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PRESENTATION

Operator

Welcome and thank you for standing by. (Operator Instructions). This conference call is being recorded. If you have any objections you may disconnect at this time. Now I'll turn the call over to your host, Ms Tabassum Inamdar. Ma'am, your line is open. You may start.

Tabassum Inamdar *- Goldman Sachs - Analyst*

Yes, thanks, Niral. This is Tabassum from Goldman Sachs. A very good afternoon to all participants joining this Yes Bank call to discuss their second quarter results. I would like to thank the management team of Yes Bank for doing this call with us and I'm happy to introduce the team.

We have with us Rajat Monga, who is the Senior Group President, Financial Markets and CFO; Pralay Mondal, who is the Senior Group President, Retail Banking; Jaideep Iyer, Group President, Financial Management; Aparajit Bhandarkar who is Group Executive Vice President. We may have Rana joining us in some time but I think we'll go ahead with the call now. And I'd request Rajat to briefly take us through the highlights of the results and then we'll open the call for Q&A. Rajat, over to you.

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

Yes, thank you, Tabassum, and thank you all for taking time out to hear us out on this second-quarter earnings conference call.

So to get straight into the performance highlights of the second quarter of the current fiscal year, the Bank is pleased to be reporting a net profit after tax of INR371.1 crores, which represents a little over 21% growth in net profit after tax as compared to the corresponding quarter of the previous fiscal year.

The income has been largely in trend with the recent history of the operating performance of the Bank. So we've seen a 28% increase in net interest income to INR672 crores in the current quarter, which is broadly in line with the balance sheet growth of about 25% that we have experienced in the same period.

We are reporting a net interest margin of 2.9% for the current year. While this is in line with the net interest margin reported in the corresponding quarter of the previous fiscal year, we have seen about a 10 basis point compression in the net interest margins when compared with the June quarter of the current fiscal year.

The decrease of the margins are represented by about a 17 or 18 basis points increase in underlying cost of funds given the increasing trajectory of interest rates that we in the Banking sector experienced in the beginning of the relevant quarter.

The bank also took timely action. On August 1, we had raised our base rate by 25 basis points. Given that a substantial 75% of the Bank's loan book is linked to the base rate, the Bank did benefit for about a 12 to 13 basis point increase in the effective loan pricing in the current quarter. Though we are reporting about a 10 basis point increase in loan yields as well, effectively resulting in a marginal compression on net interest margins which is, as I mentioned, being reported at 2.9%.

The non-interest income had about a 61% increase year on year. That is favorably biased by about INR 100 crores or INR 1 bn equivalent of gains that the Bank has booked on account of swap positions that were counter to the interest rate trend and were benefiting from rising interest rates. So adjusted for the swap income, the non-interest income should have increased by about 30% which is more in line with the operating performance of the Bank.

The deposits in the current, both challenging and exciting environment, did quite well. We had a fairly decent performance on deposits across the board particularly from retail banking in the current quarter and are reporting a 29.2% increase on deposits as compared to the position about one year ago. And this should be about a 4% higher position than what we reported last on -- for the position as at June 30, 2013.

The loan book however has had a modest, moderate growth outcome. It does reflect the challenging and macroeconomic headwinds, interest rate volatility that the Banking sector and the economy have been experiencing. And we have reported a modest 13.6% increase in loans as compared to the position of the loan book as at September 30 in the previous financial year.

As a consequence of now a widening gap between loan growth which has been moderate and deposit growth which has been robust, we, the Bank is reporting a credit deposit ratio of 70.6% which is implying a fair amount of liquidity being stored in the balance sheet as well.

Within deposits, the CASA performance on a year-on-year basis continues to be strong. The bank is reporting an 80% increase in CASA deposits led by savings accounts. Well, actually I will rephrase that comment. The bank is reporting a 53% increase in CASA deposits of which savings accounts have increased by 81% year on year. As a result, the CASA ratio now stands at 20.4% and compares favorably with the 17.3% number of the year ago position.

Although this quarter has seen relatively lower net adds to the CASA situation given the volatile interest rate environment, the Bank did experience some propensity of the depositors to lock in higher deposit rates that were available in the middle of the quarter. And the attempt of the Bank has been to make sure that the savings account depositors get that opportunity within the Bank itself and not move to other banks in the process.

So while the new CASA accretion has increased and improved during the quarter, the net addition has been impacted by the fact that some of the legacy savings account balances did have a propensity to lock in higher rates which were available on time deposits.

So on a net basis, there is a relatively lesser incremental position of CASA that the Bank is reporting. However, the operating metrics continue to be quite satisfactory and are showing improvement with time.

Jumping to asset quality, I think the headline numbers that the Bank is reporting is 0.28% or 28 basis points of gross NPAs and 4 basis points of net NPAs, both numbers are flattish sequentially, just about higher on a year-on-year basis.

The special provisioning continues to be a respectable, 85.3% which does not include any countercyclical provisioning that the Bank has made with itself. It totals to about 40 basis points of loans in our case as at September 30, 2013.

This quarter also had relative one-off income that I mentioned. It also had one-off MTM provisioning that the Bank had to recognize on account of interest rate movements relating to the mark-to-market positions on the bond books. So the Bank has recognized about INR113 crores of provisioning on account of mark-to-market of both the corporate and the government bond books combined.

The Reserve Bank of India in the middle of the quarter had permitted banks to apportion the losses on account of mark-to-market on bond books over three quarters beginning the September quarter. The bank has decided not to take that dispensation and has taken all the true and fair valuation impacts of the bond books in the current quarter itself, which is represented by the INR113 crore provisioning cost that has been provided in the current quarter itself.

Total provisioning has had therefore a relative increase both sequentially as well as correspondingly. We are reporting INR180 crore for the quarter not including tax provisioning. And as I mentioned INR113 crores out of INR180 crores is on account of mark-to-market losses. The remaining INR67 crores is provisioning on account of credit matters split between general, specific and countercyclical provisioning, totaling to INR67 crores.

The Reserve Bank of India during the quarter had also permitted banks to effect transfers from AFS to HTM portfolios for their SLR securities with some dispensation on prior-date valuations to be used for effecting the transfer. The bank has used that dispensation for a small transfer amounting to book value of INR94 crores and has therefore not reported a profit after tax equivalent of INR6.2 crores. So the Bank's profit after tax would have been lower by INR6.2 crores on account of that effect as well.

A few comments on the overall balance sheet and P&L ratios as well. I think the Bank is reporting an annualized return on assets of 1.5% which is relatively lower, but more or less in line with the trends that the Bank has been exhibiting over the last four to five years.

A return on equity position of 23.1% again on annualized basis, relatively lower than the immediate sequentially previous quarter. However, that continues to be very respectable given the current growth environment.

We're reporting a cost to income of 36.2% understated to some extent of about 3% given the higher reporting of other income because of gains on swaps. So this is a ratio which is a little bit not understating the trend. The cost-to-income ratio should have been closer to 39.5% had the uniqueness of the other income not been there on account of gains on swaps.

The capital position continues to be steady. Bank includes the earnings for the six months which are now audited, though under Basel III not available for presentation under capital adequacy disclosures. So including these six-month profits, the Tier 1 capital ratio for the Bank stands at 9.5% and within that the core equity Tier 1 stands at 9.15%.

The total capital adequacy position of the Bank will be reported at 15.6% for the position as at September 30 under Basel III, including the audited profits for the first half year of the current financial year.

I think we are also putting out a new disclosure on the granularity of deposits, just to be able to communicate better on not just concentration, but also a little bit of a line in the stand on account of where the Bank believes deposits move from small to large. So beginning this quarter, we would like to be reporting the Bank's liability position on account of size of deposits.

So we have disclosed in the current set of financials that the Bank's position for deposits where tickets fall below INR25 crores account for about 69% of the Bank's deposits and the remaining 31% are from deposit tickets which are higher than INR25 crores in unit kind of division.

The 69% of bank's deposits which comprise of the deposits which are less than INR25 crore individual size, have an average ticket size of about INR12 lacs or about INR1.2m. And that position currently is being reported at 69% and we would like to track ourselves on this, going forward on a routine basis.

And that's broadly the summary we wanted to present for the results including some peculiar positions which are to this particular [quarter] gone by. We'll be happy to take questions.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question and answer session. (Operator Instructions).

Manish Karwa, Deutsche Bank.

Manish Karwa *- Deutsche Bank - Analyst*

Yes, hi, Rajat. Congratulations on a good set of numbers. Just wanted --

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

Yes, please go ahead. Operator, I think maybe we have -- the line dropped.

Operator

One moment, sir.

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

Let me just try it again.

Manish Karwa *- Deutsche Bank - Analyst*

Yes, can you hear me?

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

Yes, Manish, I can hear you well.

Manish Karwa *- Deutsche Bank - Analyst*

Sir, congratulations on a good set of numbers. Just wanted to check on your asset quality. You have sold some loans also during the quarter. Can you just explain what is the procedure on that?

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

Well, the procedure is essentially that of a sale. In this case, mostly to an asset reconstruction company. So the asset reconstruction company which is a specialist for collection and realizations. So a collateral-heavy loan is aggregated by the asset reconstruction company and it is a specialist in terms of enforcing of that collateral.

So they buy the loan at an expected valuation from the standpoint of recovery estimate. So the loan, if it is a book value of INR100, is sold to an asset reconstruction company at a fair value of INR60 that is the commercial transaction and 40% of the loan becomes a write-off.

Manish Karwa *- Deutsche Bank - Analyst*

Okay. So what have you done in the quarter as in -- I think I read on the Bloomberg that INR94 crores of loans have been sold.

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

No, that is the realizable equivalent of the loan. So the principal [effective] of the loan that has been sold will be about INR140 crores.

Manish Karwa *- Deutsche Bank - Analyst*

And the INR94 crores that -- okay, so INR94 crores, what have you got? You got security receipts or cash?

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

Yes, about 10%-15% cash. The remaining would be security receipts.

Manish Karwa *- Deutsche Bank - Analyst*

Okay. And the remaining say INR45 crores odd provisioning is what you have made during the quarter then.

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

These loans were carrying their provisioning from before, though they were not NPAs. But they had the countercyclical provisioning that they were carrying in their name. So that provisioning was available to the extent of INR30 crores, INR40 crores. So that provisioning got used up in this process. And there was cash recovery so that can be written on the books as recovery. And the rest is an asset reconstruction receipt for the asset.

Manish Karwa *- Deutsche Bank - Analyst*

Okay. And the slippages which were about INR150 crores contain this loan.

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

Yes.

Manish Karwa *- Deutsche Bank - Analyst*

Is this is a loan which slipped in this quarter and that you sold?

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

Correct.

Manish Karwa *- Deutsche Bank - Analyst*

Okay. And the second thing what is the process.

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

This is through an auction and bidding process. So we'll talk to two or three asset reconstruction companies. We would want to get the best value for the asset in terms of their estimate of realizability of the underlying collateral. Typically these are assets which will have hard collateral. So in this case for example, it is land and building which is the collateral. So those are the ones which will get a good value as opposed to industrial assets, a hard collateral will get usually better realization potential and therefore a better value from when we go and check with these companies for the best offer.

Manish Karwa *- Deutsche Bank - Analyst*

And of the 85% of the INR94 crores of security receipts that you got, you'll have to make consistent provisions on that or you'll wait? And what is the duration of those receipts?

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

No, the duration will be indefinite. I think there will be performance recognition. What happens is that every year or every accounting period let me say, there will be a valuation done of these receipts all over again. Value is arrived at in the first place on the basis of expert valuation. And that valuation is iterated every accounting date. So if the valuation has apparently come down, we will have to provide more.

Manish Karwa *- Deutsche Bank - Analyst*

Okay. And you know the swaps profit that you mentioned, what is the exact amount of that swaps profit? Is it INR85 crores?

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

No, it's about a little over INR100 crores, the profit on swaps.

Manish Karwa *- Deutsche Bank - Analyst*

Okay.

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

It's a mark-to-market profit.

Manish Karwa *- Deutsche Bank - Analyst*

Of your financial market business, INR100 crores came from the swap profit. Is there any other treasury profit in that?

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

There will be some, but nothing out of trend. I presume a more correct number will be INR110 crores of swaps. There would be some realized gains otherwise on sale of securities and losses, but not significant. Most of the other remaining number would be the operating income generated from the financial markets business.

Manish Karwa *- Deutsche Bank - Analyst*

Okay. And these swaps profit is this realized profit or it's a book profit that you are claiming?

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

It's a mark-to-market profit.

Manish Karwa *- Deutsche Bank - Analyst*

To put it in the P&L.

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

No, mark-to-market profit.

Manish Karwa *- Deutsche Bank - Analyst*

Now with interest rates coming down, these profits will again turn into losses?

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

These profits can become losses and we can also reverse provisions on account of bond gains -- bond losses, sorry.

Manish Karwa *- Deutsche Bank - Analyst*

Okay. So a fair accounting given what has happened to interest rates would be that in the next quarter probably you'll see swap losses and you'll get some release of provisions from the corporate bond book.

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

Yes. Hypothetically yes.

Manish Karwa *- Deutsche Bank - Analyst*

Okay. Thank you.

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

All right, Manish. Thank you.

Operator

Parag Jariwala, Macquarie.

Parag Jariwala *- Macquarie - Analyst*

Yes, sir. One question on swap structure because generally, sir, what is the cost associated with creating a swap structure on your investment book, if you can just highlight in terms of percentage. I mean if you say, create INR100 crores of swap structure, what could be your cost on that?

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

There is no cost. There is a rate.

Parag Jariwala *- Macquarie - Analyst*

Okay, so …

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

If you buy a stock, there is a rate that you buy the stock at. And then your performance after that will be determined by how the market price moves. It is unlike equity or a stock where you may still have a brokerage. In the swap case you don't even have brokerage. It's an interbank or it could also be a client trade. So there is no cost associated, there's only a rate associated with it.

Parag Jariwala *- Macquarie - Analyst*

Okay. But say, today you have a corporate bond of say, INR100 crore which is yielding you say around 10%. But once you hedge it towards, with the help of a swap that rate could actually come down slightly because you have used some protection. So is that the right way to interpret it.

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

No, not exactly. Both are independent transactions but they behave along with interest rates. Their value changes with interest rates. So a swap is paid and its value will increase if interest rates go up. And a bond is received, is bought and its value will go down, if interest rates go up. So they counter each other. That's all.

Parag Jariwala *- Macquarie - Analyst*

Okay, that's all. Okay (multiple speakers).

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

You can have the other direction so their value will decrease when interest rates go up. Naturally we would want to counter and not add.

Parag Jariwala *- Macquarie - Analyst*

Okay. And sir, your TierI which you have reported is not fully adjusted for IPDI, right. If you fully adjust for IPDI it would be around 100 basis points lower?

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

No, it is 9.15% fully adjusted for IPDI. But including six months profits.

Parag Jariwala *- Macquarie - Analyst*

Okay.

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

IPDI's role has reduced under Basel III significantly.

Parag Jariwala *- Macquarie - Analyst*

Okay.

And sir, I mean RBI has also changed the branch licensing norms or policy whatever you call it. Do we going to change our expansion plan or whatever strategy we are following currently in terms of branch or network expansion?

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

RBI has taken up more deregulation or rather de-licensing of the branch policy. So I don't know if the strategy changes dramatically because the strategy was always the same. But it had to factor for licensing and the noise which comes with it or the surprises that it brings in terms of either plan or timing.

I think otherwise the strategy is the same. We have to have branch expansion come through. We are at about 500. We are aiming for 600 by the end of this fiscal year and 750 by the end of the next fiscal year. And these are three-year old numbers. I don't think we have changed them a whole lot, but some execution delays or benefits might be there.

Parag Jariwala *- Macquarie - Analyst*

Okay, thank you so much.

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

Right Parag, thank you.

Operator

Pranav Tendulkar, Canara Robeco.

Pranav Tendulkar *- Canara Robeco - Analyst*

Yes, thanks a lot. First of all, congrats on the good set of numbers in a tough environment. I wanted just details on the swap portfolio. So what was the duration and amount of the swap? And does these matches corporate bonds largely so you can expect that every time they will hedge each other?

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

Well, no, they don't match exactly because the swaps are predominantly on the benchmark which is called as INBMK benchmark. The swaps will behave in line with government bonds yields. So that is the economic value linkage of the swap.

Corporate bonds also have corresponding linkage with government bond yields so it's very correlated, I would not be willing to call it a hedge. But it is a very good economic protection in the situation when you are holding corporate bonds and want to cover the risk on the interest rate movement.

So the corporate bond book is not entirely covered. The book will be about upwards of INR2,000 crores but short of INR3,000 crores covered through these swaps.

Pranav Tendulkar *- Canara Robeco - Analyst*

Okay. And can I assume [for safety] that the provision that we have made on the bond portfolio, so some of the bonds will obviously get matured in the next three quarters, four quarters and those provisions will reverse completely. Is that a safe assumption?

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

No. Shorter-end bonds did not result in high provisioning, particularly at September 30. August 31, my answer would have been different because the short-end rates were very high on August 31. But by September 30, the short-end rates had cooled down. They may have come down a little bit more, it's no longer linked in with shorter end, let's say the movement of interest rates.

Because what would give provisioning release in the next three quarters will be a less-than-one-year bond position in the first place. So one-year bond rates had gone to 12%, 13% in August. But by the time we were at September, they had already settled down between 9% and 10%. I mean there might be some cost on account of that that we have taken in this quarter and also much of that will reverse. But that will not be the driving factor any more.

Pranav Tendulkar *- Canara Robeco - Analyst*

Right. And sir, last question, where are we exactly in the retail products plan launching strategy and time map, any idea of that.

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

Yes, so I will take my colleague Pralay's help on this. So Pralay, the question is where are we on the road map of launch of retail products in general? So maybe we can provide it between liability and assets.

Pralay Mondal *- Yes Bank Ltd - Senior Group President, Retail Banking*

So if we divide into liability and assets, I think the momentum on the liability side is very strong right now, both in terms of the customer acquisition, the quality of customer acquisition and the liability growth. Both in the savings accounts, the fixed deposits as well as on the current account side while the industry's is flattish, we have shown some growth.

The key is that we are creating a good customer franchise because the incremental customer acquisition is looking good right now. So from that perspective, we are creating a critical mass where we can start cross selling.

So what we have done on the retail asset side is we have -- coming to retail assets because the liability story is, the momentum is good. On the retail asset side, the environment is not really the ideal to go to the open market and build up a very strong business franchise at this point of time. So we are utilizing this time to build up the product line and the distribution framework.

So what we're doing is we have launched almost all the products which are there in the retail asset side except for home loans and credit cards. Home loans we're also planning something on the PSL side otherwise I think broadly we have most of the products covered.

And within retail assets now we are dividing into two parts because we're gaining on the critical mass on the customer base, on the branch banking as well as on salary accounts. So what we're planning to do is that we will focus retail asset products as two different.

One is which is the end consumer oriented which is products like auto loans or home loans and customer loans and those kind of stuff, not so much personal loans unless it is a salary account kind of a customer base, but loan against properties and in those kind of products.

The other part which is commercial vehicles, commercial equipment, healthcare products, inventory funding and those kind of which is a relationship based products will be defined under a different umbrella.

So this will help us in creating some amount of PSL book through the CVC and these kinds of portfolios where it qualifies for PSL but obviously a quality portfolio. And on the other side which is the granular retail on the consumption side we are leveraging on the branch network and our salary account relationships to cross sell. And that's the story which we have started now.

So broadly this is our strategy and structure. The short answer is the liability momentum has picked up. The customer acquisition is doing well. The quality of our franchise on the liability side is very good both in terms of mean and median and the quality of the customers. And we have launched most of our products on the retail side. And now we have given it direction in terms of relationships separately and consumption separately and we are building that platform now. So we should see a fair amount of momentum in the next 12 to 18 months on the retail asset side.

Pranav Tendulkar *- Canara Robeco - Analyst*

That's very helpful. Thanks a lot.

Pralay Mondal *- Yes Bank Ltd - Senior Group President, Retail Banking*

Thank you.

Operator

Venkatesh S., ICICI Prudential Management.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

Thanks for taking my question. This is also on the swap thing. Was this a new position which was taken this quarter or was this regularly every quarter, these kind of positions?

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

Venkatesh, the position is not new. The position is an old position but it was being run with G-secs as cover. So we were running a matched book on this position where we had paid on the swap curve and we had bought G-secs to cover that risk.

So what we had to do this quarter is to sell the G-secs. So we sold the G-secs when we got a little bit of the warning from the RBI action in middle of July. We were able to sell those G-secs and open the swap position and which by default became a little bit of a cover. And I don't want to use the word hedge, but a cover for otherwise the remaining positions in G-secs and corporate bonds. So it became a portfolio mitigant more than anything else.

I don't know if I've answered your question.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

I'm just a bit confused because in between some time ago you had mentioned that your corporate bond book and this swap book moves in opposite directions.

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

Correct. So I have. Let's say, I have a pre-existing position where I have paid on the interest rates swap side. Paid as in I will gain if the interest rates go up. And these are INBMK swaps which behave along with G-secs. And I buy G-secs correspondingly for the same tenure. So I'm covered.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

Does that mean for Q1 when you had a profit in your financial advisory line, you would have included loss in the swap side.

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

Correct. So let me then explain that. We did have a loss in the financial advisory line and we did have a profit in the bond line. But the profit of the bond line was realized. So they offset each other.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

So even during Q2 in the middle of the quarter till July 15 you were sitting on a loss on the swap book which turned into profit after that.

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

We were sitting yes, to begin with on a loss on the swap book and on profits on the bond book. So the bonds were sold.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

(technical difficulty).

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

I'm sorry? So the bonds were sold.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

So the swap book became a profit.

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

And as rates went up even more further the swap book became open naturally and started throwing income instead of losses into P&L. But there were no losses to be taken on account of the government bonds, but we had losses to be taken on account of corporate bonds.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

And so did you take a call on interest rates after July 15 and build a further position on your swap book or there is just a ..

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

Well, not significantly, but somewhat yes.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

Okay. And the other thing is you had given the breakup of some sort of transactions which had taken place in the financial advisory line. I think you stopped giving that in the last two or three quarters. You, is there detail which you can provide subsequently?

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

Well, I don't know. I'm not sure what the question is. Sorry details of?

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

Some of the key transactions which you had taken which you had done in financial advisory line. You used to give this break up in your press release.

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

Yes, okay. No, I'm not carrying that detail either right now.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

Yes, maybe subsequently (multiple speaker).

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

Yes. No, I'm sorry I am not carrying that detail right now. But I can get back to you if there is or maybe we can put it in our investor presentation along with our public information.

Venkatesh Sanjeevi *- ICICI Prudential - Analyst*

Yes, that would be quite helpful, yes. That's it from my side. Thanks.

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

Thanks, Venkatesh.

Operator

Hiral Desai, ialpha.

Hiral Desai *- ialpha Enterprises - Analyst*

Hi, thanks for taking my question. Just wanted to check on the retail fee income has done really well in the first half. So what would be the top two or three contributors there? And if you could just also explain what leads to the sequential volatility in the retail fee income? Hello?

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

Yes, sorry. The retail income is largely essentially branch originated. Now there will be a dominance of account operating related, operation-related charges. So there are penal charges as well. So let's say if the client does not maintain its minimum average balance the Bank has a right to also levy some penalties on that account. Not all that is recovered, but to the extent there is recovery there is income for the Bank to recognize.

So it's basically beginning to reflect the fact that we may have three times more customers today than we had about 12, 18 months ago in the retail banking space. So the number of customers are increasing at a fairly brisk clip on that side. And the product bandwidth is increasing in terms of mutual funds. Sorry, did you mention something?

Hiral Desai *- ialpha Enterprises - Analyst*

No, go ahead.

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

On account of trade, FX and current-account-related services that we are offering, we are also looking at third party products, I was mentioning like we were doing more in the past the mutual fund and insurance, which has been improving. I don't know, I can go on but the basic ingredient here is the number of customers has increased. And the cross sell is working.

Hiral Desai *- ialpha Enterprises - Analyst*

And just wanted to check what will be the total NRI deposits that we have as of date and the average cost for the same?

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

It will be about INR2,500 crores to INR3,000 crores which will be the NRI deposits. Costs may not be very easy to give because it will be in multiple currencies.

Hiral Desai *- ialpha Enterprises - Analyst*

Okay, no problem. Thanks and all the best.

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

All right, thank you.

Operator

Subramaniam, Sundaram.

Subramaniam P.S. *- Sundaram Mutual Fund - Analyst*

Sir, just wanted to understand the margin outlook going forward and how are you seeing rates behave? As you have been through the quarter what is it that you're seeing?

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

It's one week too early for me to answer that question. I think RBI is going to give us some direction end of this month. I think the general view that I am working with is that they will make the MSF progressively redundant as redundant in terms of being the currently operative rates for monetary policy. And this is exactly what Dr. Raghuram Rajan has stated in his earlier objectives on account of how he will possibly run the monetary policy benchmarks.

So we are looking at repo becoming higher the repo rate currently at 7.5% becoming the more operative rate. So the current operative rate which is at 9% is definitely looking like it is coming down. So there are two scenarios.

One is that the operative rate does not come down, we persist with MSF. I think we are looking at the margin situation maintaining. So we will have to possibly then take a call as well whether this situation looks more durable and therefore do we need pass more interest rate hikes to our borrowers and therefore be able to bring normalcy to the margins all over again. That is scenario one.

Scenario two is that the MSF is made redundant and the monetary policy falls back on repo currently at 7.5%. Maybe potentially they will raise it to 7.75%. So the operative rate will move from 9% to either 7.5% or 7.75%. Now that also gives us the margin restoration let's say prognosis.

So scenario one if we are continuing to maintain, let's say, a operative rate which is closer to 9% which is what is the current today's situation, I think there will be a moment of truth where we will have to take a decision on whether we want to pass deficit in margins which is running at about 10 basis points today to our borrowers or not.

So I think it's a little bit of a wait for the policy and very likely the second scenario will transpire and we will revert to the normalcy as far as monetary policy stand is concerned at least with respect to the currency volatility.

And we will then have to deal with the ongoing dynamics of growth as well as inflation and respond to that in that course. I mean we still will benefit from the fact that the floating rate proportion of loans on the book is very substantial. So the pass-through property of the loan book will be quite intact.

So I would assume that margins should not do worse from here. And have two scenarios of normalizations of margins that we discussed.

Subramaniam P.S. *- Sundaram Mutual Fund - Analyst*

Fair enough, sir. And also in this quarter there's clearly been a marked slowdown in your balance sheet growth. Was it more a function of inability to pass on rates or do you see inability to source good quality credit as a reason for that?

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

Well, clearly the second in terms of our risk averseness and if you look at the assets also comprising of credit substitutes I think those had their own challenges in terms of lack of price discovery, lack of appetite from market risk standpoint because the interest rates were very, very volatile. I mean though interest rates are still higher but at least they are not volatile. I think what makes it harder is to transact in a volatile environment than a high or low interest rate environment.

I think credit appetite has also been definitely affected by the macroeconomic headwinds I think that the industry is facing. I mean we might have still a decent performance as far as asset quality is concerned, but we are naturally looking at our peers, we're looking at what's happening in other parts of the Banking sector as well. We are looking at near-term risks of growth, elections and the corresponding uncertainties, global monetary policy. So there has been lots of currency volatility in India's case in particular. So there were enough, let's say, hurdles to overcome to grow blindly. Blindly is maybe a harsh word but the risk appetite to overcome all these hurdles was difficult to assimilate at the same time.

So I think it's pretty much the second reason, I would say, and in the same breath I would also say that this is also relatively an off-season period for growth, so not necessarily the most representative. I mean, very likely our outcome will be much better than this as we go through the full year and also experience the busy season. But, yes, it is definitely influenced by the fact that we continue to be maintaining caution in terms of credit quality.

We also continue to be active on mitigating the risks that are there on the books in terms of de-bulking or de-risking. So there would be a ongoing process of, let's say, repayments or even sell-downs in the loan markets. And the Bank will want to continue to focus on sectors which the Bank believes are not the most affected in the current environment and, or who seem to be looking for a near-term, mid-term improvement with more certainty.

So it's in that backdrop I think the current quarter has been a little bit of modest outcome as far as loan growth is concerned.

Subramaniam P.S. *- Sundaram Mutual Fund - Analyst*

Okay, sir. Thanks and one last question, sir, just to reconfirm you said you will be opening 650 branches by the end of this year?

No, 600.

Subramaniam P.S. *- Sundaram Mutual Fund - Analyst*

600, okay. Thanks, sir. Thank you. All right, sir.

Operator

Hiren Dasani, Goldman Sachs.

Hiren Dasani *- Goldman Sachs - Analyst*

Thank you. First one data point, in the provisions breakup you said there was a general contingency and specifics so if you can split that, what actual number is there?

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

Yes. So specific provisioning is INR25 crores. I'll say that again, sorry. Specific is INR35 crores. Contingent provisioning is INR27 crores and general provisioning is about some INR4 crores, INR5 crores.

Hiren Dasani *- Goldman Sachs - Analyst*

Okay. Okay. Now on the balance sheet there is a very decent amount of increase in other assets and other liabilities between March and September. If you can just clarify what this represent?

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

This is the impact of dollar rupee rate on the swap and forward positions that banks have with its customers and in the inter-bank market. So it's basically (multiple speakers).

Hiren Dasani *- Goldman Sachs - Analyst*

It is the mark-to-market?

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

It's basically dollar, rupee foreign exchange forwards and swaps which have been restated at current rates.

Hiren Dasani *- Goldman Sachs - Analyst*

Okay.

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

So basically we don't net our mark-to-market positions on forwards and swaps. So we have a gross presentation.

Hiren Dasani *- Goldman Sachs - Analyst*

Yes, but I think that's the rule which other banks also follow and somehow I didn't see their balance sheets grow

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

Well, we have seen some differences in presentation. Some banks net the two, so they present the net position. Basically they are in other assets and other liabilities. I can present the net position whether it is a net other asset or net other liability. Now we don't do that. We present both of them on gross basis because they are separate counterparties, but it's debatable. You can do netting and present the way we are doing, but we don't do netting because netting is not permitted by RBI or disclosure or capital computation of general provisioning purposes. So therefore gross representation reflects more of what we actually do on other parameters that we report. It's, in my judgment, not the most optimal way of presenting it, but it is contextually the correct way of doing it in our judgment.

Hiren Dasani *- Goldman Sachs - Analyst*

Sure. Sorry to go back to mark-to-market again, but sir we have about INR10,000 crore of credit substitutes which are not covered by these swaps, right? So you have about INR13,000 crore of credit substitutes and you said a little less than INR3,000 crore is not covered by swaps.

(Multiple speakers).

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

See, swaps typically we would use to cover long-dated positions.

Hiren Dasani *- Goldman Sachs - Analyst*

Yes.

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

Short-dated positions we don't. I mean, the risks are lesser. They just have higher quantity that they show up. So the worry in interest rate risk has typically been more on the long end because you have to multiply the change in interest rates by duration as well.

Hiren Dasani *- Goldman Sachs - Analyst*

So that would be part of this INR13,000 crore, no?

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

Yes, part. So I'm not sure, Hiren, you'll have to repeat your question.

Hiren Dasani *- Goldman Sachs - Analyst*

No, what I'm trying to tell you is that you have a INR13,162 crore of credit substitutes.

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

Yes.

Hiren Dasani *- Goldman Sachs - Analyst*

Which is basically your customer assets minus loans. So, of that you earlier mentioned that a little less than INR3,000 crore is covered by swaps in terms of the mark-to-market now.

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

Yes.

Hiren Dasani *- Goldman Sachs - Analyst*

Right? So the imputed calculation is that about INR10,000 crore of credit substitutes will be carrying the mark-to-market risk.

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

Yes.

Hiren Dasani *- Goldman Sachs - Analyst*

Because they do not have the economic protection of the swap.

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

Yes.

Hiren Dasani *- Goldman Sachs - Analyst*

Now you have INR40,000 crore of the total investment book of which obviously about INR20,000 crore to INR23,000 crore would be SLR and the remaining INR17,000 crore. So there is total about INR16,000 crore to INR17,000 crore worth investment book which carries the mark-to-market risk.

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

Not exactly. There are CP, CDs, RIDF positions. They don't carry mark-to-market risk.

Hiren Dasani *- Goldman Sachs - Analyst*

Okay. And on the entire this thing we have been able to manage with about INR112 crore of mark-to-market loss.

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

Yes. well, not exactly because there were profit positions also, to begin with. So the corporate bond book was in the money to begin with.

Hiren Dasani *- Goldman Sachs - Analyst*

As a portfolio, yes.

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

Portfolio was in the money. So we also ate up that rather we also lost out on that profit that the portfolio had in the first place. So if I'm trying to hedge my book, for example, I have, let's say, two positions. One is an old position which is already looking sufficiently in the money. The other is a new position which is looking, let's say, very exposed.

So what I'm trying to say what we did is hedge the new position and not worry about the old position in a hurry. Right, because you're doing two things. You are trying to manage the economic risk and also the accounting risk because we have to live in an environment in our country where accounting risk is also there. We cannot book profits on MTM if it is a gain.

Hiren Dasani *- Goldman Sachs - Analyst*

Yes

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

But if there's a loss we have to take the same.

Hiren Dasani *- Goldman Sachs - Analyst*

So that preempts the next question is that you said the swap book you did not realized a profit. It was a mark-to-market profit. So how can you book that in that case?

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

No. Swaps are mark-to-market. You can book profits and losses.

Hiren Dasani *- Goldman Sachs - Analyst*

Okay. Even if it's not a realized profit you can still book it in the P&L.

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

Yes, investment have that accounting peculiarity where investments which are funded positions cannot be taken to profit on unrealized basis, but unrealized losses have to be provided for. Swaps you don't provide for so you take it into your operating line, gain or loss.

Hiren Dasani *- Goldman Sachs - Analyst*

Sure. And G-sec also you managed to sell after July 15 but still at a profit, so it must have been a very old G-sec position?

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

Well let's say, we did have a buffer, yes. I answered that question earlier on the call but I did not give one fact correctly. Typically, let's say the swaps makes a loss. The G-sec would be making money, but I can't take unrealized profit on G-secs to P&L so I will sell the G-sec and cover the swaps so that it is accounting neutral.

In Q1 we underplayed that so we didn't sell enough of G-secs because we had otherwise plenty of income coming. I was happy to carry forward some cushion and that helped in the current quarter because we did start the quarter with those G-sec positions being in the money which gave us that bit more time to get out of them without having to bother the P&L but we have taken losses on P&L as well.

Hiren Dasani *- Goldman Sachs - Analyst*

Sure.

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

On account of the g-secs that we sold.

Hiren Dasani *- Goldman Sachs - Analyst*

Thank you very much.

Operator

Manish Chowdhary, IDFC Securities.

Manish Chowdhary *- IDFC Securities - Analyst*

Yes, hi. Just wanted to check in terms of the loan growth part, you mentioned there is a possibility that loan growth will be looking up over the next couple of quarters. Do you believe it's more to do with the fact that your risk appetite now would have changed post recent correction, I mean, in terms of interest rates, etc. or would it largely be more economy-led?

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

Manish, so the view is a little bit, I would say, a factor of both. We do believe economy has bottomed out and that the second half will, not dramatically, but will look modestly better than the recent performance of the economy. It's also on account of the fact that it's going to be busy season over the next six months. The lending opportunities are naturally better in this period than they are in the lean season, so to say.

And, yes, the interest rate volatility, hopefully is subsiding and will subside so that makes the growth, let's say, decisioning also a little bit easier because, let's say, if you're lending to a customer at 11% and you are still thinking the rates are yet going higher, I think that, in my mind, is not optimal or ideal for assimilating a lot of growth.

So, yes, so what would have been more a maintenance behavior that we were exhibiting more in the current quarter because of the uncertainties will become logically a little bit more organized than it has been in the last two months, three months particularly. I don't know if that answers your question.

Manish Chowdhary *- IDFC Securities - Analyst*

Sir

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

Yes.

Manish Chowdhary *- IDFC Securities - Analyst*

Just one more follow up. In the second quarter, in Q2, the loan growth was flat throughout the quarter or it went down suddenly at the end of the quarter?

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

Well it's been in a range actually because of some new loans and some repayments, both. I think it was at its best during the quarter in late August and early September, which was when clients were really hurting in terms of liquidity options. So there was enough guns to our head in terms of being able to give out loans. So August end or mid-September I would say possibly was the peak and then it had some run downs in remaining period, but not a whole lot.

Manish Chowdhary *- IDFC Securities - Analyst*

Just a couple of data points on that.

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

Yes, maybe INR500 crores, INR700 crores, plus, minus on about a INR48,000 crore loan book.

Manish Chowdhary *- IDFC Securities - Analyst*

Right, right. Okay, just a couple of data points. In terms of your savings account customer acquisition, can you give us some run rates which, in terms of number of accounts that you are doing and the outstanding number of savings accounts?

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

Sorry, just hold on, I'm collecting the numbers. One second. Manish, the outstanding number of total savings account will be about 600,000 give or take.

Manish Chowdhary *- IDFC Securities - Analyst*

Sure. And in terms of acquisition run rate?

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

Yes, there are two numbers here, gross and net because you also close accounts. So the gross additions will be running at about 80,000, 90,000 a quarter.

Manish Chowdhary *- IDFC Securities - Analyst*

Okay.

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

Net is actually our discretion because if the account is not looking sustainable we do clean ups once in a while. So that is not a quarterly number in any case so there would be quarters where the cleanup will show itself.

Manish Chowdhary *- IDFC Securities - Analyst*

And this (multiple speakers) has moved up over the last two, three quarters, right?

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

Say again? Can you repeat that?

Manish Chowdhary *- IDFC Securities - Analyst*

Sorry. This gross addition has moved up over the last two, three quarters, right? Sorry. Has the gross addition moved up over the last two, three quarters?

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

A little bit, yes, maybe -- there has been improvement in gross additions, yes.

Manish Chowdhary *- IDFC Securities - Analyst*

Sure, thanks. That's all from my side.

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

All right.

Operator

Mahrukh, Standard Chartered Bank.

Mahrukh Adajania *- Standard Chartered Bank - Analyst*

Yes hi. In your slippages, were they spread across accounts? I read a figure of INR150 crore on TV, so were they spread across accounts or were there one or two accounts? Any color on that?

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

Mahrukh, there are five, six accounts, but there are two accounts which are larger. I mean they are more representative of the outcome.

Mahrukh Adajania *- Standard Chartered Bank - Analyst*

Okay. Got it. And just in terms of trading gains, I think that normally you book around say INR20 crores, INR30 crores of trading gains so that would be the normal run rate even in this quarter. Would that be a fair guess?

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

Well, this quarter would not have been that much, though we have booked gains but we also loss

Mahrukh Adajania *- Standard Chartered Bank - Analyst*

(multiple speakers) yes.

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

But we also booked losses, so I mean, not material. I don't think that is substantial in terms of the outcomes. So the underlying business on account of foreign exchange actually in this case there was not much activity on debt capital markets in this quarter. So the foreign exchange business has actually genuinely benefited from both scale, distribution, granularity, volatility, customers wanting to hedge more than not. So all of that has helped. So the underlying foreign exchange business actually has picked up quite significantly over the last three, four months.

Mahrukh Adajania *- Standard Chartered Bank - Analyst*

Okay. Okay, thanks. Thanks.

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

All right, Mahrukh. Thank you.

Operator

Vishal Goyal, UBS.

Vishal Goyal *- UBS Securities - Analyst*

Hi, Rajat. Actually the question is on the experience on security receipts. I mean, any experience you have, basically I'm sure you don't have big NPL book right now, but still I think what is your experience on the recovery rates on this one?

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

Too soon, Vishal, to judge. We only know from others that recoveries are usually in a comfortable range around which the valuations are set by the asset reconstruction companies because the motivations are aligned. The ARC will make more money if they bargain for a lower valuation, etc. So our own experience is not significant. Sorry, let me rephrase that. It is not significant, not on account of recovery but it's not significant on account of size and time.

So this will be our, let's say, more or less debut experience to be able to understand how we are going to perform on this particular, let's say, security receipts structures. (Multiple speakers) do have a respectable outcome from these situations. And logically in the sense, because these are pretty much property asset backed so property assets do tend to have some reasonability of visibility of recovery.

Vishal Goyal *- UBS Securities - Analyst*

And this generally recovery would be what, a year? It will take a year or more than a year?

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

Well, I think a year is reasonable. In any case if it is not happening in a year, we will begin to be dealing with realities in terms of valuation of the security receipt.

Vishal Goyal *- UBS Securities - Analyst*

So basically your provisioning will clearly be driven by the valuations, correct, going forward on this particular assets?

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

(multiple speakers) First provisioning in the sense, let's say, 30/40 provisioning has already been done because that's the write-off equivalent.

Vishal Goyal *- UBS Securities - Analyst*

Correct.

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

So because we have effectively taken a haircut already. So that has been written off. Now the remaining is something which will be driven by the worse of our assessment of the position on the asset receipt or the NAV that the asset reconstruction company will publish on account of this relationship. It will be worse of the two.

Vishal Goyal *- UBS Securities - Analyst*

Okay. And, Rajat, also can you give us a sense on what would be your mark-to-market gain, especially on your corporate bond book, as of June, basically end of last quarter. Any broad sense, it would help.

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

Well, it was, let's say, it was sufficient to have cushioned us for the current quarter, if I may say so, because you can easily work back the number. We have given you all information.

Vishal Goyal *- UBS Securities - Analyst*

Can you give one number?

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

You know our provisioning as at September end, you know the interest rate movement, you have a duration. We've also given gross numbers on both that's not a published number and actually to be fair, Vishal, I don't know the exact number myself. I know a ballpark number but because it was a profit there was no point in going further on this.

Vishal Goyal *- UBS Securities - Analyst*

I'm just trying to sense.

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

You can easily work that number back.

Vishal Goyal *- UBS Securities - Analyst*

Okay, no problem. No, I'll not push you. Last question from my side, we are now, I think, seeing some mid corporate cases, like, for example, in your gross slippage as well which is trending up now from you as well. So what is the watch list you will have, let's say, I mean right now and how you look at that, especially the sectors also.

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

Well, I think mid-corporate is something where we are seeing the most excitement in terms of, let's say, NPA prognosis or delinquencies here and there. And where the solutioning becomes harder because of their lack of diversification many of them are standalone companies. That's the only business they are running. There is no mitigant. Their vendors and suppliers are also being hard on them, etc. Working capital cycles are expanding and typically their partners are bigger companies so they're already under pressure on account of that.

So the middle segment is where, I mean, where we fear, let's say, the most of our near-term consequences are going to be. I mean, if I look at, let's say, if I trust our bank's internal ratings and where we have a rating scale of 1 to 10 and where 1 is AAA, 10 is NPA, 8 and 9 is where we believe we need to be on guard of ratings and 7 would be an investment grade rating in our, let's say, relative comparison with the rating scales which are external. So 8 and 9 would be more than 1%, less than 2% of our exposures.

Vishal Goyal *- UBS Securities - Analyst*

Okay. And this is for overall corporates, correct?

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

Well, this is all, including corporate and retail loans.

Vishal Goyal *- UBS Securities - Analyst*

This rating means for what proportion of your book?

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

No, this is internal rating for all the book.

Vishal Goyal *- UBS Securities - Analyst*

Yes -- the overall, like, INR47,000 crore --

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

Yes. I'm not using external rating, I'm using internal rating and I'm only saying 7 in our internal rating scale maps to investment grade or better on the external rating scale.

Vishal Goyal *- UBS Securities - Analyst*

Okay. And 8 and 9 is 1% to 2%.

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

However it does factor if we have very good collateral, it will factor it. Rating agencies don't factor that.

Vishal Goyal *- UBS Securities - Analyst*

Okay, but your internal rating would already have that into.

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

Yes, our internal rating will factor that.

Vishal Goyal *- UBS Securities - Analyst*

It basically it's based on loss rate, correct?

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

Practically yes.

Vishal Goyal *- UBS Securities - Analyst*

And not on incidence of NPL? Okay.

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

No, it will be a little bit more probability of default and in this case also on account of what is the LGD

Vishal Goyal *- UBS Securities - Analyst*

LGD?

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

Loss given default. There will be a role of both as far as the internal ratings of the Bank is concerned.

Vishal Goyal *- UBS Securities - Analyst*

Great, great. Okay, Rajat, thanks. All the best.

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

Yes, Vishal, thank you.

Operator

Dhaval Gala, Birla Mutual Funds.

Dhaval Gala *- Birla Mutual Funds - Analyst*

Hi, Rajat.

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

Hello.

Dhaval Gala *- Birla Mutual Funds - Analyst*

A couple of questions. First what would be the outlook for customer assets/balance sheet growth for FY 2014, considering that environment you might look at -- as you mentioned, things seems to be looking up at least from what is was in September quarter. And expectations on net interest margins.

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

Yes, Dhaval, I think the customer assets book is also looking better from the fact that the debt capital markets for the bond and CPs also are beginning to stabilize, though the business is happening at higher yields which is, in a way, good for us because we also keep some of this for a longer period. So there is activity which is building up on that side as well, though it is not very strong like it had been about a year ago.

Similarly on loans, the volatility on interest rates is coming off and possibly will become more clear once we hear the RBI on its policy in a week's time. So broadly I am assuming, in answering both your questions, that RBI will normalize its interest rate policy in the ensuing credit and monetary policy statement and that they will revert back to the repo rate even though the repo rate may or may not be higher than what it is today.

In that scenario we are expecting our customer asset book to be looking at growing more closer to 20% year on year by the time we reach March. And our margins to begin to back to their 3%, let's say, normalized levels that we were experiencing prior to what the RBI action was in the middle of July and have corrected about 10 basis points since then. So the margins should also become 3% it's not just restoration, but also improvement process in that course as we also benefit from the CASA momentum that the Bank is experiencing.

And we did lose some net momentum on CASA in the current September quarter because of the high interest rate incentive for customers to move to time deposits. I think when some of that noise goes away, we will possibly go back to a little bit more normal outcomes which would have indicated a 3% margin with an increasing bias, based on CASA improvement.

Again these are my comments on your two questions.

Dhaval Gala *- Birla Mutual Funds - Analyst*

Just to understand, means, if at all your balance sheet or customer asset growth is around 20%, NIMs largely tracks at 3% levels, which would be, on an average basis, similar to what it was in the last financial year, so definitely the revenue line items are getting a little weaker trend versus what it has been running for the last couple of years. And whereas our operating expenses will be growing upwards of 30% considering what the trend are and what our expansion plans are. So how do you bridge that gap?

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

Yes.

Dhaval Gala *- Birla Mutual Funds - Analyst*

Largely other income as well may grow higher than the balance sheet growth, but materially considering the streams which we have, and most of them linked to the movement in terms of the loan growth, or the advisory income where this weakening is definitely seen, how do you try to I mean, what type of expectations you would build?

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

Yes. See, not all other income. So let's first tackle the net interest income. We are therefore clear if the underlying growth is about 20%, NIMs are flat, we should see a headline of 20%, maybe little bit better depending upon how the mixes also have performed in that period. If we go to other income, I think there are majority of other income does not have a one-to-one relationship with loan growth. It does have a relationship with loans as such because if we are working capital lenders, we will have, and expect, cash management, LCs and FX revenue to continue to accrete. We could add to wallet share in that scenario.

So if I can just take our current quarter example because that should exemplify some of these peculiarities, or rather the connections. So our foreign exchange income we were discussing, is running three times last year numbers. About same quarter last year and this quarter we are 3x. Our retail income is about 2x for the September quarter this year versus the September quarter last year.

I've already accounted for about one-third of our other income. And this would be reasonably devoid of loan growth. There should not be a great immediate connection. Then we also go to some of the fee items which are not necessarily loan-growth oriented but at least they co-exist with lending. So LCs and guarantees for example. So that is part of our transaction banking fees. They will continue to do well as these are all service embedded as well.

It is not an outright lending decision. It is a regular, repetitive, more flow business. Like a client will give me more wallet share because I will negotiate his LCs sooner, I will have online platforms to help him produce documentation. I will amass his payments and collections for him better so that will also help me generate revenues, more throughput oriented, more than lending oriented but they coexist with lending, because I am very likely to be the escrow bank if I am also the lender quite naturally.

So a good majority of our other income is not necessarily linked with loan growth. There will be a component of advisories which is linked to loan growth, which has corrected in September quarter and we do factor that in our expectations in terms of growth relationship. And, if I look at the business we're expecting hereon, I mean, the next six months the growth looks relatively better on that front as well we've already seen the six months of this year. We've had one-offs. So this year will be okay. I don't think we will have too much surprises on account of the other income also being disproportionate.

Costs I think, in our internal assessment, the year-on-year growth of costs may have peaked because the newer branches are clearly not the hub branches, not the metro, let's say, downtown corner street locations. They are getting relatively cheaper. Rentals are already getting softer for new branch contracting. So we are not budgeting for a cost increase which we are running at about a 30% year-on-year cost. I think same time next year the cost should be becoming safely lower than the current run rate in terms of pace of increase.

I think the joker and the more uncertain part will be provisioning in terms of both mark-to-market which has been the uncertainty in the September quarter. It looks less of a problem going forward, given what caused it is not that dominant a variable any more. But credit provisioning is going to be a case that we will need to be on the guard for. I think the economy continues to be challenged and there are difficult situations around in the economy.

There would be a need for us to be able to both preempt and be proactive, as well as keep creating buffers and cushions for the future. We've discussed on the call, for this line at least we already have a 40 basis point to loans of excess provisioning we have been making over the last few quarters. We hope that we will not be able to use it or won't have the need to use it, but that is something which would help us cushion on a bad day in case of there is any surprise that we didn't budget for.

So I'm not particularly, let's say there will be cyclical factors. There will be some ups and downs in terms of revenues, but I think broadly this should have some proportionate outcomes.

Dhaval Gala *- Birla Mutual Funds - Analyst*

Just a question, means here on the other income, as you are discussing in detail, so how do you look at financial advisory income line?

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

Say again, sorry, how? Hello?

Dhaval Gala *- Birla Mutual Funds - Analyst*

How do you look at the financial advisory income line item, because means looking at how it was in the last year second half, we clocked some INR328 crores in the 2H FY 2013 versus we've seen INR267 crores in 1H F 2014 which definitely is a good, decent growth over the last year first half. But considering what environment it was last year and what it is now, how do you see that line growing because that will be one of the key areas?

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

That line is not going to be the dominant growth line; I have to say that. I mean, it is going to be, let's say, the most closely related to loan growth, I mean balance sheet growth, if I can generalize it. So there would be, let's say, a natural correction if we slow down growth and if the growth picks up there would be a natural accretion to that line number as well, with some gives and some takes because not all of that income is also directly linked into growth. You may not see net growth in our loan book, but we do have some churn which means that some of the past growth has been either redeemed or has been repaid or sold down and some new growth has taken place. But the net number is not different. So the churn also adds to that income in effect.

So there would be that consequence, but I think I would hazard that the second half of this financial year will be safely lower than the second half of the last financial year as far as advisory income is concerned. I don't know if that answered your question. Dhaval, I'm not sure if I'm with you?

Operator

Anand Vasudevan, Franklin Templeton.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Thank you. Hi. What is the size of your HTM book today, SLR HTM?

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

Number? It will be closer to INR20,000 crores, Anand.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Okay, and what's the duration there?

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

Four years.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Four years. And based on the book value, so book value INR20,000 crores, what would be the YTM on the SLR portfolio?

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

It will be just north of 8%.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Okay. The other question is, your employee expenses, although you've added almost 500 staff this quarter, employee expenses has actually come off sequentially about 8%. Why is that?

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

Yes. I think I would recommend that there was a compensating noise in Q1 and Q2. So I think a more appropriate, let's say, measure would be if we can average the two, employee costs for the two quarters and that number should be a representative number in terms of, let's say, forecasting that number. So Q1 was higher than trend and Q2 has compensated for that increase in trend.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Yes, I understand that, but if we look at the staff increase from last year, currently it's about 27% higher than last year. I understand that possibly the new recruits are probably at a lower scale. They are probably more in the retail business, so if you look at the increase from last year, 13% to 15%, is that reasonable?

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

You're looking at Q2 versus Q2?

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Yes, so Q2 (multiple speakers). I admit that it might be a little higher than that, so maybe 15% or 16% while the staff addition is 27%.

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

H1 versus H1 is a 22% increase.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Okay.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

That should be more representative.

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

So Q1 and Q2 had some noise because we deal with uncertainties in Q1 with respect to staff costs because we haven't completed some of the annual processes.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Okay.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Okay. And finally, this is more a clarification, I haven't really understood what you said about the gross slippages and the sale to ARC, so just to recap, it appears that the gross NPAs during the quarter is about INR1.5b -- INR150 crores.

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

Correct.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Out of that there was one sale to ARC so the gross amount, the principal amount of that case was INR140 crores. And after the provisioning or write-offs that you made, the net sale to ARC was INR94 crores, is that correct?

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

Yes.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Right. So you also said that there were about five to six accounts which slipped during the quarter of which two were larger. So now if INR140 crores was this INR140 crores was it just one case?

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

No two - three cases put together; INR140 crores.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Okay. Okay. Fine, thank you.

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

All right, Anand. Thank you.

Anand Vasudevan *- Franklin Templeton Investments - Analyst*

Thanks.

Operator

Thank you. As at the moment, sir, we have no questions, I would like to hand the call over back to the management team for any remarks.

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

Well, thank you all for your time and patience and asking very pertinent questions and for the opportunity for us to talk to you about our results. And we hope to be back talking to you again in a quarter's time. Thank you.

Tabassum Inamdar *- Goldman Sachs - Analyst*

Thanks, Rajat, thanks, Jaideep.

Operator

Thank you. That concludes for today's conference call. Thanks for participating. You may now disconnect. Thank you.