ICICI Bank Limited
Earnings Conference Call – Quarter ended March 31, 2012 (Q4-2012)

April 27, 2012

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Moderator: Ladies and gentlemen, good day and welcome to the ICICI Bank Q4 FY '12 Results 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. If you should need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. N. S. Kannan – Executive Director & CFO of ICICI Bank. Thank you and over to you, sir.

N. S. Kannan: Good evening and welcome to the conference call on the financial results of ICICI Bank for the quarter ended March 31, 2012, which is the fourth quarter of fiscal 2012.

I would make my opening remarks in four parts:

Part 1: Macro-economic and monetary environment;

Part 2: Performance during the quarter, including our performance on our 5Cs strategy

Part 3: Consolidated results; and

Part 4: Outlook for FY2013.

Part 1: The macro economic and monetary environment.

The global economic environment continued to remain uncertain during the fourth quarter of fiscal 2012. On the positive side, the US showed some signs of improvement in key economic indicators.

While sovereign debt concerns in the Euro zone abated somewhat with the resolution of the Greece debt restructuring, recent events indicate heightened risk perception with respect to economies in the Euro zone.

The domestic macroeconomic environment remained subdued during the fourth quarter of fiscal 2012. The index of industrial production (IIP) was considerably weak during the fourth quarter, recording a year-on-year growth of 1.1% in January 2012 and 4.1% in February 2012. Merchandise exports growth, which slowed from November 2011, continued to remain moderate and recorded a growth of 10.1% in January 2012 and 4.3% in

February 2012. The deceleration in exports has been much sharper than that in imports, which continue to grow at about 20.0%. On a positive note, sales in some key sectors like passenger vehicles, two wheelers and cement showed a pick up during Q4-2012. Given the moderation in economic activity, the Central Statistical Organisation has placed advanced estimates for GDP growth for fiscal 2012 at 6.9%.

During the fourth quarter of fiscal 2012, there was a moderation in inflation, particularly in manufactured products. Overall inflation reduced from 7.7% in December 2011 to 6.9% in March 2012. Manufactured products inflation moderated from 7.6% in December 2011 to 4.9% in March 2012. In addition, fuel inflation moderated from 15.0% in December 2011 to 10.4% in March 2012. However, food inflation remained volatile and picked up towards the end of the quarter. The average overall inflation for FY2012 was 8.8% compared to an average of 9.6% in FY2011.

System liquidity deficit increased substantially during Q4-2012, with banks remaining borrowers under the liquidity adjustment facility (LAF) window. Average daily borrowing by banks under the LAF window was about Rs. 1.4 trillion during Q4-2012 and reached a historic high of over Rs. 1.9 trillion towards end-March 2012. Interest rates on market instruments like Commercial Papers and Certificate of deposits remained high during the quarter. The 3-month CP rates crossed 11.0% during the quarter. A similar trend was seen in CD rates as well.

To ease liquidity pressures, the Reserve Bank of India undertook several measures, including a reduction in the cash reserve ratio by 125 basis points implemented in two phases during the quarter and open market operations aggregating to about Rs. 910 billion in the same period. The yield on the 10-year benchmark government securities was volatile during the quarter with yields reaching a low 8.13% in early February 2012 before increasing to 8.57% at March 30, 2012. After keeping the policy rates unchanged since the last increase in October 2011, in the annual policy review on April 17, 2012, the Reserve Bank of India reduced the repo rate by 50 basis points, marking a reversal in policy stance after over two years.

Equity markets improved during the quarter in response to some of the positive global developments. Investments by Foreign Institutional Investors (FIIs) crossed USD 12.8 billion, with USD 9.12 billion flowing to the equity markets and USD 3.69 billion towards debt. Flows were particularly strong in January and February 2012. As a consequence, the benchmark BSE Sensex rose from 15,455 at end-December 2011 to a peak level of 18,429 on February 21, 2012 before declining to 17,404 at March 30, 2012. The March closing of the BSE Sensex represented a 12.6% increase compared to the December 2011 closing. Improved market sentiments also had a positive impact on the rupee, which appreciated by 4.2% during the quarter from Rs. 53.11 per USD at December 30, 2011 to Rs. 50.88 per USD at March 31, 2012.

Credit offtake from scheduled commercial banks remained moderate during Q4-2012 on a y-o-y basis, with a sharp increase seen in the last week of March 2012. Growth in non-food credit remained in the range of 15-17% y-o-y through the quarter, and was 16.8% at March 23, 2012 before reaching 19.3% at March 30, 2012. Similar trends were seen with respect to deposit growth. Total deposit growth moderated during the quarter from 16.9% at December 30, 2011 to a low 13.4% at March 23, 2012, before increasing to 17.4% at March 30, 2012. Demand deposits remained subdued through the quarter, recording low to negative growth for most part of the quarter. It recorded a decline of 2.9% at March 23, 2012, but picked up sharply to record a growth of 15.3% at March 30, 2012. Growth in time deposits decelerated from 19.5% at December 30, 2011 to 17.7% at March 30, 2012.

Part 2: ICICI Bank's performance during the quarter, including our performance on our 5Cs strategy

With this background, I now move to Part II on the performance of the Bank during the quarter. Let me begin with the progress on our 5Cs strategy:

With respect to Credit growth: Total advances for the Bank increased by 17.3% on a year-on-year basis from Rs. 2.16 trillion at March 31, 2011 to Rs. 2.54 trillion at March 31, 2012. The growth was largely driven by domestic corporate loans which increased by 25.9% on a year-on-year basis and net advances of overseas branches which increased by 26.0% on a year-on-year basis. The depreciation of the rupee had a positive impact on the growth of the net advances of our overseas branches. Excluding this, the year-on-year growth in the overseas advances would have been about 10.4%. The retail loan portfolio increased by 7.7% on a year-on-year basis to Rs. 901.30 billion at March 31, 2012. The growth in the retail portfolio was driven by growth in the secured retail lending categories with outstanding auto loans and commercial business loans increasing by 14.4% and 20.0% on a year-on-year basis respectively. With respect to the mortgages portfolio, the Bank has seen a year-on-year increase of 26.8% in disbursements. However, due to repayments and prepayments on the existing portfolio, the overall year-on-year growth for the outstanding portfolio was subdued at 7.5%. The unsecured retail portfolio for the Bank was Rs. 35.74 billion at March 31, 2012, a decline of 30.5% as compared to March 31, 2011.

Moving on to CASA deposits: Mobilisation of CASA deposits has been challenging given the volatility in demand deposits in the system. Despite this, the Bank maintained its CASA ratio. The average CASA ratio during Q4-2012 was 39.0%, at the same level as in the previous quarter. On an absolute basis, the Bank's savings account deposits grew by Rs. 25.48 billion in Q4-2012. Current account deposits declined by Rs. 50.66 billion. During Q3-2012, the current account deposits included the impact of greater float on account of NHAI bond issuance related flows. The overall CASA ratio for the Bank remained flat at 43.5% at March 31, 2012 as compared to 43.6% at December 31, 2011.

On Costs: For Q4-2012, operating costs, including DMA expenses, were higher by 20.7% on a year-on-year basis. On a sequential basis operating expenses have increased by 16.0% mainly on account of an increase of Rs. 2.67 billion in employee expenses due to increased bonus provision. Typically the bonus provision is higher in the second half of the year given better visibility on outlook for full year profits. Non-employee expenses remained broadly stable on a sequential basis. For fiscal 2012, the Bank's cost-to-asset ratio was 1.8% and the cost to income ratio was 42.9%.

Let me move on to the next C on Credit quality: We saw an increase in provisions on a year-on-year and sequential basis to Rs. 4.69 billion in Q4-2012. During Q4-2012, as we had said earlier, the Bank saw an increase in its restructured assets, with the primary increase on account of restructuring of exposures to GTL and 3i Infotech. The Bank has accounted for the NPV impact of these restructurings in the fourth quarter. For the full year FY2012, provisions decreased by 30.8% to Rs. 15.83 billion. Credit costs as a percentage of average advances were at 68 basis points in FY2012, within our expectations of 70 basis points for the year. During Q4-2012, our net addition to gross NPAs was Rs. 0.60 billion. This comprises slippages of Rs. 6.35 billion and recoveries and upgrades of Rs. 5.75 billion. We have also written-off Rs. 3.09 billion during Q4-2012. The net NPA ratio declined to 62 basis points at March 31, 2012 as compared to 70 basis points at December 31, 2011. Our provisioning coverage ratio improved to 80.4% at March 31, 2012 compared to 78.9% at December 31, 2011. The net restructured assets portfolio increased from Rs. 30.70 billion at December 31, 2011 to 42.56 billion at March 31, 2012 primarily due to restructuring of exposures to GTL and 3i Infotech in Q4-2012, as mentioned earlier.

Customer centricity: The Bank continues to focus on enhancing its customer service capability and leveraging on its increased branch network to cater to its customer base. During Q4-2012, the Bank added 200 branches and 1,404 ATMs to its network, taking the total number of branches and ATMs to 2,752 and 9,006 respectively at March 31, 2012. The focus is also on providing increased functionality and convenience to our customers through various technology channels. In this regard, the Bank has extended the services it offers through mobile banking to include creation of fixed deposits and online shopping. In addition, the Bank is the only banking institution in the country to provide an application on its facebook page to allow customers to access their accounts without moving away from facebook. The Bank's facebook initiative has been appreciated by customers and within four months of launch, the ICICI Bank facebook page has close to 400,000 fans.

Having talked about the progress on 5Cs, let me move on to the key financial performance highlights for the quarter.

1. Net interest income increased 23.7% year-on-year from Rs. 25.10 billion in Q4-2011 to Rs. 31.05 billion in Q4-2012. The net interest margin improved from 2.74% in Q4-2011 to 3.01% in Q4-2012. On a sequential basis, the net interest margin increased by 31 basis points

from 2.70% in Q3-2012 to 3.01% in Q4-2012. The NIM on domestic business improved from 2.98% in Q3-2012 to 3.31% in Q4-2012. Domestic NIM improved on account of the transmission of base rate increases in earlier periods into higher lending yields and on account of higher investment yields during Q4-2012. International NIM improved from 1.40% in Q3-2012 to 1.52% in Q4-2012 on account of the full benefit of improved asset yields on incremental lending during Q3-2012 and Q4-2012. For the full year FY2012, overall NIM improved by about 10 basis points from 2.64% in FY2011 to 2.73% in FY2012. Our margins typically reduce in the first quarter of a financial year due to the full impact of priority sector loans made in the fourth quarter at lower rates and the full impact of high rates on bulk deposits in the fourth quarter. This phenomenon would be there in the current financial year as well. Accordingly, we expect overall NIM for Q1-2013 to be lower compared to Q4-2012. For the full year FY2013, we expect overall margins to improve by 10-15 basis points compared to the full year FY2012.

2. Fee income decreased by 3.5% on a year-on-year basis from Rs. 17.91 billion in Q4-2011 to Rs. 17.28 billion in Q4-2012. The continued moderation in fee income growth was primarily on account of corporate banking fee income which remains impacted by the slowdown in new projects/financial closures. During Q4-2012, there was continued momentum in granular fee income streams such as forex & derivative fees, transaction banking fees and remittance fees. The Bank will continue to focus on these revenue streams going forward.

3. Other income for the Bank increased from Rs. 0.46 billion in Q4-2011 to Rs. 3.42 billion in Q4-2012. On a sequential basis, other income increased by 33.6% from Rs. 2.56 billion in Q3-2012 to Rs. 3.42 billion in Q4-2012, primarily due to higher dividend received from subsidiaries. During Q4-2012, the Bank received dividend of Rs. 1.00 billion from ICICI Bank UK following approval from the FSA. During Q4-2012, the Bank received dividend from ICICI Life for one quarter in Q4-2012 as compared to dividend for two quarters in Q3-2012.

4. During Q4-2012, treasury recorded a profit of Rs. 1.58 billion as compared to a loss of Rs. 1.96 billion in Q4-2011 and a loss of Rs.

0.65 billion in Q3-2012. The improvement in treasury income was primarily on account of improved performance of the equity portfolio and increase in proprietary trading income, partly offset by loss on security receipts.

5. I have already spoken about the trends in operating expenses and provisions while speaking about the 5Cs strategy.
6. As a result of the above drivers, the Bank's standalone profit before tax increased by 37.5% from Rs. 19.21 billion in Q4-2011 to Rs. 26.42 billion in Q4-2012.
7. The Bank's standalone profit after tax increased by 31.0% from Rs. 14.52 billion in Q4-2011 to Rs. 19.02 billion in Q4-2012.

Part 3: Consolidated results.

The profit after tax for the life insurance subsidiary was Rs. 3.28 billion in Q4-2012 as compared to Rs. 2.95 billion in Q4-2011. Following a phase of transition to the new regulatory regime, ICICI Life has started witnessing healthy year-on-year increase in volumes. The new business annualized premium equivalent for ICICI Life increased by 22.7% from Rs. 8.78 billion in Q4-2011 to Rs. 10.77 billion in Q4-2012. The new business margins for Q4-2012 was 16.0%. The retail weighted received premium for ICICI Life increased by 35.7% in H2-2012 over H2-2011 as compared to a 15.9% increase for the industry. ICICI Life maintained its market leadership with a market share of 5.9% on the basis of retail weighted received premium for FY2012.

As I had mentioned during the third quarter call, IRDA through its orders dated December 23, 2011, January 3, 2012 and March 22, 2012 had directed the dismantling of the third party motor pool on a clean cut basis and advised recognition of Pool liabilities as per the loss ratios estimated by GAD UK for all underwriting years commencing from the year ended March 31, 2008 to year ended March 31, 2012, with the option to recognise the same over a three year period. ICICI General has decided to recognise the additional liabilities of the Pool in the current year and therefore, the loss after tax of ICICI General of Rs. 4.16 billion for FY2012 and Rs. 6.13 billion for Q4-2012 includes the impact of additional Pool losses of Rs. 6.85 billion. ICICI General would have some impact of the motor third party business in FY2013 as the liability is actuarially valued periodically and on account of any share of the declined pool accruing to the company. However, despite this impact, we expect the company to be profitable in FY2013. IRDA has also relaxed the solvency requirements for insurers to 1.3 at March 2012, 1.4 at March 2013 and 1.5 at March 2014 respectively. The current solvency ratio for ICICI General is higher than the minimum solvency ratio of 1.30 prescribed by IRDA.

Effective April 1, 2012, the existing third party motor pool has been dismantled by IRDA and a declined pool has been created instead. I had spoken about the workings of the declined pool in detail during the Q3-2012 call. Under the declined pool mechanism, the size of the motor pool would decline substantially and the allocation of losses to individual insurers would be based on their ability to meet the mandated targets.

With respect to our overseas banking subsidiaries, I would like to mention that the financials reported for ICICI Bank Canada are based on IFRS. As per IFRS financials, ICICI Bank Canada's profit after tax for Q4-2012 was CAD 10.2 million as compared to CAD 6.6 million for Q3-2012. Total assets for ICICI Bank Canada were CAD 5.25 billion at March 31, 2012, a marginal decline as compared to December 31, 2011. The capital adequacy ratio at March 31, 2012 was 31.7%.

ICICI Bank UK continued to see balance sheet consolidation during Q4-2012 with total assets declining from USD 4.77 billion at December 31, 2011 to USD 4.08 billion at March 31, 2012. The profit after tax for ICICI Bank UK for Q4-2012 was USD 10.5 million compared to USD 7.7 million in Q3-2012. The capital adequacy ratio was 32.4% at March 31, 2012.

Now let me talk about the overall consolidated profits.

The consolidated profits for Q4-2012 increased by 15.4% to Rs. 18.10 billion as compared to Rs. 15.68 billion in Q4-2011, despite the loss of Rs. 6.13 billion for ICICI General. For the full year, the consolidated profits increased by 25.4% from Rs. 60.93 billion in FY2011 to Rs. 76.43 billion in FY2012. The consolidated RoE improved from 11.6% in FY2011 to 13.0% in FY2012.

Part 4: Outlook for fiscal 2013

As I had mentioned earlier, there has been a moderation in economic growth, with a significant slowdown in new project activity. At the same time, several changes on the regulatory front are underway. Our outlook for fiscal 2013 is in this overall context.

For FY2013, we estimate an increase of about 20% in domestic loans, driven primarily by growth in the retail portfolio and continued offtake out of past project sanctions and working capital demand in the corporate segment. However, given the current environment and the large amount of repayments on the overseas loan portfolio in FY2013, we would expect our overseas loan book to remain flat or decline slightly in FY2013.

The target for average CASA ratio for FY2013 would remain at about 40%.

For the full year FY2013, we expect overall margins to improve by 10-15 basis points compared to the full year FY2012.

We would expect overall fee income to grow in low double digits with corporate fees stabilizing at current levels and continued momentum in granular streams such as forex & derivative fees, transaction banking fees & remittance fees and improvement in retail related fees.

With respect to operating expenses, we would be working to keep the cost to income at about 41%-42%

Based on our current assessment, we expect provisions to average advances for FY2013 to be about 75 basis points.

The Bank expects to achieve continued improvement in the standalone RoA from 1.50% in FY2012 to about 1.70% over the next 2 years. The Bank would target to reach an exit run rate of 14% for the standalone RoE and an exit run rate of 15% for consolidated RoE by the end of next year.

With this, I conclude my opening remarks. My team and I will be happy to take your questions.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: I have a question on the credit derivative portfolio. During 2006-2008, a lot of Indian corporates had issued convertible bonds and some of the Indian banks had entered into credit default swaps on them. What would be your exposure to such convertible bonds?

Anindya Banerjee: Our total exposure to credit derivatives is about USD 200 million and that number has been progressively coming down. It reduced by close to half in the third quarter.

Amit Premchandani: What happens if there is a credit default event?

Anindya Banerjee: There has been no default as such on the underlying credit in our portfolio. The reduction has happened through maturity of the instruments and they have been paid off by the companies concerned.

Amit Premchandani: What does this USD 200 million represent? Is it the mark-to-market value?

Rakesh Jha: Our credit derivative exposure three years ago was about USD 1.4 billion which is the notional exposure to credit derivatives. It is not the mark-to-market value. This has come down to about USD 200 million currently which is again the notional value. Further, every quarter, the mark-to-market loss or gain on the portfolio is taken through the P&L. The exposure has come down primarily on account of repayments as not much impact has been taken in our P&L on account of mark-to-market losses. We are not really concerned on the portfolio in terms of the trend going forward.

Amit Premchandani: Does this include all the CDS exposure?

Anindya Banerjee: Yes.

Amit Premchandani: On the consolidated balance sheet, the quarter-on-quarter reserves and surplus have gone down. It was about Rs. 620 billion last quarter and has come down to Rs. 601 billion in this quarter. What is the reason for the decline?

Rakesh Jha: If you look at the increase in the consolidated reserves during the year, it has been in line with the consolidated profits for the year, adjusted for the dividend payment and the change in the foreign currency translation reserve which happens because of the currency movement. For the full year FY2012 reserves have increased by approximately Rs. 59.70 billion in the consolidated balance sheet primarily due to the profit after tax of Rs. 76.43 billion. After reducing the proposed dividend of about Rs. 21.2 billion for the year, the net number is about Rs. 55.2 billion. The increase in reserves of Rs. 59.7 billion is higher because of the increase in the foreign currency translation reserve due to the Rupee depreciation. If you look at only Q4-2012, the reserves for the standalone balance sheet have declined primarily because of the dividend payment which is higher than the Q4-2012 PAT. Further, with the Rupee appreciating during the quarter, the foreign currency translation reserve has also declined. Similarly, in the consolidated balance sheet there is also a decline which is reflected in the reserves in Q4-2012. The decline in the consolidated reserves is higher in Q4-2012 due to the change in foreign currency translation reserve account with respect to the consolidation of overseas subsidiaries. The movement in foreign currency translation reserve has no impact on either the standalone or the consolidated profits for any of the periods and the foreign currency translation reserve is in any case not included in our capital for the purpose of computation of capital adequacy.

Amit Premchandani: And also for book value?

Rakesh Jha: We report book value on a standalone basis only.

Amit Premchandani: I also have a question on margins. A few quarters back you had said that because of the decline in the securitization asset book, there would be a positive impact on the margins. Has the positive impact already started reflecting in the P&L?

N.S. Kannan: Yes, the impact has started reflecting in Q4-2012. This has been one reason for margin improvement. In addition there has also been an improvement in asset yields due to the transmission of base rate increases in earlier periods along with increasing investment yields. These factors have contributed to the margin improvement.

Amit Premchandani: Which line items did the impact of losses on security receipts and the securitization related losses reflect in?

N.S. Kannan: Securitization related losses are reduced from NII itself because originally when we sold these assets, the income got booked in NII. The losses on the security receipts are accounted in treasury

Amit Premchandani: On the securitization losses, does it come as interest expense or interest income?

Rakesh Jha: It comes as a reduction in interest income.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from Dolat Capital. Please go ahead.

Rakesh Kumar: What is the domestic margin we have reported for Q4-2012?

Anindya Banerjee: Domestic margin for Q4-2012 was 3.31% and the international margin was 1.52%.

Rakesh Kumar: Considering that the secured retail book has grown and unsecured retail book has contracted and there is an increase in corporate loan book, what has contributed to the expansion in domestic margins?

N.S. Kannan: As I had mentioned earlier, the increase in margins was driven by a few factors. First, we saw the transmission of base rate increases in earlier periods into lending yields as not all of our assets reprice immediately. The transition takes place over a few quarters. Secondly, given the interest rate environment the yield on the investment book has improved. Thirdly, the reduction in securitization losses has also contributed to margin improvement.

Rakesh Kumar: Where has the maximum contribution come from? What is the sustainability of domestic margins?

N.S. Kannan: The sustainability of the margins has to be looked at in the context of the full year. For full year fiscal 2013, we expect margins to be 10 to 15 basis points more than the NIM for the full year fiscal 2012. In this assessment we have factored in base rate changes like the recent reduction of 25 basis points that we have done.

Rakesh Kumar: On the credit cost front, we have given slightly higher projection from 68 bps in fiscal 2012 to 75 bps next year though the environment appears to be improving. What is the reason for this?

Anindya Banerjee: We have stayed consistent with the general outlook for FY2013 that we had given at the time of our Q3-2012 results. We would expect to limit credit cost to within 75 basis points of the average loan book in FY2013. Depending on the environment the performance could be better than this, but we believe that 75 basis points should be the maximum number.

Moderator: Thank you. The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa: I have a question on fees. Every bank seems to be improving their fee trends over the last two to three quarters. However, for us, fee income has generally remained very subdued. What are the reasons? I think you mentioned that next year the outlook is better. What makes you confident on that?

N.S. Kannan: The primary reason for our fee growth being less than some of our peers is the composition of our fee income. If you look at the composition for us, there is a significant reliance on corporate lending based fee income. Our retail liability side distribution and granular fee income streams such as forex and transaction banking fees have grown by about 20%, whereas corporate fees have not really grown. In FY2013, we expect the granular fee income to gather momentum. Further with increased growth in retail assets we would also see increase in the retail fee income growth. We are looking at reaching double-digit growth of fee income in this year.

Manish Karwa: I have a question on margins. Can you explain how the base rate will impact your yields? In the fourth quarter it has been clearly seen that you had a late repricing benefit on the lending side. So does it also mean that when the base rate comes down you will have late repricing on the downside also?

N.S. Kannan I will ask Rakesh to talk about the dynamics of base rate in more detail. Our own reduction in base rate recently has been primarily taking into account the CRR reductions during January to March, which has a benefit in terms of NII. Also the bulk deposit rates have started coming down. Those are the primary reasons behind reducing our base rate. For FY2013 we are quite confident of expanding the NIM by 10 to 15 basis points over the previous year.

Rakesh Jha: On the base rate, we also have to take into account the movement in the deposit costs. For example, in the March quarter the wholesale deposit rate did not get passed on and no one increased the base rate. When we increase the base rate, there is one impact which is there on the asset yield, which happens for us with some lag compared to other banks. As Kannan mentioned earlier, in the June quarter the funding cost for us still goes up because of the increase in the wholesale deposit costs which has happened across all banks. The increase in funding cost will be an offsetting factor. Otherwise, indeed, our base rate reduction impacts with some lag. Incrementally, what we have been doing over the last year or so after the introduction of base rate is that a lot more of our loans reprice immediately when the base rate changes. Overall, there will be some lag in terms of our yields going down but you will have the impact of the average cost of deposits going up in the near-term.

Manish Karwa: What you are indicating is that even in the first quarter despite a base rate cut, overall yields for the whole portfolio may still go up given the lagged impact of the previous base rate increases?

Rakesh Jha: The last base rate increase happened quite sometime back and a lot of it has indeed got passed on in the asset yields. As we have not really changed or increased the base rate for quite some time, not much impact is expected on account of transmission of base rate increases for the coming quarters.

Manish Karva: I also wanted to check whether the base rate will only have an impact on the domestic corporate book?

Rakesh Jha: It will have an impact on the domestic corporate book and our mortgage loans. When we change the base rate we typically also change our earlier benchmark, what we call the Floating Reference Rate to which home loans were linked.

Moderator: Thank you. The next question is from the line of Sai Kiran from Espirito Santo. Please go ahead.

Sai Kiran: How do you define your net restructured book? Is it net of slippages?

N.S. Kannan: Yes.

Sai Kiran: What will be the slippages as a percentage of your restructured book?

N.S. Kannan: We have not disclosed the specific amount but during the quarter it was negligible. Overall, our long-term experience is of about 5% slippages from the restructured book.

Sai Kiran: You mentioned that your disbursements are at a very healthy rate while the moderate growth in the retail book has primarily been because of repayments. When do you think this will get rectified on an overall basis and we will see higher growth in the retail portfolio?

N.S. Kannan: As I had mentioned earlier, one of the reasons apart from repayments and prepayments has also been that we have been reducing our retail unsecured loans. As I had mentioned during the opening remarks, the retail unsecured loans have come down sharply on a year-on-year basis by about 31%. We are now close to the bottom of the retail unsecured loans. In financial year 2013 itself we expect the retail growth to be closer to 20% assuming that the dynamics play out like we expect them to.

Sai Kiran: Do you see a change in the incremental growth pattern in the retail book from what we have as outstanding assets? Will you see higher growth in the non-mortgage book or it will be more or less same as to what we have currently?

N.S. Kannan: As of now, as I mentioned earlier, the growth in mortgage book is about 7.5% compared to the growth in the other retail secured book of 14% to

20%. Going forward we believe that they will converge to a similar growth rate.

Moderator: Thank you. The next question is from the line of Suruchi Choudhary from Edelweiss. Please go ahead.

Nilesh Parekh: This is Nilesh here. On the retail assets, you mentioned that the unsecured piece has been declining. What is the thought process going forward on the unsecured piece? When you look at competitors, they have actually grown this book substantially and the credit experience has been pretty good on that.

N.S. Kannan: We believe that this portfolio is best built by selling these products to our existing liability customers. So that is the primary focus. Within that portfolio we have started growing our credit card portfolio and have introduced several product variants. But I think largely the boundary conditions will continue to be predominantly selling them to our existing liability customers.

Nilesh Parekh: When you mentioned 20% retail asset growth, this will be largely mortgages, right? The philosophy would still continue, that will be driven by secured.

N.S. Kannan: Yes, the growth will be through secured retail portfolios.

Nilesh Parekh: And in Q4-2012, the CV portfolio has gone up. How much is the buyout out of it?

Rakesh Jha: We typically do the buyouts in the fourth quarter of a year, basically towards meeting the priority sector norms. If you look at the overall buyout portfolio between March 2011 and March 2012, it is broadly at the same level. In terms of buyouts in the commercial business in Q4-2012, it would have been about Rs. 30 to 35 billion.

Nilesh Parekh: On the securitization losses in NII, what is the loss for the year as a whole? Last year was about Rs. 5.7 billion

Rakesh Jha: The number for the current year would be about Rs. 2 billion to Rs. 2.5 billion and as Kannan mentioned, for the fourth quarter it is a near zero number.

Moderator: Thank you. The next question is from the line of Parag Jeriwala from Macquarie Securities. Please go ahead.

Suresh Ganapathy: This is Suresh here. On the pipeline of restructuring, this quarter we added a gross number of about Rs. 14 billion. Could the number be lower than that in the coming quarters? Also what is the NPV loss that you have taken on restructured assets in Q4-2012?

N.S. Kannan: In the Q3-2012 call, Suresh, I had mentioned that we had CDR references to the extent of about Rs. 13 billion, which were likely to get restructured during the fourth quarter. Accordingly we saw restructured assets going up by about Rs. 12 billion during the quarter. Today, we have a very insignificant pipeline of CDR referred cases. So, bulk of the restructuring is behind us. If something fresh comes up because of developments in the economy then that will have to be seen. With respect to the NPV loss for the fourth quarter, the same has been reflected in our provision for the quarter. That is why you have seen a growth in the provisions on a sequential basis. Despite that for the year as a whole we have been able to contain the provisions at 68 basis points of the average loan book.

Suresh Ganapathy: Is the NPV loss on restructured assets usually about 10%-15%?

Rakesh Jha: It will vary between 5% to 15%, depending on the asset restructured.

Suresh Ganapathy: When you said the restructuring pipeline is insignificant, does that mean that the exposures to cases like HCC, Bharti Shipyard etc. are negligible?

N.S. Kannan: Yes, loans to such cases are not significant. It is not like the cases such as 3i Infotech and GTL.

Moderator: Thank you. The next question is from the line of Mahrukh Adajania from Standard Chartered. Please go ahead.

Mahrukh Adajania: What were the total disbursements for home loans during FY2012, for ICICI standalone and for ICICI Home Finance Company?

Rakesh Jha: Total disbursements are about Rs. 170 billion for the Bank. For the housing finance company the disbursement number would be very low as we do a lot more of the business in the parent bank.

Mahrukh Adajania: What was the life insurance dividend during the quarter?

N.S. Kannan: It would be in the range of Rs. 750 million.

Mahrukh Adajania: On the security receipts, what was the write-down this quarter? Is it a standard number every quarter?

Rakesh Jha: It is a different number every quarter, reflected in the treasury line item of our P&L.

Mahrukh Adajania: Could you quantify that?

Rakesh Jha: For the fourth quarter it would be in the region of about Rs. 1.5 billion to Rs. 2 billion. As Kannan mentioned, going forward we would expect that number to be at a lower level.

Mahrukh Adajania: In terms of slippages, was it spread across segments? Was there any concentration?

N.S. Kannan: For gross NPAs, there was no concentration. There were one or two cases. Other than that there were some retail cases which slipped and got collected by the end of the quarter.

Mahrukh Adajania: Most of the Rs. 6 billion of slippages was retail only?

N.S. Kannan: That is right. And then correspondingly, we collected and then they got upgraded.

Mahrukh Adajania: The upgradation is in the next quarter?

N.S. Kannan: No, in the same quarter.

Moderator: Thank you. The next question is from the line of Adarsh P. from Prabhudas Lilladher. Please go ahead.

Adarsh P: This is regarding the margins. The losses in the securitized pool go off next year and also probably we are looking at a favorable asset mix from a margin angle. I was trying to understand 10-15 bps of margins improvement that we are expecting. Is it not a little conservative assuming that both these factors play out next year?

N.S. Kannan: Whenever a regime change happens in terms of interest rates going down, there will always be one or two quarters of pressure because the yields may come down faster than the corresponding reduction in the average cost of funds. So, given this dynamic at this time we are expecting about 10-15 basis points improvement in the margins in FY2013.

Anindya Banerjee: As Rakesh mentioned, securitization losses were near zero in the fourth quarter itself and hence, to some extent the benefit has already started coming in.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Brics Securities. Please go ahead.

Nilanjan Karfa: Looking at the dividends, Rs. 1.00 billion came from UK and half of about Rs. 1.25 billion came from ICICI Life. So, already you are generating on a core basis on the standalone about 10.5%-11% and you are probably recuperating capital from your overseas subsidiaries. At the press meet which happened, it was mentioned that the Canadian subsidiary is also likely to pay dividends. So just wanted to understand if 20% growth gives you a comfort in terms of growing your RoE because it looks like ICICI Bank itself whether in consol or standalone is at lowest leverage at this point in time. How do you see this panning out over the next two years?

Anindya Banerjee: Our growth has to be predicated on what is happening in the economy and the banking system and on our perception of risk and rewards across various asset classes. We have been quite clear for the last three years that we will have to balance risk, profitability and growth and that is what we would continue to do. So, if the domestic system grows at the expected 17-18% and we grow a couple of percentage points ahead of that I think we would be quite happy with it. If you had looked at it a year back with the economic growth at 8% and system credit growth expected to be 20% plus, then leveraging would have been higher, but being the bank of the size that we are, we do not wish to outpace system growth substantially because that may mean taking on a risk profile which is not appropriate.

Nilanjan Karfa: Do we have a capital deployment strategy at this point because you are carrying a lot of excess capital?

Anindya Banerjee: The capital deployment strategy is to grow the balance sheet but that growth has to be seen in the context of the economic environment and opportunities and the kind of businesses that we want to do. Ultimately as you said, we are seeing profits in the subsidiaries as well as dividend payments from the subsidiaries, which is what is all fed into a broad target of exiting next year with a standalone RoE of 14% and consolidated RoE of 15%. Probably that could have happened a little faster had the growth in the financial sector been as we would have estimated a year to year and a half ago.

Nilanjan Karfa: My second question is on the margins. You already talked about 10-15 basis points improvement next year. But looking at Q4-2012, your priority sector loans has gone up quite sharply. So, there would be some margin pressure. You will get benefit from the securitization losses vanishing. You also spoke of the base rate transmission. What percentage of the book actually has a base rate initiated repricing? What happens when we have a base rate which is falling? How do we see our NIMs at that point?

Rakesh Jha As Kannan already mentioned, if you look at the 30 basis points increase in the margin for the quarter, it has various components. So the base rate increase is only one of the components and it is not the only or the major component of the 30 basis points improvement. A part of that came from the fact that securitization losses became zero during the quarter and part of because we had investment yields going up because of repricing on some of our floating rate government security and the increase in the SLR investment yield. We had mentioned in the December quarter results that we had a large amount of float available on one of the bond issues that had happened. The float was also there with us during the month of January. All these factors have helped the margin to go up in the March quarter. The increase in priority sector lending and wholesale deposit rates would typically happen in the month of March and the impact of that will show up fully in the June quarter.

Nilanjan Karfa: One data point. Can you quantify what percentage of retail term deposits that will mature in the next three to next six months?

Rakesh Jha: Retail deposits are typically of one year duration and the maturities are quite uniform through the year.

Moderator: Thank you. The next question is from the line of Jimit Doshi from Reliance Securities. Please go ahead.

Jimit Doshi: How much of our overseas advances are sourced through borrowings and deposits?

Anindya Banerjee: The overseas loan book is primarily funded through borrowings because in most of our branches we have limited deposit raising capabilities as per regulations.

Jimit Doshi: Secondly, looking at the life insurance premium it has increased by just 22% year-on-year. What is your outlook on the same?

N.S. Kannan: That is because the industry itself de-grew and the first half was not really good. Going forward we think the industry can grow between 15 to 20% and we would largely be in line with the industry growth over the medium term.

Jimit Doshi: So you would be growing by 15%-20% in FY2013?

N.S. Kannan: The 15%-20% would be over the medium term. We will have to see how the industry develops and we would be keen to grow in line with the industry to maintain our market share.

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: On the accounting change related to repo borrowings, is the impact basically grossing up of both borrowings as well as the investments?

Rakesh Jha: We were grossing up for market repo borrowings. We have now aligned LAF borrowings to that.

Hiren Dasani: Is it the RBI requirement or is it your internal reorganization?

Rakesh Jha: RBI has asked only for the market repo to be classified as borrowings or lending.

N.S. Kannan: The change has been made in discussion with RBI. It does not matter because it grosses up on both the sides.

Hiren Dasani: On the dynamic provisioning paper which RBI has come out with, if it were to become a reality in FY2013, would it affect your 75 bps credit costs guidance?

N.S. Kannan: It is too early to talk about it because it is only in the form of a discussion paper. We are also giving our comments to the discussion paper. The paper also talks about the ability given to banks following IRB to do dynamic provisioning based on their own loss experience in the past. In any case, we will have to do that for advanced approaches under Basel II. If the dates for advanced approaches as well as dynamic provisioning converge, then there will not be any significant impact. Our actual loss experience is better than what is indicated in the dynamic provisioning guidelines.

Hiren Dasani: And lastly, are there any PSL related shortfalls and if yes, then under which sub-head?

Rakesh Jha: We had a shortfall in our overall PSL and in the individual categories. On overall PSL we achieved about 95% of our target for the year, for direct agri we achieved about 70% of the target for the year and in terms of the weaker section lending we did about 40% of the target for the year. This is more or less in line with what we did in the last year as well. The only difference is that this time we were a bit short on our overall priority sector lending targets due to the change in RBI guidelines and expectations in terms of some of the loan categories which were earlier classified as priority sector.

Hiren Dasani: What was your number of employees, builder loans in the mortgage book, interest expense on the deposits for the full year and within term deposits how much is the wholesale deposit?

Rakesh Jha: The employee count is 58,276, the builder loan outstanding is about Rs. 90 billion, interest expense on deposits for Q4-2012 was about Rs. 39 billion and full year interest expense is about Rs. 143 billion.

Hiren Dasani: And within term deposits what is the composition of wholesale and retail?

Rakesh Jha: The deposits from wholesale banking group would be about 40% of our domestic term deposits.

Moderator: Thank you. The next question is from the line of Amit Ganatra from Religare. Please go ahead.

Amit Ganatra: I had questions on the RoE guidance that you indicated in the beginning of the concall. If I look at this quarter's consolidated profits and if you add the hit that you have taken on general insurance, you are already exiting 15% RoE. So, are you saying that RoE will remain the same?

Rakesh Jha: Compared to the full year there is going to be an increase in RoE and even the exit rate RoE will be higher than in the current quarter.

Amit Ganatra: So then it has to be higher than 15%, because 15% is something that you are already achieving.

Rakesh Jha: We are talking about the reported numbers after taking into account all hits.

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

Anand Laddha: Could you give the NPA movement for Q4-2012 and for the full year as well. Also if you can share the securitization losses for the full year?

Rakesh Jha: On the NPA numbers, as Kannan mentioned, for the quarter, the additions are about Rs. 6.35 billion, deletions were about Rs. 5.75 billion and there was a write-off of about Rs. 3.09 billion. For the full year, the gross additions were about Rs. 30 billion and deletions were about Rs. 24 billion with the write-off of about Rs. 12 billion. Securitization loss for the year would be about Rs. 2 billion and for the quarter it was near zero.

Anand Laddha: What were the losses on the Arcil receipt?

Rakesh Jha: For the quarter this it would be about Rs. 1.5 to Rs. 2 billion. For the full year, it would be about close to Rs. 4 billion.

Anand Laddha: At the opening of the year, your security receipt holding was Rs. 28 billion which has come down to Rs. 18 billion right now. How has that happened?

N.S. Kannan: There would have been redemptions also. The receipts would have been redeemed for cash.

Anand Laddha: By what time do you expect this to move out fully from the books?

Rakesh Jha: On a lot of these portfolios, we are getting payments on time and we were not really getting any further hits. In terms of the maturity, for example, a small portfolio is mortgages which will take quite some time to mature. But in terms of hits because of mark-to-market on account of NAV, we expect that in FY2013 it should get over and that number should be lower than what we have seen in the past.

Moderator: Thank you. The last question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: You mentioned about insignificant exposures in some of the restructuring cases. In case of Air India, is the entire exposure through debentures or are there any loans also?

N.S. Kannan: In Air India our exposure is in the form of bonds which are fully guaranteed by the Government of India. These are treasury bonds which we are selling down.

Kashyap Jhaveri: So there are all bonds, and there is no loan as such?

N.S. Kannan: Our exposure to Air India apart from these bonds is minimal.

Moderator: Thank you. That was the last question. I would now like to hand the call to Mr. N.S. Kannan for closing comments. Please go ahead sir.

N.S. Kannan: Thank you once again for joining this call. My team and I are available if you have any further questions.

Moderator: Thank you. On behalf of ICICI Bank that concludes this conference call.