis. So his incentives get determined basis that valuation. And the second, but minority criteria is also the upfront cash that the ARC is willing to put on the sale, which is a minority criteria.

Anand

Okay.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

So we would have dealt with maybe two ARCs two or three ARCs already.

Anand

Okay. Over what period would you expect resolution?

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Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Well, I think, we should see activity beginning as soon as Q4 in terms of resolution results, but maybe I'm being little optimistic. But we should see the resolution process and the workout process see some results within this calendar year on account of these sales. It does take some, let's say, groundwork, because there are some statutory delays also. I mean if you are enforcing SARFAESI, you have to send an enforcement notice; you have to give 60 days to the company and all of that. So there is also a fixed time delay which will happen. So many times the reason is that we also try and optimize it. We would, as the original lender, exercise our rights in the SARFAESI and we also notify the borrowers upon them becoming NPAs. So that lead time is cut because of that and the ARC need not send a fresh notice, which are - the provisions are available on account of sale to an ARC.

So it is still an evolving process, maybe I don't have enough data to kind of throw back that this is the recovery which has happened and therefore we can extrapolate. Unfortunately, we are a little bit challenged by not having given this enough time. But I think the situation remains reasonably optimistic in terms of the outcome, because we already understand and appreciate the underlying collateral. We just don't have the resources to execute the process behind it.

Anand

Okay. Thank you.

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

I don't know if that's a good answer or a right answer, it's just that I don't have enough numbers to kind of be able to make any quantitative conclusion. But as far as expectation is concerned, I think, we should see reasonable and more than reasonable recovery within this year on account of these sales. This year will be this calendar year.

Anand

Okay. And just moving on to my second issue that I want to speak to you about; there was this very recent news item about your placement of INR2.8 billion of Tier 1 paper with Indiabulls Financials. Are you holding i.e. is the YES Bank holding any investments in Indiabulls' Tier 1 or Tier 2 capital structure?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Well, the news item, Anand, that you are referring to is not accurate. So I'm not sure if I should be justifying the accuracies or inaccuracies of that information. There are obviously some...

Anand

I'm not asking about --

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Okay. Let me say, whether we have held the instruments that you are mentioning in the past, yes. We've also held other NBFCs' Tier 2 instruments, other Banks' Tier 2 instruments; we've also held other Banks' Tier 1 instruments. We have also held Housing Finance Company's instruments and we have been distributing that paper as well in our last two, three years of performance on that.

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Anand

Yeah. So my question is, currently are you holding Tier 1 or Tier 2 paper with Indiabulls?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Residual position, yes.

Anand

Okay. And what would the amount be?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

I don't think i.e. I am not too sure if these numbers are in the public domain. I mean these are not small numbers, and they are not large numbers, if I can say.

Anand

Okay. Okay. Thank you.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

All right. Thank you.

Operator

Maharukh

Maharukh Adajania (SCB)

Yeah. Hi. I just had a couple of questions; firstly on your slippages, you said it's INR140 crore and then INR62 crore has been sold to an ARC, so these are exclusive, right, so INR140 crore and over and above that, INR62 crore has been sold, that's right?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No. Inclusive. Inclusive.

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Maharukh

The INR140 includes that INR62 crores?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yes. So, it will be INR62 crores plus INR78 crores.

Maruth

Sure. Sure. And what is the net value of that INR62 crores? I mean, how much did you get from the ARC as consideration?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No. This is a net value that I am mentioning.

Maharukh

Okay. Got it. So what was the gross?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Gross would have been maybe INR5 crores, INR10 crores higher; so maybe 75-ish.

Maharukh

And could you split the same

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

The exact number is not available with me right now, but it will be no more than INR10 crores or higher.

Maharukh

Got it. And the provisioning breakdown; could you give us the provisioning breakdown if at all there were any contingency provisions, general provisions, the breakdown of provisions of INR13 crores?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

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Yes. So there is a total provisioning of (on account of NPAs, which is not including the sale that we were discussing just a bit earlier); the NPA provisioning will be INR54 crores. The general provisioning is a minus of INR5 crores, because we've added a new general provisioning on account of loan growth and we have reduced general provisioning on account of reduced exposures resulting from foreign exchange contracts. We've also added counter-cyclical provisionings of INR17 crores, one seven.

Maharukh

Okay. And what is the total quantum? I know you have given the percentage, but the total quantum of your counter cyclical provision now?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

40 basis points to loans, it will be about close to INR200 crores.

Maharukh

And RBI has just come up with these guidelines on unhedged foreign exposures. So any sense on the likely impact at all? It's just come today evening, of course, you would be busy with the results, but –do you have any thoughts on the same.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No. Honestly, I haven't read the guidelines, but if they are on line with the earlier, their exposure also based on how stretched the position of the company is. Our counter-cyclical provisioning policy is also of the similar philosophy.

So, let's say, if we have a poor-rated customer who has an unhedged foreign currency exposure, quite likely, we've already taken some counter-cyclical provisioning on that name. So if that provisioning exists, I'm assuming it will subsist or it will co-exist with the new provisioning, though I haven't honestly read the guidelines. But we don't see, firstly, a dramatic kind of consequences. Secondly, we may already have covered for some of that but we don't know that yet.

Mararukh

Okay. And is it easy for a large proportion of borrowers, is it easy to get data on their unhedged exposures?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No. It's very subjective. I mean, lots of companies, I mean, I give this example on hotels, who have rupee billings but those are converted from foreign currency kind of card usage. They don't see the dollars, they always see converted rupees, but they quote their room rents in dollar terms many times when the sales are overseas and they want to run a open, unhedged borrowing for that purpose. It's the right thing to do, but I don't think it has undergone the test of time in terms of what will stand for an unhedged exposure and what will qualify as a natural mitigant et cetera; early to say. So, not too sure what exactly and how deep the consequences are, but they don't look, I mean, when we discuss internally, this is not a concern item.

Maharukh

Okay. Thanks. Thanks.

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Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Right, Maharukh.

Operator

[Pranav Tendolkar]

Pranav Tendolkar

Yeah. Thanks a lot. Could you just give me a number of contingent liabilities outstanding on the book, so which will be used as acceptances and bank guarantees? That is one. And also the borrowing and LAF this quarter and last quarter. Thanks a lot.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

So I will dig up the first part. The second part, borrowings is about INR 19,000 crores. That includes foreign currency borrowings, it includes Tier 2 capital, it includes domestic refinancing from the refinancing institutes like NABARD, SIDBI, EXIM, NHB; and it includes market borrowings from interbank, repo, CBLO and LAF. So our LAF borrowing within that will be the limit which RBI has allowed, which will be, in our case it is about INR350 crores under the LAF window.

Total contingent liabilities on account of trade guarantees-LCs and guarantees that you are mentioning is on a gross exposure basis though the risk weights will be applied and the net exposure will be lower. The gross exposure number is just under INR30,000 crores, so it's INR29,635 crores.

Pranav

Okay. And any color on that; how is the ratings there ?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Actually, the ratings on this book will be better than the ratings on the, let's say, the average loan book, better. Because there is lots of PSU business here. They don't need our resources, but they definitely have need for LCs and for guarantee intermediation. Lots of large and top companies in India which might be potentially, even AAA rated, we also have exposures to them in the trade finance side, while they don't need our funded resources, because they are either not borrowing or they are disintermediated that they issue bonds and maybe commercial paper, which turns out to be cheaper for them.

So this book in aggregate will be of a better risk character than the, let's say, if I have to compare that with the loan book, though I don't want to message that the loan book is therefore bad. But that on the relative terms the off-balance sheet book has a better risk character.

Pranav

Right. Thanks. So if I remember correctly, this number was around INR22,000 crores in the Annual Report, INR30,000 crores that you are saying?

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Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Say again.

Pranav

Out of the market borrowings, of the borrowing split that you gave, what is the market borrowing?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

It depends how you define market borrowing. What we are saying, which is where we take resources from domestic, which would include, by the way, collateralized borrowing like CBLO. I hope you know what CBLO is, which is the collateralized borrowing and lending structure which CCIL operates in India, where we give GSecs and we take resources from lenders against that. All that will be a total of about INR4,000 crores.

Pranav

Okay. Sir just last data, so what is the SLR currently and what is PSL currently? Thanks a lot.

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Right. Well, PSL, I think it is safer to kind of report that number on March 31 because it's a seasonal business. Lot of agriculture lending happens in the second half of the year. So still it's a underway business. We have a PSL target of about INR19,000 crores and we still have work to do in the fourth quarter.

Pranav

Okay.

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

On the SLR side, our total GSecs holding are about INR21,000 crores.

Pranav

Okay. Thanks a lot.

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

All right, thank you.

Operator

[Veekesh Gandhi – Bank of America-Merrill Lynch]

Veekesh Gandhi

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Hi, Rajat, congratulations. Just had one basic question. You mentioned in your opening remarks that you had taken some one-off charge on the \$160 million. Would that be sitting on, I am assuming it would be, on the OpEx line, right?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Yes, it is.

Veekesh

How much would that be?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

It's about INR13 crores, INR14 crores. That's the one-off charge for the current quarter.

Veekesh

And there are two parts to this IFC loan. I am assuming this is part of that, right?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Not part. I think it's basically the fee that was part of the financing structure.

Veekesh

No, no, the \$160 million is part of the IFC, right?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Say again.

Veekesh

The \$160 million that you mentioned is part of the IFC tranche, right?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

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Yes. So IFC has two tranches, both add up to \$150 million. For this whole financing there was a fee element which is what we have expensed in the current quarter.

Veekesh

And that's fully expensed now?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Fully expensed. You can argue about amortization, but this is a fully charged expensed item in the current quarter itself.

Veekesh

Okay. And the other thing, just wanted to get some color on; I know you don't give forward-looking statements; but some color on restructuring pipeline. I mean there are a few cases which are in the work at the restructuring level. And from whatever we have understood there has been, in the past, some exposure of the Bank. I don't know if I am just connecting the two. One which is a very obvious name. So just wanted to get some color on restructuring?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No, restructuring, Veekesh, is not a default, let's say, strategy for the Bank. Even if you look at whatever it is worth, we have seen plenty of restructured examples in the last 12-18 months, but you haven't seen that under an outcome on our balance sheet. I see no reason why this will not continue, though I can't rule out restructurings, but I can kind of draw benefits from our recent history and you are possibly alluding to some names, I'm also referring to some names, we know where restructuring has

happened and you have seen the Bank's kind of position in those cases where we had sometimes structured exposure, sometime segregated exposure or we had, let's say, collateral, which was solely charged to us. Do not generalize is the caution I'm putting, but yes, I don't rule out that we can't have the same eventuality, but it is not. We are not. We look at restructuring as where we have lost the battle.

Veekesh

So maybe it's too early in the day, but starting out the quarter, fourth quarter, but is -- okay, so very definitive statement if you can give, as of now do you have any pipeline, without spelling the names or the numbers?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Well, let's say, our case becomes little peculiar, Vikesh, because we are not part of CDR. So for me the number will be practically zero.

Veekesh

Okay.

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Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

How does the restructuring possibly transpire? The company will say I want to restructure, we can say sorry.

Veekesh

Right.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

But when they bring together a group of banks and they approach the CDR cell and it is admitted, then it is by default restructuring, once the process completes successfully that is. So as far as our position is, restructuring is not necessarily a given alternative for us. It is actually a plan C, not even plan B. So, I therefore cannot say that we have a restructuring pipeline in that respect.

Veekesh

Sure. And just one small final comment, if you can, I've read your statement on capital raising, but is there any kind of a timeline that you are looking at?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No, Vikesh, we don't have a timeline or let's say there is no set timeline. In fact, if you look at some of our progressive numbers, if you observe the ratios over the last few quarters, the Tier 1 and Core Equity Tier 1 ratios are really healthy and increasing. March will always be tough, while the ratios we have discussed today on the call are even factored for expected, not expected, but amortized dividend, but we are using just the dividend payout of last year, so it's not a formal number, it is more a, let's say, a realistic number. So that number is improving. March will be little tougher, because the adjustment for last year's dividend and any increase from last year in this year will have to be, let's say, that differential will have to be taken down.

So, otherwise, the trend is similar. I think our balance of growth and optimizing earnings is working out reasonably. If you look at on the asset quality front, we continue to be reasonably fully covered. We have 8 basis points of open position on NPAs. I think we will safely recover more than that, though, timeline is always difficult. We have 21 basis points, which is a reducing trend in the restructured book. We have a 35 basis point book which is with the ARCs. I don't think it is a majority recovery outcome, whenever that happens. And on top of all of this, we have 40 basis points of excess provisioning.

Veekesh

Right.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

So we are reasonably, let's say, covered from downside as well. We don't have an unprovided downside, let's say, if I can kind of balance these numbers a bit. So, therefore, we are reasonably, let's say, better off in terms of estimating our requirements. And in that direction, I think our arguments of raising capital will become better when growth kind of gets a little bit of a hold.

And our ability to originate business, which is well mitigated for risk, becomes better, which is not necessarily what we are anticipating right now. While the economy will do better, I mean, there are mixed data, it is not all bad. So data is already becoming mixed, so we still have to look at data to become more better than not.

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So, we are, in the meantime, I think, focusing to use this period to optimize liabilities better et cetera. We continue to invest. I think the target for branches for the next 12, 15 months is in the 100 to 150 range in terms of new branches. So no particular, let's say, compulsive approach on that side.

Veekesh

Fair enough. Thanks a lot and all the best.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yes, Veekesh. Thank you.

Operator

Nitin Kumar, Quant Broking.

Nitin Kumar - Quant Broking - Analyst

Yeah. Hi. Good evening. Hi Rajat, was the growth -- advances growth back-ended during the quarter, as the same is not showing up in the net interest income growth, despite stable margins?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yeah, there will be some back-ending. I mean, there is some back-ending in -- I mean, there will be back-ending in the March quarter as well. Yes, it is -- I mean, I don't have the ability to confirm to you as to how that reconciles, but there was back-ending.

Nitin Kumar - Quant Broking - Analyst

Okay. And we see some deceleration in the technology vertical, technology, media and entertainment, like it was almost 15% decline in terms of market share. So any specific reason like?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No. Sorry, which data are we referring to, market share on --? I am not clear.

Nitin Kumar - Quant Broking - Analyst

Yeah, market -- overall, yeah, market share. Loan book share in the technology, media and entertainment vertical.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Loan book share in that particular could be because of sell downs. I mean, I know at least one account of INR200 crores which got distributed as part of a loan syndication. I mean, I can get back to you with more, let's say, tenable numbers on that. But no particular reason, it will be more distribution. This is a not sector by the way growing sharply or decelerating or exiting sharply. So if there is a change, it is a routine change in terms of our distribution business.

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Nitin Kumar - *Quant Broking - Analyst*

Okay. And lastly, how many restructured accounts slipped during the quarter?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

None. We had no restructurings in the current quarter and there was no slippage of any restructured account into the NPA category. There was recovery from restructured in cash, though.

Nitin Kumar - *Quant Broking - Analyst*

Okay, okay. Okay. Good enough, yeah. Great, thanks, Rajat.

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Right, Nitin. Thank you.

Operator

[Adarsh Parasampuria – Prabhudas Liladhar]

Adarsh

Yeah, hi. Hi, Rajat. Just one question on the swap book. I think last time we had a swap book which kind of helped offset a lot of the MTM losses. Just wanted to understand how that was dealt within this quarter?

Rajat Monga - *YES Bank, Ltd. - Senior Group President, Financial Markets & CFO*

Well, the swap book is mark-to-market at every accounting period and we've had a notional loss on the swap book, a small notional loss on that swap book. Just to relate that to bonds, I'm presuming your question is from the bond side, because there has been provisional reversal and there should have been, therefore, some relation to the income or cost on swaps.

So the peculiarity in this quarter has been not entirely unanticipated, has been is that the shorter end of the yield curve has fallen; the long end has not. So if you look at the 10-year government bond yield, it was at 8.76 as at September 30 and it closed at 8.82 as at December 31. So bonds should have relatively, though marginal but lost money, and the swaps should have gained had all of them been a 10-year kind of a structure.

Our swaps are longer. They are more like a five-year plus average tenure, but the corporate bonds are across the yield curve. So the shorter end of the yield curve of corporate bonds has given the reversals.

Adarsh

Understand. But do you intend to...

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

There has also been compression in corporate bond spreads.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

The swaps that we have are linked with either overnight call rate or to GSecs. Sorry, you had something else.

Adarsh

Yeah. I was more asking on the same thing, would the position remain the same largely? It's a matched kind of book or for the time being with a little bit of duration difference between the two. So if the curve moves up and down, you should largely not see too much of volatility in the income statement?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Is the swap book hedging my entire bond book? No. It is hedging the long end of the bond book, especially the recent bond acquisitions, yes. So it is not full in respect of the coverage as far as bond book is concerned. So bond book also has corporate bond spread risk, which is a variable and it is not given as far as hedging is concerned. So if the yields go up, we will net lose money. If the yields go down, we will net make money. But it is not going to be as clinical as what we are describing. It's also because yield curve is not/never parallel in terms of shifts. Sometimes the corporate yield curve will move differently than the government bond yield curve. So these are 70%, 80% hedge effectiveness items. These are not 100% hedge effectiveness.

Adarsh

That's good. And the second question related to the loan growth that you said and seems muted, just wanted to understand the difference between the last four, five months would have been, you know the rate environment has stabilized a little bit. Probably the macro and asset quality-related risk is not. So does that help a little bit of the growth outlook in terms of rates having stabilized, having stabilized a little bit or that doesn't help too much in the growth outlook?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

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Minority help. Majority issue is still getting a good structured, collateralized and risk-mitigated lending opportunity. That's the basic, let's say, majority problem or challenge or opportunity, whichever way we look at it. The funding side is not, I mean it's a noise more than a fundamental.

Adarsh

And you wouldn't, at least for the next 12 months there, in spite of if the environment continues to remain the way it is, there is no intention as of kind of slowdown on the network expansion side?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No. I think we are expecting the next year, 2014-2015, to be similar to the current year, which is 2013-2014, because the environment was possibly worsening into the current financial year and it possibly will be improving by the time we exit the next financial year. So I think the expectations, the strategy of the Bank is not going to be terribly different as we approach the next financial year, except maybe in retail where though it is a smaller proportion, but that's a business which is growing as per its program, but that does not have the influence currently to change the headline outcome of the loan book growth.

Adarsh

Yeah. Thanks a lot.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

So industry like growth is something that we are calibrating ourselves to. I mean we want to keep our market share in the business and not completely kind of challenge that. And there will be opportunities. This is also a good time for business development, this is the time to do business with balance sheets and borrowers, which we believe have the tenacity to ride out the downturn and do better when the economic environment turns for the better. So this is also the time for business development and relationship kind of building.

Adarsh

Yeah, thanks. I'm done. Thanks a lot, Rajat.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

All right. Thank you.

Operator

[Jigar Shah], OHM Group.

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Jigar Shah - OHM Group - Analyst

Thanks for the opportunity. Sir, first, couple of clarifications. Sir, if you can repeat the borrowing number and request if you can have it as a part of the business update?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Say again, sorry, what number?

Jigar Shah - OHM Group - Analyst

Borrowings, overall borrowings.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Okay, the borrowings are comprised of by three, four constituents. One of them is foreign currency, where for example, the transaction we've been referring to with IFC of \$150 million. We also did a loan syndication transaction in the previous quarter though of \$255 million. So all that adds up to about one-fourth of our total borrowings. About a third of our total borrowings are capital instruments, which would be Tier 2 and IPDI, upper Tier 2 and lower Tier 2. But these are mostly Basel II issuances, but which are still there, till they redeem; that's about a third of our book.

Jigar Shah - OHM Group - Analyst

Okay.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

I think we have about 15%-20% of our borrowings, which are collateralized borrowings, which could include repo and CBLO. We will have about one-fourth of our borrowings, which will be from refinancing bodies, like SIDBI, NABARD, NHB and EXIM Bank. These are bodies which refinance our portfolios, especially the directed lending portfolios. I think it should almost total up to 100. And the total book is 19,000 crores.

Jigar Shah - OHM Group - Analyst

Okay. And the MCPs also come in the refinance type of directed lending or that would be a part of the FX lending?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

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What will be? I'm sorry.

Jigar Shah - OHM Group - Analyst

Your MCPP, that we did.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yes. The MCPP will be part of our FX borrowing.

Jigar Shah - OHM Group - Analyst

Is the FX -- FX borrowing. Overall borrowing is INR19,000 crores, overall INR19,000 crores?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

INR19,000 crores, yes.

Jigar Shah - OHM Group - Analyst

Okay. Perfect. Sir, second is a follow-up on the previous question. On the swap loss, you said there is a nominal swap loss given in the duration mismatch, not 70% - 80% effective hedging. Can you quantify the MTM swap loss?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

INR4 crores or INR5 crores.

Jigar Shah - OHM Group - Analyst

Okay. And about the corresponding impact on the provision would also be a very relatively similar number?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Impact on?

Jigar Shah - OHM Group - Analyst

On the provision line.

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Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

So, impact on provision line has been a positive INR52 crores.

Jigar Shah - OHM Group - Analyst

Okay. So on the swap thing it is only about INR4 crores and on the provision line it is about INR52 crores?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

That's right. That's because the swap is long-end directed and the provisioning reversal has come from the short-end where the interest rate have fallen more and you would recall, I'm not sure if we had a chance to discuss that on our last investor call, we had mentioned that we are consciously not hedged the short end of the bond curve, because that was too steep. The short end of the bond curve had gone to 12%-12.5% in terms of yields that it was trading. We had not tried to hedge that, but we had worked predominantly where our risks also was, which was on the long end.

Jigar Shah - OHM Group - Analyst

Okay.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

So long end hasn't moved much on a net basis in the current quarter. The short end has net fallen. So that has resulted in provisioning reversal, but has not resulted in a swap loss of equivalent significance, because swaps were not exposed at the short end of the yield curve.

Jigar Shah - OHM Group - Analyst

Okay. Sir, my last question is a broader question. I'm sorry if it's a repeat one. On the capital raising. Now, congratulations you did some innovative capital raising. I know you were the first one for Tier 1 Basel III, but there has been some negative flack and I understand probably there is not much of an appetite, probably without collateralized, sorry a corresponding deal or something like that.

Secondly, also from a perspective that we've been waiting to time the market in terms of having the business environment being good and the capital market environment good for fund raising. But that seems to be getting prolonged and the scenario, not for us in particularly but for the industry in general, in terms of the asset quality. I think it will still take some time in terms of to now really see good days back. So while things are getting prolonged, also simultaneously be having scenarios where we'll have the other banks also, say, an Axis, an SBI and lot of other banking paper floating around. Would it make sense to actually rethink on the strategy in terms of waiting for better times for fund raising?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

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No, we rethink our strategy all the time. We don't have a fixed strategy. Markets are also dynamic. The event risks that have been around in our recent history, they continue to be event risks in the near future. So I think the capital planning is not something that we would kind of rule out totally. What I was mentioning on the -- my part of the answer to the earlier conversation was that there is no imminent plan or there is no plan that we are executing on capital raising.

The other factor that we were discussing is that where is the need of raising capital. Why do we need to raise capital is because we are losing solvency or because our capital adequacy is falling and therefore, we need to go back on the solvency chart.

Jigar Shah - OHM Group - Analyst

Maybe we could probably report a better credit growth rather than being set.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Credit growth, I appreciate --

Jigar Shah - OHM Group - Analyst

-- limiting ourselves to 15% or something?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Credit growth has to be backed up by cash flow generation in the economy. And I'll ask you that question; you will know that very well, is that economy generating enough cash? And, therefore, should we lend to such an economy at more than the rate at which it can ordinarily afford. So, which is the balance we have to weigh it with risks. I think our position is reasonably comfortable, in the sense that we are still delivering 24%, 25% ROEs.

I mean, if we raise capital today, I have to say, hypothetically, even if we raise capital, it will not improve our growth rate. It will improve our margins, it will not increase the growth rate, because it has pass muster with our credit risk colleagues. It has to be a new cash flow generating opportunity in the economy. We will just lend more to the same expanding working capital opportunities.

So it is that trade-off that we have to continuously evaluate and we will definitely turn the decision when we believe we have the right opportunity. I don't think it's about valuations, it's also about what will we do with the capital. We will only report lower ROEs and the same growth. I'm not sure if that is the -- a shareholder's desire or I'm not sure what you are recommendation here is. But that's our position of the status currently.

Jigar Shah - OHM Group - Analyst

Sir, last extension to the same thing. Should, given today's inflation data has been good and there has been probably again a chance for a possible rate cut. In that case, would there be a relatively higher pressure on us in terms of managing expectations on lowering yields on our advances book?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

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Yes. As much as other banks', no more than other banks', because we are lending to many borrowers where other banks are also lending. The situation is common, has been common for the last few many years. If the other banks are dropping rates, we will have to also drop rates. Otherwise we will start facing repayments.

Jigar Shah - OHM Group - Analyst

Any plans in terms of any mix in the book that we probably have in mind to mitigate this risk?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

On repricing risk?

Jigar Shah - OHM Group - Analyst

On asset base, because of repricing?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

I'm sorry on --?

Jigar Shah - OHM Group - Analyst

Because of the way the repricing risk may happen, maybe in terms of a product mix shift also that probably you have in mind?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

No, we have a progressive shift in mind, not to suit the cycle, which is because the rates are falling. We have to suit our assets to liabilities. We are not trying to take a view on interest rate cycles through some majority product structuring of assets or liabilities. No, we don't have that planned. We know we have time deposits which are reprice risk oriented and we know we have CASA which does not have that kind of repricing risk on the liability side.

On the asset side, we know we have commercial loans which are conventionally linked to base rates, so they are floating. And we also know we have retail loans, other than mortgages which are fixed in their product pricing.

Our challenge in this mix management is to relate our CASA mix to our retail lending mixes, so that we have a proportion of floating rate loans which are linked, referenced to, mentally at least referenced to an equivalent proportion of floating rate liabilities and similarly a proportion of fixed rate loans which match up with an equivalent proportion of fixed rate liabilities. That will be our big picture thinking. So as we are increasing CASA, which is increasing our share of fixed costed liabilities, we are also commensurately working on increasing the share of retail lending.

So it is not a conscious effort to kind of alter the product mix, because rates have both cycles. I mean, if we design ourselves for a falling interest rate environment, we will suffer in the rising rate environment. Our design is to have respectability in both the environments. I don't know if I answered your question though.

Jigar Shah - OHM Group - Analyst

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You answered it, sir. You answered it. Thank you so much for this explanation, sir. Thank you.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

All right. You are welcome.

Operator

[Manish], Deutsche Bank.

Manish - Deutsche Bank - Analyst

Yeah, good evening. Thanks for taking my question. My first question is what was the quantum of general provision that you had made on your FX contracts in the September quarter and of that how much has been reversed in this quarter?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

I don't have the precise number for last quarter, but the number would be between 15 and 20.

Manish - Deutsche Bank - Analyst

That is for this quarter, the reversal?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Last quarter, the provisions made last quarter, I think, it will be closer to 15 and the reversal is 12.

Manish - Deutsche Bank - Analyst

Of that about, reversal is already 12, is it? Okay. The other thing is what is the average duration of your AFS book, AFS investment book?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

It'll be between two and a half and three years will be the duration of the AFS book, which includes GSecs and bonds, corporate bonds.

Manish - Deutsche Bank - Analyst

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Okay, inclusive of bond, because the reversal on the investment book is almost 50% roughly of what was provided in the previous quarter.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yes, correct.

Manish - Deutsche Bank - Analyst

As you rightly said, it's the shorter end which has collapsed in some sense, so average duration in that sense should have been much lower is what I was arriving at.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Average duration. What will happen is that the -- this will not work with duration. You will have to then take two durations. Sorry.

Manish - Deutsche Bank - Analyst

Of the corporate book and bond book or GSecs book separately?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Not just that. We have to divide, let's say, hypothetically in two tenures, up to three years maturities. What is the duration of that and that has had some benefit of great correction. Beyond three years, rates have not moved much. What is the duration of that it is not material, because that didn't change. So we got the benefit of the shorter end of this, because the duration is average. So there will be a position from six months to 10 years. The average is, let's say, two and a half to two, three years, let's say, 2.75 years.

Manish - Deutsche Bank - Analyst

The other question was on margins, given that seasonally fourth quarter is most difficult as far as liquidity is concerned, so what's the outlook for margin, A, in the short-term, and B, as we go forward into the next year?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Well, I hope the fourth quarter is not seasonally more difficult on liquidity than second or the earlier third quarter was. So in that respect, I think the RBI action of late, if you recall, postponement of government auctions or additional term repo being added to kind of supplement liquidity, I think is a reasonable indicator that RBI is conscious of that stress that it brings to the money markets. So we also know that the picture that we present to you on margins is the average for the quarter.

Manish - Deutsche Bank - Analyst

Right.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

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So, if September quarter is 2.9% margin, December quarter is 2.9% margin and we know July would have been better than 2.9%. So somewhere we started with, let's say, number of 3% and kind of bottomed at 2.8% and we have picked up on that number by the end of the quarter back to 3%. I'm just saying hypothetically, if it was as simplistic as that. Therefore the focus of the next quarter will be on now what is our incremental NIM. So how was the December month, what was the exit NIMs in terms of the design. Those are indicating a little bit of a better off Q4 than Q3. This is notwithstanding RBI action, this does not factor any unnatural, let's say, changes on money markets, but we are factoring a seasonally tight Q4.

Manish - Deutsche Bank - Analyst

Okay. Lastly, on asset quality, slippages in the last two quarters have been higher than what we have seen historically for you. So does that mean that the current levels for the last six months is more representative of what we may see in the next couple of quarters at least, given that nothing much is changing on the ground?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Well, yes and no. I think we will be worse off than last year, in terms of the environment naturally is not as benevolent as it has been in the earlier quarters. No in the sense that there are specific issues in terms of the asset quality management strategies. We are also looking at recovery options from our current labeled assets, including NPAs, including from the ARC positions, which may not give commensurate provisioning release, but at least they will be asset quality release.

So I think there is the next few -- let's say the next year, if I may say, while it may have the challenge of higher than last year NPAs, but it will also have the benefit of recoveries, more than this year had, because there was no recovery to make when the year began particularly.

Manish - Deutsche Bank - Analyst

That would be more from a credit cost perspective and I was arriving more from a gross slippages perspective as far as at least the gross slippages are concerned. On recoveries, of course that can offset -- credit cost could be offset by that. I was referring more to the gross slippages that you've seen in the last couple of quarters, how does that pan out as we go forward?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Well, worse off than last year, definitely. I mean, am I confident in saying that Q4 will be better than Q3? More yes than no, in terms of the pressures or the -- let's say, the lead indicators of issues have not worsened I must say, in terms of the accounts, for example that we are looking at from asset quality labeling risks are the same. These are the same names, so we are working on risk mitigation, we are working on bilateral resolution wherever the position is precarious. We're also looking at, let's say, asset sales by these companies, because a lot of these exposures have asset backing. So it is very difficult to predict, but it is not going to be a no-show, let me -- in effect.

Manish - Deutsche Bank - Analyst

All right. Thanks. Those are all my questions. Thank you very much.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Right, Manish. Thanks.

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Operator

Sachin, HSBC.

Sachin Sheth - HSBC - Analyst

Yes, hi. Congratulations, Rajat, and the entire team. Just a quick question, there is a little bit of confusion in my mind on how rates have moved in the quarter. You've mentioned that corporate spreads have come down and if you look at one year corporate paper that shows that. I'm talking about quarter-on-quarter, but at the same time your yield on advances have moved up maybe about 15 bps or 20 bps. So that is a bit of confusion, because I don't think your mix of loans has kind of justified that kind of a change in yields, so just wanted some clarity on this.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Sachin, I'm assuming the question is more related to the yield on advances, right?

Sachin Sheth - HSBC - Analyst

Yes. Yes.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yeah. So the one reason yield on advances would be at least 8 basis points to 10 basis points higher than the base rate increase happened in middle of the last quarter. So the yields, we reported in Q2, had let's say, a mixed effect of prior to base rate carry and the post base rate increase carry. This quarter had the full benefit of the increased base rate.

Sachin Sheth - HSBC - Analyst

Got it.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

And there is a little bit of a lag, though that's not going to be, since these are only few basis points, so it will become significant in terms of contribution to basis point. There is a minority position we have, where some of the base rates have only quarterly rests. So which means that if we raise the base rate during the quarter, it gets activated only at the beginning of the next quarter, or monthly, while a significant majority is going to be overnight. But there will be some small minority situation, which will also all stack up to some of the reasons that there is an increase in loan yields. But I don't think there has been any repricing, which is on the side may have taken place. Churn of the book also will have contributed to a little bit of increase in the loan yields, but no particular significant reason other than that.

Sachin Sheth - HSBC - Analyst

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And is it fair to assume that corporate spreads have come down by roughly about 50 bps to 60 bps quarter-over-quarter?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Well I don't think we can generalize But let's say, in the very short-term, yes, because when the yield curve shock happened, the shock was lot more aggravated at the short end. Long end also got its share, but the short end got a disproportionate share. And to be fair, I mean, there was price dislocation also. I mean while there were estimates of spreads, but there was no volume or throughput happening on those spreads. So very difficult to generalize, but I can safely generalize that the correction has been also more at the short end than it has been at the long end.

Sachin Sheth - HSBC - Analyst

Sure, sure.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

I mean, I can get back to you with some specific data on this, though I'm not carrying it.

Sachin Sheth - HSBC - Analyst

No, no. That's fine. And just one quick numerical question, maybe I missed it. But you normally give the treasury gains in the other income line separately, I'm seeing out for that number?

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

Yeah. It wasn't noteworthy, so...

Sachin Sheth - HSBC - Analyst

Okay. So you could assume...

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

There wasn't any.

Sachin Sheth - HSBC - Analyst

Okay. Got it. Thank you.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

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All right, Sachin.

Operator

Thank you. I now would like to hand the call back to the speakers for any closing remarks.

Rajat Monga - YES Bank, Ltd. - Senior Group President, Financial Markets & CFO

I thank you all for the time and participation and the questions. Hopefully, we would have given some -- sufficient data and answers to these questions and we will be happy to speak to you again during the course of the quarter or when we speak again on our annual results next time. Thank you.

Operator

Thank you. That concludes today's conference. You may now disconnect.