ICICI Bank Limited
Q4-2011 Earnings Conference Call, April 28, 2011

Please note that the transcript has been edited for the purpose of clarity and accuracy.

Certain statements in this call are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors. More information about these factors is contained in ICICI Bank's filings with the Securities and Exchange Commission.

All financial and other information in this call, other than financial and other information for specific subsidiaries where specifically mentioned, is on an unconsolidated basis for ICICI Bank Limited only unless specifically stated to be on a consolidated basis for ICICI Bank Limited and its subsidiaries. Please also refer to the statement of unconsolidated, consolidated and segmental results required by Indian regulations that has been filed with the stock exchanges in India where ICICI Bank's equity shares are listed and with the New York Stock Exchange and the US Securities and Exchange Commission, and is available on our website www.icicibank.com.

Note: ICICI Bank received approval for the merger of erstwhile Bank of Rajasthan, which was effective from the close of business of August 12, 2010. The Bank's financials accordingly include the financials of erstwhile Bank of Rajasthan during the quarter.

Moderator: Ladies and gentlemen, Good Day and Welcome to the ICICI Bank Q4-2011 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. N. S. Kannan, Executive Director and CFO, ICICI Bank. Thank you, and over to you sir.

N.S. Kannan: Thank you. Good evening and welcome to the conference call on financial results of ICICI Bank for the quarter-ended March 31, 2011, that is Q4-2011. I have with me Rakesh Jha, Anindya, and rest of my colleagues from the finance and investor relation teams.

I would like to make my opening remarks in four parts as usual. Part one is on the macroeconomic and monetary environment, part two is on performance during the quarter including our performance on our articulated 5C strategy, part three on consolidated results of the Bank, and part four on the outlook for the next year.

I will start with Part 1 on the macroeconomic and monetary environment. Growth momentum in the Indian economy has been sustained so far. India's GDP grew by 8.6% during the first nine months of fiscal 2011 compared to 7.4% in the corresponding period last year. However, compared to the first two quarters when GDP grew by 8.9% each, growth was somewhat slower in the third quarter at 8.2%, due to a slowdown in industrial growth. In the third quarter, industry grew by 5.7% as compared to over 10.0% in the first half of fiscal 2011. The moderation largely reflected a high base effect. Agriculture and services sector growth however continued to remain strong and are expected to drive growth in the fourth quarter. The Central Statistical Organisation has estimated the GDP growth at 8.6% for fiscal 2011. Other indicators suggesting sustained growth momentum include trends in Purchasing Managers' Index, the pick up in merchandise exports, strong credit growth and tax collections.

Inflation remains the key concern for the economy, especially since December 2010 when food prices increased steeply. Food prices have now started abating but have been replaced by rise in fuel and non-food

manufactured products inflation. Core inflation (i.e. manufactured products excluding food) increased to 7.2% in March 2011. With domestic fuel prices yet to fully adjust to international oil price increases, and also pressures rising in non-food manufactured products, we believe risks to inflation are clearly on the upside. Headline inflation as measured by the Wholesale Price Index, or WPI, was at 9.0% in March 2011.

Accordingly, we have seen consistent monetary tightening through the year aimed at controlling inflationary pressures and managing inflation expectations. During Q4-2011, RBI increased the repo rate by 50 basis points from 6.25% to 6.75%, with a similar increase in the reverse repo rate from 5.25% to 5.75%. This takes the overall increase during fiscal 2011 to 175 basis points in the repo rate and 225 basis points in the reverse repo rate. During the year, the RBI also increased the cash reserve ratio by 25 basis points to 6.0% in April 2010.

The statutory liquidity ratio was maintained at 24.0% in response to the deficit in systemic liquidity during the quarter. However, liquidity conditions eased through the quarter on the back of increased government spending with government cash balances with RBI falling to a low level of ₹ 1 billion by mid-March 2011. Interest rates on most of the short-term money market instruments including T-bill yields, inter-bank call money rates, rates on Commercial Papers and rates on Certificate of deposits have showed a decline. In the mid-quarter monetary policy review announced in March 2011, RBI has indicated a comfort level for overall liquidity to move in the range of +/-1% of net demand and time liabilities. Also, the special liquidity measures in terms of additional liquidity support and second LAF facility, which was to end in April 2011, were extended up to May 2011. Going forward, we expect liquidity to continue to remain tight and coming under pressure again around June 2011 due to advance tax payments.

Equity markets remained volatile during the quarter particularly on concerns of rising domestic inflation, accentuated by international events in terms of rising international crude oil prices, the political unrest in the Middle East and North Africa region, and improving US economic conditions. Foreign portfolio investments remained moderate during the quarter with net Foreign Institutional Investment (FII) inflows of USD 2.63 billion, as compared to a total inflow of USD 29.71 billion in the previous three

quarters of the fiscal. In February 2011, there was in fact a net outflow of USD 1.22 billion. The benchmark BSE Sensex ended the quarter lower by 5.2% compared to the December 2010 closing.

Now let me move on to credit growth. The credit growth remained strong during the quarter with a year-on-year non-food credit growth at 21.2% at March 25, 2011, compared to 17.1% growth at March 26, 2010. Based on sector-wise data published by RBI, as of end February 2011, the growth was largely driven by industry and services sectors; however, the deposit growth in the system continued to lag recording a growth of just 15.8% on year-on-year basis at March 25, 2011 as against 17.2% at March 26, 2010. This moderation was due to a decline in demand deposits by 1% at March 25, 2011, compared to a growth of 23.4% at March 26, 2010. Time deposits grew by 18.7% in FY2011 compared to a growth of 16.2% in the previous year. Fiscal 2011 ended with the banking system reporting a credit-to-deposit ratio of 75.68% compared to 72.22% at the end of financial year 2010.

During the quarter, we saw most banks increase their deposit rates in the range of 25-150 basis points for various maturities. Lending rates were also increased by most banks with 65 to 100 basis points increase in base rates during the quarter.

Now let me move on to part two on the performance of the bank during the quarter against each of our 5Cs that is credit growth, CASA, cost control, credit quality, and customer service.

The first C on credit growth: total advances increased sequentially by 4.7% from ₹ 2.07 trillion at December 31, 2010 to ₹ 2.16 trillion at March 31, 2011. This represented a 19.4% growth in advances over March 31, 2010. Excluding the impact of the merger of Bank of Rajasthan, the growth in advances for the year was about 16%. This was driven mainly by about 43% growth in domestic corporate advances and 22% growth in the advances of international branches. The retail portfolio also stabilized and started growing in the second half of the year after several quarters of decline. In the fourth quarter specifically, the loan book increased by about ₹ 97 bn, driven primarily by growth in the retail and rural & agri portfolios (including corporate lending and buyouts for building up priority sector lending) as well as in the loan portfolio of international branches. The

growth in these portfolios was partly offset by repayments of short term corporate loans. During the quarter, the Bank was able to deploy substantially all of the USD 1 bn raised through a senior bond issuance in November 2011. While this has reflected in a strong 22.1% growth in advances at international branches on a year on year basis, the overall international advances (including our overseas subsidiaries in UK and Canada) grew at a relatively moderate pace of about 11%.

Now let me move on to the second C, which is CASA mobilisation. The Bank's CASA ratio at March 31, 2011 was 45.1%, which is a sustained upward trend quarter-on-quarter since March 2009, when it was 28.7%. More importantly, the average CASA during the year was higher at 39.1% compared to 32.5% in FY2010. This was achieved in the backdrop of declining demand deposits in the system. Our savings deposits have grown by ₹ 136.51 billion or 26% during the year. We would continue to leverage our expanded branch network to significantly increase our savings and retail term deposit base, with the objective of maintaining average CASA ratio of at least 40% even as we continue to grow our balance sheet and deposit base.

Now let me elaborate on the progress on the third C, which is cost optimisation. Operating expenses increased sequentially primarily due to increase in employee cost which saw an increase during the quarter due to provision for bonus and increase in the number of employees. For FY2011, the increase in operating expenses was 14% of which about 5% was due to the cost base of e-BoR for the period August 13, 2010 – March 31, 2011. For FY2011, the cost-to-asset ratio was 1.7% and the cost-to-income ratio was at 42%.

Now let me move on to the fourth C, which is credit quality. We are happy to report that in this quarter also there was no net addition to gross NPAs. Net NPA ratio at March 31, 2011 was 0.94% compared to 1.87% at March 31, 2010 and 1.16% at December 31, 2010. The provision cover ratio was 76.0% at March 31, 2011. At this point, I would like to add that the recent RBI guideline on provision coverage ratio would not impact us in the immediate term, as there was no catch-up provisioning/provisioning buffer that we had created towards reaching the stipulated provision coverage ratio. In line with our expectations, we have seen progressive decline in

credit costs this quarter to ₹ 3.84 bn. The annualised credit cost has declined from 1.77% of average advances in Q1-2011 to about 1% in Q3-2011 and 0.73% in Q4-2011. On a full year basis, the credit cost was ₹ 22.87 bn, representing 1.2% of average advances. The unsecured retail loan portfolio at March 31, 2011 had further declined to 2.4% of total advances compared to 3% at December 31, 2010.

The improvement in credit quality was reflected even in the decline in restructured assets, which came down from ₹ 25.52 bn at December 31, 2010 to ₹ 19.70 bn at March 31, 2011 driven by repayments and upgradations. We continue to proactively monitor all portfolios and take action where required. As you know there have been developments relating to the MFI sector during the year. We have scaled down our portfolio in this segment from about ₹ 32 bn at the beginning of the year to about ₹ 12.60 bn at March 31, 2011. This includes portfolio buyouts of about ₹ 3.10 bn. A part of the overall exposure is likely to be restructured within the extended period of restructuring up to June 2011 as permitted by RBI.

Let me move on to the fifth C, which is customer service. The Bank continued to execute and implement the overall strategy of "Khayaal Aapka" to deliver a superior transaction and relationship experience for its customers. To facilitate ease of transaction, the Bank increased the number of access points for the customers as also enhanced the capabilities of the various channels, including value-added services through ATM, Money Manager on the internet, cash withdrawal at point of sale terminals etc. The Bank rolled out various measures to improve turn-around-time and quality of service delivery. Further, a new branch model and service architecture was implemented for delivering a differentiated and high-quality customer experience for the wealth and privilege banking customers. The Bank strengthened the customer feedback mechanism through the launch of its SMS "Happy or unhappy" campaign. The Bank would continue on this journey of keeping the customers at the centre of our business and through innovation and service, uphold the customer-centric aspect of our brand.

Having talked about the progress on 5Cs, let me now move on to the key financial performance highlights for the quarter. These are part of the presentation already e-mailed to you all.

Net interest income increased 23.3% year-on-year to ₹ 25.10 bn and net interest margin improved from 2.6% to 2.7%. This includes interest on income tax refund about ₹ 0.25 bn in both Q4-2010 and Q4-2011. On a sequential quarter basis, net interest income increased 8.6% and the net interest margin improved to 2.7%. The NIM on domestic business was 3.1% during the quarter while international NIM was stable at 0.85%. I would like to put the international NIM in perspective. The international NIM remained stable despite the impact of excess liquidity carried out of the USD 1 bn bond issue done in November till its full deployment in Q4-2011.

While the systemic increase in interest rates was reflected in higher deposit rates across banks, the impact of this was cushioned by the increase in the base rate and other benchmark rates for lending, as well as higher yield on the SLR portfolio on account of resetting of interest rates on floating rate bonds at higher levels. Given the sharp increase in deposit rates, there was some breakage of deposits to re-price upwards. The breakage of deposits resulted in lower effective cost of deposits for the quarter. Normalising for this, the NIM would have shown a lower growth over Q3-2011.

Fee income grew by 17.7% year on year to ₹ 17.91 billion in Q4-2011. This, as in the last quarter, was driven by higher activity in corporate and international banking. On a full-year basis, the fee income growth at 13.6% to ₹ 64.19 bn also reflected this trend. The relatively strong growth in corporate and international banking fees was partly offset by a decline in retail fees especially as fees from credit card and third party distribution declined. Retail fees now represent ~45% of fees compared to about 55% last year.

During the quarter, the Bank had a net negative treasury income of ₹ 1.96 bn mainly due to mark-to market impact on the security receipts portfolio and losses on the equity/MF positions held by the Bank, partly offset by some gains on the fixed income/g-sec portfolio. For the year, the net negative treasury income was ₹ 2.16 bn compared to gain of ₹ 11.81 bn in FY2010. I would also like to mention that MTM of security reciepts commences post 12 months after the sale and we have not undertaken any fresh sale of NPAs in the last few quarters; hence the negative impact of mark to market on security receipts on the treasury income would be substantially absorbed by FY2012, based on the current trends in collection performance.

I have already discussed the trends in operating costs and provisions during the quarter and on a full-year basis while describing the progress against the 5Cs.

During our last quarter's call, we had mentioned that we have provided for tax based on our estimate of tax rate for the full year at ~23.5%. This factored in the benefit of provisions made in Bank of Rajasthan's accounts prior to merger with ICICI Bank for employee benefits that got funded post-merger. Subsequently, the Finance Act, 2011 has reduced the corporate tax surcharge from 7.5% to 5%. This has resulted in increase in tax rate for the year to 23.8% due to adverse impact on deferred tax asset. Accordingly, the Bank was required to make tax provision at a higher rate (24.4%) during the quarter.

Based on the above, profit after tax for the quarter was ₹ 14.52 bn, which represents a year-on-year increase of 44.4%. For FY2011, the net profit after tax was ₹ 51.51 bn, representing a 28% increase over FY2010. At this level, the RoA is 1.34% compared to 1.13% in the previous year.

The Board has recommended a dividend of ₹ 14 per equity share, equivalent to 63 cents per ADS. The declaration and payment of dividend is subject to requisite approvals. The record/book closure dates will be announced in due course.

The return on equity for the year was 9.6% compared to 7.9% last year.

Now, let me move on to part three, which is on consolidated results. Before I talk about consolidated numbers, I would like to highlight one significant development during the quarter. The development pertains to our general insurance subsidiary – ICICI Lombard General Insurance Company (ICICI General). The Insurance Regulatory and Development Authority (IRDA) vide an order dated March 12, 2011, instructed general insurance companies to provide for losses towards Indian Motor Third Party Insurance Pool at a higher provisional loss ratio of 153% (for each of the four years from FY2008 to FY2011) in the financial results for FY2011. Just by way of a background, this Pool is a multilateral reinsurance arrangement, covering third party risks of commercial vehicles. This arrangement has been in place since April 2007, and based on earlier loss estimates, the pool had provided for losses in the range of 122-127% earlier. The requirement of providing for

losses at 153% meant an impact of about ₹ 27.00 bn for the industry. Since the pool losses are allocated to members on the basis of their overall market share, ICICI General provided for additional pool losses of ₹ 2.72 bn during the quarter. On the positive side, IRDA has recently also allowed increase in premiums for motor third party liability business by 68.5% with effect from April 25, 2011. The increase in administered premium on this business should help cushion some of the impact from higher loss provisions going forward.

Due to this development, the solvency position of the general insurance companies has also been impacted. IRDA has allowed general insurance companies to meet the 150% solvency norm over a four year period, with the minimum for FY2011 being set at 130%. We have infused ₹ 2.52 billion which is our share of a total of ₹ 3.40 billion, the balance having been infused by the JV partner in ICICI General in Q4-2011, taking its solvency ratio to above 150%. ICICI Lombard General Insurance (ICICI General) achieved a gross written premium growth of 28% in FY2011 compared to FY2010, maintaining its position as the largest private sector player in general insurance. During FY2011, ICICI General had a net loss of ₹ 0.81 bn, compared to a profit of ₹ 1.44 bn in FY2010. The loss was on account of the impact of additional provisions towards third party motor pool explained earlier.

Further, as far as the financials for the life insurance business is concerned, we mentioned last quarter that based on IRDA's circular dated December 27, 2010, we had recognised surplus in non participating policy holders' funds for the nine months ended December 31, 2010 in Q3-2011. Upto last year, the entire surplus was recognised only in the fourth quarter. On a full-year basis, the quarter-on-quarter variations are neutralised, and hence, I will talk about the consolidated numbers on a full year basis which would be a more appropriate representation.

The accounting profit of the life insurance subsidiary ICICI Prudential Life, increased from ₹ 2.58 bn in FY2010 to ₹ 8.08 bn in FY2011. During the year, new business profit was ₹ 7.13 bn (compared to ₹ 10.15 bn in FY2010) and the new business profit margin was 17.9%. ICICI Life maintained its leadership position among private players both on a retail weighted

premium (7.3% market share) and retail received premium basis (6.2% market share) for FY2011.

The Bank's subsidiaries in UK and Canada continued to face challenges in scaling up business on account of the expectation of local regulators that their business would be substantially in the local market. Consequently, the business volumes were scaled down which impacted revenues and profits. This was partly offset by increase in NIM on the existing portfolio and optimization of operating expenses. ICICI Bank UK's profit after tax for FY2011 was USD 36.6 million, compared to USD 37.0 million in FY2010. ICICI Bank Canada's profit after tax for FY2011 was CAD 32.4 million compared to CAD 35.4 million in FY2010. The loan book of ICICI Bank UK declined from USD 4.0 bn at March 31, 2010 to USD 3.6 bn at March 31, 2011. The loan book of ICICI Bank Canada declined from CAD 3.1 bn at March 31, 2010 to about CAD 3.0 bn at March 31, 2011.

As a result of the above, the consolidated profit after tax of the Bank for FY-2011 was ₹ 60.93 bn, representing a consolidated RoE of 11.6% for the period. The consolidated profit was higher by 30.5% on a year-on-year basis, despite the negative impact of the additional motor pool loss described earlier, as well as the impact of financial market performance and activity on the profits of the Bank's securities, primary dealership and asset management subsidiaries. This was driven primarily by improved financial results of the Bank's life insurance subsidiary.

Now let me move on to part four, which is outlook for the next year. We expect overall loan growth of about 20%, with domestic corporate and international branches (which lend primarily to Indian companies) growing at around 20%; retail loan growth accelerating significantly to over 15%; and higher rates of growth in the SME portfolio (off a small base) and the rural & agri portfolio (to meet priority sector lending requirements). This outlook is based on systemic loan growth of around 20%. We do not expect to see loan growth in our international subsidiaries.

Total deposits are projected to grow at about 20% for FY2012, with a target to maintain average CASA ratio at above 40%

We expect NIM for FY2012 to be at the same level as FY2011. All banks are likely to face margin pressure in the next couple of quarters given the sharp

rise in deposit rates in the second half of FY2011. For us, traditionally, the June quarter tends to have lower level of margin on account of lower-yielding agri-loans made in the March quarter. Further into the year, as margins for overseas business expand gradually (85 bps to 125 bps over 5-6 quarters) and domestic loan yields fully reflect the higher rates, margins are expected to improve. There would however be some headwinds from increased RIDF investments and systemic pressures on CASA growth.

Fee growth in FY2012 and FY2013 is expected to be broadly in line with asset growth. The fee to income ratio is expected to be in the region of 40%. We expect that corporate fees (including international) will continue to show momentum and retail fees will also grow from current levels, with the impact of negative factors already present in the current run rate.

Operating expenses are expected to grow in line with asset and revenue growth. The cost increase in FY2012 would be mainly due to increase in employee base, full year cost base of BoR and additional expense on rural business/ financial inclusion. We would be working to keep the cost to income within 40-42%. The cost to asset ratio should be at the 1.7%-1.8% level.

With respect to loan loss provisions, the declining trend is expected to continue as losses in the retail unsecured book are already taken and no near-term challenges are seen in the corporate portfolio. The excess general provisions that we hold currently should also be adequate for growth projected for FY2012 and FY2013 based on the current RBI guidelines. Provisions should be within the normalised level of 0.80% - 1.0% of advances. The tax rate should move up to a more normalized level of about 27%.

RoA improved in FY2011 from 1.13% to 1.34% mainly due to lower provisions, partly offset by lower treasury income. The Q4-2011 RoA was at 1.44%. We continue with our target of reaching consolidated RoE of about 15% in three years that we had articulated in Q1-2010.

The above outlook is based on a systemic outlook of over 8% GDP growth, about 20% credit growth, systemic liquidity between +/- 1% of NDTL and gradual containing of inflation, though we expect inflation to remain above RBI’s comfort zone of 5% during the year.

This concludes the summary of our performance and outlook. We would continue to execute our strategy of profitable growth with a view to improve return on equity for the shareholders.

With this, Rakesh, Anindya, our team and I would be happy to take your questions. Thank you very much.

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: I wanted to understand what was the amount of deposit breakage and what are the benefits both in terms of absolute amount and the impact on margins?

Rakesh Jha: In terms of the impact for the quarter, our margins would have been 6 to 7 basis points lower than the margin that we have reported for the quarter after adjusting for the benefit on the breakage of deposits.

Amit Premchandani: And what will be the amount of deposits that could have been broken?

Rakesh Jha: We do not disclose that separately.

Amit Premchandani: What would be the difference in cost of deposits going forward because of this? Was the difference so huge that people were shifting deposits from the lower rates to higher rates?

Rakesh Jha: The difference, which is there across all banks is that the deposits that were raised last year would have been in the region of about 7% or so, and currently, in the March quarter, the deposit rates were upwards of 9.5% to 10%. This is something which all banks would have taken.

Amit Premchandani: But none of the other banks have actually reported that they have benefited out of this in terms of cost of deposits going down for the quarter?

N. S. Kannan: Usually every bank would have an impact. During times of sharp deposit increase, like we have seen, the banking system has normally experienced this kind of a breakage and depositors moving to the new rate regime. This is a normal phenomenon we see in this type of interest rate regime.

Amit Premchandani: Do you expect this to continue over FY2012?

Anindya: As we explained, with this benefit our margins went up from 2.6% to 2.7%. Otherwise they would have been marginally lower on a steady state basis. This is the normal feature of periods when there are very sharp increases in term deposit rates and in the absence of such an environment in the coming months, it should not happen.

N. S. Kannan: This is largely a one-time phenomenon. As I had articulated earlier, we do have the corresponding mitigants in our P&L in terms of the international margins expanding over the next year from about 85 basis points currently. At our overseas branches, the loan book growth has been higher than we had anticipated because of the cost differential between foreign currency and rupee loans. Incrementally as we have articulated earlier, these loans are coming at spreads of 1.5% to 2.0% which should push up the international book margin. So while there may not be any benefits on the cost of deposits side, we will have that mitigant coming in place. We are happy to be looking at a broadly stable margin in FY2012.

Amit Premchandani: And do you expect first quarter margins to go down because of priority sector lending impact, as is usually the case?

N. S. Kannan: It will happen, but again the mitigant this time around for the system was that no bank could lend below the base rate. Prior to the base rate regime, the fourth quarter deals in priority sector used to happen at very low rates and that has been partly mitigated this time because banks can not lend below their base rates. So the kind of drop in margins that you may see in the first quarter would be somewhat lesser than what we have seen in the past.

Amit Premchandani: And what were the terms of investment in RIDF bonds?

N. S. Kannan: It was ₹ 150.80 billion at March 2011 and ₹ 143.92 billion at December 2010.

Amit Premchandani: Thanks a lot.

Moderator: Thank you. The next question is from Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: I had a few questions. The quarterly interest income on advances had gone up very significantly on a sequential basis. The loan growth is at 10% Q-on-Q. So was there some repricing of advances with the benefit of interest rate going up?

Rakesh Jha: We have increased the base rate and the equivalent PLR and FRR and that benefit has come in during the current quarter. What is still remaining is a part of our mortgage portfolio that re-prices on a quarterly basis. That is something that would happen from 1st of April. Other than that, the rest of the portfolio has seen the benefit of the increases that we have done on the base rate and the PLR.

Anand Laddha: For the current quarter how much has the base rate and PLR gone up by? What is our current base rate?

Rakesh Jha: The base rate and PLR have gone up by 100 basis points. The current base rate is 8.75%.

Anand Laddha: Secondly, can you explain the breakup of the treasury income? What has been the total provision for FY2011 for mark-to-market on security receipts and what has been the mark-to-market loss on the G-Sec portfolio?

Rakesh Jha: For the year, the impact of security receipts has been about ₹ 2.3 billion. Out of it, slightly more than ₹ 1 billion was in the fourth quarter. That is the main reason for the loss on the treasury income. In the fourth quarter, we also had some mark-to-market losses on the equity portfolio. From a full year perspective, there would have been some mark-to-market losses on the AFS portfolios because during March 2010 to March 2011 the yields on government securities have increased.

Anand Laddha: Can I get the breakup of the NPA provision and whether there were some provisions for standard assets?

Rakesh Jha: There was no provision for standard assets. We already hold in excess standard asset provisioning of close to about ₹ 4.00 billion.

Anand Laddha: Thanks.

Moderator: Thank you. The next question is from Praful Kumar from Principal Mutual Fund. Please go ahead.

Praful Kumar: Sir, I have a question on the current liquidity. As you said you do not think inflation will be in RBI's comfort zone. How do you see the wholesale rates for say the next 6-9 months? What is your outlook for the margins for the full year?

Rakesh Jha: On the outlook for the margin, as Kannan mentioned, we are looking at at least maintaining the margin for FY2012 at the same level as FY2011.

Praful Kumar: I just wanted to understand how it will work. The cost of deposits is expected to impact you and most of the loan repricing except the home loans has already happened. So how do you see it panning out for the full year? Do you not see any impact on loan demand?

Rakesh Jha: On the deposit side, the cost of deposits will continue to increase on a quarter-on-quarter basis. On the lending side, some corporate loans that we give have an annual reset. So that will still get reset going forward. Only the mortgage portfolio gets reset on a quarterly basis. There will still be some increase on the yield on advances. On the investments side, we currently carry a shorter duration on our government securities portfolio. So there will be some increase on the yields there as well. Also, if you look at FY2011, in the initial part of the year, we indeed carried excess liquidity. That is not going to be the scenario in FY2012. All these factors put together and assuming that deposit rates do not increase sharply from the current levels, we would expect to maintain margins. Also, as we had mentioned, on the overseas book, there would be some expansion in the margin. So that will also provide some benefit on the overall margins for us.

Praful Kumar: But on a system basis, do you think passing on cost from here on would be easy without affecting asset quality?

Rakesh Jha: We do not expect any impact on credit quality because of increasing lending rates from the current level. From a demand point of view, if the rates go up by 100 basis points from the current level, there would be some impact on the demand, but we do not see any issues from a credit quality point of view.

Praful Kumar: Ok. How many branches have you added this quarter and what is the outlook on the branch addition for next year?

N. S. Kannan: This quarter, we would not have added a significant number. What we have said is that by 2015 we would want to be at about 4,000 branches. We are currently at about 2,500 and over a four-year period that implies an addition of 400 odd branches. For FY2012, most of this addition will be towards the later part of the year.

Praful Kumar: Thank you.

Moderator: Thank you. The next question is from Mahrukh Adjania from Standard Chartered. Please go ahead.

Mahrukh Adajania: What is your outlook on the CD ratio for the next few quarters?

Rakesh Jha: If you split our balance sheet into domestic and international, the domestic balance sheet has a CD ratio of about 75% and we expect it to remain at these levels. The balance sheet as a whole shows a higher CD ratio because our international branches are primarily funded through borrowings and bonds.

Mahrukh Adajania: And in terms of the international subsidiaries, you would see consolidation going ahead for some more time. Is that fair to assume?

Rakesh Jha: That is correct.

Mahrukh Adajania: One last question on life insurance. While the fourth quarter is seasonally strong, one has still not seen any major pressures after the new rules have been implemented. So what is the outlook on premium growth going ahead for FY2012?

N. S. Kannan: Premium growth has clearly been impacted post the new guidelines particularly in the third quarter and there has also been a shift for most players in the mix of new business from regular premium ULIPs to single premium and to some extent towards endowment. We expect the next year's business mix to be more balanced. Overall, there would be flat to relatively low growth in the life insurance sector next year. The first half of the year will show a decline because the first half of last year was very strong particularly in the period up to August when the product had scarcity value, but the second half should show reasonable growth given the base

effect. So for the year as a whole, single digit growth is what we are expecting.

Mahrukh Adajania: Thanks a lot.

Moderator: Thank you. The next question is from Suresh Ganapathy from Macquarie Capital. Please go ahead.

Suresh Ganapathy: Just few quick questions. On the breaking up of deposits, are the penalty charges included in the interest income or you take it as a part of fees?

Rakesh Jha: It is not a penalty, Suresh. If someone had placed a one-year deposit and now wants to avail of a higher interest rate at the end of seven months, then when the deposit is broken and renewed, then on the deposit that is getting extinguished, he would be paid the interest rate as if he had contracted a 7-month deposits. This rate will be lower.

Suresh Ganapathy: OK. How much has been your cost of deposits increase on a Q-o-Q basis and the same for cost of funds?

Anindya Banerjee About 20 basis points increase in the cost of funds and 30 basis points in the cost of deposits.

Suresh Ganapathy: Regarding your international subsidiaries, you are not growing that business and all of them are operating at very high levels of capital adequacy. So how are you planning to use that capital?

N. S. Kannan: This problem is relatively more in our Canadian subsidiary where we have about US$ 1.0 billion of capital currently. We are looking at how to reorganise that, but it would be over a 2-to-3- year timeframe. Our view is that by the time the parent bank comes around to requiring capital, we should have a solution to this. We will not be earning any good ROEs in those subsidiaries, but it is not that we will have excess capital sitting somewhere and we will be constrained on account of capital somewhere else. Currently, even the parent bank is not constrained on capital.

Suresh Ganapathy: Fine, but are there any plans to increase the payout? I think the payout is restricted at 35% and you cannot pay more than 35% dividend payout.

N. S. Kannan: That is correct.

Suresh Ganapathy: What will be the dividend payout for this year?

N. S. Kannan: Including the distribution tax, it will be around that level.

Suresh Ganapathy: Fine, thank you so much, Kannan.

Moderator: Thank you. The next question is from Abhishek Kothari from Way2Wealth Securities. Please go ahead.

Abhishek Kothari: Could you give me a breakup of your investments along with the duration?

Rakesh Jha: On our government securities portfolio, the duration is about 3.2 years, and out of that about 75% to 80% is in the HTM category.

Abhishek Kothari: And what would be the duration of your AFS?

Rakesh Jha: AFS would be slightly above one year.

Abhishek Kothari: Thank you.

Moderator: Thank you. The next question is from Nilanjan Karfa from BRICS Securities. Please go ahead.

Nilanjan Karfa: I had a question on deposit growth. The growth was just 11% and depending on how you want to grow, do you think that this rate is slightly low? Secondly did we see any pressure on the current account deposits this time because of tight liquidity?

N. S. Kannan: On the deposit side, 11% growth itself looks a bit muted because we did not renew the bulk deposits. We are calibrating this based on the asset growth opportunity. The deposits from our retail banking group was about 65% of total deposits. We are looking to calibrate our asset growth based on what retail liabilities can be raised. If you look at the savings deposit, the growth momentum has been sustained. The savings deposits have gone up by about 25% during the year. Current account deposits, during quarter ends become slightly volatile, but on an average basis, we have seen current account deposits increasing and there have not been any significant issues because of the liquidity conditions.

Nilanjan Karfa: You also talked about 6-7 basis points gained because of breakage in term deposits, which would add up to your costs in the coming quarters. I wanted to understand how much percentage of the retail term deposits were actually broken

N. S. Kannan: We will not be able to give that breakup. What we said is that we had anticipated some pressure on margins in the fourth quarter which did not happen and the margins have actually improved. This was partly due to term deposits breakage. Going forward, what we have said is that while the cost of deposits in FY2012 will clearly be higher on the back of rate hikes that have happened, the repricing of domestic loans, higher interest rate from new loans and the improvement in margins on the international book should enable us to at least maintain margins at the 2.6%-2.7% level.

Nilanjan Karfa: Ok. Is your provisioning strategy going to change going ahead because of RBI's recent guidelines on PCR?

N. S. Kannan: No, we would continue with our own provisioning policy on individual asset categorisation i.e., whether it is a standard or doubtful or loss asset. In retail we have a provisioning policy, which is a bit more conservative than the RBI guidelines and we will continue with. The RBI guidelines gives banks a leeway in case a large asset becomes an NPA, in which case there would not be any need to bring the provision up to 70% within a quarter. Banks can follow the normal IRAC norms.

Nilanjan Karfa: Could you explain the point on investments and rates on the bond portfolio?

N. S. Kannan: We have a government securities portfolio, which partly comprises floating rate bonds that have resettable rates. So with the interest rate going up in the system, the coupon on these bonds gets readjusted. This has partly helped our yield on investments during the quarter.

Nilanjan Karfa: Thanks.

Moderator: Thank you. The next question is from Yogesh Tiwari from Greshma Shares. Please go ahead.

Yogesh Tiwari: Sir, my question is on ICICI Life. If I look at the new business premium, it has increased 24%, but if I look at the individual non-single premium, it has

degrown by 34% and there has been a substantial increase in group non-single premium. What are the reasons for change in business mix from individual non-single premium to others like group single and group non-single and individual single?

N. S. Kannan: The strategic issue here was that as the industry was adjusting to the new IRDA regime, the products had to be repriced to be in compliance with IRDA's new guidelines. So as this process was happening, what the company thought was that a good transition strategy could be selling of single premium especially through channels like ICICI Bank. This is primarily because it is easier to understand these products and as the agents get re-trained in the regular premium products, it is easier to manage the transitions phase through single premium products. Now that the sales teams have been trained in the new products, from April 1 onwards, the strategy has been to shift back to a larger proportion of regular premium. We do see this number reverting in the medium-term to what it used to be before such a strategy happened. This was more like a transition management strategy rather than a long-term direction for the company.

Yogesh Tiwari: This would not be repeated going forward?

Anindya: As we mentioned, over the next year, we expect a much more balanced business mix.

Yogesh Tiwari: And one more thing regarding group non-single premium. This has been substantial in March 2011. Is it recurring?

Anindya: Actually, ICICI Prudential Life Insurance has historically not focused at all in the group business and we have a very small market share and small base in that business. So in a way we are only partially correcting that by getting in a little more of group business. Our primary focus continues to be on the individual or retail business.

N. S. Kannan: And the group business should be really viewed as a fund management business.

Yogesh Tiwari: So it might be recurring?

Anindya: Yes.

Yogesh Tiwari: And what would be the new business profit for the full year?

N. S. Kannan: New business profit for the full year was ₹ 7.1 billion.

Yogesh Tiwari: Can you throw some light on the persistency ratio and surrenders of ICICI Life?

Rakesh Jha: The 13th month persistency is about 76%.

Yogesh Tiwari: Anything on surrenders?

Anindya: The surrender performance has improved substantially during the year and various strategies have been implemented including specific targets to the field force for retention of customers. That seems to be working.

Yogesh Tiwari: So you are seeing more of customer retention?

N. S. Kannan: Primarily, the company had to work on the distribution to make sure that the company sales employees as well as the agents had sufficient incentives not to be churning the surrenderable policies, but to leave them with the company and source new policies and new customers.

Yogesh Tiwari: My last question is on ICICI General. The company has reported a loss of ₹ 0.80 billion for the full year after providing for ₹ 2.72 billion of motor pool provision. If I take out the ₹ 2.72 billion one-off, then the profit for full year is ₹ 1.92 billion. If I look at the 9 months results, the profit for ICICI General was around ₹ 2.10 billion. So have there been any other losses in Q4?

Rakesh Jha: The claims for ICICI General were a bit higher in Q4. From a general insurance company point of view, on a quarter-on-quarter basis, claims can be volatile. So this was more of a specific quarter phenomenon, but on an annual basis, the company would have been profitable after adjusting for the motor pool impact.

Yogesh Tiwari: Ok. But the Q4 loss excluding the motor pool impact would be about ₹ 18 crores?

N. S. Kannan: That is really on a pro forma basis which is very difficult to compute or disclose. It is not really appropriate to exactly look at it in that manner. We have not disclosed or published what could have been the profit for the

year had the motor pool not happened because it would not be appropriate to do so. If one has to consider such impacts, there would be other adjustments as well related to taxation and so on, which would probably result in a higher profit number than ₹ 192 crores for the year. We cannot really get into that because those are pro forma and un-auditable numbers.

Yogesh Tiwari: Fair enough, thank you sir.

Moderator: Thank you. The next question is from Manish Karwa from Kotak Securities. Please go ahead.

Manish Karwa: What were the domestic and international margins this year?

N. S. Kannan: Domestic margin for the year was 3% and the international margin was 85 basis points.

Manish Karwa: And is there a number for the fourth quarter?

N. S. Kannan: International margin for Q4 was about 86 basis points and the domestic margin was 3.1%.

Manish Karwa: And it is a fair conclusion to make that next year international margins should go up?

N. S. Kannan: That is correct.

Manish Karwa: Can we share the movement of NPL numbers?

Rakesh Jha: For the fourth quarter, as Kannan mentioned, on a net addition basis, the number was close to zero. We did write-offs of about ₹ 600 million in the quarter.

Manish Karwa: And lastly, as a part of your total term deposits, what is the wholesale deposit component?

N. S. Kannan: As I mentioned earlier, the retail banking group accounted for 65% of the total deposits. The balance is wholesale.

Manish Karwa: And what part of your term deposits would be wholesale?

N. S. Kannan: About 60% would be wholesale.

Manish Karwa: Ok.

Moderator: Thank you. The next question is from Ganeshram Jayaraman from Spark Capital. Please go ahead.

Ganeshram Jayaraman: Could you tell me what proportion of your deposits and borrowings get repriced in FY2012?

Rakesh Jha: On the deposit side, about 75% would get repriced because the average maturity is about slightly above one year or so. On the borrowings side, all the capital eligible borrowings are fixed rate and of longer term. None of that will get repriced. The rest of the borrowings will mostly again be short-term borrowings with one year maturity. All of that will reprice.

Ganeshram Jayaraman: What about advances?

Rakesh Jha: We have about 57% floating rate advances which will reprice. Of the fixed rate which is the balance, about one-third will come for maturity during the year.

Ganeshram Jayaraman: My second question is on MFI restructuring. Have you got clarity on whether it includes the buyout portfolio also?

Rakesh Jha: No restructuring has happened yet. It is going to happen through the CDR forum and banks have time till beginning of June to complete this. So as of now, restructuring has not yet happened.

Ganeshram Jayaraman: So do you have any clarity on whether the buyout portfolio is a part of the restructuring allowed?

N. S. Kannan: There is no further clarity

Ganeshram Jayaraman: Thank you.

Moderator: Thank you. The next question is from Yi Hu from HSBC. Please go ahead.

Yi Hu: We have noticed that in its overseas funding book, the bank has a significant amount of redemption requirement in 2012. So what is the funding strategy and are there any plans to issue overseas bonds?

N. S. Kannan: We would be issuing overseas bonds, but that our overall funding strategy takes into account issuance of overseas bonds in more than one currency as well as bilateral borrowings, borrowings from banks through the syndicated loan market, borrowings from export credit agencies and deposit raising. The exact amount of bond issuance would really depend on the market conditions as well as the kind of loan demand we will have for such foreign currency loans. During FY12, our bond raising program would depend largely on asset side demand rather than being dictated by our own liabilities maturing.

Rakesh Jha: Further, along with the maturing liabilities, we also have asset repayments of about US$ 2 billion. So in that sense, as Kannan said, the growth opportunity is going to drive the funding.

Yi Hu: Thank you.

Moderator: Thank you. The next question is from Tabassum Inamdar from Goldman Sachs. Please go ahead.

Tabassum Inamdar: On margins, I wanted to check if you are considering any kind of savings deregulation and if it does come through, what is the kind of impact it could have on the margin for the company?

Anindya: Tabassum, the discussion, paper was issued this morning and so our budgeting and planning has not taken into account the impact of savings rate deregulation. I am assuming that apart from some period of transition, the impact will get passed on in the form of higher lending rates. Our endeavor would continue to maintain the margins in FY2012 and then increase it from there.

Tabassum Inamdar: My second question is on general insurance. Just to clarify I think you mentioned about some capital infusion that was done given the impact from the motor pool. Would you need more investments in the company going forward?

N. S. Kannan: As I said, IRDA has also announced a tariff increase effective April 25, 2011. The increase is about 68.5% and broadly that would lead to a breakeven situation at around the current level of motor pool loss. From then on, we will have to wait for the actuarial study which IRDA is conducting to

determine the motor pool losses. At the same time, there will be accruals also happening through the year and IRDA has also given the dispensation to reach 150% solvency over a 2-year period. We are at about 155% solvency just now and the absolute minimum for next year, as stipulated by IRDA is 137%. So even assuming that the final loss ratio in the motor pool is higher, it is really up to us on whether we want to continue to be above 150% or allow the solvency to dip below that level. This we will decide as things become clearer by sometime in July. But even if additional capital infusion is required we do not believe that it is going to be material in the overall scheme of things.

Tabassum Inamdar: On life insurance, what is the fourth quarter margin?

Rakesh Jha: 15.3%.

Tabassum Inamdar: And would we be expecting this to come down further because this was over 17% in the third quarter?

N. S. Kannan: We would in fact try to get it higher than this.

Tabassum Inamdar: Thank you.

Moderator: Thank you. The next question is from Ray Heung from BNP Paribas. Please go ahead.

Ray Heung: When you are giving out the loan growth target which is about 20% this year, are you expecting the same kind of growth in deposits? If not then how are you going to fund for your asset growth this year?

N. S. Kannan: We are expecting the same kind of growth rate in deposits also and we believe that we will be able to drive that because we now have over 2,500 branches and bulk of the branches are being put in place in the last couple of years. So at these branches, we believe that we can improve their productivity and that is the biggest lever available to us to get a 20% growth in deposits.

Ray Heung: Thank you. On the overseas book, do you have any chunky liability that is going to mature next year? I understand that you mentioned about the funding strategy would depend on how your asset growth is going to be

like in 2012, but can you tell us if your maturing assets are going to be enough to pay off the liability for 2012?

Rakesh Jha: The asset repayments will be adequate to pay off with the maturing bond liabilities.

Ray Heung: Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraints, we will take one last question from Jatinder Agarwal from RBS. Please go ahead.

Jatinder Agarwal: Sir, can you give a broad understanding of your power sector exposure. What was it last year and how does it stand as of date? Secondly, what are your thoughts on the sector exposure?

Rakesh Jha: Our exposure was ₹ 56.5 billion last year and ₹ 98.1 billion this year.

Jatinder Agarwal: And what are your thoughts on the sector?

N. S. Kannan: We choose our projects carefully and our rejection rate is fairly high. We look for very good amount of coal linkages and fairly large proportions being covered by power purchase agreement as key criteria. We also clearly look at projects being promoted by promoters with proper background and experience in implementing such large projects. The bulk of the projects go to the Board Credit Committee and the Credit Committee's due diligence is very high for each of these projects. We also assume lower coal linkages and the merchant power tariffs than market assumptions to assess project viability. Overall, we will be very careful in financing these projects and will watch the developments very closely.

Jatinder Agarwal: And are these exposures mostly SEBs or mostly private projects?

N. S. Kannan: These are all private projects.

Jatinder Agarwal: Thank you sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. N. S. Kannan for closing comments.

N. S. Kannan: Thank you once again for joining the call. If there are any residual questions, we are happy to take them offline. Thanks, again. Good night.

Moderator: Thank you. On behalf of ICICI Bank Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.