ICICI Bank Limited
Earnings Conference Call – Quarter ended December 31, 2013 (Q3-2014)
January 29, 2014

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.

Moderator: Ladies and gentlemen, good day and welcome to the Q3-2014 Earnings Conference Call of ICICI Bank. As a reminder, 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 any assistance during this conference call, please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. N. S. Kannan, Executive Director 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 December 31, 2013, which is the third quarter of the current financial year 2014.

In my remarks this evening, I will cover the following five areas:

- First: the macro-economic and monetary environment;

- followed by, an explanation of the change in deferred tax accounting on Special Reserve and its impact on our financial reporting;
- then, our performance during the quarter, including performance on our 5Cs strategy;
- then, our consolidated results;
- and finally, the outlook for the full financial year 2014.

Let me start with the first part on the macro economic and monetary environment during the third quarter.

During Q3-2014, economic activity continued to remain subdued with industrial growth, measured by the index of industrial production, or IIP, recording a year-on-year decline of 1.6% in October and 2.1% in November 2013. While, going forward, improvement in agricultural sector growth is expected, overall economic recovery is likely to remain slow.

While wholesale inflation increased from 5.9% in July 2013 to 7.5% year-on-year in November, it declined to 6.2% year-on-year in December, driven by a reduction in food inflation. Similar trends were seen in the consumer price index, or CPI, inflation. However, CPI inflation continues to remain high at about 10% in December 2013. In view of the same, after raising the repo rate by 25 basis points in October, the Reserve Bank of India further increased the repo rate by another 25 basis points in January 2014 to 8.0%.

After exceptional volatility in Q2-2014, financial markets were relatively stable during Q3-2014. As a result of the improvement in the current account deficit and mobilization of about USD 34 billion under the swap facilities introduced by the Reserve Bank of India,

the Rupee stabilized during the quarter and appreciated by 1.4% from ₹ 62.78 per US dollar on September 30, 2013 to ₹ 61.90 per US dollar on December 31, 2013. In view of the same, the Reserve Bank of India concluded the normalisation of the policy rate structure and reduced the gap between the repo and the MSF rate to 1%, with the MSF rate being reduced by 75 basis points and the repo rate being increased by 25 basis points during October. As a result, short term interest rates on market instruments like Commercial Papers and Certificate of deposits eased by about 50 to 100 bps during the quarter as compared to the peak rates seen in the previous quarter. The yields on 10-year government securities remained volatile during quarter due to the high inflation and increase in repo rate. The yields increased from 8.76% at end-September 2013 to a high of 9.10% at November 22, 2013 before ending at 8.83% at end-December 2013. During Q3-2014, there was a net inflow of FII funds in the equity market of about USD 6.6 billion compared to net outflows of about USD 144 million in Q2-2014. The benchmark BSE Sensex rose by 9.2% to 21,171 at end-December 2013 from 19,380 at end-September 2013. However, during January, market indicators have seen some volatility, on account of global developments as well as domestic policy actions.

With respect to trends in the banking sector, non-food credit growth moderated to about 15% year-on-year by end-December 2013 from about 18% at end-September 2013, reflecting continued weakness in economic activity and the normalistion of non-bank funding channels. Growth in total deposits increased to about 16% at end-December compared to a growth of about 14% at end-September 2013, driven by an increase in term deposit growth to about 17% at end-December reflecting mobilisation of FCNR deposits by banks. Demand deposits increased by about 8% year-on-year at end-December. Trends in asset quality for the banking sector continued to remain challenging with outstanding Corporate Debt

Restructuring referrals for the system currently at about ₹ 720 billion.

There were several regulatory developments in recent months. Apart from the changes in deferred tax accounting for special reserves which I will discuss in detail subsequently, RBI issued draft guidelines and discussion papers on capital surcharges for domestically-systemic important banks and countercyclical capital buffers; a draft framework for early recognition of financial distress in borrower companies and revitalizing distressed assets; the report of the Committee on Comprehensive Financial Services for Small Business and Low Income Households; and final guidelines, applicable from April 1, 2014, on additional provisioning and capital requirements for exposures to companies with unhedged foreign currency exposure. The impact of these developments on the banking sector's business and profitability would have to be assessed over time.

I now move to the explanation of the change in tax accounting. Section 36(1)(viii) of the Income-tax Act permits a deduction from taxable profits of amounts transferred to Special Reserve. The deduction is up to 20% of the profits derived from long term lending business, for tenures exceeding 5 years. The Bank has been making transfers to Special Reserve annually. No deferred tax liability was created on this reserve, since only a draw down of the reserves could reverse the tax benefit and these reserves are not intended to be drawn down. The Special Reserve was however considered net of tax for capital adequacy computation as per RBI requirements.

Banks are now required to create a deferred tax liability on a prudent basis for amounts transferred to special reserve as per RBI guidelines issued on December 20, 2013. The deferred tax liability

upto FY2013 has been permitted to be adjusted from reserves, while from FY2014 onwards the same has to be charged to P&L.

The Bank has accordingly netted off ₹ 14.19 billion, representing deferred tax liability for Special Reserve up to FY2013, from general reserves; and provided for deferred tax liability of ₹ 2.15 billion for the nine month period ended December 31, 2013 in Q3-2014. A quarterly charge would be made in the fourth quarter as well. There is no adverse impact on capital adequacy for the Bank as Special Reserve was being considered net of tax while computing Tier-1 capital. There is also no impact on current tax, that is, the cash tax paid by the Bank will continue to get the benefit of Section 36(1)(viii). However, the increase in deferred tax will result in an increase of about 2% in the effective tax rate in the P&L.

Let me now move to our performance during the quarter, including our progress on our 5Cs strategy:

- **First, with respect to Credit growth:** Total advances of the Bank increased by 16.0% on a year-on-year basis from ₹ 2.87 trillion at December 31, 2012 to ₹ 3.33 trillion at December 31, 2013. The growth in the domestic loan portfolio was 13.3% on a year-on-year basis at December 31, 2013.

  Growth in the retail portfolio continued to be strong and improved to 22.3% year-on-year at December 31, 2013 compared to 19.6% at September 30, 2013. Growth in the retail portfolio continues to be driven by secured products with the outstanding mortgage and auto loan portfolios growing by 23% and 35% respectively on a year-on-year basis at December 31, 2013. Commercial business loans declined by 17% on a year-on-year basis at December 31, 2013, reflecting both a slowdown in this segment as well as run-down of the bought out portfolio in

this segment. The unsecured credit card and personal loan portfolio at ₹ 62.25 billion at December 31, 2013 continued to remain a small portion, about 1.9%, of the overall loan book though the growth rate is high due to the low base.

The Bank continues to adopt a calibrated approach to growth in the corporate and SME segments, in view of the weak operating environment. Growth in the domestic corporate portfolio moderated to 6.9% on a year-on-year basis at December 31, 2013 compared to 11.0% year-on-year growth at September 30, 2013. The SME portfolio declined by 5.5% on a year-on-year basis at December 31, 2013.

Net advances of the overseas branches increased by 10.3% on a year-on-year basis in US dollar terms, mainly due to lending against FCNR deposits during the quarter of about USD 1 billion. The net advances of the overseas branches increased by 23.9% on a year-on-year basis in rupee terms due to the movement in the exchange rate. On a sequential basis, the growth was 9.7% in dollar terms and 8.3% in rupee terms.

- Moving on to the second C on ***CASA deposits***: Reflecting our strong retail franchise, we saw an addition of ₹ 21.90 billion to our savings deposits in the third quarter. Current account deposits also increased by ₹ 10.68 billion during the third quarter. During the quarter, the Bank also raised an aggregate of about USD 2 billion in FCNR deposits, which reflects in the term deposit mobilisation for the Bank. Even after including the FCNR deposits, I am happy to report that we maintained our period end CASA ratio at 43.3% at December 31, 2013, similar to the level at September 30, 2013. The average CASA ratio for the Bank was at 39.1% in Q3-2014 compared to 40.3% in the previous quarter.

- On the third C on ***Costs***: For the third quarter, operating costs, including DMA expenses, were higher by 15.7% on a year-on-year basis. The increase in operating expenses was primarily due to an increase in non-employee expenses due to the increase in the Bank's physical network and higher retail lending volumes. Employee expenses were higher on a sequential basis as there was the benefit of lower valuation of retiral benefits in Q2-2014. The Bank's cost-to-income ratio was 37.0% in the third quarter of fiscal 2014.

- Let me move on to the fourth C on **Credit quality**: During the third quarter, the Bank saw gross NPA additions of ₹ 12.30 billion, primarily driven by slippages in the SME and mid-sized corporate loan portfolios. Deletions in the third quarter were ₹ 3.56 billion. The Bank has also written-off ₹ 5.04 billion of NPAs. The net NPA ratio was 81 basis points at December 31, 2013 compared to 73 basis points at September 30, 2013.

  During the quarter, the Bank restructured ₹ 20.46 billion of loans. After taking into account deletions and the required specific provisioning, the net restructured loans for the Bank increased to ₹ 86.02 billion at December 31, 2013 compared to ₹ 68.26 billion at September 30, 2013. The CDR pipeline continues to remain elevated and the Bank currently has loans aggregating about ₹ 30 billion referred to the CDR.

  Provisions for Q3 of 2014 were at ₹ 6.95 billion as compared to ₹ 3.69 billion in Q3 of 2013 and ₹ 6.25 billion in Q2 of 2014. As a result, credit costs as a percentage of average advances were at 85 basis points on an annualised basis for Q3 of 2014. For the nine month period ended December 31, 2013, the credit costs as a percentage of average advances were at 83 basis points on

an annualized basis. The provisioning coverage ratio on non-performing loans was 70.0% at December 31, 2013.

- Now to the fifth C on ***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 the quarter, the Bank added 81 branches and 117 ATMs to its network. With this, the Bank has a branch network of 3,588 branches and 11,215 ATMs at December 31, 2013. The Bank also continues to strengthen its technology channels for increasing customer convenience. In one such initiative, the Bank has facilitated opening of savings accounts through its Tab banking platform. The Bank's Facebook page continues to be appreciated by customers with about 2.7 million fans. ICICI Bank continues to have the largest fan base on Facebook among the Indian banks.

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 by 21.6% year-on-year from ₹ 34.99 billion in Q3 of 2013 to ₹ 42.55 billion in Q3 of 2014. The net interest margin increased from 3.07% in Q3 of 2013 and 3.31% in Q2 of 2014 to 3.32% in Q3 of 2014. The domestic NIM was marginally higher at 3.67% in Q3 of 2014 compared to 3.65% in Q2 of 2014. International margins were at 1.70% in Q3 of 2014 compared to 1.31% in Q3 of 2013 and 1.80% in Q2 of 2014. The sequential decrease in international margins was primarily on account of issue expenses related to the bond issuance of USD 750 million by the Bank.

2. Total non-interest income increased by 26.5% from ₹ 22.15 billion in Q3-2013 to ₹ 28.01 billion in Q3-2014.

   - Fee income grew by 12.8% from ₹ 17.71 billion in Q3-2013 to ₹ 19.97 billion in Q3-2014, driven by healthy growth in retail banking fees. The Bank's retail fees, including remittances, contribute about 55% to 60% of its overall fees.

     Other income was ₹ 3.57 billion in Q3-2014, compared to ₹ 1.93 billion in Q3-2013 and ₹ 2.51 billion in Q2-2014. The increase was primarily due to higher dividend from subsidiaries. During the quarter, ICICI Life paid a special dividend to its shareholders based on an assessment of its capital requirements and high solvency levels. Accordingly, the Bank received an additional dividend of about ₹ 1.20 billion from ICICI Life compared to the previous quarter. ICICI Life has also announced a special dividend out of its Q3-2014 profits, which would accrue to the Bank in Q4-2014.

   - During the third quarter, treasury recorded a profit of ₹ 4.47 billion compared to a profit of ₹ 2.51 billion in Q3-2013 and a loss of ₹ 0.79 billion in Q2-2014. The improvement in treasury income primarily on account of reversal of mark-to-market losses on the fixed income portfolio as well as realised gains and mark-to-market reversals on the equity portfolio.

3. I have already spoken about the trends in operating expenses and provisions while speaking about the 5Cs strategy.

4. The Bank's standalone profit before tax increased by 21.4% from ₹ 30.84 billion in Q3-2013 to ₹ 37.44 billion in Q3-2014.

5. The tax charge for the Bank has increased on account of the deferred tax accounting impact that I had mentioned earlier.

6. The Bank's standalone profit after tax increased by 12.5% from ₹ 22.50 billion in Q3-2013 to ₹ 25.32 billion in Q3-2014. This translates into an annualised return on average assets of 1.75% for Q3-2014, compared to 1.70% for the previous quarter. For the nine months ended December 31, 2013, the profit after tax increased by 18.9% to ₹ 71.58 billion from ₹ 60.21 billion for the nine months ended December 31, 2012. Excluding the impact of DTL on Special Reserve the growth in profit after tax would have been higher at about 22% for both Q3-2014 and 9M-2014 on a year-on-year basis.

The Bank's capital adequacy as per Reserve Bank of India's guidelines on Basel III norms continues to remain strong at 16.81% overall CAR and 11.53% Tier I ratio at December 31, 2013. In line with applicable guidelines, the Basel III capital ratios reported by the Bank for the quarter ended December 31, 2013 do not include the profits for the nine months ended December 31, 2013. Including the profits for 9M-2014, the capital adequacy ratio for the Bank as per Basel III norms would have been 17.94% and the Tier I ratio would have been 12.66%.

I now move on to the consolidated results.

The profit after tax for the life insurance company in Q3-2014 was ₹ 4.28 billion as compared to ₹ 3.97 billion in Q3-2013. The

new business annualised premium equivalent for ICICI Life was ₹ 8.68 billion in Q3-2014 compared to ₹ 9.04 billion in Q3-2013. The retail weighted received premium for ICICI Life increased by 6.7% on a year-on-year basis during April-December 2013. While the IRDA numbers for the industry are not available, we understand that the company has retained its market leadership among the private players.

Following the implementation of regulatory changes with respect to traditional products, ICICI Life has seen a change in its product mix with unit linked products forming about 68% of the new business during the quarter, compared to about 60% in the previous quarter. As a result of the change in business mix as well as regulatory changes in the charge structure for products, the new business margins for the company were lower at 10.9% in Q3-2014. We will continue to assess how the business evolves and take steps to optimize margins and profits.

The profit after tax for the general insurance company in Q3-2014 was ₹ 0.76 billion as compared to ₹ 0.95 billion in Q3-2013 and ₹ 1.56 billion in Q2-2014. The profits were lower on a sequential basis primarily on account of higher claims and provisions during the quarter. The company maintained its leadership position in the private sector with overall market share of 9.6% during April–November 2013.

Let me move on to the performance of our overseas banking subsidiaries. As per IFRS financials, ICICI Bank Canada's profit after tax for Q3-2014 was 10.0 million Canadian Dollars as compared to 8.3 million CAD for Q3-2013. Total assets for ICICI Bank Canada were 5.28 billion CAD at December 31, 2013 compared to 5.27 billion CAD at September 30, 2013. Loans and advances were 4.70 billion CAD at December 31, 2013. The capital adequacy ratio for ICICI Bank Canada was healthy at

31.6% at December 31, 2013 compared to 31.2% at September 30, 2013.

ICICI Bank UK's total assets were 4.37 billion US$ at December 31, 2013 compared to 4.21 billion US$ at September 30, 2013. Total loans increased from US$ 2.61 billion at September 30, 2013 to US$ 2.94 billion at December 31, 2013 primarily on account of lending against FCNR (B) deposits. ICICI Bank UK is also focusing on selective lending opportunities to highly rated entities, including trade & transaction banking products and shorter term loans to multinational corporations and subsidiaries of Indian companies in UK and Europe. The profit after tax for ICICI Bank UK for Q3-2014 was 8.5 million US$ compared to 5.4 million US$ in Q3-2013. The capital adequacy ratio was 24.4% at December 31, 2013 compared to 26.1% at September 30, 2013.

Let me now talk about the overall consolidated profits.

The consolidated profits for Q3-2014 increased by 8.6% to ₹ 28.72 billion compared to ₹ 26.45 billion in Q3-2013. The annualized consolidated return on average equity based on the level of profits for Q3-2014 was 15.0%.

Our outlook for the full year fiscal 2014 continues to be broadly in line with what we had indicated on our call following the Q2 earnings. We continue to see strong core operating trends: continued momentum in retail lending, healthy deposit growth and mix, improved margins and fee income growth relative to the previous year and healthy cost ratios. While the pace of restructuring of loans is expected to continue to increase in the coming quarter, these healthy core operating trends give us the ability to absorb the higher level of provisioning arising out of the credit cycle. We do not expect full year provisioning as a

percentage of average loans to exceed 90-100 basis points. Our growth continues to be supported by a capital position that is well above current regulatory norms.

With these opening comments, my team and I will be happy to take your questions

Mahrukh Adajania: Firstly on the restructuring pipeline, is it all CDR? Given that in the last few years, there has been a huge increase in CDR referrals in the March quarter do you expect this pipeline of ₹ 30 billion of CDR referrals to increase as we move ahead in the quarter?

Rakesh Jha: The pipeline of ₹ 30 billion is largely cases already referred to CDR. The quantum of CDR referrals is more a function of the state of the economy. It is very difficult to project any kind of seasonality in that.

Mahrukh Adajania: With respect to the RBI guidelines on unhedged foreign currency exposures, have you been able to estimate the impact or is it still too early?

Rakesh Jha: The guidelines would be effective from April 2014. We are still in the process of assessing the impact.

Mahrukh Adajania: RBI has also issued draft guidelines on early resolution of financial distress in borrowers. Do you think this will have an adverse impact on the capital ratios for banks?

Rakesh Jha: The draft guidelines seek to establish a framework for banks to look at early resolution of cases. I am not sure that it will have a direct impact on the capital position of banks. In the current state of economy, there will be a number of cases which are 60 days plus overdue and banks will have to form joint lending forums for such cases as per the draft guidelines. Our expectation is that the final guidelines in this regard will come out pretty soon, and they will be beneficial for the banking system in the long run. With respect to

capital there are, however, other guidelines which over the medium term will have implications for both private sector and PSU banks.

Mahrukh Adajania: Ok. With respect to slippages during the quarter, are there any lumpy accounts?

Rakesh Jha: The NPL additions were primarily on the corporate and SME segments and are primarily mid-sized cases.

Moderator: Thank you. The next question is from the line of Jatin Mamtani from Barclays. Please go ahead.

Jatin Mamtani: I had a couple of questions on the restructured loans. Is there any lumpiness this quarter? What would be the concentration of the three to four largest loans within the ₹ 20.46 billion of restructured loans, and which sectors would they belong to?

Rakesh Jha: In Q3-2014 these are largely mid-sized corporates that have got into restructuring.

Jatin Mamtani: Ok. Is there any lumpiness in the CDR pipeline of ₹ 30 billion that you mentioned?

Rakesh Jha: While it is not possible to discuss specific cases that have got referred to the CDR, there would be a couple of cases which are on the higher side in terms of exposure size.

Moderator: Thank you. The next question is from the line of Suruchi Jain of Morningstar.

Suruchi Jain: What is driving your fee income growth?

N.S. Kannan The fee income growth of 13% has been largely on account of a growth on the retail assets and liabilities side. Forex and other transactions at the retail liability branches have also contributed to the growth. On the corporate side, commercial banking revenue

streams have grown even as the SME segment has seen a decline in the fee income growth. Presently, fee income is much more granualarised.

Suruchi Jain: My second question is on the overall year NIM and tax outlook, given the changes in taxation as well as the mobilization of FCNR deposits during the quarter.

N.S. Kannan We had talked about our own expectations in terms of the Net Interest Margin expansion, which was 3.11% for the last year. Our outlook this financial year for NIM expansion of 20 basis points continues. On the tax issue, as I mentioned earlier, the change in accounting on a prudent basis has no impact on current tax, that is, the cash tax paid by the Bank. We have to provide for DTL as if the tax benefit available to us is a temporary benefit resulting in an additional impact of 2% on the P&L account in terms of our effective tax rate. Thus, our effective tax rate from P&L perspective would be approximately 30% going forward compared to a lower number seen in the past.

Moderator: Thank you. The next question is from the line of Manish Oswal from KR Choksey. Please go ahead.

Manish Oswal: My first question is on provisions. Could you give a break up of provisions for Q3-2014 general provision, NPL provision and on provision on account of restructured assets?

Rakesh Jha: The general provision that we made for Q3-2014 is about ₹ 1 billion and the balance is broadly provisions against NPLs and restructured loans.

Manish Oswal: Secondly, do you have any buyouts in the retail portfolio during the quarter, which results in higher overall growth?

Rakesh Jha: The growth in the retail portfolio is organic because most of the buyouts that we do incrementally for priority sector are done in the

form of investments, which show up in the investment book as PTCs.

Manish Oswal: Lastly, on the fee income breakup, what would broadly be the proportion of corporate and retail fee income?

Rakesh Jha: The retail fees are slightly above 55% of total fee income and the balance is corporate.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: If we look at the NPL slippage plus restructuring trend, that additions have increased from ₹ 12 billion to ₹ 15 billion to ₹ 20 billion in Q2-2014 and now to ₹ 32 billion in Q3-2014. You have indicated that most of it is coming from the mid corporate segment, implying that restructuring in the large corporate segment has still not started. In view of this, how do you expect the NPL slippage plus restructuring additions to trend going forward?

Rakesh Jha: As we have been saying that it is quite difficult to have a specific outlook on the quantum of restructuring and NPLs in a particular period. What we have indicated is the aggregate of cases that have got referred to CDR currently, which gives an indication of the expected restructurings in the coming quarter. This pipeline can, however, increase if some other cases get referred to CDR in the interim. In terms of the overall numbers, the CDR pipeline for us currently is about ₹ 30 billion, which implies a higher rate of addition restructured loans in Q4. However, we had mentioned during the previous quarter that we are seeing additions to restructuring in particular to be running higher than what we estimated at the beginning of the year. Accordingly we had increased our outlook on credit costs and had mentioned that we do not expect it to cross about 90 basis points to 100 basis points

for the full year FY2014. On an overall basis, we remain comfortable with this credit cost estimate.

Amit Premchandani: For additional restructuring, when you say that the restructuring is expected to be higher, is it against Q1, Q2 and Q3 of the current financial year, or compared to the last financial year?

Rakesh Jha: The previous period benchmark would be past quarters of the current financial year. Additions to restructuring were ~₹ 10 billion in Q2-2014, ~₹ 20 billion in Q3-2014 and ₹ 30 billion is the pipeline that we have currently.

Amit Premchandani: What do you expect the run rate of additions to restructuring to be for the next 2-3 quarters?

Rakesh Jha: As I said earlier, it is very difficult for us to estimate a run rate for restructuring, because we do not currently have, for example, a list of cases which will definitely get restructured. What we have spoken about is the existing CDR pipeline of ₹ 30 billion. However, if we look at overall credit costs, going forward, compared to a normalized run rate, credit cost is expected to be higher on the corporate side which would get offset by healthy credit quality trends in the retail segment.

Amit Premchandani: Your assessment also depends on the credit quality developments in the large corporate segment, because till now they have not yet reflected in restructuring. How comfortable are you in your assessment of the large corporate portfolio?

Rakesh Jha: In the cases that have got referred to CDR, indeed there are some cases which are large. In some of these cases, we have somewhat lower exposures but in few cases our exposure is higher as well. In general, in many of the larger borrower groups, our level of comfort would be relatively more. But as I said, in the restructuring

pipeline as well as what we have done so far there would be some large cases as well.

Amit Premchandani: Given the fact that stressed asset additions will go up, what is your outlook on the coverage ratio, given your credit cost outlook of 90-100 basis points?

Rakesh Jha: The incremental NPA provision requirement is 15-20% in the first year which results in the coverage ratio reducing with fresh additions to NPLs. For us, the ratio has declined over the last few quarters partly because we have written off ₹ 4 billion to ₹ 5 billion of loans per quarter, which takes away ~1% of the coverage ratio in every quarter. We do not have a threshold level for the coverage ratio. We make provisions as we believe are appropriate. It is also not that we only stick to the very minimum level of provisioning requirement which is required and have made higher provisions in the past. This is reflected in the current coverage ratio of 70% despite the additions that we have seen this year.

Amit Premchandani: What is the amount of FCNR deposits which the Bank has mobilised and how much have you lent against it?

Rakesh Jha: We raised about USD 2 billion of FCNR(B) deposits and have lent about USD 1 billion against them.

Amit Premchandani: How do the FCNR deposits impact ROE since you have lent against FCNR using your capital and FCNR is a low spread business?

Rakesh Jha: There is no capital requirement against the lending which against fixed deposits that are risk-free. The margin earned on loan translates into high RoE. Also the overall cost for raising the FCNR(B) deposits with a 3.5% swap cost and with no SLR and CRR, is lower than the domestic term deposit cost. In addition, there is also the benefit on PSL.

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

Manish Karwa: Why has the Tier 1 capital increased in this quarter compared to the previous quarter?

Rakesh Jha: Tier 1 capital increased in this quarter compared to the previous quarter on account of the deferred tax liability created on the Special Reserve. Net deferred tax asset which is reduced from total capital to reach to the Tier-1 capital was lower on account of the DTL creation.

Manish Karwa: Does this imply that the deferred tax liability is set off against deferred tax assets?

Rakesh Jha: Yes, the net deferred tax asset is reduced from the total capital to reach Tier-1 capital.

Manish Karwa: How does the incremental deferred tax liability impact your Tier-1 capital?

Rakesh Jha: The impact depends on the amount of deferred tax assets that a bank has. In our case, we had deferred tax assets, which is why we got a benefit due to creation of the deferred tax liability on Special Reserve.

N.S. Kannan: Also, there is no adverse impact on the capital adequacy ratio, because Special Reserve was always considered net of tax for capital purposes.

Manish Karwa: Incrementally, do you have any deferred tax asset?

N.S. Kannan: We still have some deferred tax asset which gets netted off from the total capital.

Manish Karwa: So every quarter you will now have to create some deferred tax liability of about 2% of your tax rate?

Rakesh Jha: Yes.

Manish Karwa: Ok. And the DTL mainly pertains to mortgages and infrastructure lending?

Rakesh Jha: Yes.

Manish Karwa: So if mortgages continue to grow, the proportion of DTL can be higher going forward?

Rakesh Jha: The Special Reserve is out of profits pertaining to long term businesses, which is increasing substantially as a proportion of our loan book. We also do a lot more of working capital lending compared to the longer-term lending that we are doing earlier. So I do not think that that those numbers will really increase from where we are currently.

Manish Karwa: Ok. Let us assume that two years down the line you have a reasonably large deferred tax liability book. Can you use it?

Rakesh Jha: No.

Manish Karwa: So does that become a provisioning line item or a current liability item for you?

Rakesh Jha: Deferred tax liability becomes a provisioning line item. As Kannan mentioned, as per statute, if you do not utilise the Special Reserve, it is not taxable at all. There is no impact on the cash tax paid and is only a notional deferred tax impact.

Manish Karwa: Lastly, how much commission do you pay quarterly on your retail loans?

Rakesh Jha: We do not disclose that number.

Manish Karwa: Some rough indication? Is the sharp sequential increase in other expenses on account of these commissions?

Rakesh Jha: The sequential increase in other expenses is partly on account of commissions but primarily due to higher expenses, especially on advertisements and sales promotion during the festive season.

Moderator: Thank you. The next question is from the line of Abhishek Kothari from Networth Stock Broking. Please go ahead.

Abhishek Kothari: What is your overall NPA from the restructured portfolio?

Rakesh Jha: If you look at all the loans that we have restructured over the last few years, the slippage from that has been ~10%.

Abhishek Kothari: Ok. Why has the NBP margin for ICICI Life decreased sequentially?

Anindya Banerjee: The new business margin for the third quarter of 2014 was lower at 10.9%, because of two reasons. One, the new product guidelines related to the non-linked product came into effect from October 1, 2013 which changed the charge structure for products resulting in reduced margins on those products. Second, in the transition phase to these new product structures, the proportions of ULIPs, which are, in general, lower margin than the non-linked products has increased to about 68% this quarter compared to about 60% last quarter. We will continue to see how the business evolves, what the stable product mix is and take steps to optimize the long-term margins.

Moderator: Thank you. The next question is from the line of Anand Vasudevan from Franklin Templeton. Please go ahead.

Anand Vasudevan: Given the regulatory capital requirements over the next few years what is your threshold comfort level for Tier-1 below which you will want to raise fresh equity?

Rakesh Jha: Indeed, there is now a set of draft and final guidelines which are in place. Some of them like migration to advanced approaches for credit, market and operational risk still need full clarity in terms of what the impact could be, which we will work out over the next 12 or 18 months. In terms of the minimum Tier-1 it clearly seems that from the minimum Tier-1 level of about 7.5% or 8% six to seven year back, the threshold for Tier-1 should be closer to 10% under fully implemented Basel III below which banks would look to raise capital. Given our current capital level, clearly over the next couple of years, we would be comfortable. Beyond that things will pan out, depending on things like the migration path, whether we issue some hybrid instruments and whether we have any monetisation of the subsidiaries or repatriation from overseas subsidiaries.

Anand Vasudevan: My second question is on asset quality. Do you anticipate any additional negative impact on portfolio quality for FY2015 owing to further reduction on government expenditure in the immediate quarter?

Rakesh Jha: The impact of the sharp slowdown that the overall economy has seen has clearly impacted the corporate sector over the last few quarters. On a macro front, even if we assume that things have bottomed out and we should see a slow recovery from here, there would be some lag in the impact on the corporate and SME portfolios and it is likely to banks would continue to see some pain in these portfolios over the next 2-3 quarters.

Moderator: Thank you. The next question is from the line of Rajeev Verma from Bank of America. Please go ahead.

Rajeev Verma: Is there any update on the repatriation of capital from the overseas subsidiaries?

N.S. Kannan Our discussions with the respective regulators in this regard continue. We believe that some amount of dividend from the

overseas subsidiaries and some capital repatriation can happen over a period of time.

Rajeev Verma: In terms of the loan mix, most of your slippages have been coming from the SME and the mid-corporate segments. While the SME segment is about 4.5% how much would the mid-corporate segment size be in your overall loan book?

N.S. Kannan: There is no standard definition of mid or large size corporate and we have not given any mix of the loan portfolio in those terms as such.

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

Saikiran Pulavarthi: The cost growth has been much lower than the income growth for quite some time. Would this trend continue going forward?

N.S. Kannan: Our endeavor would be to keep the cost-to-income ratio below 40%.

Saikiran Pulavarthi: Why have employee costs been growing at a slower pace while the retail book has been growing?

N.S. Kannan: The overall growth of employee expenses has not been in line with the growth in the retail book as wage pressures are muted in the current economic environment.

Rakesh Jha: Also, there has been a benefit in employee expenses on account the movement in government securities yield which resulted in lower provisions on retirals.

Saikiran Pulavarthi: Ok. How do the vintage curves on the SME book and the retail book compare to the last cycle?

Rakesh Jha: The retail segment has not seen any worsening in trends in any of the products. We did see some increase in delays in payments on the commercial vehicle portfolio but even in terms of that portfolio, NPL additions have not been significant

The SME segment continues to witness stress. We have seen additions to NPLs and incremental restructuring from this segment. The Bank has a calibrated approach to growth in the SME segment in view of the weak operating environment.

N.S. Kannan: The relative growth in each of these portfolios reflects our approach to lending and the asset quality stress in each of these portfolios. We are happy with the overall growth of the retail book and within that the secured loans. We have seen a reduction in the CV portfolio by 17% on a year-on-year basis while the SME book has declined by 5.5% on a year-on-year basis. As a result, SME accounts for ~4.3% of our overall loan book.

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: We have seen a lot of CCI clearances over the last 3 or 4 months. Has this resulted in incremental corporate loan sanctions?

Anindya Banerjee: The CCI clearances are mainly with respect to the existing projects which were stuck or where there was some approval pending. The clearances would aid in existing projects achieve completion and start generating cash flows, but not necessarily result in new loan demand.

Bajrang Bafna: Is the guidance on restructuring purely based on CDR cases? Are we seeing some bilateral restructurings as well?

N.S. Kannan: Currently our pipeline of cases that have been referred to CDR is about ₹ 30 billion and there could be additions to that. Last quarter

would have seen a few bilaterals, but the cases being restructured are largely cases referred to CDR.

Moderator: Thank you. The next question is from the line of Alpesh Mehta from Motilal Oswal Securities. Please go ahead.

Alpesh Mehta: First of all, what is your outstanding provision on the loans restructured so far?

Rakesh Jha: It is about slightly below ₹ 10 billion.

Alpesh Mehta: While reporting restructured loans, do you net this ₹ 10 billion?

N.S. Kannan: Yes, it is the net outstanding restructured loans.

Alpesh Mehta: So the gross portfolio would be about ₹ 96 billion?

Rakesh Jha: Yes.

Alpesh Mehta: Secondly, in the retail portfolio, the others category has grown sharply on a YoY and sequential basis. Is it because of agri-related lending?

Rakesh Jha: The increase is primarily due to the rural lending products.

Alpesh Mehta: In the housing loan portfolio, what is the LAP proportion?

Anindya Banerjee: Less than 20%.

Alpesh Mehta: Lastly, in this quarter, ICICI Home Finance's book has also grown. Incrementally are we booking loans in HFC or it is still happening through the Bank?

N.S. Kannan: It has largely been happening through the Bank. HFC also does some business.

Moderator: Thank you. The next question is from the line of Surendra Chetty from UBS. Please go ahead.

Surendra Chetty: Are there any funding plans through a USD bond issuance in the near future?

N.S. Kannan: There are no immediate plans of a USD bond issuance as we just concluded one in the third quarter of 2014. Also, we look fund raising based on the client demand for foreign currency funds and the market conditions prevailing at that point of time.

Moderator: Thank you. The next question is from the line of Puneet Maheshwari from ICRA Limited. Please go ahead.

Puneet Maheshwari: Sir, can you share what is cost of FCNR deposit mobilized under RBI's window?

N.S. Kannan: LIBOR plus 400 plus swap cost.

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

Adarsh P: There are a lot of construction companies and some shipbuilding companies as well where the nature of the business requires a lot of non-fund based exposure to these companies. I wanted to understand that when we give the CDR pipeline, do these non-fund based limits crystallize and get added to the restructured loans?

N.S. Kannan: If it gets converted into a funded exposure, it gets crystallized and is included in the restructuring.

Adarsh P: How much of the outstanding non-fund based exposure do you think could get crystallized over the next 1-2 years?

Rakesh Jha: Non-fund based exposures may not get crystallized over the next one to two years as the restructuring would include devolvements or invocations up to the point of restructuring. Thereafter, as long as the company is a going concern and performs its obligation there are usually no devolvements or are not material.

N.S. Kannan: The idea of CDR and restructuring is also to put in a structure which enables the company to function while undergoing a financial restructuring, and performance guarantees may not get invoked at a later date if the company continues to function and fulfill the contractual obligations underlying the guarantees.

Adarsh P: Do you have reasonably large non-fund based exposures to the four or five large cases in the restructuring pipeline?

N.S. Kannan: That has been the case in the past as well with respect to certain cases. For example as you said the construction sector will have had large non-fund facilities but that is not led to additional increase in restructured assets that has happened over the last 2 years or so

Moderator: Thank you. Participants that was the last question. I now hand the floor back to Mr. N. S. Kannan for closing comments. Thank you. Over to you, sir.

N.S. Kannan: Thank you again for joining this call. My team and I will be available to take any further questions offline. Thank you once again.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of ICICI Bank, that concludes this conference call. Thank you for joining us.