**ICICI Bank Limited**
**Earnings Conference Call- Q2-FY2009**
**October 27, 2008**

**Moderator:** Good evening Ladies and Gentlemen. I am Priyanka, the moderator for this conference. Welcome to the ICICI bank conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to handover to Ms. Chanda Kochhar. Thank you and over to you ma'am.

**Ms. Chanda Kochhar:** Good afternoon to all of you. I will just give a very brief summary of our performance, hope the presentation is already with you. We had a very robust increase in core operating profit, which has gone up by about 43% on the back of 2 to 3 major improvements. Net interest income has increased by 20%, fee income has increased by 26%, and the operating and DMA expenses have actually gone down by 12%. So, all this together has led to a very good increase in core operating profits. Our net profit is Rs. 10.14 billion. Addition to NPAs has actually been on a moderate level compared to the first quarter of the financial year. Specific provision is actually a little lower than last quarter.Beyond that I would take questions that you may have.

**Moderator:** Thank you very much ma'am. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. Participants are requested to ask only 2 questions at a time due to time constraints. To ask a question, please press "*1" now. First in line, we have Mr. Sanjeet from DBS Bank. Please go ahead with your question sir.

**Mr. Sanjeet Kumar:** Good evening ma'am, this is Sanjeet Kumar from DBS Bank. I wanted to check how sustainable are the cost cutting measures seen during the year?

**Ms. Chanda Kochhar:** These are very sustainable measures because it is really a mix of many things. One is we have rationalized a whole lot of our marketing efforts. Since we have increased branches, our reliance on the direct marketing agents and tele-calling channel has been reduced substantially plus we have rationalized a whole lot of our other promotional expenses. Then, we have been able to derive many economies of scale in terms of vendor negotiations. We have also been able to improve things by employing straight through processing and improved productivity, so these are measures which are sustainable, and we will continue to see the cost moving in this direction even as we go forward.

**Mr. Sanjeet Kumar:** I have a query on the interest earned portion, there is an entry "others" in the interest earned which shows some variation from the previous year's quarter, September 30, 2007, numbers. If you could tell me as to what these numbers are, what this stands for?

**Mr. Rakesh Jha:** If you compare to the previous June quarter as well, that number was there in the other interest income. Other interest income primarily includes all the income that comes on our swap positions, so it is reflected in interest income. For example if I have a fixed rate borrowing and I swap it into a floating rate, the impact of that comes in this line item. There is corresponding offsetting entry in interest expense. It is only a net adjustment that is reflected here and the relevant number is the overall net interest income (NII) for the bank.

**Mr. Sanjeet Kumar:** Okay, and would you have any specifics, as how will December be for the year end?

**Mr. Rakesh Jha:** It is a function of how the floating rates move, so it will not be possible to project this number, but these swap positions do not impact the NII of the bank because for a higher number here, there will be a higher expense on the borrowing cost to the same extent as well.

**Mr. Sanjeet Kumar:** Okay, thank you.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Dipankar from Deutsche Bank. Please go ahead with your question sir.

**Mr. Dipankar:** Hi, just a couple of clarifications on your UK business. The US$ 41.7 million MTM in the first half, is the entire amount, passed through the reserves and surplus? You had intended to make provisions of about US$ 45 million additionally on the Lehman exposure, and in that context, this figure looks a bit small. Could you clarify this? And a related question is that if I am getting the numbers right, the capital adequacy of the UK business has increased in the second quarter over first quarter. So, could you just clarify these two?

**Ms. Chanda Kochhar:** This US$ 41.7 million pertains to actually our AFS books, for which the impact goes into the balance sheet. This is over and above the provision we made on the trading book through the income statement. If you see, we have given details in the presentation to say that to start with there is an operating income in UK, and after making adequate provisions, not only against Lehman but against the entire trading book as well, we have a loss in UK, a net loss of US$ 35.5 million in H1-2009.

**Mr. Dipankar:** And the capital adequacy?

**Ms. Chanda Kochhar:** The capital adequacy has gone up to 18.4% because as per our yearly plan we infused US$ 100 million equity in UK during this quarter.

**Mr. Dipankar:** Okay, and whatever loss you have in the AFS book which passes through reserves is excluded in the capital adequacy calculation, right?

**Ms. Chanda Kochhar:** That is right, yes.

**Mr. Dipankar:** Okay, and another related question, which is a bit of an open-ended question is that considering what is happening in the international markets and how difficult it is to roll over borrowings, how do you see the outlook for rest of this year?

**Ms. Chanda Kochhar:** Our growth going forward is coming mainly only out of the retail deposits that we have been raising both in UK and Canada, and the flow of these retail deposits continues at a healthy pace. So, we have these retail deposits as a source of growth going forward. As far as repayment is concerned, most of our borrowings that we have raised in the past are really long dated. So if we look at the next 6 months or so, we have about US$ 1.4 billion dollars of net borrowings to be repaid and we will have enough sources as we go along to repay this.

**Mr. Dipankar:** Thank you ma'am. That is it.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Arun Khurana from UTI Mutual Fund. Please go ahead with your question sir.

**Mr. Arun Khurana:** Good evening ma'am. What is your long-term business plan for the foreign subsidiary banks that you have and what is the core sustainable advantage that you feel you have in the overall scheme of things over the next two to three years. What is the proportion of international balance sheet size you propose to build up as a proportion of the overall balance sheet of the bank?

**Ms. Chanda Kochhar:** The strategic drive behind the international business continues to remain what it was when we started the international business-to fund the global requirements of the Indian customer and taking care of requirements of the NRIs. So, the basic premise on which we started the strategy essentially continues to remain the same. As far as rate of growth is concerned, yes, in the past, we actually were using 3 major sources of funding to fund this growth-issuance of long-term bonds and debt instruments, bilateral lines of credit and retail deposits. Well, as you know, the markets have moved and for the last 1 year, we have not made any issuance of long-term bond or debt, so we are not relying on that source of funds to fund the future growth, but clearly we still have a strong flow of deposits coming, and therefore our growth is being funded to the extent of the deposits that we are raising both in UK and Canada. The competitive advantage comes from the fact that this gives us as a bank the ability to fund the total requirements of the Indian customer because the Indian corporates today has certain requirements in rupee and certain requirements in foreign currency, and this gives us the ability to meet both the requirements. Secondly we are using retail funds to fund this requirement. These retail deposits come in a cost effective manner. For example in Canada, we can still raise 3-5 year money at about LIBOR + 125-150 bps, which is a very effective cost of funding to sustain our growth.

**Mr. Arun Khurana:** Of the total provisions that you have made of 923 crores for the current quarter, would you be in a position to give us the breakup?

**Ms. Chanda Kochhar:** The broad breakup is that specific provisions out of that is Rs. 8.68 billion, and the rest of it is general provisions. The specific provisions of Rs. 8.68 billion is in fact Rs. 0.10 billion lower than the specific provisions that we made the previous quarter, which was Rs. 8.78 billion.

**Mr. Arun Khurana:** Breakup, I would mean, the breakup for NPA provisions, breakup for investment depreciation provisions, if you could let us know on that account ma'am?

**Mr. Rakesh Jha:** This is all towards loans and advances only. The mark-to-market impact is in the treasury income line item. Out of the total provisions, specific provision as Chanda mentioned is Rs. 8.68 billion, and the balance is the general provision, and agricultural loans waiver impact. In the first quarter, we had taken a write-back of about Rs. 0.47 billion, on which RBI subsequently came up with guidelines and so that write-back has been reversed in the current quarter.

**Mr. Arun Khurana:** Okay, and as on date, as per your estimates, how much would be the amount that the bank may need to provide for on the estimated residual valuation of the investments that you have in the foreign subsidiary banks?

**Ms. Chanda Kochhar:** As of date we believe we have made adequate provision on the investments that we have in the foreign subsidiaries because we have finalized the accounts and the numbers that we are declaring is after discussing with the auditors and finalizing the accounts, so we feel that there is adequate provision.

**Mr. Arun Khurana:** So, that means that you will feel that going forward you may not need to make any more provisions if the current environment in the banking were not to change going forward?

**Ms. Chanda Kochhar:** The issue is that in the current environment, one does not know how the market changes. So spread in general in the market, could widen or could even tighten, so we don't know which way the entire market would move. So, in the current scenario one can't make that kind of a forward-looking statement, but given the situation today, our provisions are adequate.

**Mr. Arun Khurana:** One last question, give us the borrowing figures, how has the borrowings been shaping up in the current quarter versus the last quarter, and finally, if you can give us the figures of deposit as on date.

**Ms. Chanda Kochhar:** You are talking of deposits, internationally or domestically?

**Mr. Arun Khurana:** Domestic deposits ma'am.

**Ms. Chanda Kochhar:** The domestic deposits, we have declared the September 30, 2008 number. The September 30, 2008 number if you see on a year-on-year basis, we had increase in current and savings deposits by 90 billion rupees which is a 16% year on year increase. As far as the wholesale term deposits are concerned, we had anyway said in the beginning of the year that gradually we would be reducing our reliance on wholesale term deposits. So, in fact, our CASA growth has been very robust during the year, and CASA percentage has improved from 25% as of last September to 30% as of this September.

**Mr. Arun Khurana:** And how much has been the net borrowings as on date ma'am versus the last figure ma'am?

**Mr. Rakesh Jha:** The total borrowing in the parent bank is in the presentation. Rs. 948 billion as of September 30' 2008 compared to about Rs. 863 billion as of March 31, 2008.

**Mr. Arun Khurana:** Thank you.

**Moderator:** Thank you very much sir. I repeat, participants are requested to ask only two questions at a time due to time constraint. Next in line, we have Ms. Poonam Sharma from IDFC Mutual Fund. Please go ahead ma'am.

**Ms. Poonam Sharma:** Ma'am, I just wanted to know that of the Rs. 9.90 billion of incremental slippages, could you just tell us on what account are they, and also the trend in the retail NPLs that you have.

**Mr. Rakesh Jha:** The change in gross NPLs was about Rs. 9.90 billion, and in addition, we have sold about Rs.2.0 billion of retail NPLs to ARCIL during the quarter.

**Mr. Rakesh Jha:** On a gross basis, additions would be close to about Rs. 12 billion, and the additions were mainly in retail during the current quarter.

**Ms. Poonam Sharma:** Okay.

**Mr. Rakesh Jha:** And we have given the retail NPL numbers in the presentation.

**Ms. Poonam Sharma:** Okay, okay, thank you sir.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Rajiv Verma from Merrill Lynch. Please go ahead sir.

**Mr. Rajiv Verma:** Hi, Chanda and Rakesh. Just couple of things, one is if you could give the loan mix, and the overseas loan on your balance sheet and what are the main drivers. Separately on the branch expansion, just wanted to have an idea of the status on how many have you opened, etc, and have you got any fresh licenses or you are looking for that?

**Ms. Chanda Kochhar:** In terms of branches, we are now close to 1,400 branches while 18 months ago we had 750 branches. Then we acquired Sangli Bank and then after that we implemented all the licenses that we had got. Of course, the implementation really mainly happened between February and May of this year, so the real benefit of these branches will be seen over the next year and year and a half, but indeed they are implemented and they are now operational. We have not yet applied for any new set of branches, but clearly yes we are looking at now further expanding our branch network, and we would soon be making an application.

**Mr. Rakesh Jha:** The loan book is given in the presentation. The breakup as of September 30, 2008 is in line with the trend we saw in the earlier quarter. The retail growth has been much lower than the last year, and the growth has come essentially on the corporate side in the overseas branches, which you will have to look into taking into consideration that the dollar has appreciated, so a lot of that growth of the overseas branches is because of the rupee being at 47-rupee to a dollar level as of September 30, 2008 compared to about a 40-rupee to a dollar level at March 31, 2008.

**Mr. Rajiv Verma:** Just one last thing. As a trend, you did mention that most of the NPLs are coming from the retail side, etc, but are you starting to see any early signs of stress in the corporate portfolio,

**Ms. Chanda Kochhar:** No, as of now, we are not seeing any stress on the corporate side as far credit quality is concerned. Well, what we are definitely seeing is the caution in terms of really quickly jumping into new projects and so on, and people are wanting to conserve their cash and cash accruals, so they are just implementing the projects that they have on hand rather than plan new things, but specifically on credit quality, we have not seen a stress.

**Mr. Rajiv Verma:** Okay, thanks.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Tabassum from UBS. Please go ahead ma'am.

**Ms. Tabassum:** Just wanted to check on your margin, now clearly for the last 3 quarters, you have not seen any improvement in margin. Your NII growth has been driven for at least this quarter to some extent year on year on asset growth, so how do you see this going forward because clearly if you are not growing your asset book, your NII growth will get impacted in the next few quarters.

**Ms. Chanda Kochhar:** On a quarter on quarter basis, probably what you are saying is correct, but if you also see that there are some factors which are seasonal for which you definitely need to look at the first and the second quarter on a year on year basis because most of the priority sector advances that you take up in March actually come off only during Q1 and Q2, and these are normally lower yield advances, so in that sense net-net basis, that also has been taken into account while maintaining NIMs. Secondly, what has happened is that the cost of wholesale money is actually rising, so in a way it is good that we increased CASA because at least the impact of the rise in the wholesale money has been absorbed by the improvement in CASA. But yes, this is something that we will have to keep watching because we will have to see how the cost of wholesale money adjusts as we go forward, and since that is going to be more a market related phenomena, what I think mostly in our hand is to actually bring down the dependence on wholesale deposits and that is what we are doing. Our CASA ratio has gone up to 30% as on September 30, 2008.

**Ms. Tabassum:** And should we assume that this trend will continue given the current environment where we are seeing a lot of banks also seeing CASA reducing and term deposits going up because interest rates have been high.

**Ms. Chanda Kochhar:** I think the essential difference is that for others you would see CASA ratio probably going down and term deposits going up because they are in a higher growth mode. So, they are raising more funds to fund the growth, whereas we are consciously at moderate levels of credit growth, and therefore, for us actually CASA may improve.

**Ms. Tabassum:** Just one last thing, in terms of your loan to customers in Canada and UK, is this mainly Indian corporates or would this include even local corporates?

**Ms. Chanda Kochhar:** 80% of this is to Indian customers.

**Ms. Tabassum:** Okay, thank you very much.

**Moderator:** Thank you very much ma'am. Next, we have Mr. Krishnan from Ambit Capital. Please go ahead with your question sir.

**Mr. Krishnan:** The reason why you have been able to maintain the margins at the current levels is because the liability side has not quite grown whereas if I would look on the deposit side, it has been far more muted when compared to the when you have a look at the loans. That reflects a stretch as far as the credit deposit ratio is concerned, I just wanted some light on that.

**Ms. Chanda Kochhar:** See, first of all, I think on the deposit growth, clearly from the beginning of the year, we had articulated the strategy that since this is the rising interest rate scenario, we would consciously reduce our dependence on wholesale deposits, so clearly indeed we have paid off much of the wholesale deposits as they have become due rather than renewing them because the interest rates were running high, but at the same time, the focus on CASA has continued, and we have seen a robust growth in CASA. CASA has grown by about Rs. 90.00 billion on year on year, and even if you just look at the quarter, the increase in CASA is Rs. 30.00 billion,

**Mr. Krishnan:** I do understand that aspect. What I don't understand is you are running almost neck to neck as far as your credit deposit ratio is concerned. I just had some concern there.

**Ms. Chanda Kochhar:** If you are looking at incremental over the year, you have to also take into account that in fact we raised equity, and a lot of funds came in also on account of raising of equity, but Rakesh, you want to clarify.

**Mr. Rakesh Jha:** You are also considering the overseas branches' loan book, which as we said earlier, is essentially funded out of borrowing. If you look at the domestic credit deposit ratio, it will be in the region of about 70% to 75% because the balance is funded out of some of the tier-2 capital and the equity that we have raised. The overseas branches are essentially funded out of borrowings. That is the reason why overall credit deposit ratio appears high.

**Mr. Krishnan:** Just two more things. No.1, I just needed a breakup of the CASA as of September 2008 and how does that compare to September 2007? Secondly, your exposure to overseas assets as a part of your loan book is at around 26%. Out of this, how much is your exposure to the BFSI space?

**Mr. Rakesh Jha:** On the deposit, about Rs. 432 billion is the savings deposits as of September 30, 2008, and the current account is about Rs. 237 billion. The same numbers for last year was Rs. 348 billion of savings deposit, and Rs. 229 billion of current account.

**Mr. Krishnan:** Okay, and as far as the loan book composition is concerned, you have got about 26% exposure to overseas, how much of that would be the BFSI space? I mean the kind of stress that you have seen across the financial services space and what has happened in the case of Lehman Brothers.

**Mr. Rakesh Jha:** In the UK subsidiary we have close to US$ 3.5 billion of non-India investments within which the exposure to financial institutions and banks is about US$ 2.8 billion.

**Mr. Krishnan:** US$ 2.8 billion.

**Ms. Chanda Kochhar:** But that is a part of the investments book.

**Mr. Krishnan:** Yeah, sure, I understand. Thanks.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Jatinder from ABN-AMRO. Please go ahead sir.

**Mr. Jatinder:** Hi, just one question, on your equity investments, investments in subsidiaries, it was Rs. 81.34 billion as of March 2008, stands at Rs. 99.93 billion as of September 2008. Can we have a broad breakup as to where all this money has been invested?

**Mr. Rakesh Jha:** We made an investment of about US$ 100 million in UK, in life insurance company about Rs. 3.0 billion, and in general insurance about Rs. 3.5 billion. These are the main investments done.

**Mr. Jatinder:** That is all within the quarter right?

**Mr. Rakesh Jha:** Yes.

**Mr. Jatinder:** Okay. Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Anand from HDFC Mutual Fund. Please go ahead sir.

**Mr. Anand:** Just wanted to know, you mentioned that previously of your total deposit in the UK subsidiary, 39% is the term deposits. I mean, just wanted to know what is average tenure of the deposit, term deposit means more than a year's deposit or what, also I just wanted to know what was this proportion as on March 08?

**Mr. Rakesh Jha:** In terms of the tenure of these deposits, it will be about 12 months to 18 months, and secondly on the proportion as on March 08,I will come back to you with that.

**Mr. Anand:** Right, another thing I want to know, you said the UK subsidiary has a loss of US$ 35 million after providing how much on the mark-to-market losses, US$ 41 million?

**Ms. Chanda Kochhar:** No, US$ 41 million is the provisions through the balance sheet for the AFS book. The rest of the provision is in the P&L. What we have said is that after taking into account all the operating income that we had and after making the adequate provision, the net loss in the P&L is US$ 35 million.

**Mr. Anand:** So, the provision could have been somewhere around US$ 80 million?

**Ms. Chanda Kochhar:** Yeah, in that range.

**Mr. Anand:** Fine.

**Ms. Chanda Kochhar:** And we have the number of the term deposits. As of June 08, it was about 30%.

**Mr. Anand:** Okay. You just mentioned going forward you will be increasing the proportion of term deposit. Going forward, do we see margin on the international business to expand further and probably for the whole year you will see a positive number?

**Ms. Chanda Kochhar:** In India, the focus will be on CASA. Internationally, it would be more on term deposits. We don't talk about projected NIMs, but I would only say that even our yields on the advances are going up substantially in the current scenario.

**Mr. Anand:** Fine, thanks.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Saumya Agarwal from HSBC Securities. Please go ahead ma'am.

**Ms. Saumya Agarwal:** Just one question on your loan growth. Firstly, this is the first time your retail growth has actually shown a degrowth, minus 7% year on year. Firstly, wanted to know what explains this, and given that retail is still a sizeable portion, any particular focus areas you would like to concentrate on going forward.

**Ms. Chanda Kochhar:** Actually, we have been continuing with most of the lines of the businesses on retail except for small-ticket personal loans, which we exited completely around November-December of last year, so that business which was present the similar time last year is not present now. And in businesses like credit cards and two-wheeler loans, etc, we have tightened our credit norms substantially, so we are present in most of the lines of businesses that is we were in last year, but clearly our disbursal rates have been moderate, and additionally, you will have to remember that the decline also appears because repayments have been coming at a pace.

**Ms. Saumya Agarwal:** Okay, just also wanted to confirm one thing on your ICICI Bank UK subsidiary, essentially you have taken the trading loss through the P&L, so that roughly translated to some US$ 78 million, and the balance US$ 42 million you have taken through the reserves.

**Ms. Chanda Kochhar:** Yes. The US$ 42 million is through the reserves.

**Ms. Saumya Agarwal:** Okay, so that is the total loss you have booked for H1-09.

**Ms. Chanda Kochhar:** Yes, US$ 42 million through the reserves and the rest of it through P&L.

**Ms. Saumya Agarwal:** Got it, thanks.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Prashant Poddar from ICICI Prudential. Please go ahead sir.

**Mr. Prashant Poddar:** Just needed a clarification on the same thing. There was a US$ 42 million provision which was made through reserves, and there was additional provision taken through P&L which eventually resulted into this US$ 35 million loss.

**Ms. Chanda Kochhar:** That is right.

**Mr. Prashant Poddar:** Okay, so that cumulative provision would be US$ 42 million plus the losses through P&L.

**Ms. Chanda Kochhar:** That is right.

**Mr. Prashant Poddar:** Okay, and ma'am, what is the kind of growth that we are looking at in advances for the whole year?

**Ms. Chanda Kochhar:** From the beginning of the year, we said that our growth rates would be moderate based on our conscious strategy of one focusing on CASA and second following our tightened credit parameters. I think the first half is the good indicator to go by, and broadly in line with our strategy. We will continue to follow a similar strategy going forward as well.

**Mr. Prashant Poddar:** Okay, would we be looking at maybe further running down the asset book?

**Ms. Chanda Kochhar:** We are not really running down the asset book, but we are disbursing as per our credit norms, and as I said, on the other hand we are getting repayments from the existing customers, so there is no conscious effort of running down the books, but there is a conscious strategy of being cautious and disbursing only as per the credit norms.

**Mr. Prashant Poddar:** Have we provided fully for Lehman Brothers ma'am?

**Ms. Chanda Kochhar:** We have provided adequately for Lehman Brothers.

**Mr. Prashant Poddar:** Okay, thank you very much ma'am.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Hiren Dasani from Goldman Sachs. Please go ahead sir.

**Mr. Hiren Dasani:** If you can give a broad picture on the ALM of weighted average assets and liabilities in ICICI UK as well as Canada?

**Mr. Rakesh Jha:** In the UK and Canada, we are not really running any significant mismatch. Only thing is in the UK book we do have a high proportion of current and savings deposits, but against that we have an investment portfolio which is about US$ 3.5 million and we can repo a large part of that portfolio to generate liquidity, and in terms of the liquidity available in the UK balance sheet, it is close to about US$ 2 billion currently.

**Mr. Hiren Dasani:** Okay, but are you in a position to disclose any number in terms of weighted average duration of assets and liabilities?

**Mr. Rakesh Jha:** The investment book is typically of about 2 to 3-year maturity, but in terms of liquidity, before the markets turned, these were absolutely liquid and are classified in the first bucket of ALM bucketing. In the current environment, we can, if required, repo these investments to generate liquidity.

**Mr. Hiren Dasani:** By repoing the securities, would you need to take a big haircut?

**Mr. Rakesh Jha:** This is the repo facility available with the central bank. For example, we can repo securities with the Bundesbank, As such there is no significant haircut which is there. And the Canadian balance sheet, the deposits are mainly term deposits, and the average maturity there will be 3 years plus.

**Mr. Hiren Dasani:** Okay, on the loan book side on the international, both in the parent bank, as well as in the subsidiaries, would there be significant amount of loan book, which is backed by the collateral of shares?

**Mr. Rakesh Jha:** The loan book in the overseas branch and subsidiaries will include loans which are backed by shares, so that is the part of the overall portfolio, and we have various securities which are there across all the loans that we have.

**Mr. Hiren Dasani:** Would this again be Indian promoters only, Indian shares only?

**Mr. Rakesh Jha:** This will largely be Indian exposures. As we have said earlier, close to 90% of the loan exposures, in our overseas branches is to India or India-linked corporates and about 80% of the UK and Canada loan book is again exposure to India.

**Mr. Hiren Dasani:** Okay, any ballpark number in terms of how much of the book would be against collateral of shares?

**Mr. Rakesh Jha:** There is no specific number as such that we have given on that.

**Mr. Hiren Dasani:** Okay. I have one question on the gross NPL addition. We have seen a run rate of about 12 billion rupees on a quarter-on-quarter basis. Do we expect that run rate to come down in the future because the old legacy book of STPL and some of the other assets which we are no longer booking are running down or we should expect that kind of a run rate to continue?

**Ms. Chanda Kochhar:** I think indeed over a period there would actually be benefit of this book winding down, but there is some period over which this would happen. This won't happen immediately, in the next three or four quarters, but at least, I think one good thing you can assume is that, we have probably seen most of the impact that could have happened.

**Mr. Hiren Dasani:** Okay. One last question on the employee cost. The number of branches has gone up from 950 to 1,400, whereas employee costs on a year-on-year basis have actually shown a decline. So, what is driving this?

**Ms. Chanda Kochhar:** One is that as we have implemented various productivity measures, in fact we have been able to find employees within the existing set of employees itself who could man the new branches. So, we haven't had to do really too much of wholesale recruitment to man the new branches. We were able to manage within most of the existing employee base. The second is, in the past our increment levels used to be 15% to 17% and so on. This year as we had said in April itself, our increment level on an average was around 7.5% to 8%.

**Mr. Hiren Dasani:** Okay, thanks a lot.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Arun Khurana from UTI Mutual Fund. Please go ahead sir.

**Mr. Arun Khurana:** Ma'am, given the fact that some of the bonds which have been issued by ICICI Bank are quoting at some discount in the overseas markets, does it not make sense to the bank to deploy the US$ 2 billion of cash lying in the UK subsidiary to buy off these bonds at yields which are appealing right now and also can you give a sense of the comfortable liquidity position to the investors?

**Ms. Chanda Kochhar:** Indeed actually, this makes a whole lot of profitable investment options to go ahead and buy those bonds, but, there are regulatory restrictions. The subsidiaries cannot really invest in the parent bond. Most of these bonds are issued by the parent company.

**Mr. Arun Khurana:** Okay and ma'am taking it a step further what would prevent the parent from buying out these bonds in the overseas markets ma'am?

**Ms. Chanda Kochhar:** Yeah, but see what will happen is that while we may use some amount of our liquidity there, but given the current market condition, it will settle the spread for a couple of days again. There would be some stray buyer or seller of protection who would go ahead and spoil the market. So, actually, the market currently is so irrational that I am not sure whether this will finally give much liquidity to the market as such

**Mr. Arun Khurana:** Ma'am, this is about your insurance venture. Ma'am, when do you see, the operations breaking even actually at the net level as against the NBAP levels that you normally give out, and secondly, when do you see this company actually getting listed and what would be the bare minimum level of valuation that you would be looking forward to as and when you would like the company to get listed?

**Ms. Chanda Kochhar:** The breakeven depends on the rate of growth, and I think in the current scenario that would be a making forward-looking statement. In terms of listing the company, well, that option exists, but clearly we would want to do it at times when the markets are more rational and more stable and therefore in that context the answer to the third question of minimum level of valuation, in the current market it is difficult to talk about that. So, I think it is just that, at the current market levels, I do not think we will get fair value.

**Mr. Arun Khurana:** Finally, ma'am, what is the proportion of overall business mix that you want to capture through your overseas subsidiaries, as a proportion of your total business of the parent company?

**Ms. Chanda Kochhar:** We don't go by setting a target of what proportion of business should come from what segment. We just look at every segment and see what growth opportunities are there and how to make use of those growth opportunities. The proportion that we get is determined as a consequence. So, we will continue to follow our strategy in our respective segments of business and finally what proportion it comes to, we will know at the end of every period.

**Mr. Arun Khurana:** Ma'am do you have some internal risk management measures which would restrict exposure to a particular region to a certain level of the balance sheet size?

**Ms. Chanda Kochhar:** We have actually very tight risk management processes inlcuding limits geographical exposures that we can take. That includes how much of exposure can be to a particular country, to a particular region, and so on. So, that way the risk measurement and management limits are quite deep and quite well defined.

**Mr. Arun Khurana:** Alright ma'am. Thanks a lot.

**Ms. Chanda Kochhar:** Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Joseph from Barclays. Please go ahead sir.

**Mr. Joseph:** I just have one question on the liquidity position of ICICI UK. By how much has the deposit base changed this quarter in ICICI UK and what proportion of the total funding is wholesale funding?

**Mr. Rakesh Jha:** Total deposits at June 30, 2008 were about US$ 5.1 billion, which is about US$ 4.9 billion as of September 30, 2008. Wholesale borrowings are about US$ 2.5 billion dollars, that includes the the long-term debt that we have raised in the form of bond issuances as well as syndicated loans.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Ambrish from Merrill Lynch.

**Mr. Ambrish:** Hi, good evening. I have a couple of questions on your overseas book. One, is there any ballpark internal target as far as the growth in overseas advances is concerned for the full year 2009 and secondly has ICICI raised any money in the offshore market in the G3 currencies in this particular financial year. If yes, how much would be that number? Thanks a lot.

**Ms. Chanda Kochhar:** We do not get driven by a growth target in the business. As I explained earlier, the strategy that we have worked out now is that we would grow the business on the basis of the money that we are able to raise through our retail deposits. Now, those retail deposits continue to flow at a robust rate both in UK and Canada and that is helping us grow, but we will calibrate our growth rates on the basis of the retail deposit flows. In fact, we have not made any issuance of a bond since the last October.

**Mr. Ambrish:** Would you be in a position to disclose any bilateral borrowings in the G3 markets?

**Ms. Chanda Kochhar:** We won't be able to disclose that, but yes, we have bilateral borrowings both in our subsidiaries and our branches.

**Mr. Ambrish:** Thanks a lot.

**Moderator:** Thank you very much sir. Next, we have Mr. Srikanth from Nomura Securities. Please go ahead sir.

**Mr. Srikanth:** Hi. I have one question on the international business. One is in terms of losses you have taken in the AFS book, which have been taken directly through the reserves but not deducted for the purpose of tier 1. I wanted to know is there any regulatory threshold which says that if the losses stay on the book for x amount of time, then it has to be deducted from tier 1 capital?

**Mr. Rakesh Jha:** No, there is no such timeframe which is there, but it is only the temporary impairment which gets taken through the reserves. So it is essentially the evaluation of the portfolio which is done by the management and confirmed by the auditors and as long as it is a temporary impairment, it is adjusted through the reserves but not deducted from Tier-1.

**Ms. Chanda Kochhar:** So, if by any chance the auditors feel that the impairment is not temporary and becomes of a permanent nature, then we have to take that loss in the P&L.

**Mr. Srikanth:** What is the cumulative AFS loss that is there on the book so far, which has not been deducted from tier-1 capital?

**Mr. Rakesh Jha:** The US$ 42 million is the post tax number for this current half year, and as of March 31, 2008, it was close to about a US$ 100 million post tax.

**Mr. Srikanth:** Okay, so it is cumulative about US$ 140 million?

**Mr. Rakesh Jha:** Yes.

**Mr. Srikanth:** Second thing is on the funding of the UK book. I think in the initial part of the call, it was told that there is a net borrowing of US$ 1.4 billion in the next six months?

**Ms. Chanda Kochhar:** No, that is not for the UK book. That was for the international branches.

**Mr. Srikanth:** Okay, that was for the international branches. So, is it fair to assume that, essentially you will have to raise term for retail deposits of US$ 1.4 billion for the next six months?

**Ms. Chanda Kochhar:** No. Retail deposits will be used to sustain grwoth. We do not have to keep waiting for deposits to fund any of our repayment obligations. In fact, most of our debt that has been raised in the UK book is actually much more long-term, and no substantial repayment is due in the near future, and the deposit flow continues to be strong and we have of course enough liquidity from that deposit flow.

**Mr. Srikanth:** Ma'am, actually, I did not get this point. You said that there is a net borrowing of US$ 1.4 billion. So, either you should raise it through the wholesale or the retail, is that not the right way of looking at it?

**Ms. Chanda Kochhar:** No, let me breakup our international operations into branches, which are part of the parent book and subsidiaries. UK and Canada are subsidiaries. They do not have really any major net repayment coming up in the near future. Their balance sheet is really comprised mainly of the retail deposits, which continue to flow as they are, and that is the source of funding for our growth. We do not need any funds to make any repayments coming up in the near future because no real large repayments are coming up. As far as the branches are concerned, there is a net repayment of about US$ 1.4 billion dollars due up to this end of the financial year, and that is what we will have to raise funds for. But there are enough bilateral lines, CP programs, etc., which we are still seeing getting renewed, and we are quite confident that for the parent, for the entire bank as a whole, US$ 1.4 billion dollars is a small number to manage.

**Mr. Srikanth:** Sure, I mean, there is the consensus that US$ 1.4 billion is obviously a very small number, but just my concern is that, with the CDS spreads at the level that they are, even US$ 1.4 billion is feasible or is there bilateral lines that you will be tapping. How is it done?

**Mr. Rakesh Jha:** See, if you look at the last couple of quarters, we have been doing bilateral loans and syndicated loans. Even towards the end of September, we did a couple of bilateral transactions to raise money, and this requirement is over the next six months. We believe we will be able to raise this money through bilateral or syndicated loans. In addition, we also on a regular basis do sell down our loan portfolio from the overseas branches. So, that is the other option of raising liquidity.

**Mr. Srikanth:** What is the total disbursement in the mortgage segments this quarter including the home finance company?

**Mr. Rakesh Jha:** The total disbursement is about Rs. 43 billion.

**Moderator:** Thank you very much sir. At this moment, I would like to handover the floor back to Ms. Chanda Kochhar for final remarks.

**Ms. Chanda Kochhar:** Okay, I only wanted to say thank you. I think we have spent a lot of time discussing most of the questions. So, thank you and Happy Diwali to all of you.

**Moderator:** Thank you very much ma'am. Ladies and Gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.