

**ICICI Bank: Conference call on FY2009 results  
April 25, 2009**

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**Moderator:**

Good evening Ladies and Gentlemen, welcome to the ICICI Bank Conference Call. I am Suresh Kumar, the moderator, for this conference. For the duration of presentation, all participants' line will be in the listen-only mode. I will be standing by for the question and answer session. I would like to handover to Ms. Chanda Kochhar, MD and CEO designate. Thank you and over to you ma'am.

**Ms. Chanda Kochhar:**

Thank you and good afternoon to all of you. Well, I will just recap or in a way summarize our presentation and then I will be open to take any questions that you would have. I break up my opening remarks in 3 parts, how I saw the operating environments over the last year, what our strategy has been over the last year, and how I see the trends going forward, and what the results of the strategy has been.

If you kind of recap how the last year has gone, I think this has been a year of unprecedented volatility, the environment was very, very volatile. Between each quarter, the environment and the sentiment was very different. If we look at the first half of the year up to September, business environment up to September in India continued to be positive, and interest rate movement was quite volatile. We saw high inflation, high interest rates, but robust business environment. From September to December, with the collapse of Lehman Brothers and the global and the domestic liquidity crisis, we saw and we could feel this within our clients that there was a sudden loss of business confidence, and given that sudden loss of business confidence it had become imperative for our clients in terms of cutting down capacity utilizations, marking inventories to markets, but over and above that, it also led to an immediate slowdown in the corporate investments and M&A activity. But during that quarter itself, we also started seeing some amount of monetary easing and interest rates also started coming down by the end of the third quarter. That change in interest rates gave a lot of opportunity on the treasury and the fixed income side of the portfolio. But then when we looked at January to March, while I think in the business environment there are some recovery signals, but still on the whole I would say that environment was a little weak. Also the government of India securities yields rose suddenly because we then had the challenge of government announcing a large borrowing program.

So, this is how the environment moved over the four quarters, and given that, while there have been some parts of our strategy which have been very consistent over the full year because that is what we planned for at the beginning of the year, but some parts of the strategy we really tweaked quarter on quarter based on how the environment was moving. The things that we continued to concentrate on, we call it the 4Cs, Capital Conservation, CASA improvement, Cost Control, and Credit Monitoring. So, on the capital, we continued to conserve capital, and even after declaration of dividend for the year as a whole, we have ended 31<sup>st</sup> March with 15.5% total capital adequacy, and within that tier-1 was 11.8% and this tier-1 is the highest amongst the large Indian banks. Talking about CASA in particular, our CASA ratio has improved. We started the year with 26.1% as on 31<sup>st</sup> March, that improved to 27% as on 31<sup>st</sup> December, and we have ended the year with 28.7% CASA ratio, and talking particularly of Q4, we have raised CASA by Rs. 52.86 billion during this quarter. So, we have seen a healthy growth in CASA coming back to us in this quarter. On the third part of our strategy, that is costs, we actually managed to control our costs very effectively. Our operating expenses came down 14% compared to the last year's numbers, and we have seen improvement quarter on quarter, even last quarter, on a quarter on quarter basis, we saw a 4% reduction in operating expenses, and that means that our cost to average assets has gone down from 2.2% to 1.8%. Again, I think at this level we are one of the most efficient banks on the cost to average asset parameter amongst the various banks in India. Talking of credit control and credit monitoring, we again continued to follow the policy of risk containment, being cautious on our loan growth, and for the year, our loan book has declined 3.2%, and if we actually adjust for the exchange rate changes and in fact there has been a 8.4% reduction in our loans. The net NPA ratio was the same level as the last quarter, so I think this strategy of capital conservation, CASA improvement, cost control, and credit monitoring will be our focus even for the coming year because the intention is that by correcting these 4 things or concentrating on these 4 things, we want to position the balance sheet for the next phase of growth which would take place as the economy recovers over a period of time.

Given this strategy, how did it impact our financial performance, for the full year, we have seen 15% increase in net interest income, going up from Rs. 73.00 billion in FY08 to Rs. 83.67 billion in FY09, and the net interest margin increased from 2.2% for the FY08 to 2.4% on an average for FY09. Actually the last quarter, we ended the quarter with a net interest margin of 2.6%, and fee income, more or less in line with what it was the last year. Instead of about Rs. 66.00 billion, we had a fee income of about Rs. 65.00 billion in this year in spite of the sharp change in the economic scenario. Total operating expenses including the DMA expenses went down by 14%, and with all this, our operating profit increased 12% from Rs. 79.61 billion last year to Rs. 89.25 billion for the year ended March 09. So, we saw a healthy increase in operating profit, and the profit before tax has been maintained at the same level as last year. The profit after tax, however, was lower at Rs. 37.58 billion. That is because our effective tax rate increased substantially. Our effective tax rate is now over 26% compared to about 18% last year, and that is because up to last year we had a large proportion of income from dividends and capital gains on account of equity, which means that we could have lower effective tax rates. This year, we have a smaller component of gain from equity shares, and our effective tax rates have gone up. Looking specifically to the fourth quarter, I think there are some encouraging operating trends. Our net interest margin as I said in the fourth quarter has been higher by 20 basis points at 2.6%. We have seen a healthy increase in our deposit in this quarter. The total deposit increased by Rs. 92.00 billion, of which Rs. 52.86 billion were CASA, and which means that CASA ratio went up 130 basis points to 28.7%. Fee income in the quarter four remained at the same level as quarter three, and even on a quarter on quarter basis, we saw 4% decrease in operating and DMA expenses, and if you look at operating profits before treasury, we actually saw a 8% increase on a quarter on quarter basis, so as I said, in this present year, we will continue to follow our strategy of capital conservation, and looking at cost control, credit control, and improving CASA. I see some encouraging operating trends that have been with us in the quarter four. I would now take any questions that you would have.

**Moderator:**

Thank you very much ma'am. We will now begin the Q&A interactive session. We request participants not to ask more than two questions at a time. Participants who

wish to ask questions please press \*1 on your telephone keypad. On pressing \*1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press \*1 now. First in line, we have Mr. Arun from UTI Mutual Fund.

**Mr. Arun:** Ma'am, can you just give us a take on the movement of the NPAs for the quarter as well as the year as a whole, and the movement of restructured assets and the provisions that you have made there to.

**Ms. Chanda Kochhar:** We restructured assets worth about Rs. 10.00 billion for the quarter, and we have applications, aggregating to about Rs. 20.00 billion as on 31<sup>st</sup> March. That is the 31<sup>st</sup> March status, we don't know whether we would get any more applications going forward, but those are the details on restructuring. As for the norms of the restructuring, we have made adequate provisions, that RBI requires on this restructuring of Rs. 10.00 billion. That amount is very small and it is a part of the total provisioning. As far as NPA movement is concerned, the net NPA ratio was 1.95% on 31<sup>st</sup> December. It is 1.96% as on 31<sup>st</sup> March.

**Mr. Arun:** Can you give me a breakup of the gross delinquencies for the quarter and the year, the up gradations and recoveries, the write-offs, and the balance in figures.

**Mr. Rakesh Jha:** The gross NPAs as of March 31<sup>st</sup>, as you can see in the presentation is about Rs. 99.29 billion, the same number for December 31<sup>st</sup> was about Rs. 96.4 billion. During the quarter we would have written off about Rs. 4.00 billion of retail loans, and we sold about Rs. 1.50 billion of retail loans to an asset reconstruction company, so if we adjust for that, the gross additions for the quarter would have been in the region of about Rs. 12.50 billion, a large part of that coming from the retail loans.

**Mr. Arun:** Okay, and for the year as a whole, how much would have been the gross additions?

**Mr. Rakesh Jha:** For the year as a whole, the gross additions, adjusting for the write-offs and sales would have been about Rs. 50.00 billion.

**Mr. Arun:** Lastly, can you give us an estimate of the gross loans as well as the investment in the security of the private

corporate book, the loans which would be of the less than or the equivalent rating of BBB or less.

**Mr. Rakesh Jha:** We have not made disclosures on the rating wise distribution of the portfolio.

**Mr. Arun:** Of the restructured assets' applications that you have got and the restructured assets that you have, what kind of collateral you would have and what would be approximate value of the underlying collaterals to the overall cost of the loans?

**Mr. Rakesh Jha:** As the loans that can be restructured are only the secured loans, so all of these loans will be secured, and the security, would typically be fixed assets. In terms of the coverage for individual loans, that will vary from loan to loan.

**Mr. Arun:** Lastly, how do you see the outlook in the incremental delinquencies in the next couple of quarter, and particularly in FY2010?

**Ms. Chanda Kochhar:** In FY2010, I think the mortgage and the car loan portfolio will continue to be pretty stable. We have not seen any surprises there on the loss ratios, and I think that is how the situation is going to be. The unsecured loans and credit cards in the industry as a whole, we are continuing to see increase in loss ratios. So, I think there would be some deterioration there, but our portfolio on these products is actually coming down. So, the actual impact on account of amount would not be higher for us. It should only come down. On the corporate side, again I don't expect any NPA surprises. Yes, there would be some restructuring required, and we would complete that restructuring largely towards the first half of the year.

**Mr. Arun:** Alright, thank you so much ma'am.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Manish from Kotak Securities.

**Mr. Manish:** Just to clarify on the restructured assets, this Rs. 11.00 billion of restructured assets have been restructured in the fourth quarter. Is that right?

**Ms. Chanda Kochhar:** Yes, that is right.

**Mr. Manish:** So, the total restructured assets on book would be like Rs. 61.00 billion now?

**Ms. Chanda Kochhar:** Yes, Rs. 61.00 billion.

**Mr. Manish:** In addition to this, we have got Rs. 20.00 billion of restructuring proposals pending?

**Ms. Chanda Kochhar:** Yes.

**Mr. Manish:** Right, okay, and just wanted some color on the international book. Given the way things have been moving over the last couple of months, would it be a fair assumption that the mark-to-market losses from here would not be very high, and business seems to be picking up somewhat out there.

**Ms. Chanda Kochhar:** Well, mark-to-market losses are entirely to do with the way the market moves, so it is little difficult to predict how the mark-to-market would move. I would only say that on the credit quality side, the book still continues to be pretty stable, and our book is not growing substantially. We are consciously not growing the book substantially. What we are concentrating on is raising really the retail term deposits to give us that stable sources of funding. We are getting healthy inflow of retail deposits, and we are using that to improve our asset liability mix, and maintaining a very moderate growth on the book, and the credit quality continues to remain good.

**Mr. Manish:** On the incremental growth in fiscal year 2010, would it be in similar lines compared to what we saw in fiscal year 2009?

**Ms. Chanda Kochhar:** Yes, absolutely, because we are going to continue to follow the strategy of capital conservation.

**Mr. Manish:** So, the proportion of retail assets will continue to come off, and we might just see some growth happening on the corporate side.

**Ms. Chanda Kochhar:** Yes.

**Mr. Manish:** Okay, thanks.

**Moderator:** Thank you very much sir. Participants are requested to ask only two questions in the initial round, and come

back for followup. Next in line, we have Mr. Shashin from Alchemy Shares.

**Mr. Shashin:** Hi, just wanted to check on, there is a sharp drop in Q-o-Q in terms of yield on advances, so are we actually doing an incremental yields which are lower than the book yields, and could you give me a sense of what is the current incremental use?

**Mr. Rakesh Jha:** There would have been some decline in the yield on advances because as you recollect towards the end of December we have reduced our prime lending rates both on the home loans and I-BAR, which is the benchmark PLR. So, because of that, there would be some decline in the yield on advances in the current quarter, that was offset by an equivalent kind of a decline on the funding cost as well.

**Moderator:** Next in line we have, Ms. Divyanshi Dayanand from Dawnay Day.

**Ms. Divyanshi:** Could you give me your cost of funds for the year?

**Mr. Rakesh Jha:** Cost of funds is about 7%.

**Ms. Divyanshi:** 7%, and this has decreased on year on year basis?

**Mr. Rakesh Jha:** Last year would have been higher, it was about 7.5%.

**Ms. Divyanshi:** 7.5%, and my other question was on your SLR investment. Could you give me a breakup of the investment in HTM and AFS category?

**Mr. Rakesh Jha:** Broadly about 80% of our portfolio is maintained in the HTM category.

**Ms. Divyanshi:** Okay. That is it, thank you.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Saikiran from Centrum Broking.

**Mr. Saikiran:** Hi, good evening. Just to get a color on the fee income on the quarter-on-quarter basis, it remains stable, but in year-on-year basis, it remained lower. Can you give us guidance in terms of how will it look like in the next financial year.

**Ms. Chanda Kochhar:** Given the current economic scenario, at least for the next two quarters, I think the trends would remain similar to what we have seen in Q3 and Q4.

**Mr. Saikiran:** Okay, thanks.

**Moderator:** Thank you very much sir. Next in line, we have Aditya from Citigroup.

**Mr. Aditya:** Good evening ma'am. I had two basic questions. One was in terms of the offshore book, have there been any MTM, P&L, or balance sheet moves in the quarter in terms of markdowns or markups?

**Mr. Rakesh Jha:** In the UK investment book, the mark-to-market on the AFS portfolio, which directly impacts the reserves would have gone up by about USD 50 million between December 31<sup>st</sup> and March 31<sup>st</sup>. In addition to that, through P&L, the impact of the treasury investment would have been about USD 15 million.

**Mr. Aditya:** Okay, and there have not been any reversals as such.

**Mr. Rakesh Jha:** No.

**Mr. Aditya:** Okay. The second thing was in terms of the liquidity situation on your offshore borrowings on the parent book, there was a little bit of a gap spread over the current period, any update on where things stand there.

**Mr. Rakesh Jha:** In terms of the gap which was there till March 31<sup>st</sup>, we have met all the liability repayment, and we have not drawn down on the RBI facility, which is available for us, for USD 1.5 billion till March 31<sup>st</sup>, 2010. So, if we look at the market, in the last quarter, it was much better than the December quarter and we were able to roll over most of our borrowings, although we did not do any bond issuances. We were able to meet all the liability repayments through inter-bank borrowings and deposit raisings.

**Mr. Aditya:** Specifically in terms of the liability of the repayments of the majority balance over the next 1 year, what is the status on that?

**Mr. Rakesh Jha:** If we look at the total liability repayments, it would be slightly below USD 2 billion in the current financial year, and of that about USD 1 billion would be the repayments on the asset side that we will get, so the net refinancing

requirement will be about USD 1 billion, and this net refinancing excludes deposit maturities, and inter-bank maturities.

**Mr. Aditya:** But on the parent books, bulk of funding would be wholesale borrowings as such right.

**Mr. Rakesh Jha:** In the parent book, also we have close to USD 2 billion of deposits. It is a smaller proportion. It is only 15% of the total funding.

**Mr. Aditya:** There is about USD 1 billion that net needs to be refinanced or effectively paid off.

**Mr. Rakesh Jha:** Yeah.

**Mr. Aditya:** The other thing was just from a look at the portfolios of both the UK business and the Canada business, there is a fairly large loan component that seems to be other than India, right? India ones have been specifically pulled out. Any sense on the asset quality there, either in terms of numbers for these particular balance sheets or in terms of trend/expectations.

**Mr. Rakesh Jha:** In terms of the portfolio in our overseas branches in UK and Canada, as we have said earlier, there is a part of the loan book, which is not linked to India, that is about 10% for our overseas branches, and about 20% of the overseas subsidiaries. If you look at the trend till now, there have not been any material additions on the impairments in any of these portfolio on the loan side, so we are not seeing any such trends there on the portfolio though like on the domestic book we would see some amount of restructuring in the overseas corporate loan book as well.

**Mr. Aditya:** That would be for Indian corporates or non-Indian corporates, the restructuring.

**Mr. Rakesh Jha:** It will mostly be for the Indian corporates.

**Mr. Aditya:** Okay, fine. Okay, thanks so much.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Prashant from ICICI Prudential Asset Management.

**Mr. Prashant:** One is what has led to sharp improvement in NIMs quarter on quarter and year on year and is it sustainable?

**Ms. Chanda Kochhar:** Yes.

**Mr. Rakesh Jha:** In terms of the increase on the margin from 2.4 to 2.6%, the borrowing cost has come down between the December quarter and the March quarter, so with that if you look at the overall trend, the yields have gone down, but the funding cost also has gone down. While the deposit cost has remained nearly the same at about 7.4%, the overall funding cost has gone down. If you talk about going forward, as we had said earlier that in the current quarter, a lot of the growth on the loan book has come from lending done to the rural sector in terms of meeting the lending requirement on the agricultural side, which is done typically at a lower yield, compared to other commercial loans. So, going forward, for example in the June quarter, there will be some downward pressure on the yield on advances because of that.

**Mr. Prashant:** Okay, but the cost part of it will remain low?

**Mr. Rakesh Jha:** There will be clearly a decline in cost of funding because if you look at the incremental deposit cost, it has come down significantly, so that trend will continue, but of course we have also reduced our lending rates, so there will be a decline in yields because of that as well.

**Mr. Prashant:** But what is the sustainable kind of margin that you see now?

**Mr. Rakesh Jha:** We may see some decline in margin in the June quarter because of the agriculture lending part. Given our current strategy of improving the CASA deposits as well as the fact that the wholesale deposit rates have come off significantly, from thereon one should see a consistent improvement in margin, and especially towards the end of the year, when a large part of our deposits raised in October-November 2008 which have much higher cost mature. Thereafter the funding cost will decline more substantially.

**Mr. Prashant:** On CASA, the kind of growth that we have seen in the quarter, I mean, is this sustainable deposits that we have and not the year-end phenomenon, and do we expect

this absolute amount of CASA improvement quarter on quarter basis from now on.

**Ms. Chanda Kochhar:** I think it is quite the result of all the new branches that we set up last year, and as the number of branches is increasing clearly our reach for the customers towards current and savings accounts is increasing, and I am hopeful that we will continue to maintain this going forward.

**Mr. Prashant:** Okay. On restructuring ma'am, is this largely in SMEs or there are corporate accounts also which are getting restructured in this Rs. 10.00 billion which has happened in Rs. 20.00 billion that we have proposals.

**Ms. Chanda Kochhar:** It is a mix of both.

**Mr. Prashant:** Okay.

**Mr. Prashant:** Okay, and what percent roughly of this will have deferment of interest also?

**Mr. Rakesh Jha:** Interest rate reduction will be a very small component. There would be principal deferment or interest deferment, but interest rate reduction is a very small part of it.

**Mr. Prashant:** No, my question was what percent of the total restructuring would have loans where you have also deferred the interest payment?

**Mr. Rakesh Jha:** We have not given a specific number on that, but as I said there will be principal and interest deferment which will be there in these cases. Interest rate reduction will only be a very small percentage of the total.

**Mr. Prashant:** Last one is on why is the net worth lower quarter on quarter basis, what is the adjustment?

**Mr. Rakesh Jha:** That is the dividend payment.

**Mr. Prashant:** Okay, it is dividend only.

**Mr. Rakesh Jha:** Yeah.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Dipankar Choudhury from Deutsche Bank.

**Mr. Dipankar Choudhury:** Hi, most of my questions have been answered, just one clarification. There seems to be a sharp drop in the Eurasia assets if I read it right. Is it due to write down of loans or what happened exactly?

**Mr. Rakesh Jha:** This will also be because of the exchange rate movements.

**Mr. Dipankar Choudhury:** Okay, okay.

**Mr. Rakesh Jha:** Adjusting for that, about 20% to 25% kind of a decline is what we have seen on the balance sheet.

**Mr. Dipankar Choudhury:** Okay, so what exactly accounts for the decline.

**Mr. Rakesh Jha:** The decline is actually repayment of loans, and we have consciously not been growing the balance sheet in Russia. So, as the loans have matured, we have not made fresh loans.

**Ms. Chanda Kochhar:** This has been our strategy since more than a year. We have consciously not been growing, and we have only been allowing the majority to come up.

**Mr. Dipankar Choudhury:** Okay, and could you just give us some color on the asset quality of that subsidiary, do you have a number there, or anything which will help in understanding.

**Mr. Rakesh Jha:** The balance sheet breakup is given in the presentation on slide 27 in terms of the total assets of USD 441 million. If you look at the current trends in terms of NPLs, that is a very small percentage of the overall portfolio of Eurasia, and as we said, we have been reducing the overall balance sheet as well.

**Mr. Dipankar Choudhury:** Okay, that is it from me, thanks.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Rajiv Verma from Merrill Lynch.

**Mr. Rajiv Verma:** Good evening ma'am. Just wanted to understand, are we kind of seeing any improvement in the mortgage space per se. And also on the asset quality side, what is the trend line, there have been concerns and worries that we will start seeing much sharper deterioration, so how you are starting to see that, both in your portfolio and also in the market.

**Ms. Chanda Kochhar:** I think on the mortgage pickup, I still feel that the customers are not going ahead and buying homes to the extent that, they were doing in the past. I think even today the rate of mortgage disbursement is probably at least 20% lower than what it was in the last year; actually it is even lower than that, than what is the amount was last year. People are, I guess, waiting and watching not just for the real estate prices to correct but also for the fact that they are just wanting to be very sure about their own jobs, and the economic environment before the plunge into committing into an investment, so I think there is still some time before which we could see this market coming back. I do believe that there is huge amount of latent demand. I think people can still afford homes. They want to buy homes, so the affordability and the aspiration is still there, but people just want to be more sure about the economic environment before they plunge in. On the credit quality, whether for us or for the industry, I think on mortgage side and on the car loan side, there seems to be a lot of stability. There don't seem to be any surprises really in store. One is feeling pretty comfortable about the current levels of loss rates. On the unsecured loans under credit cards, I think the loss rates are still continuing to increase. We would see pressure on these products on the loss rates even as we go forward, and that is why consciously we are bringing down the portfolio in both unsecured loans and credit cards.

**Mr. Rajiv Verma:** Right, okay, thanks a lot.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Madhu Chanda from Kotak Securities.

**Ms. Madhu Chanda:** Ma'am, I have three questions. The first question is if you could throw some sectoral color on the Rs. 20.00 billion pending restructured asset proposals and the second question is given that you are going slow on the loan book, when do you see this gross NPL slippage to peak out, and my third question is since there is a lot of focus on CASA in the bank, what kind of CASA ratio would make your bank comfortable to start lending even close to the peer group in the market place.

**Ms. Chanda Kochhar:** Well, the first one, we have not really given an industry wise breakup, the amount is Rs. 10.00 billion. But it is really not got to do much with the industry trends as such. It is got most to do with individual companies.

We have seen that, in the same industry, some companies which are low leveraged are in a much healthier situation and are able to service their loans, but in the same industry some companies with higher average are not able to service their loans, so it is more to do with the financial structuring of the company, rather than an industry as such. Coming to your third question, on CASA ratios, my intention is that we should at least get to about 33% of CASA ratio before we start pressing the accelerator on lending because I think, our current CASA ratios are lower than industry averages and that does impact our net interest margin to some extent, and therefore it is important for us to correct the CASA ratio, and after a base of about 33%, if we start growing, I think we will grow then on the basis of a much healthier base, so that is the strategy that we are following. What was your second question.

**Ms. Madhu Chanda:** My second question was when do you expect the gross NPL to peak out, given that you are going slow on the loan book.

**Ms. Chanda Kochhar:** I think the current levels, if you look at on quarter to quarter addition levels should be kind of peak levels because what would happen in the next two quarters, is that on the retail side, we should see a little bit of correction for the simple reason that our unsecured portfolio will actually come down gradually. So, we should see some correction, but on the other hand on the corporate side, we would have to still for the next two quarters or do something more on restructuring. Broadly I think the current levels of addition for retail are what should be the peak level.

**Ms. Madhu Chanda:** And the last question is 33% the target CASA for FY '10?

**Ms. Chanda Kochhar:** Yes.

**Ms. Madhu Chanda:** Okay, thanks a lot ma'am, and all the best.

**Ms. Chanda Kochhar:** Thank you.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Jatinder Agarwal from ABN Amro.

**Mr. Jatinder Agarwal:** Ma'am, two questions. In terms of operating cost, they have actually been flat on a year on year basis. What would your outlook be for the next year?

**Ms. Chanda Kochhar:** No, actually, the operating cost, once you include the DMA expenses as well, it is down 14% on a year on year basis.

**Mr. Jatinder Agarwal:** Right... ex-DMA expenses?

**Ms. Chanda Kochhar:** Yeah, ex-DMA expenses, yes, they have been flat. The outlook was that we should again target to keep it flat for the coming year as well.

**Mr. Jatinder Agarwal:** That would be despite addition of the 500-odd branches that you look at?

**Ms. Chanda Kochhar:** Yes, that is the intention.

**Mr. Jatinder Agarwal:** Okay, and secondly ma'am, in terms of your loan loss charge for the full year, if you look at it, it is average about 170 basis points on your loan book compared to about 120 a year ago, any guidance on that because I think this year partly a large part of it would have come because of your unsecured loan books also, and credit cards whatever, any guidance in terms of that.

**Ms. Chanda Kochhar:** We don't give guidance but whatever is my feeling about how this situation would turn, I have already explained, but we don't give guidance on numbers.

**Mr. Jatinder Agarwal:** But do you think in terms of loan loss ratios, the cycle would have peaked internally in terms of your book.

**Ms. Chanda Kochhar:** As I said, on the mortgages and on the car loans, we do not see any reason for any increase to take place. The unsecured loans, credit cards, I cannot say about the percentages, but clearly our own portfolio will only actually go down, and on the corporate loan, you will see some amount of impact on account of restructuring.

**Mr. Jatinder Agarwal:** Okay, thank you ma'am.

**Moderator:** Thank you very much sir. Next in line, Mr. Neil Mascarenhas from SBI Life.

**Mr. Neil Mascarenhas:** Hello, good evening.

**Ms. Chanda Kochhar:** Good evening.

**Mr. Neil Mascarenhas:** Ma'am, I would like to know the number of agents and the number of branches for ICICI Life this year as well as

going ahead your plans for the next year, and also the accumulated loss?

**Mr. Kannan:** Hi, this is Kannan here.

**Mr. Neil Mascarenhas:** Hello Mr. Kannan.

**Mr. Kannan:** As of March we have about 2100 branches, and going forward there is no intent to increase the branch network.

**Mr. Neil Mascarenhas:** Okay.

**Mr. Kannan:** Because, about 45% of our business comes from channels other than agents, and we have a good mix of bank partners, brokers, and corporate agents for that part of the business, and through branches we do our agency business. As of March we have 277,000 agents. So given this diversified geographical presence, we don't intend to increase our geographical presence anymore.

**Mr. Neil Mascarenhas:** Alright, and the accumulated loss?

**Mr. Kannan:** The loss for the year was Rs. 7.80 billion, and which is down from Rs. 13.95 billion for the previous year, so we have got a 45% reduction in the losses for the company.

**Mr. Neil Mascarenhas:** Okay, thank you very much.

**Mr. Kannan:** Thank you.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Saumya Agarwal from HSBC Securities.

**Ms. Saumya Agarwal:** Hi, good evening ma'am. I had a couple of questions. Firstly, I wanted to understand credit derivative portfolio of Rs. 57 billion. Is it all on the parent's book, if yes, and how much is the overseas credit derivative portfolio. Secondly, if I look at your UK investment books, it has shrunk some 20%, possibly because you have offloaded some India-linked investments and bonds of financial institutions. I wanted to understand how much is the MTM losses on these categories, and is there a conscious strategy to offload these investments over a period of time. Thirdly, if you could give me the breakup for the provisions for the quarter of Rs. 10.85 billion into specific provisions on provision for investment depreciation?

- Ms. Chanda Kochhar:** Our credit derivative books is all India-linked credit derivative book about USD 1.1 billion. I will tell Rakesh to give you the breakup.
- Mr. Rakesh Jha:** For the parent bank, it is USD 1.1 billion, and for subsidiaries, as we have given in the slide, a total of about USD 300 million. The aggregate for the group is USD 1.4 billion, all of which is having Indian names as underlying. On the provisions for the quarter of Rs. 10.85 billion, it will largely be specific provision on NPL.
- Ms. Saumya Agarwal:** Have you netted off any MTM loss borne from the trading gains?
- Mr. Rakesh Jha:** That will be reflected in the treasury line.
- Ms. Saumya Agarwal:** Treasury line, okay. The investment book, could you run me through the MTM loss?
- Mr. Rakesh Jha:** The UK investment book, as of March 31<sup>st</sup>, 2009, the mark to market net of tax was about USD 265 million. That is on the banking book which directly impacts the results, and for the quarter, as I earlier said, the incremental number is USD 50 million pre-tax directly in the banking book which and about USD 15 million for the quarter through the P&L.
- Ms. Saumya Agarwal:** Is there some sort of strategy to offload these investments over a period of time?
- Mr. Rakesh Jha:** To the extent that we get opportunities in the market, we would look at reducing the investment portfolio.
- Moderator:** Ma'am, that answers your question?
- Ms. Saumya Agarwal:** Yeah, thanks, thank you.
- Moderator:** Thank you very much ma'am. Next in line, we have Mr. Anand from HDFC Mutual Fund.
- Mr. Anand:** Just a book-keeping question. I just want to know, as you mentioned the gross addition for the whole year for the NPL was Rs. 50 billion, and does it include sale of loans to ARCIL also?
- Mr. Rakesh Jha:** Yes, adjusting for sale of NPAs which still be NPAs in our books.

**Mr. Anand:** Okay, thanks.

**Moderator:** Thank you very much sir. Next in line, Mr. Sandeep Jain from Tata Securities.

**Mr. Sandeep Jain:** Ma'am, I want to know the restructured assets, all are of them standard?

**Mr. Rakesh Jha:** Yeah.

**Mr. Sandeep Jain:** Okay sir, thank you.

**Moderator:** Thank you very much sir. Dear Ladies and Gentlemen, this is to inform you that there are only last few minutes remaining for the call to conclude. Thank you. Next in line, Mr. Rohit from SBI Mutual Fund.

**Mr. Rohit:** Hello, good evening, congratulations on good numbers.

**Ms. Chanda Kochhar:** Thank you.

**Mr. Rohit:** First question is on the subsidiaries, I mean, can one look at targeting a breakeven in the life insurance business in FY '10, and secondly on the asset management business, could you explain why the huge dip in profitability in the current year?

**Mr. Kannan:** This is Kannan here. On the life insurance company, as I mentioned a little while ago, the losses have come down from Rs. 13.95 billion to Rs. 7.8 billion for the financial year 2009, 45% down. We think that we have articulated saying that we will achieve expense breakeven by 2011, so that is what we are really pursuing, so it is about 2 years away at least, but really depends on the growth rates from hereon.

**Ms. Chanda Kochhar:** And as far as the AMC is concerned, first of all management fees itself was down, and during the month especially October, November, December, etc, we had to provide scheme support, so there were certain abnormal events during this year which led to this.

**Mr. Rohit:** Okay, and second question is on the term deposits. Does the mix continue to be two-third wholesale and balance retail or does that change in this quarter?

**Ms. Chanda Kochhar:** The proportion of retail has improved during this year. On the total deposit base, at the end of last year, at the end of March '08, retail was about 45% of the total deposits. As on March 09, it is 48% of the total deposit.

**Mr. Rohit:** Okay, so your CASA plus retail term deposit is, based on your saving account, the retail term deposit would be 48%.

**Ms. Chanda Kochhar:** Yes.

**Moderator:** Thank you very much sir. Next in line, we have Ms. Mahrukh from Nomura.

**Ms. Mahrukh:** Yeah, hi thanks, most of my questions are answered. Just one thing I missed. What is the provision on restructured assets?

**Ms. Chanda Kochhar:** It is a very small amount. It is part of the provisioning number.

**Ms. Mahrukh:** Okay, thanks. Thanks so much.

**Moderator:** Thank you very much ma'am. Next in line, we have Mr. Hiren Dasani from Goldman Sachs.

**Mr. Hiren Dasani:** Hi, just on the restructuring, you said Rs. 11 billion is all standard assets, and this Rs. 22 billion would also be, I presume, all standard assets only right, the applications pending?

**Ms. Chanda Kochhar:** Yes.

**Mr. Hiren Dasani:** Okay, and ma'am, any restructuring you can do in the subsidiaries loan book which are India-linked. Would the guidelines and all be the same related to like what we do in India?

**Ms. Chanda Kochhar:** Yes, it is possible to do it. The provisioning guidelines may be different in the subsidiaries, but it is possible to do restructuring, and indeed if there is some particular Indian company that needs restructuring then whether the loan is from the India book or the subsidiary book, we look at it in totality.

**Mr. Hiren Dasani:** But this Rs. 22 billion of applications include subsidiaries or it includes only India book?

**Ms. Chanda Kochhar:** No, it includes only India book.

**Mr. Hiren Dasani:** Any disclosures on the subsidiary related restructure.

**Ms. Chanda Kochhar:** We don't have any major ones as of now.

**Mr. Hiren Dasani:** Question to Rakesh. Rakesh, you said about USD 2 billion of repayment that is only for India balance sheet borrowings or overall?

**Mr. Rakesh Jha:** That is for the overseas branches of the parent bank.

**Mr. Hiren Dasani:** Overseas branches of the bank, and would there be any repayment obligations for the subsidiaries as well in FY '10?

**Mr. Rakesh Jha:** Very small amount because Canada is fully funded by deposit, and UK there will be some amount, but not a material one.

**Mr. Hiren Dasani:** Okay, thanks a lot.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Ashutosh from Asian Market.

**Mr. Ashutosh:** Good evening ma'am. Thank you for good set of numbers. I just want to know about the...what is the average maturity of the term deposit?

**Ms. Chanda Kochhar:** Average maturity is one year.

**Mr. Ashutosh:** Just one year?

**Ms. Chanda Kochhar:** Yes.

**Mr. Ashutosh:** On overall loan book of retail size, what is the proportion of the low ticket personal loans?

**Ms. Chanda Kochhar:** On the overall loan book, 49% is retail, and within that, low ticket personal loan is 0.4% of the retail loans.

**Mr. Ashutosh:** These are normally less than 5 lakh rupees of loans.

**Ms. Chanda Kochhar:** Less than 5 lakhs, no, no, much smaller.

**Mr. Rakesh Jha:** These are the small-ticket unsecured personal loans, where the average ticket size would be about Rs. 30,000.

**Mr. Ashutosh:** Okay, thank you sir.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Amit Premchandani from UTI Mutual Fund.

**Mr. Amit Premchandani:** Yeah, ma'am, just a small question. There is a capital increase of around Rs. 20.00 billion in Canada subsidiary. Any specific reasons?

**Ms. Chanda Kochhar:** The balance sheet has gone up during the year.

**Mr. Amit Premchandani:** Do you expect increasing lending opportunity in the Canada subsidiary.

**Ms. Chanda Kochhar:** Well, we will watch. There could be some growth.

**Mr. Amit Premchandani:** Okay, that is it from my side, thank you.

**Moderator:** Thank you very much sir. Next in line, we have Mr. Kashyap Zaveri from MK Global Services.

**Mr. Kashyap Zaveri:** Hi, just wanted to have a breakup of CA and SA in terms of current account and savings account.

**Mr. Rakesh Jha:** Rs. 410.36 billion, and current deposits are Rs. 216.32 billion.

**Mr. Kashyap Zaveri:** Okay, and I missed out this number on the retail deposit which you mentioned. The retail deposits last year as a percentage of total deposits were?

**Mr. Rakesh Jha:** 45%.

**Mr. Kashyap Zaveri:** Okay, and this year?

**Ms. Chanda Kochhar:** 48%.

**Mr. Kashyap Zaveri:** So, I mean, if I look at the numbers which you have given, probably we would have paid more wholesale deposits than the retail deposits during the year.

**Ms. Chanda Kochhar:** Yes, we have added more retail deposits. We consciously paid back the wholesale deposits.

**Mr. Kashyap Zaveri:** Okay, and how much of the wholesale deposits are coming for repayment over the next about 6 odd months. Will it be same as the overall maturity profile?

**Mr. Rakesh Jha:** Yeah.

**Mr. Kashyap Zaveri:** So, roughly about 50% will come for repayment over the next 6 months.

**Mr. Rakesh Jha:** Yeah.

**Mr. Kashyap Zaveri:** Looking at the fact that wholesale deposit cost is today slightly lesser than retail deposit, at least that is what PSU banks are guiding at, what is our plan on that, do we intend to replete them with wholesale deposits again, or would we go for retail deposits?

**Mr. Rakesh Jha:** We would continue to increase the retail deposits as well.

**Mr. Kashyap Zaveri:** Okay.

**Mr. Rakesh Jha:** If you look at the balance sheet strategy, even in the last 12 months, the wholesale deposits have declined. So, that kind of a strategy will continue.

**Mr. Kashyap Zaveri:** Will continue, so would not that put pressure on our cost of funds if wholesale deposits are costing less than retail deposits, or the other way, now retail deposits are costing more than wholesale.

**Mr. Rakesh Jha:** It should be only a matter of because the retail term deposit rate has been reduced by us and also by other banks, to that extent the retail 1-year deposit rate is also down to close to 8% now.

**Mr. Kashyap Zaveri:** Okay. Secondly, in terms of our subsidiaries, in Canada subsidiary, probably this quarter, we did only about a million dollar of profit compared to the first 9 months of about 32 odd million, so what could be the reason for that?

**Mr. Rakesh Jha:** There was not much growth in the overall balance sheet in Canada in the current quarter, so that is the reason why the profit would have been less. So overall we have not had much opportunity on the fee income in the current quarter.

**Mr. Kashyap Zaveri:** Okay.

**Mr. Rakesh Jha:** In addition to that, there was some mark-to-market impact on the asset backed commercial paper that we have in Canada. We had marked it down by 40%, given the USD Canadian Dollar exchange rate, we would have made some incremental provision for that.

**Mr. Kashyap Zaveri:** That is only for, more for currency movement.

**Mr. Rakesh Jha:** Yeah, yeah.

**Mr. Kashyap Zaveri:** But nothing to do with probably spreads widening?

**Mr. Rakesh Jha:** No.

**Mr. Kashyap Zaveri:** Okay, and lastly, in terms of losses in insurance, the fourth quarter losses seem to be, accounting losses seem to be much lower than what we have seen for the first three quarters, would that be only because of seasonality or are there anything else, any changes in probably assumptions that one needs to make?

**Mr. Kannan:** No, the primary reason here is deferred tax assets, which got created during the quarter of Rs. 1.1 billion.

**Mr. Kashyap Zaveri:** Okay.

**Mr. Kannan:** So, that is why you see that fourth quarter losses being far lesser. You should really look at the year as a whole losses because in normal course deferred tax asset should have got created through the year.

**Mr. Kashyap Zaveri:** Sure.

**Mr. Kannan:** But we were looking for IRDA permission to create this, so it got created in the last quarter.

**Mr. Kashyap Zaveri:** In the last quarter, so that is the main reason why accounting losses are lower.

**Mr. Kannan:** Normally, you see that in the fourth quarter losses are only less than the other quarter, but this time, the seasonality has got skewed by the deferred tax assets created.

**Mr. Kashyap Zaveri:** Just last question, if I look at addition to reserves, the reconciliation is actually not matching if I were to add four quarter profits and less dividends, I am getting some, difference of about Rs. 5.50 billion, so is there any revaluation or any other reasons, which have been created, which are not free.

**Mr. Rakesh Jha:** That will be the foreign exchange translation reserve, given the rupee depreciation.

**Mr. Kashyap Zaveri:** Sure, that is it from my side.

**Ms. Chanda Kochhar:** Okay, thank you.

**Moderator:** Thank you very much sir. Last question comes from Sudhakar from Span Capital.

**Mr. Sudhakar:** Yeah, this is Sudhakar here. Just one question. What kind of growth do you expect in your life insurance business and what kind of lapsation are you seeing in this business and also what is the amount you plan to invest in this business in the next 1 or 2 years?

**Mr. Rakesh Jha:** The growth in life insurance business for the industry is expected to be anything between 0 to 10%, it is very difficult to guess today what kind of growth rate because of the market condition. The first quarter growth for the industry itself we think will be negative because April, May, June last year were very good months, so we would really look at industry growing anything between 0 to 10%, we will have to evaluate it as we go along. The capital requirements for the company has come down quite drastically. In the beginning of the year, we thought we would take about Rs. 20 billion from the shareholders, we have actually taken only half of that, Rs. 10 billion. We expect the capital requirement to be significantly less than even Rs. 10 billion for the coming year. On the lapsation, yes, we have seen decline in the persistency, but that got offset by the surrenders which has been far less than last year as a percentage of assets, so net-net we are broadly okay as far as the inputs, value of the book is concerned.

**Mr. Sudhakar:** Do you share the lapsation number?

**Mr. Rakesh Jha:** No, it is not in the public domain, but you can see the conservation numbers, should be about 70%.

**Mr. Sudhakar:** Thank you.

**Moderator:** Thank you very much sir. At this moment, I would like to hand over the floor back to Ms. Chanda Kochhar for final remarks.

**Ms. Chanda Kochhar:** Well, I would like to thank everyone and end with saying that we are seeing some encouraging trends in the operating performance in the quarter four. Thank you.

**Mr. Rakesh Jha:** Thank you.

**Moderator:**

Ladies and gentlemen, thank you for your participation, that concludes this conference call. You may now disconnect your lines. Thank you.

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