

ICICI Bank Limited
Conference Call on amalgamation of Bank of Rajasthan with ICICI Bank
May 23, 2010

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The proposed amalgamation would be governed by the provisions of Section 44A of the Banking Regulation Act, 1949. The proposed amalgamation, to become effective, requires the consent of a majority in number representing two-thirds in value of the shareholders of ICICI Bank and Bank of Rajasthan, present in person or by proxy, at their respective meetings called for this purpose, the sanction of Reserve Bank of India by an order in writing and sanction or approval, if required, under any law or regulation, of the Government of India, or any other authority, agency, department or persons concerned. There can be no assurance that these approvals will be obtained or of the time involved therein. The terms of the proposed amalgamation would be contained in the scheme of amalgamation once approved by the respective Boards of ICICI Bank and Bank of Rajasthan and requires approval by the shareholders of ICICI Bank and Bank of Rajasthan and Reserve Bank of India. Reserve Bank of India may modify the scheme approved by the shareholders. There can be no assurance that terms of the scheme will not have an adverse impact on ICICI Bank. The proposed amalgamation and any future acquisitions or mergers may involve a number of risks, including deterioration of asset quality, diversion of our management's attention required to integrate the acquired business and the failure to retain key acquired personnel and clients, leverage synergies or rationalize operations, or develop the skills required for new businesses and markets, or unknown and known liabilities, some or all of which could have an adverse effect on our business.

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Moderator

Ladies and gentlemen, good afternoon and welcome to the conference call on the amalgamation of Bank of Rajasthan with ICICI Bank. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that the conference will last for a duration of 45 minutes and therefore participants are requested to limit their questions to one per participant during the initial round. If you should need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch-tone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Ms. Chanda Kochhar, Managing Director and CEO from ICICI Bank.

Chanda Kochhar

Thank you. Good afternoon everyone. Thank you for joining us on this Sunday afternoon. I am happy to announce that the Board of Directors of both ICICI Bank and Bank of Rajasthan have approved the merger between the two banks today. The proposed amalgamation is subject to the approval of the shareholders of both banks and the approval of the RBI. An Extra-ordinary General Meeting (EGM) of shareholders is proposed to be held on June 21, 2010. Based on the valuation report by Haribhakti & Company, who were the joint valuers for this deal, the Board of Directors of the two banks have approved a swap ratio of 25 shares of ICICI Bank for 118 shares of Bank of Rajasthan. This translates into one ICICI Bank share per 4.72 Bank of Rajasthan shares.

The amalgamation of Bank of Rajasthan is indeed of strategic importance to us as it helps strengthen our competitive position in the Indian banking sector. It is clearly in alignment with our aim to move towards a more branch-centric and customer-centric model – the model that we have been working to towards over the last 18 to 24 months.

The 463 branches of Bank of Rajasthan not only lead to a 25% increase in our branch network, but also complements our existing distribution of branches by strengthening our presence in North and West India. The branches and deposit base of Bank of Rajasthan has given us a huge time-to-market advantage of anywhere between three to four years as it would take at least one year to set up 500 branches and another two to three years to replicate the deposit book.

Over the last few days, we, along with Deloitte, have conducted a due diligence exercise. We have had the opportunity to review in some detail the books of Bank of Rajasthan with respect to advances, investments, deposits, properties & branches and employee liabilities and we are satisfied with the overall quality of the asset book. The investment book comprises mainly investments in G-secs, RIDF/ NHB/ SIDBI bonds and bonds and debentures of highly rated corporates. We have done a case-by-

case review of about 80% of the loan book. The overall quality of the advances book appears satisfactory, with nearly 40% of the book reviewed comprising advances to PSUs. While there are some accounts which require close monitoring, these are small relative to the overall loan book of Bank of Rajasthan.

We are also encouraged by the improvement in the deposit mix of Bank of Rajasthan between March 31, 2009 and March 31, 2010. The CASA ratio for Bank of Rajasthan has improved from 27.4% at March 31, 2009 to over 30% driven primarily by savings deposits.

As far as employee benefits like pension etc are concerned, in general it is seen that the new private sector banks tend to be more conservative in their provision for employee liabilities including pension, gratuity and leave encashment, as compared to old private sector players. The assumptions and policies relating to computation of the employee liabilities would be aligned with our policies post the amalgamation.

We expect very minimal issues in relation to integration because we have a common technology platform. The Bank of Rajasthan branches also operate on Finacle, which is the same core banking technology that we use. Further, our experience in handling employee issues in the past mergers should stand us in good stead for the current merger too. With this, I conclude my opening remarks and we will be happy to answer any queries that you may have.

Moderator Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Mahrukh Adajania from Nomura Securities. Please go ahead.

Mahrukh Adajania Hi. Could you give us the segment-wise break-up of loans? You mentioned that 40% is to PSUs, but can we get break-up of the loan book of Bank of Rajasthan into retail, corporate, etc.

Chanda Kochhar We have not shared the details on break-up of loan book. However, as I said earlier, 40% of the book reviewed by us is advances to PSUs – these are known PSUs and the credit quality is satisfactory based on our assessment. The other segments are loans for agriculture and allied activities, service and trade, loans to SMEs and a small retail portfolio. Roughly about 15% of the loan portfolio is agri and about another 15% is retail, comprising largely of mortgages.

Mahrukh Adajania Okay. Thank you.

Moderator Thank you. The next question is from the line of Rajat Rajgarhia from Motilal Oswal. Please go ahead.

Rajat Rajgarhia Hi. I have two questions. First, we have been articulating the 4C strategy. Did the growth plans for FY2011 and FY2012 already

factor in some kind of M&A? Secondly, did we consider any other option for acquisition other than Bank of Rajasthan before doing this deal?

Chanda Kochhar Well you know, indeed we have been articulating our 4C strategy and one of the major C of the 4Cs is CASA deposits. We have clearly been saying that our growth will be driven on the back of growth in CASA deposits. Besides, we have also been clear that one of the key enablers for the 4Cs and specifically for the CASA deposits would be our customer-centric and branch-centric strategy. Branches have been an integral part of our 4C strategy and we have been focusing on moving towards a branch-led model and strengthening our relationship with customers through our branches. It is in line with this strategy that we added 500 branches last year despite the fact that we were also focusing on cutting costs during the year. Clearly, we did not sacrifice on branch growth as they formed an integral part of our strategy. Of course, at that time, we had not clearly articulated as to whether the branch addition would be by way of organic or inorganic growth or a mix of the two. We have been evaluating opportunities for inorganic growth. However, since a deal can happen only when you feel there is a right time for a deal to go through at a right price, it is not something that gets planned as a pinpointed strategy. But clearly, this deal fits in very well with our 4C strategy and the branch-led and customer-centric strategy.

Rajat Rajgarhia My second question: Was this a standalone option that we had considered or were there other options also that we evaluated before closing on this deal?

Chanda Kochhar Well, as I said, as far as inorganic expansion is concerned, we keep on continuously scanning the environment for opportunities that fit in with our overall strategy. At one point in time, if one deal starts maturing, there may or may not be any other deal that can mature or likely to mature. So, it is not as if you look at five at a given point in time and then choose one, but you constantly keep looking at various options.

Rajat Rajgarhia And in what time frame can we expect the branch network of Bank of Rajasthan network to be fully integrated with ICICI Bank and start generating producing the 4C numbers that we have been looking for?

Chanda Kochhar Well, the actual integration process will really start after the RBI approval. So, we have to still wait for the EGM and the RBI approval. Post that, once we integrate the employees and the technology platforms, we could expect the business to start growing. I don't expect the integration process to be very long, since we have a common technology platform and we have handled employee integration in the past mergers too.

Rajat Rajgariha Okay. Thanks for taking my question.

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

Suresh Ganapathy First of all, just a small clarification. This 40% PSU lending that you mentioned is a percentage of the overall loan book or is it of the 80% cases that you have reviewed?

Chanda Kochhar It is of the 80% cases that we have reviewed.

Suresh Ganapathy So effectively this is 32%.

Chanda Kochhar We do not know the proportion of PSU cases in the balance 20% of the portfolio, so we cannot really say. For the 80% that we reviewed, we did a case-by-case review.

Suresh Ganapathy Fine. The other thing we wanted to check was whether there are any worries from group lending – especially to Tayal and his companies?

Chanda Kochhar We have in fact very clearly examined this aspect and we feel there are no worries on that count.

Suresh Ganapathy Fine. One more thing. Post the merger, Tayal group would hold around 1.9% stake in ICICI Bank. Would the holding have a lock-in period or could it be offloaded in the market at any time?

Chanda Kochhar Well, the Tayal Group will get the ICICI Bank shares like all the other shareholders of Bank of Rajasthan. After that really it is between the concerned shareholders and SEBI, and it does not impact the merger.

Suresh Ganapathy Okay. Would you also require FIPB approval since you are a foreign-owned bank?

Chanda Kochhar No. The legal advice that we have with us very clearly suggests that we do not need an FIPB approval.

Suresh Ganapathy And no SEBI approval also required, only an RBI approval is required?

Chanda Kochhar Yes.

Suresh Ganapathy Okay. Thank you so much Chanda.

Moderator Thank you. The next question is from the line of Krishnan ASV from Ambit Capital. Please go ahead.

Krishnan ASV Hi Chanda. This is basically to understand the kind of internal analysis that you may have done. What kind of dilution in your margins or especially yields would this result in once you amalgamate the two banks?

Chanda Kochhar There will not be any yield dilution.

Krishnan ASV Okay, and just another query. You mentioned that as of March 2010, the CASA ratio seems to have moved up for Bank of Rajasthan. Since March 2010 results for Bank of Rajasthan are not yet out, were you allowed access to this information?

Chanda Kochhar Yes. As part of the due diligence, we asked for some specific information relating to balance sheet items, including deposits.

Krishnan ASV Okay, fine. Thanks.

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

Manish Karwa Hi. Thanks for taking my question. I just wanted to check that wouldn't it have been better to pay cash rather than pay through shares since we are pretty much over capitalized?

Anindya Banerjee Cash acquisition in India in the banking sector is complicated because first of all an Indian banks cannot own more than a specified percentage of another bank in India. Also one bank cannot have another bank as an investment or a subsidiary. Further, if we were to do a cash deal and make an open offer, there would be no certainty on our being able to acquire 100% of the company and take it private, or de-list the company and merge with ourselves.

Manish Karwa Okay, because in the past also we have had IDBI Bank taking over United Western Bank in a similar manner wherein they had paid cash.

Anindya Banerjee That was under a post-moratorium scheme imposed by RBI where all shareholders were kind of bound by that scheme. It may not work as smoothly in a normal acquisition.

Manish Karwa Okay. But was a cash transaction considered at all when you were looking at the merger, because ideally, it could have solved the problem of low leverage as well to some extent.

Rakesh Jha It was not a big consideration in the overall scheme of things, given that there is just a 3% dilution which is there.

Manish Karwa And in this amalgamation there wouldn't be any goodwill that will get created, is that right?

Rakesh Jha In the past, we had done accounting based on the purchase method of accounting. In the present case, we will determine as and when we do the actual accounting for the merger which would be post the approval from RBI. However, given the net worth of the bank, there should not be any creation of goodwill based on the accounting as given in the Scheme of Amalgamation.

Manish Karwa Okay. Since you have done your due diligence would it be fair to take the reported book value of Bank of Rajasthan as the book value or would you be restating the book value at the time of merger?

Rakesh Jha As Chanda explained earlier, as far as the loan portfolio is concerned, we are satisfied with what we have reviewed. Of course, there would be some cases which require close monitoring. So at the time of the merger into ICICI Bank balance sheet, we would be determining the fair value of the assets. But again as I said earlier we should not expect that to be a significant number in the overall context of the merger. There would be impact on account of employee benefit schemes and liability on account of pension, gratuity, etc. While Bank of Rajasthan has made provision for salary increase on account of wage settlement, the impact of this increase has not been considered for determining pension and gratuity liabilities. Considering that new private sector banks are typically more conservative or rather provide higher for salary escalations, etc., there would be additional liability on account of realignment of policies on this count.

Manish Karwa Okay, thank you so much.

Moderator Thank you. The next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal Hi. One question is on the real estate part of the bank. How many branches are owned by Bank of Rajasthan?

Chanda Kochhar No, owned branches are only about 40. But then there is a list of other properties that they own.

Vishal Goyal Correct. But I remember they had done some revaluation. Do we have some data on the real estate values?

Chanda Kochhar Again, we have done an initial due diligence on certain properties that constitute more than fifty percent of the value that appears on the book. Based on that review, we do not expect any diminution in the property valuation.

Vishal Goyal Actually I was looking at any valuation upsides.

Chanda Kochhar As far as upsides, I would take them into account only when we are very sure and we have completed the entire process. As of now, we have tried to make sure that there are no negatives and from what we have seen, we do not expect any diminution.

Vishal Goyal Fair enough. On the efficiency of the branches if we see the numbers they are like one-fifth and one-sixth when compared to ICICI Bank as of today. Two questions here, one is what percent of Bank of Rajasthan branches you think that you can improve productivity and second in how many years do you think that they can come up to productivity of ICICI Bank levels?

Chanda Kochhar Actually some of the semi-urban and rural branches in Rajasthan currently are more productive than our branches. So that clearly seems to be their strength. However, clearly we have scope for improvements in most of the other branches i.e. the metro and urban branches of Rajasthan and all the other non-Rajasthan branches. That, to my mind, is an opportunity, because we can increase not just the deposit base but also offer our asset and investment products. Over a period this would happen. What we have seen in the past mergers also is that first you have to successfully and peacefully integrate the employees and technology and then this process starts.

Vishal Goyal Okay. Thank you.

Moderator Thank you Mr. Goyal. The next question is from the line of Abhijit Majumdar from Prabhudas Lilladher. Please go ahead.

Abhijit Majumdar Hi, thanks for taking my question. My question was relating to the staff quality. What is the kind of employee base of Bank of Rajasthan?

Chanda Kochhar Bank of Rajasthan has about 4,000 employees in various cadres like officers, clerks, staff etc. While its too early for us to comment on quality of staff, the feedback that we have is that they are quite a customer-centric and customer-oriented bank. So in that sense, the approach of the staff towards the customer is actually pretty positive. The rest is of course for us to really help them improve productivity at the branches.

Abhijit Majumdar Okay and one more question. We were expecting a much more favorable swap ratio for ICICI Bank assuming that we were the only bank looking at Bank of Rajasthan currently. What was the main hindrance in getting a much favorable swap ratio?

Chanda Kochhar I do not think it is correct to say that we were the only bank looking at this bank. Therefore, given that there others who were talking as also the valuations at which the discussions were on, I think this is still a favorable value. Even keeping this aside, if you look at it from our context, at the strategic value of acquiring these branches, of adding 25% to the branch network with a 3% dilution, I think it is a great strategic value. We are talking of paying about Rs. 65.0 million per branch which is in line with the average market cap per branch of old private sector banks. And of course you are well aware that on a market cap per branch basis, this deal is much cheaper than the last M&A transaction that has been done in the private sector banking industry.

Abhijit Majumdar Yes Ma'am. That point is well taken. Just to clarify that point, you were saying that you were not the only one in the race and there were other banks also involved.

Chanda Kochhar Yes.

Abhijit Majumdar Okay. Thanks. I am through with my questions.

Moderator Thank you. The next question is from the line of Tabbasum Inamdar from Goldman Sachs. Please go ahead.

Tabbasum Inamdar Just one clarification. Basically after we see the merger numbers, we should not be expecting any shock in terms of NPLs and the core valuation which the company has paid. Is that something we should take away from this call?

Chanda Kochhar We would be aligning some of the accounting practices as in the case of employee liabilities and so on. However, these are not shocks in that sense. And as I said earlier, we are broadly satisfied with the book quality and do not expect much negatives.

Tabbasum Inamdar You know the reason Chanda. One of the last mergers which happened in the industry was a four times price to book but eventually the price to book ratio was significantly higher. So I am just trying to check whether the price to book we are currently seeing is the price to book at which ICICI Bank has got this bank.

Chanda Kochhar We do not expect any significant shocks. As I said, some alignment we would ourselves want to do like provision for employee benefits. Other than that, we are overall quite satisfied with the due diligence that we have done so far – whether it is assets, investments, quality of deposits or properties.

Tabbasum Inamdar Okay. Thank you.

Moderator Thank you Ms. Inamdar. The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani Just today in one of the newspapers Mr. Tayal has been quoted that the swap ratio should be 1:3 and not 1:4.72. So do we consider this swap ratio as a done deal or there could still be further negotiations on this?

Chanda Kochhar Well it is definitely a done deal in the sense that both the Boards have approved the ratio. The Bank of Rajasthan board has representatives of the Tayals too. And their Board has also approved the swap ratio of 1:4.72. But you know that there is an EGM process to be followed after this.

Hiren Dasani Okay, thank you.

Moderator Thank you. The next question is from the line of Bryan Hunsaker from KBW. Please go ahead.

Bryan Hunsaker Thank you. I want to go back to the issue of branch productivity and how you expect to improve the productivity of the branches that you are acquiring. I mean, specifically, where do you think you are going to be adding value - is going to be by adding products

that they do not have or would it be sort of more of a sales and marketing approach. How do you think you are going to get the branches you taking over up to the standards of ICICI.

Chanda Kochhar First of all, I must add as I said earlier that at their current level of deposit base, these branches are at a level where it would have taken us about 2 to 2.5 years for our new branches to reach. So it is not as if we are acquiring branches which should be equal to setting up a new branch. We have bought time to market in that sense even at the current level of productivity. But going forward there would be at least 3 ways in which we can improve productivity. One is the metro cities both within Rajasthan and outside of Rajasthan. Clearly their deposit base is much lower compared to what we have been able to achieve. So those are places where are in fact we are already present, so we know the lay of the land, we know the markets, our people are present, and it will be quite possible for us to just take on these additional branches and improve the productivity in these branches. The second is that we would definitely add new products on the asset side. We would be offering mortgage and car loan products to the existing customers of Bank of Rajasthan. The customer base of Bank of Rajasthan is close to 3.0 million and we would be working to cross-sell our asset products to their customers. And third, we would also work on cross-selling of investment and insurance products to the customer base. Finally, I would also like to mention we would also be driving our agenda of financial inclusion, especially through branches that are quite well entrenched in the semi-urban and rural areas.

Bryan Hunsaker Okay. Thank you.

Moderator Thank you. The last question is a follow up from the line of Mahrukh Adajania from Nomura Securities. Please go ahead.

Mahrukh Adajania My question was on real estate and it has been answered. Thanks a lot.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand this floor back to Ms. Chanda Kochhar for closing comments.

Chanda Kochhar Thank you. First of all as I said earlier, a big thanks for taking out time on a Sunday afternoon. I would like to reiterate that we believe that this merger is a big strategic move for ICICI Bank as it fits in very well in our current strategy of being a branch-led and a customer-centric bank. The merger would help us in our drive to increase CASA deposits. Besides, we are broadly quite satisfied with the due diligence that we have done so far. Thank you.

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