**ICICI Bank Limited**
**Earnings Conference Call – Quarter ended June 30, 2015 (Q1-2016)**
**July 31, 2015**

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**Moderator:** Ladies and gentlemen good day and welcome to the ICICI Bank Q1-2016 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '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 at 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 June 30, 2015, that is the first quarter of the financial year 2016.

In my remarks today, I will cover:

- First: the macro-economic and monetary environment;
- then, our performance during the quarter, including performance on our 5Cs strategy;
- then, the performance of our subsidiaries and the consolidated results;
- and finally, the outlook going forward.

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

On the global front, the International Monetary Fund has lowered its global growth forecast for 2015 from 3.5% to 3.3%. IMF has revised forecast downwards for both advanced as well as emerging market economies.

The three key global developments were

1) focus on the timing of increase in interest rates by the US Federal Reserve;
2) the sovereign debt default by Greece and the third bailout package negotiated with the Eurozone; and
3) moderation in growth and stock market volatility in China.

Global commodity prices were subdued during the quarter.

Coming to trends in the domestic economy, industrial activity, as measured by the index of industrial production – IIP – recorded a year-on-year increase of 3.0% in April-May 2015 compared to a growth of 3.3% in Q4 of 2015. Growth in capital goods production was positive while consumer goods production remained weak during April-May 2015.

Retail inflation, measured by the Consumer Price Index, CPI - increased from 5.3% in March 2015 to 5.4% in June 2015. The increase was largely on account of food prices and the impact of the increase in the service tax rate on services sector inflation. The Wholesale Price Index – WPI – has been negative since November 2014.

The Reserve Bank of India – RBI – reduced the repo rate by 25 basis points to 7.25% on June 2, 2015, following on their earlier rate cuts of 25 basis points each in January 2015 and March 2015. RBI mentioned that it had front-loaded the rate-cut in June 2015 and highlighted risks to inflation on account of the possibility of below-normal monsoons, increase in crude oil prices and volatility in the external environment. On the progress of monsoons, the cumulative rainfall from June 1, 2015 to July 29, 2015 shows a deficit of only 3% compared to the long period average.

Moving on to the performance of financial markets, the S&P BSE Sensex declined by 0.6% during the quarter. The yield on government securities was 7.86% as of end-June 2015 compared to 7.69% as of May 22, 2015 when the new benchmark bond maturing in 2025 was issued. The yield on the old benchmark bond maturing in 2024 increased to 8.04% as of end-June 2015 from 7.74% as of end March 2015. The exchange rate depreciated by 1.9% during the quarter to 63.8 Rupees per US Dollar as of June 30, 2015.

With respect to the banking sector trends, non-food credit growth remained moderate at 9.5% year-on-year as of June 26, 2015 compared to 13.0% year-on-year as of June 27, 2014. Growth in total deposits was 11.4% on a year-on-year basis as of June 26, 2015. Demand deposit growth was 8.7% year-on-year as of June 26, 2015. We also saw reduction in lending rates and continued reduction in deposit rates by major banks during Q1 of 2016.

With this background, let me now move to our performance during the quarter, including the progress on our 5Cs strategy:

- First, with respect to **Credit growth**: The Bank's domestic loan portfolio grew by 17.4% on a year-on-year basis as of June 30, 2015, compared to a 9.5% growth in non-food credit for the system as of June 26, 2015. Loan growth for the Bank continues to be driven by the retail segment which grew by 24.5% year-on-year and constituted 42.8% of total loans as of June 30, 2015. The mortgage and auto loan portfolios grew by 26% and 21% respectively on a year-on-year basis. Growth in the business banking and rural lending segments was 19% and 33% year-on-year respectively. Commercial business loans declined by 6% on a year-on-year basis, reflecting primarily the run-down of the bought-out portfolio. On a sequential basis, commercial business loans increased by 2% and were at about 110 billion Rupees as of June 30, 2015. We expect growth in commercial business loans to gradually improve with recovery in economic activity. The unsecured credit card and personal loan portfolio at 116.82 billion Rupees as of June 30, 2015 continued to remain a small portion, about 2.9%, of the overall loan book, though the growth rate is high due to the low base.

The domestic corporate portfolio growth was 8.8% on a year-on-year basis as of June 30, 2015 compared to 9.6% growth as of March 31, 2015. The Bank continues to focus on lending to higher rated clients. The SME portfolio grew by 12.4% year-on-year to 173.50 billion Rupees driven by granular collateral-based lending.

Growth in net advances of the overseas branches, in US dollar terms was at 2.8% on a year-on-year basis as of June 30, 2015 compared to a 0.6% year-on-year growth at March 31, 2015. In rupee terms, the net advances of the overseas branches increased by 8.7% on a year-on-year basis due to the movement in the exchange rate. On a sequential basis, the net advances of overseas branches increased marginally by about 0.8% in US dollar terms.

As a result of the above trends, total advances of the Bank increased by 15.2% on a year-on-year basis from 3.47 trillion

Rupees as of June 30, 2014 to 4.00 trillion Rupees as of June 30, 2015.

- Moving on to the second C on **CASA deposits:** The Bank continued to maintain healthy CASA ratios on a period-end basis as well as daily average basis. Savings account deposits grew by 13.7% year-on-year to 1.17 trillion Rupees at June 30, 2015. On a period-end basis, we saw an addition of 19.05 billion Rupees to savings deposits while the current account deposits decreased by 39.71 billion Rupees during the quarter. On a daily average basis, we had a robust growth in both current & savings account deposits. Savings deposits were higher by about 44 billion Rupees and current account deposits were higher by about 18 billion Rupees in Q1 of 2016 compared to Q4 of 2015. As a result, the daily average CASA ratio increased from 39.9% in Q4 of 2015 to an all time high for the Bank of 41.1% in Q1 of 2016. The period end CASA ratio was at 44.1% as of June 30, 2015 compared to 45.5% as of March 31, 2015.

- On the third C on **Costs:** The Bank's cost-to-income ratio was at 37.8% in the first quarter of fiscal 2016 compared to 38.4% in the first quarter of fiscal 2015. During the first quarter, operating expenses increased by 8.6% on a year-on-year basis. During the quarter, the Bank added about 2,300 employees primarily in front-line roles in the retail banking business. The Bank continues to focus on further enhancing the productivity and efficiency of its employee base as well as the expanded distribution network in order to drive profitable growth.

- Let me now move on to the fourth C on **Credit quality:** The Bank's net NPA ratio remained stable compared to March 31, 2015 and was at 1.40%. The gross NPA ratio declined marginally compared to March 31, 2015 and was at 3.26% at June 30, 2015. During the first quarter, we saw gross NPA additions of 16.72 billion Rupees, including slippages of 2.92 billion Rupees from the standard restructured category to the non-performing asset category. Deletions from NPA during the quarter were 5.44 billion Rupees and the Bank has also written-off 5.64 billion Rupees of NPAs. We also sold NPAs aggregating 5.20 billion Rupees to asset reconstruction companies during the quarter.

During the quarter, we had gross additions of 19.62 billion Rupees to restructured loans. Additions to restructured loans in Q1 of 2016 include restructuring of loans in line with the criteria permitted by RBI guidelines and where the referral or restructuring application occurred before March 31, 2015. After taking into account deletions, including the slippages mentioned earlier, and the required specific provisioning, the net restructured loans for the Bank were 126.04 billion Rupees as of June 30, 2015 compared to 110.17 billion Rupees as of March 31, 2015. We currently have no pipeline of cases to be restructured.

Provisions for Q1 of 2016 were at 9.56 billion Rupees compared to 7.26 billion Rupees in Q1 of 2015 and 13.44 billion Rupees in Q4 of 2015. As a result, credit costs as a percentage of average advances were at 99 basis points on an annualised basis for Q1 of 2016. The provisioning coverage ratio on non-performing loans was 58.2% as of June 30, 2015. If we include the cumulative technical/prudential write-offs like some other banks report, the provisioning coverage ratio was 69.7%.

- 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. As of June 30, 2015, the Bank has a branch network of 4,052 branches and 12,811 ATMs.

We continued to introduce new digital initiatives during the first quarter. Our initiatives in recent years have shown promising results and have received positive feedback from customers.

We recently upgraded our mobile banking application - 'iMobile' - taking the total number of services available on the application to over 100. We are the first bank in India to introduce features such as

a) direct calls to our call center;
b) option to tag frequent transactions as favourites for quicker payments;
c) in-app search;
d) convenience of choice of login between PIN based access and internet banking user id & password based access; and
e) 'iWish' flexible recurring deposits using the mobile app.

The application has an integrated view of all ICICI Bank relationships with the customer, facility of alerts & notifications through 'Google Now' and in-app chat functionality for quicker resolution of customer queries.

iMobile has a range of options for transfer of funds including transferring money to phone contacts and allows cash withdrawal by the beneficiary at any ATM of ICICI Bank without using a card.

Customers can also apply for loans and pay utility bills. 'iMobile' is available on all mobile platforms including Android, iOS, Java, Windows and Blackberry.

Customer response to the new app has been very positive. We have seen the monthly activation of iMobile by customers growing by close to 60% and the monthly value of transactions increasing by about 50% since the launch of the app.

Our digital mobile wallet - Pockets - has seen over 1.0 million downloads with significant interest from non-ICICI Bank customers. The e-wallet is amongst India's most comprehensive wallets which can be used to pay on all websites and mobile apps in the country.

We are the largest provider of online remittance services to India, and the first to offer remittance services via mobile phones. We are the only bank in India which offers NRIs the facility of remittances through Facebook.

We have also focused on providing self-service options to our customers at our branches in recent years. Our fully automated 24x7 touch banking branches now see over one million transactions per month. The 1,000 self-service kiosks as well as cash acceptor machines which we deployed at our branches during fiscal 2015 have resulted in a significant pickup in automated transactions at branches.

Our initiatives in payments solutions include contactless card payments, transit card solutions for metro & bus transport and electronic toll collection. We are focusing on scaling up each of these initiatives in the payments space.

During the quarter, we also launched a voice recognition service at our call centres which authenticates our savings account and credit card customers based on their speech patterns and allows them to execute banking transactions in a quick, secure and convenient manner.

Our Facebook page continues to be appreciated by customers with over 3.7 million fans, the largest fan base on Facebook among Indian banks.

As a result of our constant focus on digital channels, currently close to 60% of total transactions for our savings account customers are done through new age digital channels and less than 10% of the transactions are done through branches.

We are also offering comprehensive and customised payments solutions to our corporate, institutional and government customers. Our mobile application for business customers - iBizz - provides access to banking services through mobile devices to our current account customers.

We have partnered with Alibaba.com for the launch of the Trade Facilitation Center, a single window facility to get quick access to an array of integrated business services from ICICI Bank. We will continue to launch new digital banking propositions in the days ahead.

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

1. Net interest income increased by 13.9% year-on-year from 44.92 billion Rupees in Q1 of 2015 to 51.15 billion Rupees in Q1 of 2016. The net interest margin improved to 3.54% in Q1 of 2016 from 3.40% in the corresponding quarter last year. The domestic NIM was at 3.90% in Q1 of 2016 compared to 3.80% in the corresponding quarter last year and 3.99% in the preceding quarter. The sequential decrease in domestic margins is largely on account of reduction in the base rate during the quarter. We reduced our base rate by 25 basis points in April 2015 and a further 5 basis points in June 2015. International

margins were at 1.88% in Q1 of 2016 compared to 1.63% in the corresponding quarter last year and 1.71% in the preceding quarter. The improvement in international margins is largely on account of decrease in cost of borrowings. Net interest income in Q1 of 2016 includes interest of about 1 billion Rupees on income tax refund received during the quarter which is similar to the preceding quarter.

2. Total non-interest income increased by 4.9% from 28.50 billion Rupees in Q1 of 2015 to 29.90 billion Rupees in Q1 of 2016. If we look at the different components of the non-interest income,

    - Fee income grew by 9.0% from 19.36 billion Rupees in Q1 of 2015 to 21.10 billion Rupees in Q1 of 2016. The year-on-year growth in fee income has improved from 6.8% in FY2015 to 9.0% in Q1 of 2016. While retail fees continue to grow at a healthy rate, the growth in overall fees remains impacted by subdued corporate activity and consequent decline in corporate fee income. Retail fees for the Bank constitute about 63% of overall fees in Q1 of 2016.

    - During the first quarter, treasury recorded a profit of 2.07 billion Rupees compared to 3.88 billion Rupees in the corresponding quarter last year and 7.26 billion Rupees in Q4 of 2015.

    - Other income was 6.73 billion Rupees in Q1 of 2016, compared to 5.26 billion Rupees in Q1 of 2015 and 6.33 billion Rupees in Q4 of 2015. The Bank continued to receive healthy dividend streams from its subsidiaries. The net exchange rate gains relating to the Bank's overseas operations were at 3.47 billion Rupees in Q1 of 2016 compared to 1.03 billion Rupees in the corresponding quarter last year and 1.82 billion Rupees in the preceding quarter.

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

4. As a result of these trends, the Bank's standalone profit before tax increased by 7.7% from 37.91 billion Rupees in Q1 of 2015 to 40.82 billion Rupees in Q1 of 2016.

5. The Bank's standalone profit after tax increased by 12.1% from 26.55 billion Rupees in Q1 of 2015 to 29.76 billion Rupees in Q1 of 2016. The return on average assets was at 1.91% in Q1 of 2016 compared to 1.82% in Q1 of 2015.

The Bank's capital adequacy as per Reserve Bank of India's guidelines on Basel III norms continues to remain strong at 16.37% overall capital adequacy ratio and 12.26% Tier I ratio as of June 30, 2015. In accordance with guidelines, the profits for the quarter are not considered in the reported capital adequacy ratios. Including the profits for the quarter, the Bank's overall capital adequacy ratio was 16.75% and the Tier 1 ratio was 12.64%.

In March 2015, RBI issued amendments to Basel III capital regulations which included change in risk weight from 1,111% to 1,250% for certain categories of risk weighted assets. The guidelines are effective April 1, 2015. The impact on Tier 1 ratio on account of change in risk weights is about 20 basis points.

I now move on to the performance of subsidiaries and the consolidated results.

The profit after tax for ICICI Life in Q1 of 2016 was 3.97 billion Rupees compared to 3.82 billion Rupees in Q1 of 2015. The profit before tax of ICICI Life grew by 13.2% year-on-year in Q1 of 2016. ICICI Life's strong profitability enabled it to wipe out its entire accumulated losses during fiscal 2015. The new business annualised premium equivalent increased from 6.59 billion Rupees in Q1 of 2015 to 9.10 billion Rupees in Q1 of 2016. The retail weighted received premium for ICICI Life grew by 38.9% on a year-on-year basis in Q1 of 2016 compared to about 2% year-on-year decrease for the industry. The company continues to retain its market leadership among the private players and has seen an improvement in its market share to about 11.7% in Q1 of 2016. The new business margin based on Indian Embedded Value, or IEV, methodology and target acquisition cost was at 13.8% in Q1 of 2016 compared to 13.6% in FY2015.

During the quarter, the gross written premium of ICICI General grew by 14.9% on a year-on-year basis to 21.22 billion Rupees in Q1 of 2016 compared to about 13% year-on-year growth for the industry. Profit after tax for ICICI General increased by 61.1% from 0.72 billion Rupees in Q1 of 2015 to 1.16 billion Rupees in Q1 of 2016. The increase in profits was driven by increase in gross written premium and higher investment income. The company continues to retain its market leadership among the private players and had a market share of about 8.9% in Q1 of 2016.

ICICI AMC and ICICI Securities have continued to see strong performance. The profit after tax for ICICI AMC increased by 31.1% from 0.61 billion Rupees in Q1 of 2015 to 0.80 billion Rupees in Q1 of 2016. ICICI AMC sustained its market position as the second largest mutual fund in India during Q1 of 2016. The profit after tax for ICICI Securities was at 0.61 billion Rupees in Q1 of 2016, at a similar level compared to Q1 of 2015.

Let me move on to the performance of our overseas banking subsidiaries.

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 5.4% at June 30, 2015.

As per IFRS financials, ICICI Bank Canada's total assets were 5.90 billion Canadian Dollars at June 30, 2015 compared to 5.94 billion Canadian Dollars at March 31, 2015. Loans and advances were 5.21 billion Canadian Dollars at June 30, 2015 compared to 5.17 billion Canadian Dollars at March 31, 2015. The increase in loans and advances was on account of higher securitised insured mortgages at June 30, 2015 compared to March 31, 2015. The profit after tax for Q1 of 2016 was 7.8 million Canadian Dollars compared to 14.0 million Canadian Dollars for Q1 of 2015 and 7.5 million Canadian Dollars in Q4 of 2015. The capital adequacy ratio for ICICI Bank Canada was 27.7% at June 30, 2015.

ICICI Bank UK's total assets were 4.19 billion US Dollars at June 30, 2015 compared to 4.13 billion US Dollars at March 31, 2015. Loans and advances were 2.93 billion US Dollars at June 30, 2015 compared to 3.03 billion US Dollars at March 31, 2015. The profit after tax for ICICI Bank UK for Q1 of 2016 was 0.5 million US Dollars compared to 6.3 million US Dollars in Q1 of 2015 and 0.9 million US Dollars in Q4 of 2015. The lower profits in Q1 of 2016 were on account of higher provisions on existing impaired loans. The capital adequacy ratio was 18.5% at June 30, 2015.

The Bank and its overseas banking subsidiaries do not have any exposure to Greece.

Let me now talk about the overall consolidated profits.

The consolidated profit after tax grew by 14.1% from 28.32 billion Rupees in Q1 of 2015 to 32.32 billion Rupees in Q1 of 2016. The annualised consolidated return on average equity was at 15.0% in Q1 of 2016 compared to 14.6% in Q1 of 2015 and 14.5% in Q4 of 2015.

The Bank's capital adequacy on a consolidated basis as per Reserve Bank of India's guidelines on Basel III norms continues to remain strong. Including profits for the quarter, the consolidated total capital adequacy ratio at June 30, 2015 was 16.88% and the Tier 1 capital adequacy ratio was 12.71%. Excluding profits for the quarter, the consolidated total capital adequacy ratio was 16.52% and Tier-1 capital adequacy ratio was 12.36%.

In summary, we have continued to pursue our core operating strategy during the quarter. In line with our focus areas, we have:

1. Sustained the net interest margins;
2. Maintained healthy non-interest income;
3. Sustained the operating efficiency;
4. Seen continued healthy trends in the average CASA ratio;
5. Maintained strong retail portfolio growth; and
6. Closely monitored asset quality.

Further, our non-banking subsidiaries achieved strong performance in Q1 of 2016.

Moving on to the outlook for the financial year, our outlook remains similar to what we had articulated in April 2015 when we announced our fourth quarter results.

- We expect domestic loan growth to be in the range of 18-20%, driven by about 25% growth in the retail segment. In the domestic corporate portfolio, we expect growth of 10-15%, driven primarily by increasing lending to higher rated clients. The Bank would continue to calibrate corporate loan growth to the trends in the environment. With respect to overseas branches, the Bank would focus on selective lending opportunities and will continue to calibrate growth to conditions in the funding markets. We expect the loan portfolio of overseas branches to grow by 8-10%.

- We would aim to maintain average CASA ratio in the range of 38-40%.

- We continue to target to maintain overall NIM in FY2016 at a similar level compared to FY2015, despite the declining interest rates.

- We continue to target double digit growth in fee income in FY2016, 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.

- We will focus on sustaining the gains we have made in operating efficiency to maintain the cost-to-income ratio for FY2016 at a similar level as in FY2015.

- Coming to asset quality: for the full year FY2016, we continue to expect that the aggregate additions to restructured loans and NPAs will be lower than in fiscal 2015. The additions to restructured loans were significantly front-loaded in Q1 of 2016 given the restructuring of loans where the referral or restructuring application occurred before March 31, 2015. We currently have no pipeline of cases to be restructured.

  Based on the above, we expect provisions to be in the range of 90 to 95 basis points of average loans in FY2016.

- We believe that our strong and diversified franchise, large distribution network and technology capabilities give us the ability to leverage opportunities for profitable growth. We are well-placed with regard to the capital required to support this growth, and given our current capital position, we believe that we do not need to raise equity capital at least till March 2018, based on the current regulations.

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

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

**Mahrukh Adajania:** Hi, just a couple of questions. On Life insurance have the margins now bottomed out?

**Anindya Banerjee:** There is a small improvement in the margins vis-à-vis fiscal 2015 of about 20 basis points. Our goal is to improve the margins by increasing the mix of protection in the business as well as by continuing to be cost efficient.

**Mahrukh Adajania:** Got it. And what would be the dividend from Life Insurance this quarter?

**Rakesh Jha:** Would be a little over Rs. 2 billion.

**Mahrukh Adajania:** Okay. And on the main bank we heard on TV that the amount of 5/25 refinancing is less than Rs. 10 billion, what is the actual amount and number of cases?

**Anindya Banerjee:** The actual amount is less than Rs. 10 billion.

**N.S. Kannan:** Nothing really to talk about there because there are few cases and the aggregate amount is less than Rs.10 billion which is not a big amount in the context of our balance sheet.

**Mahrukh Adajania:** Got it. And some banks have a big pipeline of 5/25 as in that the cases they are working on, so would you have any such pipeline of any such number which you think would go under 5/25 over the next few quarters?

**N.S. Kannan:** There is nothing like a pipeline to be implemented today, but we will have to see economic conditions and the project environment during the year. As of now, there is nothing that we have implemented apart from what we have said today.

**Moderator:** Thank you. Our next question is from the line of Gaurav Agarwal from E&R Advisors. Please go ahead.

**Gaurav Agarwal:** Sir, this less than Rs. 10 billion of 5/25, was it earlier a part of restructured book or the standard book?

**Rakesh Jha:** It was part of standard loans. 5/25 refinancing can be done only for completed viable projects, so it is the standard completed project in which refinancing has been done to extend the maturity of the loan in line with the economic life of the project.

**Gaurav Agarwal:** Okay, sure sir. And sir the sale to ARCs number of can we not use rupee symbol? Rs. 5.2 billion, have I heard is right? Was it a net number of a gross number?

**Anindya Banerjee:** That is the gross value of loans sold to ARCs.

**Gaurav Agarwal:** Sir, may I have the net numbers please excluding provisions?

**Anindya Banerjee:** We do not really give that number. We have explained the movement in NPAs in terms of the additions, deletions, write offs and gross sales to ARCs. It is in that context that we have given the Rs. 5.2 billion number as we consistently give every quarter.

**Moderator:** Our next question is from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

**Roshan Chutkey:** What is the sequential growth in your SMA-2 exposure?

**Rakesh Jha:** We do not make separate disclosures on the SMA-2 loans.

**Roshan Chutkey:** Not even sequentially growth or at least qualitatively comment whether it is increasing or decreasing?

**N.S. Kannan:** No. As a qualitative comment I can tell you that during the quarter, as I mentioned, one of the clear focus areas for us has been closely monitoring the corporate asset quality. I would say that during the quarter things have been stable in terms of the asset quality environment. The numbers are higher as restructuring, as I mentioned during my opening remarks, is significantly front-loaded because of the cases which were referred before March 31st. So beyond that there is no immediate pipeline for restructuring and the credit environment has been quite stable and we have also been focusing a lot on monitoring those assets.

**Roshan Chutkey:** How much of your restructured book is standard, what percentage?

**N.S. Kannan:** The number we have disclosed of about Rs.126 billion of net assets is indeed standard restructured loans.

**Moderator:** Thank you. Our next question is from the line of Sagar from Anvil. Please go ahead.

**Sagar:** Sir I would like to know for this quarter, I was a bit late on the conference call, what was the amount we have done for this restructuring?

**N.S. Kannan:** It is Rs.19.62 billion.

**Sagar:** The slippages were how much for this quarter total.

**N.S. Kannan:** Rs.2.92 billion of slippages from restructured loans to NPAs for the quarter.

**Sagar:** And total slippages for this quarter?

**N.S. Kannan:** Rs.16.7 billion.

**Sagar:** Okay, I would like to understand one thing, actually last time we were mentioning that Rs. 84 billion you had given the guidance for the total stress assets, now just tell me whether I am right, this guidance means slippages from restructured, slippages from the standard as well as the restructurings. Now out of that…

**Anindya Banerjee:** We had not given Rs. 84 billion number. What we had said and what we have again said today is that we expect the additions to restructured and non-performing loans this year to be lower than last year.

**Sagar:** Lower than last year, yes. Sir just assuming that they will be lower than the last year so you mean to say these altogether right, slippages from restructured, slippages from the standard as well as the restructurings?

**Rakesh Jha:** Yes.

**N.S. Kannan:** Let me clarify, what we had said was that the NPA additions and the amount added to the restructured loans for financial year 2016 would be less than what we had for financial year 2015.

**Sagar:** Okay. NPA additions for 2016…

**N.S. Kannan:** We had NPA additions in the first quarter of Rs.16.72 billion, this number for the year as a whole last year was Rs.80.78 billion. Based on our current assessment and estimates we expect this number for this whole year to be less than last year.

**Sagar:** Okay, slippages will be less in current year, okay I got it.

**N.S. Kannan:** From current estimates, similarly on the restructured loans we had done about Rs.54 billion of incremental restructuring in the last year and in the first quarter this year we have added Rs. 19.62 billion. So that whole year number is also expected to be less than last year, little bit of front loading has happened in the first quarter because of the regulatory guidelines. Just wanted to clarify, this is what we are seeking to achieve this year.

**Moderator:** Thank you. Our next question is from the line of Kaushal Patel from India Nivesh Securities. Please go ahead.

**Kaushal Patel:** First question is regarding your branch expansion plan sir, as you discussed like digital and the electronic transactions from retail side has been increasing, so going forward what will be your strategy as far as branch expansion is concerned?

**N.S. Kannan:** Yes, given the overall level of branches we have currently we do believe that for the next two-three years, we will be adding anything between 300 to 400 branches per year. We will look at establishing those branches in places which makes sense for us.

**Kaushal Patel:** Right. And sir we think that what will be the mix in rural, urban?

**Anindya Banerjee:** I think it will be broadly be balanced, I mean we are about roughly 50% metro and urban, 50% semi-urban and rural so that mix may not change meaningfully.

**Kaushal Patel:** Okay. And one more sir, what is outstanding security receipts as of June?

**N.S. Kannan:** Rs.11 billion.

**Kaushal Patel:** Okay. One more question regarding that stress assets as we have been discussing so much of NPAs and restructurings, if we exclude like all this restructuring cases and NPAs, so how do you see stress from the standard assets? What I am asking is that how do you see stress in the economy and if there is any improvement in economic environment? What is the outlook for sectors that are currently in stress? How do you see overall macro picture?

**N.S. Kannan:** Yes, the macro picture and before that a little bit of micro picture, I talked about the expectation on incremental additions for restructured loans and NPAs and we are trying to work towards that. On the macro side we believe that the credit environment has clearly not deteriorated during the quarter. We do believe that things are improving slowly. Several indicators if we look at whether it is on the infrastructure side the kind of efforts which are being taken to clear the stalled projects or indicators such as the dispatches by Coal India give us a belief that things could only get better from here on. Nobody can predict very clearly what is going to happen but our sense is that things can only get better from here on. The pace can be something which can be debated. Having said that, our focus on asset monitoring especially on the corporate assets will continue.

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

**Anand Laddha:** Sir just wanted to understand, this quarter Rs. 16.72 billion of slippages, if you can give some color on this how much was from the corporate sector, how much was from the SME, what could be the quantum of the largest account?

**Rakesh Jha:** So as we have said in the earlier quarters the slippages into the NPA book it is spread across largely the corporate and the SME segments. Unlike the last quarter we did not have a very large account slipping into the NPA book but it is still mainly coming in from the corporate and SME segments. The retail segment has largely been stable.

**Anand Laddha:** Okay. Also if I am not wrong, last time you had indicated that there is a gas based exposure, you have to a power project in Maharashtra which has been a border line case. If you can update us on what is happening on that project, will it still continue to be a standard asset?

**Rakesh Jha:** Yes, that is a standard asset for us. We had said earlier that it is the only gas based power exposure that we have. During the quarter we have seen some positive movement in that exposure given the gas subsidy scheme and that they have got a contract from Indian Railways. We believe that over the next couple of quarters there are positive developments that can happen which would kind of help this exposure for the banks. As of now there are two things that banks are working on, one is in terms of getting the plant to start operating based on the contract that they have got, plus we are also looking at the LNG terminal being split out as a separate business where a part of the loan exposure of banks can be transferred which will be independently a viable set up. So I think over the next two quarters we will get clear visibility on the way forward on this exposure. As of now it is a standard exposure for us and as you would recollect, in the past we had restructured that loan but since then it had got upgraded.

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

**Adarsh P.**: First one on the overseas margins, you mentioned cost of funds have come down during the quarter, so just wanted to check is it just a bit of short-term gap in ALM that has led to this or you think this trend is sustainable?

**N.S. Kannan:** Yes, if we look at the liquidity conditions in the overseas markets they are very benign today and our sense is that 1.7%-1.8% net interest margin on the overseas book would be sustainable. We have seen these levels in the past as well. This time it was a bit of extra margin we got because of the cost of borrowings coming down quite sharply during this period.

**Adarsh P.**: And based on the re-pricing that would happen on the asset side you do not have to pass this on?

**N.S. Kannan:** Our strategy for this book is that whatever incremental lending we do will be calibrated to the funding markets and the ability to raise funds. Secondly, we would like to do the lending so that we preserve the margins at about 1.7%-1.8% level. Having said all this, the outlook for growth of that book is that the percentage growth would be lesser compared to the domestic book which will also from a mix perspective help the overall margins for the bank.

**Adarsh P.**: And can you just qualitatively talk about how the risk nature of that book would be, some parts stressed asset maybe financed there as well, because I am trying to understand that if there is no need to pass on lower funding cost, is it because the customers there do not have the bargaining power?

**Rakesh Jha:** I think as Kannan mentioned the improvement in margin that you are seeing year-on-year is one, because of deployment of excess liquidity and second, because we had some opportunities to re-price our existing borrowings downwards. There is not much of incremental lending which has happened. In terms of the portfolio, it is quite similar to what we have in India in terms of largely the corporates would be the same names that we have in the domestic book, so there is no real difference in that context and the margin improvement is mainly on an existing borrowing, we had some opportunity to re-price.

**Adarsh P.**: Perfect. Second question was on the slippage from the restructured book, last year it contributed more than 50% of the slippages, we have seen some bit of respite there, I know these things can be lumpy so I just wanted to qualitatively get your sense on how the performance of the standard restructured book is and is the risk any different from where it was like three to six months back?

**N.S. Kannan:** Yes, see if you look at our outstanding restructured book of about Rs.126 billion, over a period of time the concentration risk has come down. In the Q4 of last year, I had mentioned that there was a lumpy restructured account that slipped to the NPA category. Going forward, the maximum exposure would be probably about 5% or so of outstanding restructured loans. So the kind of volatility we have seen in a couple of quarters in the past and a kind of volatility you are talking about will be much more muted because the overall concentration risk in terms of the lumpiness has come down in the restructured book.

**Adarsh P.**: Okay. So the largest accounts you are saying may be is Rs. 5 to 6 billion so it will not cause such lumpiness?

**N.S. Kannan:** As I said 5-6% of the restructured outstanding would be the largest account today.

**Adarsh P.**: Okay, that is helpful. And just last one clarification on what you all said, so on 5/25 you all indicated refinancing there has been less than Rs. 10 billion. Since system still has a lot of pipeline, I am just trying to clarify your exposure in accounts where you may not be the lead bank is in the pipeline for 5/25 refinancing for the system?

**N.S. Kannan:** So as we said during the quarter we have implemented a few cases which account for less than Rs.10 billion of outstanding loans for us. Going forward, we will have to see if there are any more cases as and when that happen. But there would be checks and balances in terms of ascertaining the viability, looking at the independent viability study and all the lenders agreeing to move forward. I think there will be enough checks and balances to ensure that it is done in a very prudent manner rather than using it wherever a single bank wants to use it.

**Moderator:** Thank you. Our next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

**MB Mahesh:** Sir a couple of questions, first is on the loan book, if we look at the Basel disclosures, this time around there has been an increase in the power sector exposure on a Q-o-Q basis by Rs. 33 billion. Just trying to understand if there is any specific reason for such a large increase in the specific quarter?

**N.S. Kannan:** Yes, as I mentioned one of the strategies in the corporate portfolio for last couple of quarters and going forward as well would be to focus on some of the better rated corporates for expanding our book. As a part of this core strategy we would be looking at both private sector units as well as public sector units which are well rated. While I do not want to name a particular client, I can tell you that this would be operating well rated public sector units where we would have done the lending.

**MB Mahesh:** Okay, thanks. Just a subsequent question on the retail side on the growth side, for nearly about some six, seven quarters we seem to be growing the retail book in a very tight band between 23% and 25%. Any specific reason that you are kind of either controlling yourself the moment you reach 25% or you feel that this is the threshold limit beyond which you would not want to increase?

**N.S. Kannan:** No, it is completely a derived number arising out of our strategy. I do not think we have a particular band in which we want to grow. We would like to grow in a sensible manner keeping the asset quality under control, carefully look at the policies and procedures and expand our locations. The articulated strategy is to expand on the secured credit which comprises mainly the mortgages and automobile loans, look at commercial vehicles as and when the opportunity arises and do it within strict asset quality parameters. On the unsecured loans we look at predominantly lending to our own customers and see how we can upsell and cross sell. Further, we do a profiling in terms of repayments of the past loans and the incremental disbursements, based on that we sort of derive that number and then that is what we have told you. In doing this strategy and also focus on sourcing from our branches, our estimate is that we would continue to put out the 25% kind of a growth.

**MB Mahesh:** Okay thanks. My one last question, this is first quarter we have seen an increase in the gross NPA in the retail portfolio, it is up from about Rs. 33 billion to about Rs. 36 billion.

**N.S. Kannan:** Yes, again I would like to say that these incremental numbers we will have to look at the context of the overall retail book which is more than Rs.1.7 trillion today and constituting 43% of the loan book. I can tell you that in terms of the quality of the portfolio as well as the credit costs it is doing extremely well. There should not be any concern regarding the asset quality of the retail book.

**Moderator:** Thank you. Our next question is from the line of Amit Premchandan from UTI Mutual Fund. Please go ahead.

**Amit Premchandani:** There were some news reports that one of the PSU banks has actually classified one of the coal block asset purchase of Indian corporates in Australia as an NPA, and our understanding is that you had also funded some of the coal block assets of Indian corporates in Australia. If you can provide the status of coal block assets that you had funded in Australia?

**Rakesh Jha:** We have said that we will not be able to discuss individual exposures. I do not know which bank or which asset you would be talking about, so it is very difficult to comment on that. We have financed a couple of overseas acquisitions for coal mines in the past and there have been some challenges there but overall we are monitoring those assets very closely.

**Amit Premchandani:** And Sir also there was one news report about, you can skip the question, but generally there was a report about a default by one of the large corporates in one of the bonds and one of the credit rating agencies reported it as a default. That corporate has also sold off lot of assets. How is the progress for that corporate, is everything as per schedule in term of asset sales and has any money come to the banks after the asset sales?

**Rakesh Jha:** In this case, I assume you are talking about the JP exposure. In that case, as they have also commented that, there has been a technical default on a small amount of debentures that they have outstanding and they believe that should get corrected over time. From the bank's point of view, we really do not have much change in our view on the exposure compared to where we were a couple of quarters back, the good thing is that asset sales have happened and the cash from those sales would be coming into the company over the next few months which will definitely ease up some of the liquidity challenges. Going forward, I think they may need to look at further sales also which is something that banks are in dialogue with the borrower group.

**Amit Premchandani:** But Sir whether the exposure of the banks through that corporate goes down because of asset sales?

**Rakesh Jha:** Yes, that is the expectation.

**N.S. Kannan:** Going forward, as they get the cash for the sales that have been consummated that would be used to bring down the exposure that banks have with the group.

**Rakesh Jha:** So there is a schedule for realizing those monies and there could be temporary mismatches that probably the corporate has to handle. Beyond the expected sales proceeds of the sales already done, future divestments should help the company as well as the lenders.

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

**Manish Karwa:** On the fee income front you mentioned retail is around 63% of the total fees and at what rate retail is growing for us on the fee line?

**N.S. Kannan:** It has been growing at a healthy rate of between 15% and 20%.

**Manish Karwa:** And we are confident that retail at least will grow at 15% to 20% this year as well?

**N.S. Kannan:** That is correct. Further, at some point of time the corporate also will grow and we have articulated earlier the target is to first get to the double-digit growth for fee income as early as possible.

**Manish Karwa:** No, then just looking at the pure math it means that we will actually do double-digits because 60% is growing is at say 20%, so you are already in double-digit fee income category this year plus corporate at least will grow some bit because the base already has got corrected last year.

**N.S. Kannan:** See, while I do not want to put a number to it, clearly the internal targets are higher than just saying it is a double-digit growth, but given that where we are coming off from 6.8% growth last year to 9% in Q1-2016, I would probably wait for a quarter or so before I can clearly tell you that it will grow at a much higher rate. Corporate fee, as I said in my opening remarks has declined year-on-year in Q1-2016. We are hoping that from here on we should be able to grow it much better than what we have seen so far.

**Manish Karwa:** And just on the corporate fees, which is the portion which is declining, is it the FX piece or everything that has declined?

**N.S. Kannan:** So on the transaction banking side it has increased and not declined. On FX, depending on the market conditions quarter-to-quarter there has been some volatility across banks but my sense is that on the FX piece we would have only increased our market share. It is largely the lending related fee income that is which has been declining.

**Manish Karwa:** Okay. You mentioned to one of the question that you expect stress to be lower this year, so do you mean slippages would be lower compared to the about Rs.80 billion of slippages last year?

**N.S. Kannan:** See, that is where we stand today and as we look at all the numbers that is the expectation. Individually, the NPA addition line item and the restructuring addition line item we would like to do better than last year.

**Manish Karwa:** Okay, so that clarifies. And can I just have a breakup for this quarter's provisioning?

**Rakesh Jha:** General provisioning is about Rs.1.3 billion and the balance would be specific provisioning for NPAs and restructured loans.

**Manish Karwa:** How much would be for restructuring, if you can give?

**Rakesh Jha:** We do not give those numbers separately.

**Moderator:** Thank you. Our next question is from the line of Mayank Bukrediwala from Goldman Sachs. Please go ahead.

**Mayank B:** Sir, all my questions have been answered. Thanks.

**Moderator:** Thank you. Our next question is from the line of Anurag Mantri from Jeffries. Please go ahead.

**Anurag Mantri:** Firstly on your other expenses, just wanted to know why there has been uptick given that there have not really been any branch additions as such and if you can give any guidance on how that will look basically when the branches etc. get added?

**N.S. Kannan:** On other expenses increase, you are largely looking at it on a year-on-year basis which reflects a double-digit increase. A better way to look at other expenses would be the sequential numbers and if you look at across the line items you have seen probably some areas like repair and maintenance, etc. which have gone up somewhat because of not just the branches added in the recent past but also on the cumulative basis we have a much larger physical footprint today. Apart from that we do not see any one-off or a specific area where we have seen any significant increase happening. Our control on expenses will continue and we expect that our cost-to-income ratio would be similar if not better than last year.

**Anurag Mantri:** Right sir. And the other question is, can you tell us the outstanding balance of provisions for NPAs?

**Rakesh Jha:** Rs.88.84 billion.

**Anurag Mantri:** This is the outstanding balance of provision for NPAs?

**N.S. Kannan:** That is correct.

**Nilanjan Karfa:** Hi Rakesh, this is Nilanjan. Just wanted to quickly check, see in Q4 you were actually guiding to this impairment formation that is net of slippage from restructured book at about Rs. 89 billion, given what you are saying today in terms of looking at individual items you expect addition to NPAs of less than Rs. 80.78 billion and addition to restructured loans to less than about Rs. 54 billion. You are getting a comfort situation that on the restructuring that probably as you had highlighted in the past because the lumpiness has gone, concentration has gone, you are much more comfortable on your restructured book then you were let's say three months back?

**Rakesh Jha:** That is correct and as we had said in the previous quarter that during Q4-2015, we had a very lumpy exposure slipping from restructured in to the NPA category, that’s why the number became so high at Rs.22.46 billion. Going forward, as we had said, we would expect that number to be lower. It is not that we will not see slippages from restructuring, there would be slippages that happen from restructuring but the lumpiness will not be of the same magnitude that we saw in the last financial year. So overall the slippages from restructured book to NPA category will definitely be lower than what we saw last year.

**Nilanjan Karfa:** Okay. So but which number do you want us to track, should we look at the Rs. 89 billion number or should we look at this Rs. 80 billion plus Rs. 54 billion number?

**Rakesh Jha:** I think actually some of the people are tracking this gross addition number which Kannan referred to and some look at the number net of the slippages. So either ways you look at it, because each of those numbers we are looking at being lower in FY2016 compared to FY2015 - the total gross NPA addition, the restructured addition as well as the slippages from restructured book - it is fine whichever way you look at it.

**Moderator:** Thank you. Our next question is from the line of Anish Tawakley from Barclays. Please go ahead.

**Anish Tawakley:** I actually wanted to ask about the operating expenses growth at 8% is actually fairly low and you are not adding that many metro branches. It is also a bit different from what the peers are doing. What is the thinking there and when would you ramp up this growth?

**N.S. Kannan:** No, see on operating expenses we are extremely focused that in terms of investment expenditure whatever is required to be done we are not going to cut those expenses. Our focus is on the productivity as well as wasteful expenditure being cut. As I answered for an earlier question, non-employee expense is growing at a double-digit rate, tracking basically the kind of footprint we have expanded over a period of time. If you look at the employee expenses the growth has been muted. As you know some of the retirement benefit related provisions would be lower because of the fixed income environment where the yields are relatively high.

**Anish Tawakle:** So that has benefitted on the pension side?

**N.S. Kannan:** Yes, for all the liabilities year-on-year growth would be muted. Further, on a year-on-year basis there is a reduction in the number of employees whereas sequentially we have expanded the number of employees. I also mentioned that 2,300 employees have been added in areas like retail which should be focused on deposit growth. We would focus on investment definitely wherever it is required. Simultaneously we would ask for more productivity as well as cutting out any wastefulness which gets created.

**Anish Tawakle:** Okay. And you do not feel the need to add more metro branches in particular because the others have picked up?

**N.S. Kannan:** We would add branches across areas including metros where there is a deepening opportunity. Further, as Anindya mentioned the mix of branches to be added in the future would broadly mirror what we have currently.

**Anindya Banerjee:** And as I had mentioned in the past, while the pace of additions in different categories of branches may be different at different points of time, I think the outstanding branch network in metros is quite comparable and in recent years we have front-ended some of the rural branch openings. Going forward, the branch expansion would be much more balanced, which implies a higher addition than what you have seen in metro and urban centres.

**Moderator:** Thank you. Our next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead

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**Mangesh Kulkarni:** I just wanted to know with many new banks, couple of new banks coming in do you see some kind of pressure on this employee mid-level as well as operational level attrition happening?

**N.S. Kannan:** No, attrition is very much under control; in fact attrition is lower than what we would have expected. We absolutely do not have any pressure, there are of course few employees here and there could get poached but on an overall basis actually the employment environment is such that we have no pressure on attrition.

**Mangesh Kulkarni:** Okay. And in terms of one media news which came around 15 days back about the housing loan subsidiary; what is the development there?

**N.S. Kannan:** The development is that, since we have this subsidiary which has been in this business for a long time, obviously there has been interest around the subsidiary and people have been talking to us, but we are yet to take a final decision in this regard.

**Mangesh Kulkarni:** Okay. In that case are we looking for some kind of JV or a complete exit out of HFC?

**N.S. Kannan:** As I said we cannot comment today because we have not taken any decision, but just to look the way we have operated the housing finance business is that the Bank has got excess capital and incrementally large part of the home loan business is being booked at the parent level. In the mortgage business, we continue to expand predominantly using the parent's balance sheet.

**Moderator:** Thank you. Our next question is from the line of Vishal Goyal from UBS. Please go ahead.

**Vishal Goyal:** Sir one question on the rating profile of our corporate book, any colour on that?

**Rakesh Jha:** No, we do not make a disclosure on the rating-wise cut of the portfolio but overall basis I can tell you that the credit environment has been quite stable in the recent months and incrementally, on the corporate banking side, we have seen some growth in loans to higher rated corporates both in the private sector and the public sector. So qualitative colour is that it is getting better but we do not make any disclosure in terms of rating-wise loans.

**Vishal Goyal:** Okay. And Sir also when you compare your RWA to total assets we obviously see your numbers are higher and I think, is it because of project lending or higher proportion of unrated corporates?

**Rakesh Jha:** There are various reasons, one of course when you compare RWA to total assets then you have to compare the composition of assets across banks. We have indeed a larger proportion of non-fund based exposures. On the loan portfolio we have the overseas book where typically from an external rating perspective that will be largely be unrated given the nature of the loans.

Overseas loans are about 24% of our loan book currently. Further, specifically in the last quarter, RBI came out with specific guidelines which resulted in increase in risk weights largely for the market and the operational risks. So all those things will have to be looked at in terms of looking at the risk weight intensity of the balance sheet.

**Vishal Goyal:** Okay. And Sir can we say like domestic corporate book is fully externally rated or there also you will have unrated?

**Rakesh Jha:** It will not be fully externally rated because that challenge always continues for all banks. I think all banks would have in the range of 50% to 70% kind of rating which would be available for bank loans and have some other portfolio which is unrated. Of course we have a very robust internal rating mechanism, so all of such loans will be internally rated.

**Vishal Goyal:** Okay. And last question from my side is on this housing finance subsidiary, what would be the motive if at all to basically sell it because it is a good arbitrage opportunity whenever you guys want to use that vehicle to book home loans, is the RBI forcing you to sell it out?

**Anindya Banerjee:** As we have explained in the past, that subsidiary has its own model that it is following but the bulk of the mortgage business is in ICICI Bank which is evident and from time to time people reach out to us to say whether there would be interested in divesting it. I think one of such possible expression of interest found its way into the media, but we have not taken any decision to divest the subsidiary. It continues to be a wholly owned subsidiary of ICICI Bank.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Kannan for his closing comments.

**N.S. Kannan:** Yes. Thank you for being on the call. I think we have answered most of your questions satisfactorily, should you have any further questions my team and I are available to clarify. Thank you very much.

**Moderator:** Thank you very much members of the management. 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.