

Mr. N. S. Kannan's opening remarks for analyst call on January 31, 2012

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I would make my opening remarks in four parts:

Part 1: Macro-economic and monetary environment;

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

Part 3: Consolidated results; and

Part 4: Outlook for the rest of the year.

Part 1: The macro economic and monetary environment.

The global macroeconomic environment continued to remain subdued with a slowdown in growth and concerns on the Eurozone debt crisis which resulted in extensive rating downgrades of banks and sovereigns. The impact of these events was felt in Indian markets through the capital channel, the impact

on equity markets and a sharp depreciation in the currency. In addition, domestic factors such as continued high levels of inflation and a tightening monetary policy cycle resulted in a slowdown in macroeconomic growth and had an impact on corporate performance.

Growth in industrial production decelerated to 3.8% during April-November 2011, compared to 8.4% in April-November 2010. IIP declined by 4.7% in October 2011. Investment activity has seen a significant decline while sales in some segments like passenger cars and cement have also moderated. Merchandise exports also slowed significantly in October and November to 10.8% and 3.9% respectively as against a growth of over 35% in the preceding months of fiscal 2012. While growth in imports has also moderated, the deceleration has not been as pronounced as in the case of exports. Rising input costs, sharp currency movements and moderation in sales growth have resulted in an impact on corporate profitability. GDP growth estimates for fiscal 2012 have been revised downwards by the Reserve Bank of India to 7.0% from the earlier 7.6%.

However, some early positive signs in the macroeconomic environment are visible. There are signs of a moderating trend in inflation, which came down to a two year low of 7.5% in December 2011. The decline was primarily driven by food inflation that declined to a low 0.74% in December 2011 and continued to recede in January 2012 as well. Fuel and manufactured products

inflation also showed some moderation although still remaining high. Core inflation declined from 7.9% in November 2011 to 7.7% in December 2011. In terms of growth indicators, the purchasing managers index has improved from around 50.4 in September 2011 to 54.2 in December 2011. IIP growth was up 5.9% year-on-year in November 2011.

System liquidity remained in deficit during Q3-2012, with banks continuing to remain borrowers under the LAF window. The deficit exceeded Rs. 1 trillion in November 2011 and continued to remain at these levels through the rest of the quarter. Liquidity conditions tightened following advance tax outflows with the deficit reaching about Rs. 1.8 trillion in December 2011. Average daily borrowing by banks from the RBI LAF window was around Rs. 880 bn in Q3-2012, more than double the amount witnessed in Q2-2012. Yield on 10-year benchmark government securities increased by 14 basis points during the quarter from 8.43% at September 30, 2011 to 8.57% at December 30, 2011. Interest rates on market instruments like Commercial Papers and Certificate of deposits increased during the quarter. The 3-month CP rates were in the range of 9.50% at the beginning of the quarter and reached about 9.90% at the end of the quarter, after witnessing a peak of about 10.3%. A similar trend was seen in CD rates as well.

In view of these developments, the Reserve Bank of India, in its recent third quarter review, kept the repo rate unchanged while reducing the cash reserve ratio by 50 basis points to 5.50%.

Equity markets were volatile through the quarter, mainly in reaction to the Eurozone debt crisis and concerns on slowing domestic growth and its impact on the corporate sector. Investments by Foreign institutional investors (FIIs) was weak in the equity markets, with a net outflow of USD 0.4 billion in Q3-2012. However, FII investments in the debt market were robust at USD 3.5 billion during the quarter. The benchmark BSE Sensex ended the quarter lower by 6.1% compared to the September 2011 closing. The rupee depreciated by about 8.4% during the quarter to Rs. 53.11 per dollar at end-December 2011.

Non-food credit growth of scheduled commercial banks has moderated reflecting the slowdown in economic activity. During Q3-2012, non-food credit outstanding grew by 3.2% compared to an increase of 5.4% in Q2-2012. On a year-on-year basis, credit grew by 16.7% at January 13, 2012 compared to an increase of 21.2% at September 30, 2011 and 23.2% at January 14, 2011. The deceleration was seen across sectors. Deposit growth in the system also moderated to 17.2% on a year-on-year basis at January 13, 2012, from 19.1% at September 30, 2011 and 16.5% at January 14, 2011. Demand deposits after declining by 0.9% on a year-on-year basis at December 30, 2011 recorded a y-o-y growth

of 5.1% at January 13, 2012. Time deposits grew by 19.5% on a year-on-year basis at December 30, 2011 and by 18.8% y-o-y at January 13, 2012.

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

Let me begin with the progress on our 5Cs strategy:

- With respect to Credit growth: Total advances for the Bank increased by 19.1% on a year-on-year basis from Rs. 2.07 trillion at December 31, 2010 to Rs. 2.46 trillion at December 31, 2011. The growth was largely driven by domestic corporate loans which increased by 23.8% on a year-on-year basis and net advances of overseas branches increased by 38.4% on a year-on-year basis. The depreciation of the rupee had a positive impact on the growth of the net advances of our overseas branches. Excluding this, the year-on-year growth in the overseas advances would have been about 16.5%.

On a sequential basis, total advances increased by 5.2% driven by a 14.7% increase in domestic corporate advances. However, the slowdown in new sanctions during the quarter continued, due to the significant decline in new project announcements. The international portfolio in overseas branches increased by 4.4% as compared to September 30, 2011. The domestic retail

book marginally increased to Rs. 823.86 billion at December 31, 2011 as compared to Rs. 818.73 billion at September 30, 2011. The year on year growth in the retail portfolio was impacted by continued decline in the unsecured retail portfolio which declined from Rs. 56.70 billion at December 31, 2010 to Rs. 35.09 billion at December 31, 2011. Further while home loan disbursements, excluding builder finance, have increased by about 15% on a year-on-year basis in Q3-2012, due to continued repayments and prepayments on the existing portfolio, the overall portfolio size has increased by only 5.8%.

- Moving on to **CASA deposits**: Mobilisation of CASA deposits has been challenging given the decline in demand deposits in the system. Despite this, the Bank's savings account deposits grew by Rs. 33.49 billion in Q3-2012 and the current account deposits grew by Rs. 70.42 billion. The increase in current account deposits included the impact of greater float on account of NHAI bond issuance related flows. The overall CASA ratio for the Bank increased to 43.6% at December 31, 2011 as compared to 42.1% at September 30, 2011. Even on an average daily balance basis, there was an improvement in the CASA ratio for the Bank. The average CASA ratio during Q3-2012 improved to 39.0% as compared to 38.3% in Q2-2012.
- On **Costs**: On a year-on-year basis, operating costs, including DMA expenses, were higher by 11.7%. During the first half of

the year, the higher increase in operating expenses was, in part, on account of the full cost base of the Bank of Rajasthan that was considered in fiscal 2012, whereas it was considered only from mid August onwards in fiscal 2011. The second half of fiscal 2012 would be comparable on a year-on-year basis and accordingly the increase in operating expenses has moderated as compared to Q2-2012. On a sequential basis operating expenses have increased by 1.4% primarily due to an increase in non-employee expenses as employee expenses remained broadly stable. The employee count decreased from 59,033 at September 30, 2011 to 57,733 at December 31, 2011. In Q3-2012, the Bank's cost-to-asset ratio was 1.7% and the cost to income ratio was 41.5%.

- Let me move on to the next C on ***Credit quality***: We saw a 26.7% decrease in provisions from Rs. 4.65 billion in Q3-2011 to Rs. 3.41 billion in Q3-2012. Credit costs as a percentage of average advances were 58 basis points in Q3-2012 on an annualized basis. During the quarter, our net addition to gross NPAs was Rs. 1.81 billion. This comprises slippages of Rs. 8.77 billion and recoveries and upgrades of Rs. 6.96 billion. We have also written-off Rs. 4.68 billion during Q3-2012. The net NPA ratio declined to 0.70% at December 31, 2011 as compared to 0.80% at September 30, 2011. Our provisioning coverage ratio improved to 78.9% at December 31, 2011 compared to 78.2% at September 30, 2011. During Q3-2012, we had additions of Rs.

8.80 billion to restructured assets, primarily on account of restructuring of exposure to a corporate client and of mid market and SME cases that had been referred to CDR. After accounting for upgradations, our net restructured assets portfolio increased from Rs. 25.01 billion at September 30, 2011 to Rs. 30.70 billion at December 31, 2011. Our exposure to cases referred to CDR at December 31, 2011 and those yet to be restructured is about Rs. 13.00 billion. The key cases in this include GTL and 3i Infotech. With respect to GTL while we understand that some other banks have effected the restructuring in Q3-2012, the restructuring arrangement and execution in our case will take place in Q4-2012. Further, some small exposures could be restructured outside the CDR mechanism. The restructured portfolio as a consequence is expected to increase from the current levels.

- *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. The focus is on providing increased functionality and convenience to our customers through various technology channels. One such initiative that the Bank has recently launched is an active presence on social networking platforms, which allows the Bank's customers to access their bank account through facebook. Our facebook app, a first of its kind in the country, allows customers to check their account details, view account

statements and place various service requests. Within a month of its launch, the ICICI Bank facebook page has over 36,000 fans.

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

1. Net interest income increased 17.3% year-on-year from Rs. 23.12 billion in Q3-2011 to Rs. 27.12 billion in Q3-2012. The net interest margin improved from 2.64% in Q3-2011 to 2.70% in Q3-2012 mainly due to an increase in the yield on advances and investments, offset, in part, by an increase in the cost of funds. On a sequential basis, the net interest margin increased by 9 basis points from 2.61% in Q2-2012 to 2.70% in Q3-2012. The NIM on domestic business improved from 2.92% in Q2-2012 to 2.98% in Q3-2012, while international NIM increased from about 1.09% in Q2-2012 to 1.40% in Q3-2012.
2. Fee income grew by 4.7% on a year-on-year basis from Rs. 16.25 billion in Q3-2011 to Rs. 17.01 billion in Q3-2012. The continued moderation in fee income growth was primarily on account of corporate banking fee income which remains impacted by the slowdown in new projects/financial closures. During Q3-2012, there was continued momentum in granular fee income streams such as forex & derivative fees, transaction banking fees and remittance fees. The Bank

- will continue to focus on these revenue streams going forward.
3. Other income for the Bank increased by 149.2% from Rs. 1.03 billion in Q3-2011 to Rs. 2.56 billion in Q3-2012. This was primarily on account of dividend received from ICICI Life. Going forward, the life insurance subsidiary would continue to pay dividends based on its profitability and subject to regulations. In view of the visibility on profitability of the life insurance subsidiary, we would expect to receive dividend from ICICI Life on a quarterly basis in subsequent periods.
 4. During Q3-2012, treasury recorded a loss of Rs. 0.65 billion on account of marked to market losses on the equity portfolio and marked to market losses on security receipts, offset in part by proprietary trading gains.
 5. I have already spoken about the trends in operating expenses and provisions while speaking about the 5Cs strategy.
 6. As a result of the above, the Bank's standalone profit before tax increased by 24.9% from Rs. 18.78 billion in Q3-2011 to Rs. 23.46 billion in Q3-2012.

7. The Bank's standalone profit increased by 20.3% from Rs. 14.37 billion in Q3-2011 to Rs. 17.28 billion in Q3-2012.

Part 3: Consolidated results

The profit after tax for the life insurance subsidiary was Rs. 3.67 billion in Q3-2012 as compared to Rs. 6.14 billion in Q3-2011. Here I would like to mention that the entire non-par surplus for the nine month period ended December 31, 2010 was recognized in the profit and loss statement for Q3-2011 while the same has been recognized on a quarterly basis in subsequent periods, including in Q3-2012. For 9M-2012, which is comparable on a year-on-year basis in its treatment of the non-par surplus, profit after tax increased by 105.8% to Rs. 10.56 billion compared to Rs. 5.13 billion for 9M-2011. The new business premium for the company was Rs. 11.97 billion in Q3-2012 with new business margins at 16.0%. Following a phase of transition to the new regulatory regime, ICICI Life has started witnessing healthy year-on-year increase in volumes. The new business annualized premium equivalent for ICICI Life increased by 50.6% from Rs. 5.71 billion in Q3-2011 to Rs. 8.60 billion in Q3-2012. ICICI Life saw an improvement in market share with the overall market share increasing from 5.96% for H1-2012 to 6.83% for Q3-2012. The private market share improved from 14.9% in H1-

2012 to 19.1% for Q3-2012, based on new business retail weighted received premium.

ICICI General recorded a 38.3% increase in profit after tax from Rs. 0.73 billion to Rs. 1.01 billion in Q3-2012, driven by an increase in gross premiums and investment income. The company maintained its leadership position in the private sector with overall market share of 9.6% up to December 2011. I had spoken about the revision in the third party motor pool loss rates as mandated by IRDA in Q4-2011 and the subsequent capital infusion that we had done in Q4-2011. I had also mentioned that a peer review of the loss rates in the third party motor pool was being carried out. According to the results of the review, the loss rates have been further revised upwards to 159% for FY2008, 188% for FY2009, 200% for FY2010 and 213% for FY2011. This will impact the profitability of the company in Q4-2012. The overall estimated impact on the company is about Rs. 6.27 billion. The industry as a whole is in discussions with IRDA on the manner in which the liability has to be determined and treated in the financials. Along with a revision of the loss rates IRDA has also relaxed the solvency requirements for insurers to 1.1 at March 2012, 1.2 at March 2013, 1.3 at March 2014, 1.4 at March 2015 and 1.5 at March 2016 respectively. We will evaluate any requirement of infusing capital into the company in due course. Effective April 1,

2012, the existing third party motor pool has been dismantled by IRDA and a declined pool has been created instead. Under this mechanism, insurers would cede only those policies to the pool that they would not look at underwriting themselves. Insurers have been mandated to underwrite motor pool policies to the extent of the sum of 50% of their share in total gross premium and 50% share in total motor premium. Any shortfall against this requirement will be allocated to the insurers from the declined pool. Additionally, as against the earlier mechanism of ceding all third party premiums including those related to comprehensive policies, under the declined pool framework, only specific third party insurance premiums would be pooled. Accordingly, under this mechanism, the size of the pool would decline substantially and the allocation of losses to individual insurers would be based on their ability to meet the mandated targets.

With respect to our overseas banking subsidiaries, I would like to mention that the financials reported for ICICI Bank Canada are based on IFRS. As per IFRS financials, ICICI Bank Canada's profit after tax for Q3-2012 was CAD 6.6 million. Total assets for ICICI Bank Canada were CAD 5.28 billion at December 31, 2011, a marginal increase as compared to September 30, 2011. The capital adequacy ratio at December 31, 2011 was 31.6%.

ICICI Bank UK continued to see balance sheet consolidation during Q3-2012 with total assets declining from USD 5.13 billion at September 30, 2011 to USD 4.77 billion at December 31, 2011. During Q3-2012, ICICI Bank UK's investment in bonds of financial institutions, excluding those in Indian entities, declined further from about USD 288 million at September 30, 2011 to about USD 228 million at December 31, 2011. The exposure to European entities is less than USD 35 million and is to UK based institutions. The remaining investments are primarily for entities in US, Canada and the Asia Pacific region. The profit after tax for ICICI Bank UK for Q3-2012 was USD 7.7 million. The capital adequacy ratio was 29.4% at December 31, 2011.

As a result of the above, consolidated profits for Q3-2012 were Rs. 21.74 billion compared to Rs. 20.39 billion in Q3-2011. For the nine month period ended December 31, 2011, which is comparable on a year-on-year basis on account of the treatment of the non-par surplus in ICICI Life, consolidated profits increased by 28.9% from Rs. 45.25 billion in 9M-2011 to Rs. 58.33 billion in 9M-2012. The consolidated RoE improved from 13.7% in Q2-2012 to 14.2% in Q3-2012.

Part 4: Outlook for the rest of the year

There has been a moderation in economic growth, with a significant slowdown in new project activity. At the same time, several changes on the regulatory front are underway. Our outlook for the balance year is in this context.

- With respect to loan growth, we expect overall loan growth to be about 18% for FY2012. We expect growth in the fourth quarter to be driven by retail assets growth, working capital demand and offtake from past project approvals in the corporate segment and priority sector lending. We would expect lower growth in the overseas loan book on account of constraints on availability of dollar funding at the desired costs. Here I would like to reiterate that the Bank would look at incremental dollar funding only from the perspective of growth and there is no fund raising requirement to meet liability maturities. The Bank was carrying liquidity of about US\$ 900 million at December 2011 in its overseas branches, which together with expected inflows from asset maturities of about US\$ 500 million would be adequate to meet an aggregate of about US\$ 1.2 billion of liability repayments in Q4-2012. It is to be noted that in the current financial year, the Bank has already repaid liabilities of about US\$ 2 billion, including about US\$ 700 million in January 2012,

while the last bond issuance of US\$ 1 billion was in May 2011. For fiscal 2013, the expected inflows from asset maturities are about US\$ 2.4 billion and would be adequate to meet the liability repayments of about US\$ 2.7 billion.

- Given the decline in demand deposits in the system, CASA deposit mobilisation has been challenging. Our target is to maintain the average CASA ratio at about 40% for FY2012.
- We expect overall margins to remain stable at 2.7%.
- With respect to fees, we have seen continued improvement in certain fee segments such as transaction banking, forex & derivatives and remittance fees. However, fee income was impacted by a slowdown corporate/project finance related fees due to moderation in new projects/financial closures. Going forward, growth in corporate fees would depend on traction in new project announcements/financial closures. We expect to sustain the current fee growth trends.
- Operating expenses in FY2012 are expected to increase by about 18%. The increase would be mainly due to the increase in employee base in FY2011, full year cost base

of Bank of Rajasthan and the average increase of about 11% in salaries effected for FY2012. For FY2012, we expect the 9 month trends for the cost-to-income ratio to be maintained.

- For FY2012, we do not expect the provisions to average advances to exceed 70 basis points, based on the current RBI guidelines and our current assessment of asset quality trends. This includes any NPV impact that we would incur on restructuring of assets in Q4-2012.