ICICI Bank Limited
Earnings Conference Call – Quarter ended March 31, 2016 (Q4-2016)
April 29, 2016

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Moderator Ladies and Gentlemen, Good Day and Welcome to ICICI Bank's Q4- 2016 Earnings Conference Call. As a remainder, all participant lines are in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mrs. Chanda Kochhar – Managing Director and CEO of ICICI Bank. Thank you and over to you, ma'am.

Chanda Kochhar Good evening to all of you. I will make brief opening remarks and then Kannan will take you through the details of the results.

We have been following a three-fold focus during the year:

1. To continue to enhance the franchise to capitalise on growth opportunities;
2. To work towards resolution of exposures in the context of the challenges facing the corporate sector; and

3. To maintain and enhance the strength of our balance sheet with robust capital levels.

We continue to make progress on these focus areas.

1. We sustained the robust growth in our loan portfolio. The retail portfolio grew by 23.3% and now constitutes 46.6% of total loans. The overall domestic loan growth was 16.4%.
2. This loan growth continues to be backed by a very healthy deposit franchise. Savings account deposits grew by 16.9% in FY2016. For the full year, we saw an addition of 193.70 billion Rupees to savings deposits and 93.50 billion Rupees to current account deposits. The CASA ratio was 45.8%, and retail deposits were about 74% of our total deposits.
3. Our retail franchise continues to expand. We now have a network of 4,450 branches and 13,766 ATMs, and best-in-class digital and mobile platforms, with a number of new innovations.
4. On credit quality:
    a. We have completed the exercise of review of classification of cases highlighted by RBI in the Asset Quality Review, or AQR.
    b. We continue to work towards resolution and reduction of exposures through sale of assets and deleveraging, as can be seen in some of the recently announced transactions.
    c. The weak global economic environment, the sharp downturn in the commodity cycle and the gradual nature of the domestic economic recovery has adversely impacted the borrowers in certain sectors like iron and steel, mining, power, rigs and cement. While the banks are working towards resolution of stress on certain borrowers in these sectors, it may take some time for solutions to be worked out. In view of the above, the Bank

has on a prudent basis made a collective contingency and related reserve of 36.00 billion Rupees during Q4-2016 towards exposures to these sectors. I want to emphasise that this is over and above provisions made for non-performing and restructured loans as per RBI guidelines.

5. We ended the year with a very strong capital position, with Tier-1 capital adequacy of 13.09% and total capital adequacy of 16.64%, well above regulatory requirements.

I would like to mention that we have decided that the senior management would not receive performance bonus for FY2016. Performance bonus would however be paid to employees in the grades of Deputy General Manager and below.

The Bank's strategic priorities for FY2017 can be summarised in the following 4 x 4 Agenda covering Portfolio Quality and Enhancing Franchise:

On Portfolio Quality

1. Proactive monitoring of loan portfolios across businesses – in this context, we have provided further information on our portfolio in key sectors in the presentation;
2. Improvement in credit mix driven by focus on retail lending and lending to higher rated corporates;
3. Concentration risk reduction; and
4. Resolution of stress cases through measures like asset sales by borrowers and change in management; and working with various stakeholders to ensure that the companies are able to operate at an optimal level and generate cash flows.

On Enhancing Franchise

5. Sustaining the robust funding profile;
6. Maintaining digital leadership and a strong customer franchise;
7. Continued focus on cost efficiency; and
8. Focus on capital efficiency and further unlocking of value in subsidiaries

As I mentioned earlier, we have completed the RBI asset quality review process; created a contingency and related reserve of 36.00 billion Rupees; and ended the year with a Tier-1 capital adequacy ratio of 13.09%. We have substantial additional value in our subsidiaries. Given the above, we are well-positioned to pursue our strategy going forward.

I will now hand the call over to Kannan.

N. S. Kannan: I will talk in some more detail about our performance and outlook on: Growth; Credit Quality; P&L Details; Subsidiaries; and Capital.

A. Growth

Within retail, the mortgage and auto loan portfolios grew by 23% and 18% respectively. Growth in the business banking and rural lending segments was 15% and 25% year-on-year respectively. Commercial vehicles and equipment loans grew by 18%. The unsecured credit card and personal loan portfolio at 154.48 billion Rupees was about 3.5% of the overall loan book. The Bank continues to grow the unsecured credit card and personal loan portfolio primarily driven by its focus on cross-sell.

Growth in the domestic corporate portfolio was 7.2%. The Bank continues to focus on lending to higher rated corporates. The SME portfolio grew by 9.8% year-on-year and constitutes 4.3% of total loans.

In rupee terms, the net advances of the overseas branches decreased marginally by 0.3%. In US dollar terms, the net advances of overseas branches decreased by 6.0%.

Coming to the funding side: we saw an addition of 73.12 billion Rupees to savings deposits and 16.89 billion Rupees to current account deposits during the quarter. The daily average CASA ratio was at a healthy level of 40.5%. Total deposits grew by 16.6% in FY2016 to 4.21 trillion Rupees.

Looking ahead at FY2017, we would target domestic loan growth at around 18%, driven by about 25% growth in the retail segment. Growth in domestic corporate loans is expected to be 5-7% given the Bank's focus on lending to higher rated corporates and reducing concentration risk in its portfolio. The SME segment is expected to continue to grow at around 15%. The portfolio of overseas branches is expected to further decline in US dollar terms. We would continue to focus on sustaining a strong funding profile with an average CASA ratio in the range of 38-40%.

B. Credit Quality

During the fourth quarter, the gross additions to NPAs were 70.03 billion Rupees compared to 65.44 billion Rupees in the previous quarter. Slippages from the restructured portfolio were 27.24 billion Rupees in Q4 of 2016 compared to 13.55 billion Rupees in Q3 of 2016.

During the quarter, deletions from NPA due to recoveries and upgrades were 7.81 billion Rupees and sale of NPAs was 7.09 billion Rupees. The Bank has also written-off 1.48 billion Rupees of NPAs. The net NPA ratio was 2.67% as of March 31, 2016. The gross NPA ratio was 5.21%. The provisioning coverage ratio on non-performing loans, including cumulative technical/prudential write-offs, was 61.0%%. Excluding

cumulative technical/prudential write-offs, the provisioning coverage ratio was 50.6%.

The net restructured loans reduced to 85.73 billion Rupees as of March 31, 2016 from 112.94 billion Rupees as of December 31, 2015. During Q4 of 2016, the Bank implemented Strategic Debt Restructuring, or SDR, for loans aggregating about 12 billion Rupees. All these loans were existing non-performing or restructured loans. As of March 31, 2016, the Bank had outstanding SDR loans of about 29.33 billion Rupees, comprising primarily loans already classified as non-performing or restructured. The Bank is currently considering SDR for additional loans aggregating approximately 5 billion Rupees.

The aggregate net NPAs and net restructured loans increased by 5.62 billion Rupees from 213.08 billion Rupees at December 31, 2015 to 218.70 billion Rupees at March 31, 2016.

During Q4 of 2016, the Bank implemented refinancing under the 5/25 scheme for loans aggregating about 6.80 billion Rupees. The outstanding portfolio of loans for which refinancing under the 5/25 scheme has been implemented was about 42.40 billion Rupees as of March 31, 2016. The Bank is currently considering 5/25 refinancing for further loans aggregating approximately 7.50 billion Rupees.

We expect the challenging operating and recovery environment for the corporate segment to continue in FY2017. RBI would continue with its objective of early and conservative recognition of stress and provisioning; and the approach of banks would also reflect a more conservative stance. Slippages from the restructured portfolio are expected to continue. While the banks would continue to work towards resolution of stress in corporate loans, there could be delays in implementing solutions. Transactions recently announced by certain borrowers, along with others under discussion, would result in deleveraging of borrowers and reduction of the Bank's exposure.

However, in view of the factors mentioned above, there are significant uncertainties around future trends and it is expected that NPA additions will continue to be at elevated levels in FY2017.

In the presentation that we have made available today, we have provided additional information on the portfolio. There are uncertainties in respect of certain sectors due to the weak global economic environment, sharp downturn in the commodity cycle, gradual nature of the domestic economic recovery and high leverage. The key sectors in this context are power, iron & steel, mining, cement and rigs. On slide 28 of the presentation, we have provided the exposure, comprising both fund-based limits and non-fund based outstanding, to all companies in these sectors that are internally rated below investment grade across our domestic corporate, SME and international portfolios; and to promoter entities internally rated below investment grade where the underlying partly relates to these sectors. This excludes companies that are already classified as non-performing or restructured. The aggregate exposure to these companies has reduced by about 20.00 billion Rupees during FY2016, after excluding the impact of currency depreciation. We are approaching these exposures as follows:

1. Working with borrowers for reduction and resolution of exposures through asset sales and deleveraging
2. Created collective contingency and related reserve of 36.00 billion Rupees
3. Maintained strong Tier-1 capital adequacy of 13.09%
4. Holding substantial value in subsidiaries: our insurance holdings are valued at 330.00 billion Rupees based on concluded transactions and there is further significant value in other domestic subsidiaries.

The Bank has a monitoring and action plan with a focus on reducing these exposures. Going forward, the Bank will provide a quarterly update on these exposures.

C. P&L Details

Net interest income increased by 6.4% year-on-year to 54.04 billion Rupees in Q4 of 2016. The net interest margin was at 3.37% in Q4 of 2016 compared to 3.53% in the preceding quarter. The domestic NIM was at 3.73% in Q4 of 2016 compared to 3.86% in the preceding quarter. International margins were at 1.62% in Q4 of 2016 compared to 1.94% in the preceding quarter. There was an impact of about 10-12 basis points on the net interest margin in Q4 of 2016 on account of non-accrual of income on the higher level of additions to non-performing assets. Further, the international margins in Q4 of 2016 were also lower on account of bond issuance expenses and excess liquidity during the quarter.

Total non-interest income increased by 46.1% year-on-year to 51.09 billion Rupees in Q4 of 2016.

- Fee income was 22.12 billion Rupees. Retail fees grew by 13.0% year-on-year in FY2016 and constituted about 64.8% of overall fees for the year compared to 61.0% in FY2015. Corporate fee income continues to remain impacted by subdued corporate activity.

- Treasury recorded a profit of 21.90 billion Rupees. Following the receipt of requisite approvals, the Bank completed the sale of 9.0% shareholding in ICICI General to Fairfax Financial Holdings and 2.0% shareholding in ICICI Life to Temasek. The aggregate profit from both the transactions was 21.31 billion Rupees.

- Other income was 7.07 billion Rupees. The dividend from subsidiaries was 4.73 billion Rupees and the Bank had exchange rate gains relating to overseas operations of 2.61 billion Rupees in Q4 of 2016.

On Costs: For the full year fiscal 2016, the cost-to-income ratio was at 34.7% compared to 36.8% in fiscal 2015. Excluding the positive impact of sale of shares of ICICI Life and ICICI General, the cost-to-income ratio would have been 38.2%. Operating expenses increased by 10.3% year-on-year. Employee expenses increased by 5.3% year-on-year. The provisions for retirement benefits were lower in fiscal 2016 compared to fiscal 2015 due to movement in yields. Excluding the provisions for retirement benefits, employee expenses increased by about 8% on a year-on-year basis. During fiscal 2016, the Bank added about 6,239 employees primarily in front-line roles in the retail and rural banking business. Non-employee expenses increased by 13.9% year-on-year in fiscal 2016 primarily on account of the larger distribution network and higher retail lending volumes.

Provisions for Q4 of 2016 were at 33.26 billion Rupees compared to 28.44 billion Rupees in Q3 of 2016. For the full year FY2016, provisions were 80.67 billion Rupees compared to 39.00 billion Rupees in FY2015.

The Bank’s profit before collective contingency and related reserve and tax was 37.82 billion Rupees in Q4 of 2016 compared to 41.24 billion Rupees in Q4 of 2015. For the full year FY2016, the profit before collective contingency and related reserve and tax was 157.96 billion Rupees compared to 158.20 billion Rupees in FY2015.

After taking into account the collective contingency and related reserve and tax, the Bank’s profit after tax was 7.02 billion Rupees in Q4 of 2016. For the full year FY2016, profit after tax was 97.26 billion Rupees compared to 111.75 billion Rupees in FY2015.

Looking ahead, the yield on advances for ICICI Bank in FY2017 would be impacted by the shift in the loan portfolio mix towards secured retail and higher rated corporates, reduction in yields where exposure is migrating to stronger sponsors and non-accrual of income on the higher level of additions to non-performing assets. Accordingly, we expect net interest margins for FY2017 to be about 20 basis points lower compared to the Q4-2016 level.

With respect to other operating parameters, we would target double digit growth in fee income in FY2017, led by retail fees. The overall fee income growth would depend on market conditions, particularly activity in the corporate sector, as well as regulatory measures with respect to various components of fee income. The Bank would continue to focus on cost efficiency, while investing in the franchise as required. We expect operating expenses to grow by around 15% during FY2017.

Given the uncertainties around the corporate segment explained earlier, and the ageing-based provisions on existing NPAs, provisions are expected to remain elevated in FY2017

The significant value creation in the ICICI Group has been demonstrated by recent transactions in insurance subsidiaries. The Board of Directors of the Bank has today approved sale of a part of its shareholding in ICICI Life through an initial public offering by the company, subject to market conditions and necessary approvals. The size and other details of the offer would be determined in due course.

D. Subsidiaries

The profit after tax for ICICI Life for FY2016 was 16.50 billion Rupees compared to 16.34 billion Rupees in FY2015. The company continues to retain its market leadership among the private sector players and had an overall market share of 11.3% in FY2016.
The profit after tax of ICICI General was 5.07 billion Rupees in FY2016

compared to 5.36 billion Rupees in FY2015, despite the impact of the Chennai floods, higher weather insurance claims and normalisation of tax rate in FY2016. The profit before tax increased from 6.91 billion Rupees in FY2015 to 7.08 billion Rupees in FY2016. The gross written premium of ICICI General grew by 20.2% on a year-on-year basis to 83.07 billion Rupees in FY2016 compared to about 13.8% year-on-year growth for the industry. The company continues to retain its market leadership among the private sector players and had a market share of about 8.4% in FY2016.

The profit after tax for ICICI AMC increased by 32.0% from 2.47 billion Rupees in FY2015 to 3.26 billion Rupees in FY2016. With assets under management of over 1.8 trillion Rupees, ICICI AMC has become the largest mutual fund in India. The profit after tax for ICICI Securities was at 2.39 billion Rupees in FY2016 compared to 2.94 billion Rupees in FY2015. The year-on-year decrease in profits was on account of decrease in brokerage revenues due to lower secondary market retail trading volumes.

In line with the strategy of rationalising capital invested in overseas subsidiaries under its approach to capital allocation, during Q4 of 2016, the Bank received further capital repatriation of 87.1 million Canadian Dollars from ICICI Bank Canada, comprising 50 million Canadian Dollars of equity capital and 37.1 million Canadian Dollars of preference share capital. The Bank's total equity investment in ICICI Bank UK and ICICI Bank Canada has reduced from 11.0% of its net worth at March 31, 2010 to 4.8% at March 31, 2016.

As per IFRS financials, ICICI Bank Canada's total assets were 6.51 billion Canadian Dollars as of March 31, 2016 and loans and advances were 5.75 billion Canadian Dollars as of March 31, 2016. For the full year FY2016, profit after tax was CAD 22.4 million compared to CAD 33.7 million in FY2015. The lower profits were primarily on account of higher

provisions on existing impaired loans. The capital adequacy ratio of ICICI Bank Canada was 23.6% at March 31, 2016.

ICICI Bank UK's total assets were 4.60 billion US Dollars as of March 31, 2016. Loans and advances were 3.14 billion US Dollars as of March 31, 2016. For the full year FY2016, profit after tax was 0.5 million US Dollars compared to 18.3 million US Dollars in FY2015. The lower profits were primarily on account of higher provisions on existing impaired loans. The capital adequacy ratio was 16.7% as of March 31, 2016.

The consolidated profit before collective contingency and related reserve made by the Bank and tax was 38.85 billion Rupees in Q4 of 2016 compared to 46.29 billion Rupees in Q4 of 2015. For the full year FY2016, the consolidated profit before collective contingency and related reserve made by the Bank and tax was 179.04 billion Rupees compared to 183.39 billion Rupees in FY2015.

After taking into account the collective contingency and related reserve made by the Bank, the Bank's consolidated profit after tax was 4.07 billion Rupees in Q4 of 2016. For the full year FY2016, profit after tax was 101.80 billion Rupees compared to 122.47 billion Rupees in FY2015.

E. Capital

The Bank had a Tier 1 standalone capital adequacy ratio of 13.09% and total capital adequacy ratio of 16.64%. The Bank's Tier 1 consolidated capital adequacy ratio was 13.13% and total consolidated capital adequacy ratio was 16.60%. The capital ratios are significantly higher than regulatory requirements.

The Bank's pre-provisioning earnings, strong capital position and value created in its subsidiaries give the Bank the ability to absorb the impact of a challenging environment while driving growth in identified areas of

opportunity. Based on the current regulatory framework and accounting standards, we expect the common equity Tier 1 ratio to be above 11% till March 31, 2018.

To sum up, during FY2016,

- the Bank achieved continued healthy loan growth driven by the retail portfolio, in line with its capital allocation framework;
- maintained a robust funding profile; and
- commenced value unlocking in insurance subsidiaries.
- There was a significant shift in asset quality trends in H2-2016 due to global and domestic economic factors and the regulatory approach, which impacted the Bank's asset quality ratios, provisions and net interest income.
- In view of the environmental factors impacting corporate exposures in certain sectors in the banking system, the Bank made a collective contingency and related reserve of 36.00 billion Rupees on a prudent basis.
- The Bank continues to maintain healthy capital adequacy ratios.

We will now be happy to take your questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. First question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: I had a couple of questions; firstly, what was your AQR related slippages, same as Rs.42-43 billion?

N.S. Kannan: Mahrukh, last quarter we had mentioned that the total slippage was about Rs. 65 billion, out of that, we said two-third of that amount was related to AQR slippages and we mentioned that a similar number could be NPL this quarter. So it is broadly a similar amount.

Mahrukh Adajania: Just in terms of your contingency provisions, so I know that you clarified that it is for the stress sectors and you mentioned the stress sectors, but how do we view this as in, is this provision to take care of a large part of slippages that you think would occur next year or how do you view these contingency provisions and any guidance therefore that you can give on credit cost or slippages?

Rakesh Jha: As we explained earlier, the rationale for creation of the reserve is the uncertainties which are there among these select sectors. We have talked about individual sectors like power, mining, steel, cement, rigs and promoter entities where the underlying is partly linked to these key sectors. We have talked about internally 'below investment grade' rated exposures. We are currently working with borrowers for reduction and resolution of exposures through asset sales and deleveraging. In many of them we have seen progress happening in terms of asset sales or change in management. Some of the transactions, as you are aware, are progressing. Of course, RBI also is looking at banks tightening their asset classification norms. So, in the context of all of these things, we thought that as a prudent measure, it would be good for us to strengthen our balance sheet by creating the collective contingency and related reserve which is over and above the NPA and the restructured provisions that we hold. So that is the context in which we have created this reserve towards the exposures that we have highlighted in our presentation.

Mahrukh Adajania: Any guidance on credit cost? As in you said credit cost would be elevated. So, your normal credit costs are Rs.80 billion, and then if you add contingency Rs.116 billion. So any indication of what you mean by elevated level?

Rakesh Jha: It is completely a function of what we see in terms of the addition to NPAs in the coming year. Further, given that this year's addition to NPAs have been high, ageing provisions on that will definitely come in the next couple of years. We would expect some amount of slippages to

happen from the exposures that we have talked about in our presentation. In fact, we expect that bulk of the slippages that happen from the corporate portfolio would come from the set of exposures that we have covered in the presentation. As I said earlier, we are working on various steps in terms of these exposures, some of them are progressing quite well. So it is pretty difficult to give a precise estimate on how the things will progress in terms of NPA additions and that is why we are not putting out any specific number. Overall, one should factor in RBI's conservative approach and the point that we would also want to be conservative going forward.

N.S. Kannan: In this context, what we thought appropriate at this juncture was to talk about this bucket of exposures, which we have put out today and focus on each of these exposures in terms of resolution. We will have to wait and see the timing of the resolution and how the exposures get resolved. So, as we wait for that we thought it is appropriate to strengthen the balance sheet. So that is the approach we have taken. The efforts will be on and we will also tell you on a quarterly basis on what happens to the bucket.

Mahrukh Adajania: Just in terms of provisioning cover again, would you have a provisioning cover in mind that at all times we would maintain a certain provisioning cover. So, currently excluding the write-offs, it is around 50%, that you had some provisioning cover like 50%-55%, either excluding or including write-offs in your mind?

Rakesh Jha: It is not the provision coverage number that we in general target. We have talked about it earlier, that our provisioning on the NPAs is largely based on the RBI guidelines. Based on our past experience and especially for the bulk of NPAs where we have collateral on the ground, we do expect recovery to be there. So, we broadly believe that the level of coverage that we hold is sufficient, but indeed with the elevated level of NPA additions happening over the last couple of quarters, the

coverage ratio has come down from the level where it was earlier. I think as the NPA additions at some stage start declining is when we would start seeing an increase in the coverage ratio. Given the overall quality of the NPA portfolio in terms of the collateral which is there, coverage which is around 60% including the technical write-offs is something that we believe is sufficient.

Chanda Kochhar: First of all we should distinguish between provisions and reserve. So, the collective contingency and related reserve that we have created and the provisions for the year are separate line items. The reserve is not included in the provision cover.

Mahrukh Adajania: Have you included any benefit from deferred tax in your capital adequacy?

N.S. Kannan: We have done that and that is reflected in our Tier-1 capital adequacy and the total capital adequacy ratio.

Mahrukh Adajania: How much of DTA?

N.S. Kannan: All the different components put together, including DTA, FCTR and revaluation reserve had a positive impact of about 90 basis points on the Tier-1 capital adequacy ratio.

Moderator: Thank you. Next question is from the line of Vishal Goel from UBS. Please go ahead.

Vishal Goyal: A couple of things. Now, I think we have given the drill down of 4-6 sectors, which you said that is below investment grade as per the internal ratings. What would be the rest of the below investment grade number in terms of percentage exposure?

N.S. Kannan: So that we have not really given out, Vishal. What we thought was that we should focus on what is really an area where we should be focusing in terms of the resolution as well as NPL formation. We believe that bulk

of the NPL will really come out of these six segments we have talked about today. So we would rather focus on this.

Vishal Goyal: So would you be disappointed if like there are NPAs coming outside of this six this bucket which you have given which is like roughly Rs.440 billion?

N.S. Kannan: There will always be some NPL which will come outside of the exposures that we have disclosed. When we look at the NPL formation, we expect that bulk of the NPLs will come out of these six segments and the restructured loans of about Rs. 85 billion. The restructured portfolio itself, as I mentioned in my speech, has come down over a period of time.

Vishal Goyal: Also, I think it would have been great if you could have given some collateralisation level for this stress bucket which you just discussed, so that we get some sense on the loss given defaults. Any indicative sense on that you can provide?

Rakesh Jha: Vishal, we will consider that in future. As of now, we do not have sector-by-sector collateral details.

Vishal Goyal: No, not even sector, even let us talk about this Rs.525 billion, we want some sense so that like people can think about the provision cover what do you want to have eventually?

Rakesh Jha: If you look at the sectors, you typically see that sectors like steel or power or cement will definitely be pretty well collateralised with land, plant and machinery. We have not given any specific numbers on the collateral.

Chanda Kochhar: But, in today's environment, I think, collateral apart, it also depends on the time taken to resolve the exposure. Our focus really has been to arrive at resolution and that is what we will monitor.

Vishal Goyal: On life insurance, I could not find the NBAP margins. Have you disclosed that or what is the number?

Anindya Banerjee: Anindya here. No, we have not disclosed that. As we have announced, the company will now start taking steps towards the IPO. I think those disclosures will happen at a later stage.

N.S. Kannan: Vishal, the trajectory we had expected, which we had articulated in the previous calls, is continuing. There is no concern whatsoever about the margins, it is just that procedurally actuarial and other procedures we will have to start doing now and that is why it has not been disclosed.

Vishal Goyal: In the NPL formation, can you give us split between like retail and the corporate?

Rakesh Jha: We have reported the retail NPLs in the presentation. Retail NPAs have gone up from about Rs.36.97 billion at December 31, 2015 to Rs.38.25 billion at March 31, 2016. Bulk of the NPA additions are coming from the corporate segment. Retail asset quality is extremely stable across each of the segments. So if you look at the additions that Kannan talked about of Rs.70 billion for Q4-2016, bulk of it is corporate only.

Vishal Goyal: Even for the full year?

Rakesh Jha: Even full year, if you look at the gross retail NPAs at the beginning of the year, it was Rs.33.78 billion and at the end of the year it was Rs. 38.25 billion.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Do we see any spill over of large corporate NPAs impacting SMEs and MSMEs as they might face cash flow liquidity issues?

N.S. Kannan: In fact, as we have articulated in the previous several quarters, in our case, some of the impact of receivables getting delayed or some of the vulnerabilities have first been faced by the SMEs. They were most vulnerable and some of the NPL formation we have seen in the previous quarters has been from the SME segment. Further, SME itself in terms of portfolio is about 4.3% of that overall loan book. So incrementally, we do not expect any significant NPL formation from that portfolio for us.

Prakash Kapadia: In terms of your retail focus, we have obviously done very well. So just wanted to understand your thoughts, mortgage has to continue to grow at a very rapid pace for us to grow the retail book by 25%. So what is happening on the ground given the volume decline in property transactions, how do we continue to grow; is it market share gains or newer cities?

Rakesh Jha: Overall, if you look at the market and at the lending by banks in the mortgage segment, based on the recent data which RBI publishes, the growth was about 19%. Broadly, the growth in mortgage segment for banking system has been in the range of 17-19%. Further, quite a few of the government-owned banks are not really growing at that pace. So we believe that there is ample opportunity for us to grow the mortgage portfolio between 23-25% going forward. So while the number of transactions have indeed slowed down in parts of the larger cities including may be a couple of metro cities, the demand continues to be healthy in Tier-2 locations and other cities. We are very confident of the growth on the mortgage side. As you would have seen in our numbers, the growth in the other segments also has been pretty strong including car loans.

Prakash Kapadia: Right, exactly, that was my next question; these market share gains will they continue, is it some DSA tie-up, is it market share gain, is it aggressive, is it better pricing, what is helping us in some of the other segments?

Rakesh Jha: Two things - one is that I think clearly there is an opportunity for the private sector banks to grow because a number of government-owned banks are really not consciously growing today. So, you would see that most of the private sector banks, including us, are growing at around 24-25%. It is not that one has to really compete in terms of pricing or going down the credit curve in terms of getting these growth numbers. In fact, we are being pretty cautious in terms of growing the portfolio profitably. So if you look at our car loan portfolio, we have not grown it as much as some of the other parts of the portfolio. As we cross sell more and more to our customers, we are seeing increased growth on the personal loans and credit cards side; bulk of that growth is driven by loans and cards being issued to our existing customers. So for the overall retail portfolio, the momentum is strong and in the near future, we see clear visibility for 24-25% growth to continue without kind of compromising at all on credit quality.

Moderator: Thank you. The next question is from the line of Nilesh Parekh from Edelweiss Securities. Please go ahead.

Nilesh Parekh: Just two questions on that; one in terms of the overall pool of about Rs.440 billion, can just give some color in terms of when was this exposure originated? Second, is that a case of overleveraging or it is clearly a business cycle gone wrong?

Rakesh Jha: In terms of origination, before March 2013 - bulk of the growth which came in was in FY2011 and FY2012 in the corporate portfolio. So if you look at the last couple of years, we really have not seen any growth in these kinds of exposures, we may have seen some increase in the overall exposure to these sectors, because we have lent to the better-rated clients in these sectors. But, this set of clients, the growth is something which has happened more like three years back and since then of course there are quite a few things that we have kind of looked at tightening in terms of our own lending strategy. One of the key

aspects has been on the concentration risk where we have put in a lot more of internal limits, which are much tighter than what RBI prescribes. So that is something which we have put in place and of course the overall corporate loan growth has come down as well in the recent years.

N.S. Kannan: Just to supplement that; clearly, the reasons have been the general global economic outlook and gradual domestic recovery; and on this got superimposed the commodity price decline as well as issues around the project delays in the country. So these have been the primary reasons. If you look at the sectors itself you can see that largely project infrastructure and commodity-related sectors have been impacted. If I look at the growth in the corporate portfolio overall since March 2013, our growth itself for the domestic corporate portfolio has been around 8.3% compounded annual growth rate.

Nilesh Parekh: So when we talk about as one of the resolution mechanism of asset sales and deleveraging, we clearly are not expecting an improvement in the business cycle? If it was more a case of business cycle probably over the next couple of years, part of these problems could get resolved. Could it be a case where there has been an overleveraging which has happened and that is where the pursuit to reduce the exposures?

N.S. Kannan: Yes, some of that has clearly been because of leveraging, but the fact is that, if we are looking at a steel kind of an exposure, clearly, the commodity cycle has played a major role and we have also been on our part working with the promoters, and some of the reduction you have seen which we have put out in the slide is also because of the resolution, which has happened and our loans have got paid out. Yes, of course, in this kind of economic environment, the resolution process or asset sales process can be slow and which has happened. But otherwise, it will be a combination of little bit of cycle getting better as well as the continued

asset sales. Promoters have sold both core as well as non-core assets and our own push has been towards that direction.

Chanda Kochhar: Yes, absolutely, therefore, whatever reduction has happened in the recent past is mainly by our working with the promoters for them to sell either their core or non-core assets, we have not really seen any commodity price increase or growth really lead towards reduction of that exposure. Going forward as we are saying what we are focusing on is the action plan that we can work on. If the environment improves, that would be an added advantage, but right now what we are focusing on is that we cannot predict the environment, let us focus on the action plan that we can get executed.

Nilesh Parekh: So last month there have been a couple of articles that there has been a debt swap for land for the reduction in debt. So are we open to similar kind of deals and how as an analyst we should look at this kind of resolution taking place where ICICI Bank is actually converting the debt into the fixed assets?

N.S. Kannan: These kinds of things happen on a very selective basis in a few cases.

Chanda Kochhar: That too for part of the exposure.

N.S. Kannan: Yes, you will see one odd case here and there. It is not our primary mode of resolution at all. So it is more like we evaluate all the options and if we think it is in the best interest of ICICI Bank, we look at debt asset swap for a part of the exposure. So it will be a few cases on a selective basis. That is how we will approach debt asset swap.

Nilesh Parekh: Kannan, you spoke about that margins would be about 20 bps lower. Is it compared to Q4-2016 or the full year FY2016?

N.S. Kannan: I was talking about the outlook for FY2017 vis-à-vis-à-vis the fourth quarter of fiscal 2016. We will endeavour to get the margins up, but the important thing is that we will have to look at the stopping of accruals

on the higher number we have seen in terms of formation of NPLs and also in terms of our own articulated approach towards the asset quality improvement is to grow our lending to better-rated clients in the corporate segment. I think that is something which is worth doing while we focus on the quality of our portfolio.

Nilesh Parekh: But some reduction in the international because international book will be growing slower, so from a blended mix there could be some upside, which could play out, right, because otherwise from a full year basis, what you are guiding for is roughly 30 bps reduction for FY2017?

N.S. Kannan: You are right, on the international side, yes, the Q4 number was particularly impacted because of two reasons - one is the bond issue expenses; other is that in the short term we have been staying liquid. So yes, of course, our endeavour would be definitely to improve the international margins but overall we thought that we should focus a lot more on the asset quality improvement rather than getting too concerned about the margin at this stage. That is what I meant.

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

Suresh Ganapathy: I just had a qualitative question. We just want to understand the difference between RBI's Asset Quality Review versus what you are actually quantifying in terms of stress say over the course of next one year. If I were to go by numbers, the NPL formation on account of RBI's Asset Quality Review is about Rs.80 billion. But the guidance actually what you are giving is that a lot more is likely to come from the pool of Rs.440 billion plus obviously some additional NPLs which will come in. So it looks like the review has not been very comprehensive and there is still far more stress existing in the banking sector. Is that the right interpretation that we should take forward?

Rakesh Jha: I do not think RBI had said they have done a comprehensive Asset Quality Review which is taking into account what all could slip over the next two-years. They looked at specific assets at a point of time and they had some views on those assets in terms of how the banks were looking at those assets versus what their view was. Indeed that is one of the reasons why they have said that they would expect a change in approach of banks. Of course, they have changed their approach and banks would have to kind of also follow suit and look at things in a more conservative manner in terms of how the assets are classified. So I think it is not a fair comparison to compare what happened because of AQR and what is the residual stress, which possibly could be there in the system. That is to my mind the key difference in terms of how AQR looked at it and what banks may be talking about their exposures.

Suresh Ganapathy: Has the entire approach become a more subjective approach, because early it used to be 90-day formula basis the moment it crosses 90-day but now maybe as a bank you might have to take a call on the 80th day or the 75th day that "Look, I am going to go and classify this as an NPL." Is that attitude changing, is that approach changing even in your organisation?

Rakesh Jha: That will actually change two years from now when banks move to IFRS/ Ind AS and at that point of time, it will be a completely subjective assessment. Currently, it is not that RBI has changed any of its guidelines around the 90 day plus classification. But they are looking at things like delays in projects and how the borrowers have been getting their funding, are they borrowing from banks to repay other banks. Those kind of additional parameters, subjective elements are definitely things which have come into it. So I think some of the numbers that banks may be talking about over the next year or two are definitely going to be reflecting an approach which is more conservative than what was there in the past. From an accounting point of view, it does impact the NPL formation. But, from our point of view, we are more focused on

how we can ensure that we recover on these accounts and those are the steps that we are taking. As I mentioned earlier, it is not that all the exposure that we have talked about in these sectors is entirely going to become NPA. That is not the thought at all. We are working on these assets and we already have plans in place and many of the borrowers have taken steps and we would see those resolutions happening.

Moderator: Thank you. Next question is from the line of Dharmesh Gupta from Trivantage Capital. Please go ahead.

Dharmesh Gupta: My first question is that right now all the big private banks are guiding for growth in either retail assets or highly-rated corporate assets. So given that do we see a lot of competition resulting into lowering of margins and is that the reason why you have guided for 20 basis point reduction in the NIMs? My second question was that in spite of this focus into highly rated corporate assets, other banks have already achieved or have guided for an increase in the NIMs. So what kind of colour can you throw on that?

Rakesh Jha: As Kannan mentioned earlier, the yield on advances would be impacted by the loan portfolio mix shift that we are seeing towards secured retail and high-rated corporates which is happening. There could be some reduction in yields, where exposure would be migrating to stronger sponsors in some of these cases that we talked about and there would be some non-accrual of income on NPLs. It is a mix of those things. The fact that the pricing will be competitive on retail and corporate segments is also factored into the outlook for overall margins that we are talking about.

Dharmesh Gupta: Can you also give us some sense of how much of your corporate book is the highly rated one and what kind of growth rates are we seeing in the highly rated corporate book?

Rakesh Jha: That will be a bit of a subjective thing in terms of highly rated. We have not given those disclosures separately. But overall if you look at the growth that we are seeing today on the corporate portfolio, almost entirely it would be coming from clients which would be highly rated. We are actively working to reduce some of our exposures which is offsetting some of the growth in the better rated clients.

Chanda Kochhar: We just want to clarify that the numbers that we have put out in those key sectors, they include fund-based limits and non-fund based outstanding.

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

Manish Karwa: You are saying that the watch list for you would be Rs.440 billion of these assets that you will watch and Rs. 85 billion of restructured assets. So most of the NPL that probably would come out over the next two years would come out of these Rs. 525 billion, would that be the right way to look at it?

N.S. Kannan: That is correct.

Manish Karva: All your SMA-2 exposures would be a part of this or most of them?

Rakesh Jha: So there are various ways in which you can look at it in terms of whether it is SMA-2 or SMA-1 or the delays in projects or other parameters. So all of that is factored in when we do the internal rating of our clients. This is the portfolio which on a regular basis has an independent rating done and based on that we have put out these numbers for each of the sectors. So, all of those would have got factored in. It is not necessary that all the SMA-2 cases may be here. That is not the criteria which is used here.

Manish Karwa: When you say resolution, what kind of a timeframe are you looking at -- would it be fair to look at from a perspective that over the next two-

years either most of these assets get resolved or they become NPL, would that be a right timeframe to look at?

Rakesh Jha: Over the next two years, I definitely think that in terms of the action plans that we have, I would expect actually almost all of that to materialise. In terms of slippage into NPA we have to wait and see how that kind of plays out. But yes, over the next two-years, bulk of the resolution that we are looking at that would play out.

N.S. Kannan: Just a couple of things I wanted to clarify; Rakesh mentioned about the approach which has been taken in terms of classifying this, essentially we have gone by the internal ratings for exposures in these sectors. So when we look at the internal rating, an independent risk management team looks at the internal ratings, which takes into account all the factors including the presence of these cases in the special mention account list which is sent to RBI. So we have tried to minimise the subjectivity as much as possible in arriving at this list. So that has been our approach in objectively putting out this because once I put this out I should be able to, with a fair amount of degree of certainty, put out on a quarterly basis an internally auditable list. That is what we have done in this approach. The second point I want to clarify is that while most of the NPA formation will come out of this bucket, I just wanted to say that we also have specific action plans for borrowers in these sectors, and we expect quite a few of these large cases to get resolved through asset sales and change in management. As you know some of these transactions have already been announced by the borrowers. So that is how we approach this bucket.

Manish Karwa: While there could be some slippages also that could come out of this, then would you use the contingent provision that you have made in the fourth quarter against some of the slippages that will probably happen from these accounts or you may want to continue with this contingent provision for some time just to keep the strength of the balance sheet?

Rakesh Jha: The reserve has been created to utilise against any of that slipping into NPA or getting restructured. So that is something that you should assume in the base case and we will utilise the reserve.

Manish Karwa: Just a small clarification; when you say contingent provision, is it contingent on a specific account becoming an NPL? In your mind there would be certain accounts against which you have made this contingent provision, is that right?

Rakesh Jha: That is why we called it a collective contingency and related reserve. So it is against this pool of borrowers that we have talked about in slide 28, it is against the fund-based limits and the non-fund based outstanding which we have to the borrowers.

Manish Karwa: Suppose these accounts were to become NPL, let us say in fiscal 2017, some part of contingent provision which you have already provided for will be used up?

Rakesh Jha: Yes

Manish Karwa: On the fee front, how much is retail now?

Rakesh Jha: About 65%

Manish Karwa: Retail fees are growing at what rate?

Rakesh Jha: About 13% was the growth year-on-year on retail in fiscal 2016.

Moderator: Thank you. Next question is from the line of Hansini Karthik from Smart Investment. Please go ahead.

Hansini Karthik: I just have one question actually to confirm the points you stated earlier; one, Rs.36 billion of contingent provisioning that you have made in this particular quarter, if you could give me some amount of guidance as to whether we could see incremental contingencies being provided for in FY2017 or this is just a one-time exercise.

Rakesh Jha: I do not think we can talk about FY2017 what we would do because we ourselves have not planned in terms of whether we would create additional reserve or not. I think what we have done this quarter is to strengthen our balance sheet, on a prudent basis we have created this reserve against this pool of borrowers, and going forward if we have any of these assets slipping into NPLs or restructuring, at that point of time we will utilize this reserve. So, in that sense it is something that we have done as a one-time measure as of now.

Hansini Karthik: So on the whole can I just assume that your asset quality pressure will remain elevated in FY17 as well?

Rakesh Jha: I think from the overall banking system point of view, given what RBI has articulated that they are looking at banks being more conservative in terms of their asset classification and kind of completing that process through March 2017, it will be a fair assumption for corporate portfolios of banks.

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

Adarsh P: A question again on this drilldown exposure. What I wanted to check is when you have given this for the five-six sectors, all of them are just a dump of the below investment grade or is there some subjectivity which has gone after that to say that these are well collateralised and not taken in the list?

Chanda Kochhar: I think that is why I want to actually clarify that we have not used subjectivity. So these are identified key sectors which we think have been impacted by those conditions that we spoke of earlier. In those sectors we have taken all the exposures which are below a certain internal rating. So, we have not used subjectivity. So it is not to say that we picked the less collateralised and not the more collateralized or we picked the likely NPAs or not the likely NPAs. We have not used

subjectivity at all below a certain internal rating and it includes fund based limits and non-fund based outstanding. In fact, we are working on action plans on many of these to reduce the exposure.

Adarsh P: Ma'am, second question is a little more longer-term. In the whole build up in the corporate book, I think one of the things that we see for us is our non-fund based book and the capital consumption that the corporate book was taking up was very large and hence even in good times when credit cost was low, probably the return on equity may not have been great because of the higher capital consumption. Obviously, you mentioned that the well rated corporate share will likely increase, but still we will have a large stock of the book which will still be NPLs and the risk weight will be very high. So just want to know on 2-3-year basis, what kind of reduction on the corporate side will we see in the capital consumption or say RWA to loans or RWA to asset?

Chanda Kochhar: We have actually worked our capital allocation exercise, and clearly, on that basis we are saying more capital will be allocated to retail business and less would be consumed by corporate segment. Beyond that, I do not know Rakesh how much elaboration you can give on that?

Rakesh Jha: So one thing which we have talked about earlier also is that on the corporate exposure between fund based and non-fund based, on the non-fund based side, we have been reducing our capital allocation now over the last three-years. Overall, if I look at it the non-fund outstanding for us would have remained flat over the last two or three-years. That is something which we have been doing consciously and incrementally as Chanda mentioned, our capital allocation on the corporate portfolio itself, bulk of it is going to be the high-rated clients. So that is something which will clearly bring down the risk weighted assets to total assets ratio. But yes, especially if you look at the last 12-months or 18-months, there have been significant downgrades that all banks have seen in their portfolios and the risk weight intensity on the corporate portfolio has

gone up for banks including for us. But going forward given the higher growth on the retail side and the higher growth on the better rated corporates, we would expect the capital efficiency to definitely improve for the Bank.

N.S. Kannan: Also, the last point is on our international banking subsidiaries as a proportion of our total capital allocated that will keep going down and domestic subsidiaries do not require capital commitment in any significant manner from us. So, as a proportion that also will go down. So directionally we will drive towards more capital consumption for retail.

Adarsh P: So in terms of numbers when we see that 2012-2015 was a reduction, but FY2016 was not a reduction from a ratio perspective of the risk weight mainly because you saw the downgrades which may continue for 12-18 months and after which you should see a reduction, is that a fair assessment?

Rakesh Jha: My own sense is that bulk of downgrades is really done. So as we pick up higher quality assets, in reality you will see the pickup in the short-term itself in terms of risk weight density going down.

Adarsh P: So downgraded asset versus an NPA you will not see a change in risk weight consumption, is it?

Rakesh Jha: There will be some change, but our sense is that should get offset by the growth that we see of better quality.

Moderator: Thank you. The next question is from the line of Anurag Mantri from Jefferies. Please go ahead.

Anurag Mantri: Just trying to understand the quantum of the provision why the number is around Rs. 36 billion, so if I take overall number of Rs. 440 billion of your watch list excluding the restructured book and if I in the worst possible case assume 60% provisioning requirement on that, assuming

60% gain of PCR and take the total provisions to be around Rs. 260 billion hence and from that I remove the Rs. 36 billion that you have created, the remaining is around Rs.230 billion and you mentioned that your insurance holdings etc., at around Rs.330 billion. So why was the quantum of provisioning Rs. 36 billion, why was it not less or more?

Rakesh Jha: Before getting into that, if you look at on an overall basis, I think what we are trying to say is that we have done a very objective analysis where we have put out all our below investment grade exposure to these sectors comprising both fund-based and non-fund based outstanding. In many of these exposures we are working towards resolution and in quite a few actually significant progress has been achieved.

Chanda Kochhar: This is not a watch list of things that will become NPA.

Rakesh Jha: So assuming a loss given default or what you said of 60% and all that is not appropriate.

N.S. Kannan: As I mentioned also that several of these deals are discussed even in the public domain in terms of resolution. So straightaway applying a LGD on this number is absolutely incorrect.

Rakesh Jha: That is one. We have said it is a collective contingency and related reserve. So we have not said that whether it is in excess of something or it is short of something; that is not how we have looked at it. We have basically looked at it from the point of view of strengthening the balance sheet and on a prudent basis, making this reserve against these exposures which are definitely there in some of these sectors, which are today facing some challenges. So that is how we have looked at it on an overall basis. So it is not something which has been worked out in the sense that you are talking about.

Anurag Mantri: Second question is just a couple of data points around this watch list just to understand the overlaps. Within this watch list, how much would be from 5/25 or currently SDR book?

Rakesh Jha: So all the 5/25 cases that have happened in power, steel, mining, cement, rigs are considered. In fact, all the 5/25 has happened only in these sectors, so, it will include all the 5/25 that the bank has done. SDR anyway is already a complete overlap with restructured book.

Chanda Kochhar: So again, there is no subjectivity applied here. All the 5/25 and SDR cases are included in these sectors.

Rakesh Jha: If you look at slide 27 of the presentation, we have put in detail; the point 4 there says that SDR and 5/25 refinancing has been included completely and it has both fund-based limits and the non-fund based outstanding.

Anurag Mantri: Is there any overlap in the outstanding 5/25 book with the restructured book currently?

Rakesh Jha: No

Anurag Mantri: From the standard book? Any color on how much of this Rs.440 billion would be dollar denominated and what would be the average ticket size of any account in this or maybe the ticket size of the highest exposure within this?

Rakesh Jha: We have not talked about those things.

Anurag Mantri: Your slide 28 mentions that you are excluding impact of currency depreciation, so I am assuming there are accounts which are dollar denominated

N.S. Kannan: As I said earlier, we have not just included domestic corporate exposures. We have included the international corporate book, SME

book as well as domestic corporate book so that there is no subjectivity in this.

Anurag Mantri: Any color on the proportion of the international exposure within this Rs. 440 billion?

Rakesh Jha: We have not given that separately.

Moderator: Thank you. Next question is from the line of Gaurav Agarwal from ENR Advisors. Please go ahead.

Gaurav Agarwal: Sir, I just have a few questions on this drill down exposures. So, in the worst case, what kind of loss given default do you see on these exposures?

Chanda Kochhar: First of all, when you ask that question you are assuming that all of it is NPL, therefore you are asking a loss given default. I think we should clarify to you the drill down, because we do not want to leave a wrong impression, I think just to talk about the slides 25 onwards, basically what we are saying, if you have the presentation with you, these are five key sectors which have been impacted either due to the global economic cycle or the slow domestic recovery or the commodity price issues or high leverage. So these are the five sectors which we think have been impacted on account of that. If you look at in fact the Bank's exposure to these five sectors over the last 5-years, as a percentage of exposure, it has constantly been coming down in all these five sectors; power from 7.1% in March 2011 to 5.4% in March 2016; iron and steel from 5.1% in March 2011 to 4.5% in March 2016 and so on. The other three sectors are actually even smaller. If you move to slide 26, we are saying the same thing that proportion of exposure to these key sectors has gradually been decreasing. While on an absolute basis in FY2016 there was an increase in exposure to these key sectors by Rs.59.40 billion, the net increase in exposure was entirely in A- and above category.

Now, how have we arrived at this list of cases? This is not a subjective watch list that is created. If you look at slide 27, we have picked all cases which are internally 'below investment grade'. So we are talking of further drill down disclosures in our portfolio, we are not talking of creating a subjective watch list and talking about it. We are saying all internally 'below investment grade' companies in these key sectors across domestic corporate, SME and international branches portfolios have been included. In fact not just that, promoter entities that are internally below investment grade where underlying is partly linked to these key sectors, that has also been included. We have included both fund-based limits and the non-fund based outstanding in these above categories. The SDR and 5/25 refinancing is also included. This, of course, does not include the restructured loans and NPA which has been disclosed separately. So on that basis, our exposure of that form in these sectors are the numbers that we have given, purely the exposures in those rated companies in these sectors, on slide 28. Then if you go forward to slide 29, we are saying that we are working with the borrowers for reduction and resolution of exposures through asset sales, through deleveraging and of course we have created the reserves. The point is that while it was mentioned earlier and we said that, that bulk of NPL formation will happen out of this list, but it does not mean that bulk of this list is NPL. So, it still means that currently we have action plans on many of these cases to resolve them. However, it is very difficult to commit any percentage because resolutions take time in today's period and that is why in fact keeping that in mind, we have created a collective contingency related reserve.

Gaurav Agarwal: Ma'am, how has been historical experience in terms of your 'below investment grade' trending out to become NPAs? So is there any number which we can work upon or when you say bulk of the NPA will come out of this list what does that mean; it means that 40%, 50% of this can become NPA in the worst case scenario?

N. S. Kannan: If I look at the past experience in terms of below investment grades, it will be very different across sectors and over cycles. That may not give an outlook for this set of exposures. We would not want to kind of get into that. We have mentioned that on many of these cases we are progressing in terms of resolution through asset sales, change in management, change in promoters, etc. So that is something that we indeed expect to happen and to recover on our loans in many of these cases. So that is the reason that we have kind of put out this and we will track it on a quarterly basis and report the progress. If any slippages happen, we will report that as well, if we see recovery, change in management, upgrades, we will report that as well.

Gaurav Agarwal: Your NIM guidance of 20 basis points lower includes the positive impact which will come if you decrease your overseas book and also the MCLR impact? Are you considering these two factors while giving out the guidance?

Rakesh Jha: Yes, it considers all these factors.

Anurag Mantri: I missed out on the loan growth guidance figure and retail loan growth figure, so if you can just repeat that number for me?

N.S. Kannan: We said our target for the domestic loan growth will be around 18%; retail segment will be 25%; the domestic corporate loan growth is 5% to 7%; domestic SME will be 15% and we said that the portfolio of overseas branches is expected to further decline in US dollar terms.

Moderator: Thank you. Next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Let me get a data question out first. If I ignore this restructured and this potential below investment grade portfolio, what normalised slippage rate are you looking at from retail, SME and the rest of the corporate portfolio?

Rakesh Jha: Retail, what we are seeing currently, the trends are extremely stable in terms of delinquency, the credit cost is running at a very low level. We have seen some normalisation happening as in the past we were getting some write-backs on the provisions that we had made in the earlier cycles. So while there has been some increase in terms of credit costs because of reduction in write-backs, but the overall credit cost on the retail portfolio continues to be significantly below what we would look at as a normalised level. On the SME side, we have seen a significant increase in NPAs in the past last 2 or 3 years. So incrementally, if anything, we would see some recoveries coming in from that portfolio. So, as we have said earlier, bulk of the additions to NPAs over the next couple of years would come from the restructured portfolio and the exposures that we have talked about.

Nilanjan Karfa: Second question pertains to the last thing that you mentioned on the retail. We have some phenomenal years in retail now and very-very unfortunately ICICI Bank has a very checkered past and has got almost every cycle wrong. Can you talk about some analysis, some data, qualitative about your MIS systems, underwriting standards that which makes us believe that this 25% growth that you have been suggesting in retail; and so far has been doing good, touchwood, is not going to be impacted by credit cycle all over again?

N.S. Kannan: If you look at our own retail portfolio, growth over a period of time has been primarily driven by secured retail portfolio. Within the secured portfolio, mortgages portfolio is more than half of our retail portfolio. Even in the last cycle, the peak credit loss for mortgage portfolio was low and it never underwent any problem. On the unsecured loans, predominantly, we are offering to our own liability customers and our reliance on DMAs and DSAs has come down significantly. Our branch-based sourcing has increased across all the products in retail. So to that extent, reduced reliance on DMAs, DSAs, increased sourcing from our own branches, plus more weightage towards the mortgages and

automobile loans has really ensured that the retail loans have been grown in a very systematic manner over the last five years. So that is how we have approached this portfolio. Even from the environment perspective, if you look at it, there have been lots of changes including the institutionalisation of credit bureaus which has helped in terms of growing these portfolios. As credit management practice, we constantly look at the month on book curves vis-à-vis-à the vintage curves we have seen for each of the products and we are very well below the vintage curves in terms of the development of days past due. So, we are extremely confident in terms of the growth of this portfolio.

Rakesh Jha: In terms of what we also are able to get in this cycle is that from the credit bureaus, one is able to get the aggregates in terms of delinquencies product wise across banks. One does not get bank-wise data, but we get in terms of averages of state-owned banks, private sector banks and foreign banks. So that is something which we compare on a periodic basis across again each of our products and in almost all of those products we would be running the lowest is what our understanding is based on the data. So compared to the previous cycle, there is actual data which is there with us to compare with other banks and you see that what all Kannan talked about in terms of the processes that we put in place is working. So, in future, of course, there could always be a cycle in retail which is something which is difficult to predict, but in terms of our own processes and delinquencies and our own underwriting, we are pretty confident. But, as you said, as and when the cycle happens only then will it be demonstrated.

Nilanjan Karfa: These are all reactive to what we saw during the GFC and post-2008, right. We reacted and upgraded our systems; CIBIL obviously helped. I am just trying to see if you have developed any more predictive power into your underwriting skills?

Rakesh Jha: On the retail side, significant progress has happened in terms of our ability to project how the portfolio will behave. Of course, partly helped by the experience we have gained over the last 15 years. So, as Kannan mentioned, for each of these products, and not just at the product level, but at sub-segment level, we would have vintage curves which are there. Based on that, we track the portfolio and monitor vis-à-vis trigger levels. If we would get close to the trigger levels, we would look at revising our underwriting practices and that is at a very granular sub-segment level.

Nilanjan Karfa: What is your learning from the current corporate cycle that we have seen, if you could elaborate, maybe we can take it offline if it is going too longer, but maybe a couple of points, whether it was some business decision, cycle I can understand, iron and steel, nobody could have predicted, but other than that?

N.S. Kannan: One is clearly the cyclical commodities, which I have already talked about. Second, whether we like it or not given the kind of project lending you have seen in the economy largely there will be some concentration risk for each of the banks, so maybe there are five or six banks putting together a large consortium for project lending. Clearly, the takeaway has been that the concentration risk will have to be really mitigated. Over the last couple of years, we have put internal thresholds and limits for the lower rated companies and borrower groups. Some of the borrower groups are having higher leverage in the group and there has been lot of interconnectedness across the group companies. So that has also been a source of stress. So, depending on the experience and track record of the group with banking system and the size of the group, we have put internal thresholds and limits which we would not like to exceed going forward. So our objective would be that to really focus on granularity. Even in the industry-wise disclosures, you can see that on one side while the retail has become a larger part of the portfolio, even if we look at the exposure top-10 sectors as an aggregate, excluding retail, it has come down in the last few years. The aggregate exposure

has decreased from about 57% of our total exposure at March 31, 2011 to about 50% of total exposure at March 31, 2016. Further, there is an ongoing agenda of improving the rating mix of the portfolios both by increasing the retail proportion and looking at the higher rated companies in the corporate segment.

Nilanjan Karfa: I think it was a great statement that you had forgone the performance bonus. Just wanted to check are you putting up clauses like claw back in the future to give more support to investors?

N.S. Kannan: We do have claw back provisions for senior management as required by RBI. It has been already in place for the last few years.

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

Amit Ganatra: Out of your total slippages for this year, Rs.170 billion, how much has come from corporate segment?

Rakesh Jha: We have not given that number separately, but as we said earlier, bulk of the NPA addition is on the corporate side.

Amit Ganatra: Bulk would be almost more than 75%?

Rakesh Jha: Yes.

Amit Ganatra: So 75% to 80% one can consider?

Rakesh Jha: We have not given a number on that. We have given the gross and net retail NPAs separately in the presentation. So you could look that up.

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

Amit Premchandani: Thanks for the detailed presentation. Just a question on the exposure watch list that you have given. Can you give us a broad division between

funded and non-funded, how much of this is funded and how much of it is non-funded?

Rakesh Jha: It includes everything, we have not given that separately, but in terms of the credit risk, it is the same in terms of the fund and the non-fund. So the aggregate number we have given.

Amit Premchandani: Actually I am asking this because another bank has given a watch list and that watch list was based on funded. So, if you can give us any indication?

Rakesh Jha: That would vary from bank-to-bank, to corporate-to-corporate, portfolio-to- portfolio.

Chanda Kochhar: But we do believe that the total exposure actually is fund and non-fund.

N.S. Kannan: Credit risk perspective if you look at it, we think that we should look at it in one block.

Amit Premchandani: Some of the exposures that you have just given that you are working on some of the deals, say, one deal happened which has been announced cement deal, but it has not yet been consummated, there is one-year duration still to pending. So that kind of deal will also be part of this exposure even though the deal has been announced, but you will include it because it is sub-investment.

Chanda Kochhar: It is included. That is the reason we are saying that we have not applied any subjectivity. We are just being very clear and said that, below a certain investment grade, we are including all. Yes, we are working on resolution.

Amit Premchandani: Ma'am, of Rs.440 billion roughly exposures that you have given, what percentage of these exposures you will be working actively for resolution and what percentage would be just a dump of data because they are sub-investment grade?

N.S. Kannan: Our endeavour is to work on every single exposure we have put out here, separate teams have been formed and they are working on each of the exposures. That is why we keep saying that do not start applying LGD starting from this list, it is not something which is a correct thing to do. It is just that some of them will take time to materialise in between they could become NPL and then come back again to a standard asset. So those kind of variations can happen as we move forward. But clearly our internal focus is to put specific people on the job to resolve each of these exposures.

Amit Premchandani: My question was from the perspective that, as you mentioned, there was no subjectivity in this list and this list must also include some of the non-investment grade accounts which are actually completely fine, there is no stress as such, but since you have taken the data and dumped it, you have not applied any subjectivity.

N.S. Kannan: I agree, these are the cases where it is sub-investment grade, but pertaining to these sectors, that is the way we are looking at it. So there could be some cases in the manner you have described. But, we will have to handle all the cases. Given the economic environment, we have to work towards resolving all the cases.

Amit Premchandani: On the housing finance subsidiary front, any progress on that or what is the status now?

N.S. Kannan: As we have said in the past, there have been people who have approached us in terms of looking to buy, but we have not yet taken a final decision on this.

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

Alpesh Mehta: Just first question is from your iron and steel and the power sector book, what is the existing stress which is already recognized either in the form of NPLs or the restructured loan?

Rakesh Jha: In terms of iron and steel, it is about 19% of the exposure which would relate to NPA and restructuring. Power sector will be a much smaller number of about 5%.

Alpesh Mehta: Secondly, in the past conference calls, we have been talking about EPC and the construction kind of exposures which is leading to the higher NPLs, which does not have any mention into the exposures that you have a close watch on. So, is it fair to believe that large part of those exposures which was stressed has already been recognised and there is no need to include them over here?

Rakesh Jha: If you look at the construction sector, there have been a fair degree of addition to NPAs from that sector and we also have done restructuring of some of those borrowers, including SDR in one particular case, which has happened and we have implemented a change in management in that company. Some of the smaller cases are there as exposures which are not classified as non-performing or restructured. It is not something on which would have much of a worry in aggregate going forward.

N.S. Kannan: It is not figuring in the list, because it is already part of NPL or restructuring. That is the reason of leaving it out, otherwise I agree with you with respect to concerns for the sector.

Alpesh Mehta: This year we had a one-off gain of around Rs.35-36 billion. Is that the thought process that in future if we have one-off gains and we would be utilising that for contingency provisions? Lastly, for Ma'am, in March we had a lot of meetings with some of the large highly levered borrowers. So if you can share any details related to those meetings that would be very useful?

Rakesh Jha: On your first query, the collective contingency and related reserve that we created on a prudent basis is not linked to the gains during the year. The collective contingency and related reserve has been created to strengthen the balance sheet.

Chanda Kochhar: I think on the various meetings, a lot of the joint lending forum meetings have been held to find solutions to these large exposures, but I must say that irrespective of those meetings, we at ICICI have in any case been focusing on arriving at solutions. So, a lot of work is happening, it is about sale of non-core assets in some cases and sale of core assets in some cases. I would say that now a lot of the action has begun on identifying buyers. But we have to remember that in today's overall economic environment, there are actually less buyers. So, in that sense, it just takes much longer for the deals to go through and that too at the right economic value. So we also have to be very conscious and careful that as we drive towards solutions, we should not have fire sales and disruption in value, we should achieve optimum value. I would like to say that a lot of work is actually happening in this direction and results do take time.

Alpesh Mehta: Over the last 3-4-months we have seen a significant improvement in the iron and steel sector. So, in your assessment, what was the situation 4-months back and now and what could be the loss given default in this kind of exposure? I know it is corporate-specific, but if you can give some qualitative comments on this.

N.S. Kannan: Qualitatively things have improved in the last four months. We have seen EBITDA generation coming through, but as you rightly said LGD, etc., is very difficult to determine. Secondly, as you rightly said, borrower specific LGD could be different. So, one has to wait and see, but I can say just to give a qualitative color, things are clearly improving in that sector.

Moderator: Thank you. Next question is from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: Yes, I have two follow-up questions. The first one is that you talked about resolution of an SDR that is not already in the numbers, right? Has the account got upgraded?

Rakesh Jha: That was in the context of construction sector that was asked.

Mahrukh Adajania: But is that account still a restructured account?

Rakesh Jha: It is a restructured account, which is under progress in terms of the change in management.

Mahrukh Adajania: The other thing I wanted to check is we had discussed a bit of this even on the last call, that there are these accounts that have become NPLs in the AQR and banks are working hard towards their resolution. But, what about additional funding to these accounts, because even if say one or two banks decide, but the others do not contribute, then it is going to be difficult to really keep these accounts in good shape.

Chanda Kochhar: That is clearly I think a fact today and that continues to be one of the challenges when I said that we have to ensure that we find optimum values and not disruption in value. So it is a known fact that decision-making across the banking industry is slow and therefore willingness to provide additional funding to some of these cases is not there. So yes, as we are finding solutions, we are kind of struggling through all these issues.

N.S. Kannan: So that is why when I made my remarks also I said that we expect a challenging operating and recovery environment in the corporate segment to continue and we said specifically that while RBI will continue with the objective of early and conservative recognition of stress and provisioning, the approach of banks would also reflect a more conservative stance. So, that is something which we have to be alive to.

Moderator: Thank you. Next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M B Mahesh: In continuation of some of the earlier questions, if you can give a broad understanding between what it looks for the fund and non-fund, because not every non-fund based exposure has to move into an NPA if the fund based exposure defaults because unless the LC devolves, it may not necessarily move into an NPA. So if you are working with Rs.440 billion as a number, would it not be useful to give the outstanding as well sitting against it.

Rakesh Jha: As you know, we report the aggregate exposure every quarter in the Pillar-3 disclosures. So that is what we have done this time also. So what it includes is the gross advances, balances with banks, the non-SLR investments, derivative outstanding, LC, BG and others outstanding, plus the undrawn limits both, fund-based or non-fund based. All of this aggregates to the overall exposure that we report of Rs. 9.4 trillion.

M B Mahesh: The reason I am asking is that if I look at let us say, this Rs.440 billion which has been given out there, this number is materially higher because it includes non-fund based, so that is why we are just trying to understand?

Chanda Kochhar: You are also right that as the classification happens into NPA first only the fund-based outstanding is classified. Non-fund based becomes NPA only if and when it devolves to become fund-based. But our view has been that if you look at the credit quality of the asset we should look at both fund-based or non-fund based. You can call this a more conservative disclosure, but we believe that when we look at credit quality of a particular case, then it has to be overall.

M B Mahesh: You still do not want to kind of put a number to it?

Chanda Kochhar: No, we are not giving a break-up between fund based and non-fund based.

M B Mahesh: For the quarter, the slippages which have happened, if you could give some level of clarity around it? The reason for the tax reversal? Also, the timelines for the insurance listing?

Anindya Banerjee: Slippages for the quarter, Mahesh, if you recall when we had announced our last quarter results, we had said that in Q3 we had Rs.65 million of slippages, of which roughly two-thirds were on account of cases highlighted by RBI; and we expected a similar amount of cases highlighted by RBI to potentially slip in Q4; and that those were likely to be existing restructured accounts from the power sector. That is pretty much how it has played out and as you would have seen the slippage from restructured has actually increased in Q4-2016 to about Rs. 27 billion. A significant part of that has come from the power sector.

M B Mahesh: So it is predominantly power of the Rs. 70 billion that we are talking about?

Anindya Banerjee: Power and there is some steel as well.

M B Mahesh: The timelines for insurance listing as well as a tax reversal.

Anindya Banerjee: There is no tax reversal, there are two aspects to that; one is that tax provisions are made on the basis of an annual estimate of income. In this quarter and for the year, we had the capital gains and those are taxed at a lower rate. Also the provisions and the contingency reserve that we created in the quarter resulted in deferred tax asset creation. On the timeline for the IPO, it would be the one of the first IPOs in the life Insurance sector. It will require approval of both IRDA and SEBI, they would both need to get comfortable with the actuarial report and so on. So it will be a slightly long process. Our endeavour would be to conclude it this year.

Moderator: Ladies and Gentlemen, with this I now hand over the floor back to Ms. Kochhar for her closing comments. Over to you, ma'am.

Chanda Kochhar: Yes, thank you. I think we have covered most of the questions. I will just reiterate saying that we have been focused in our approach in FY2016 and the same focused approach continues in FY2017. What we have endeavored to do is to continue to enhance our franchise through the funding mix, the cost efficiencies, capital efficiency and so on, and at the same time look at portfolio quality through continuous monitoring and working towards resolution while simultaneously changing the mix of the incremental sanctions so that we can change the credit mix. We have attempted to give you a more detailed drill down of our exposures in some of the key sectors which are today facing some challenges on account of the overall environment. Our approach here is that we are clearly working on an action plan on these cases. We are working towards reduction and resolution of these exposures. On a quarterly basis, we will come back to you with the progress that happens. In the meanwhile, on a prudent basis, we have created a collective contingency and related reserve of Rs.36 billion. We have a capital base which is very comfortable and significantly more than the required regulatory requirements. At the same time, we have a lot of value in the subsidiaries. So I think we are quite equipped to pursue growth opportunities as they come and pursue the action plans that we have laid out for resolution. Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of ICICI Bank that concludes this conference call. Thank you for joining us and you may now disconnect your lines.