Analyst call on January 31, 2017

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Ms. Kochhar's opening remarks

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

On the previous analyst calls, I had summarised the Bank's strategic priorities for FY2017 in the 4 x 4 Agenda covering Portfolio Quality and Enhancing Franchise. Just to reiterate,

On Portfolio Quality

1. Proactive monitoring of loan portfolios across businesses;
2. Improvement in credit mix driven by focus on retail lending and lending to higher rated corporates;
3. Reduction in concentration risk; and
4. Resolution of stress cases through measures like asset sales by borrowers and change in management; and

working with various stakeholders to ensure that the companies are able to operate at an optimal level and generate cash flows.

On Enhancing Franchise

1. Sustaining the robust funding profile;
2. Maintaining digital leadership and a strong customer franchise;
3. Continued focus on cost efficiency; and
4. Focus on capital efficiency and unlocking of value in subsidiaries.

We continue to focus on this agenda.

A key development after our previous call was the withdrawal of ₹ 500 and ₹ 1,000 currency notes, that is, Specified Bank Notes or SBNs, as legal tender. This move has resulted in an increase in formal financial savings and has given a strong impetus to digital payments. The growth in total deposits for the banking system increased from 12.0% year-on-year at September 30, 2016 to 15.2% year-on-year at December 23, 2016.

I would like to highlight a few key trends for ICICI Bank in this context:

1. **CASA deposits:** There was an accretion of 267.04 billion to current and savings account deposits during Q3 of 2017. The year-on-year growth in savings deposits was 30%.The

Bank's CASA ratio increased from 45.7% at September 30, 2016 to 49.9% at December 31, 2016.

The Bank took a number of initiatives with a focus on servicing customers after the announcement of demonetisation of specified bank notes.

2. **Usage of alternate channels:** We continue to be at forefront of offering technology-enabled services to our customers.

During the quarter, the Bank continued to enhance its focus on launch of new technology based offerings as well as increasing customer communication and activation of digital channels for customer accounts.

We launched 'Eazypay' which is India's first mobile app for merchants to accept payments on mobile phones through multiple modes - UPI, credit or debit cards, internet banking, and 'Pockets'. We are seeing robust trends in merchant additions through point-of-sale terminals and 'Eazypay'.

During Q3 of 2017 we witnessed robust trends in digital transactions. The activation rate for the Bank's flagship mobile banking application, iMobile, was higher by 84% in December 2016 compared to October 2016. The volume and value of mobile banking transactions in December 2016 were 52% higher and 34% higher respectively compared to

October 2016. The activation of internet banking by customers in December 2016 almost doubled compared to October 2016. Our digital wallet offering – Pockets – also witnessed an increase in activation rates and usage during the quarter. These growth trends, coming on an existing large base of digital transactions even prior to demonetisation, underscore the strength of the Bank's digital offerings.

The Bank has seen robust trends in use of Unified Payments Interface, or UPI, by customers. Over 2.4 million accounts now have virtual payment addresses created using the Bank's applications - which is among the highest for banks.

The volume and value of debit card transactions in December 2016 were 128% higher and 100% higher respectively compared to October 2016. The volume and value of credit card transactions in December 2016 were 36% higher and 5% higher respectively compared to October 2016.

The Bank was India's first bank to implement interoperable electronic toll collection. We are the largest player based on number of tags issued for electronic toll collection.

In the nine months ended December 31, 2016, non-branch channels accounted for close to 95% of all savings account transactions. Digital channels like internet, mobile banking, POS and call centre accounted for about 73% of the savings account transactions

Coming to loan growth, non-food credit growth for the banking system decreased from 10.6% year-on-year at September 30, 2016 to 5.3% year-on-year at December 23, 2016. Within this, growth in retail credit decreased from 19.7% year-on-year at September 30, 2016 to 15.2% year-on-year at November 25, 2016, based on the latest available RBI data. The overall domestic loan growth for the Bank at 12.0% year-on-year was more than double the rate of growth in non-food credit for the banking system. Growth for the Bank continues to be driven by the retail business and the retail portfolio grew by 17.8% year-on-year.

We continue to focus on re-orienting our balance sheet towards lower risk and a more granular portfolio. The share of retail loans in total loans increased from 43.8% at December 31, 2015 to 48.9% at December 30, 2016. In addition, the Bank's aggregate exposure to the power, iron & steel, mining, cement and rigs sectors has decreased from 16.2% of its total exposure at March 31, 2012 to 13.3% of total exposure at March 31, 2016 and further decreased to 12.4% of total exposure at December 31, 2016.

We continue to focus on resolution & exposure reduction in identified areas. We had reported the Bank's exposure, comprising both fund based limits and non-fund based outstanding to companies that were internally rated below investment grade in key sectors - i.e. power, iron & steel, mining, cement and rigs; and to promoter entities internally rated below investment grade where the underlying partly relates to the key sectors. On our previous call, we had shared the reduction achieved in these exposures, and mentioned that based on the transactions announced and in the public domain, we expected a further resolution in this portfolio subject to necessary approvals and completion of the transactions. During Q3 of 2017, we saw a further net exposure reduction and rating movement of 20.12 billion Rupees, taking the total net reduction in exposure and rating movement during the April to December 2016 to 44.73 billion Rupees. We expect significant further resolution in this portfolio going forward, subject to necessary approvals and completion of the announced transactions.

With respect to the P&L, I would like to mention that the domestic net interest margins increased compared to Q2 of 2017 and were at 3.51% in Q3 of 2017. Growth in fee income improved from 3.8% year-on-year in H1 of 2017 to 10.3% year-on-year in Q3 of 2017. The profit before provisions & tax, excluding gains on sale of shareholding in ICICI Life in Q3 of 2016 & Q2 of 2017, increased by 3.9% on a year-on-year basis and 11.1% on a sequential basis.

We believe that we are well positioned to leverage the growth opportunities in the coming years given our strong deposit franchise, robust capital levels and significant value in our subsidiaries. We will continue to make investments to further strengthen our franchise and work towards resolution and reduction of stressed exposures.

I will now hand the call over to Kannan.

Mr. Kannan's remarks

I will talk about our performance on growth and credit Quality. I will then talk on the P&L details, subsidiaries and capital.

A. Growth

The retail portfolio grew by 18% year-on-year. The mortgage and auto loan portfolios grew by 17% and 13% year-on-year respectively. Growth in the business banking and rural lending segments was 12% and 20% year-on-year respectively. Commercial vehicle and equipment loans grew by 15% year-on-year. The unsecured credit card and personal loan portfolio grew by 40% year-on-year to 199.16 billion Rupees and was about 4.4% of the overall loan book as of December 31, 2016. The Bank continues to grow the unsecured credit card and personal loan portfolio primarily driven by a focus on cross-sell.

Growth in the domestic corporate portfolio was 4.0% year-on-year. We continue to focus on lending to better rated clients and work towards reducing exposures in sectors impacted by the challenging operating environment. If we exclude NPAs, restructured loans and loans to companies included in drilldown exposures, growth in the domestic corporate portfolio was higher. The SME portfolio grew by 6.6% year-on-year and constitutes 4.6% of total loans.

In rupee terms, the net advances of the overseas branches decreased by 16.1% year-on-year as of December 31, 2016. In US dollar terms, the net advances of overseas branches decreased by 18.3% year-on-year as of December 31, 2016. In the overseas branches, loans against FCNR deposits of about US$ 870 million matured in Q3 of 2017.

Coming to the funding side: total deposits grew by 14.2% year-on-year to 4.65 trillion Rupees as of December 31, 2016. Of the FCNR deposits mobilised in Q3 of 2014, deposits aggregating to about USD 1.75 billion matured during the quarter.

There was an accretion of 185.12 billion Rupees to savings account deposits and 81.93 billion Rupees to current account deposits in Q3 of 2017. On a period-end basis, current and savings account deposits grew by 26.0% year-on-year. On a daily average basis, current and savings account deposits grew higher by 29.2% year-on-year. On a daily average basis, the CASA ratio improved significantly from 41.5% in Q2 of 2017 to 44.8% in Q3 of 2017.

B. Credit Quality

During the third quarter, the gross additions to NPAs reduced to 70.37 billion Rupees from 80.29 billion Rupees in the preceding quarter. The gross additions to NPAs in Q3 of 2017 included slippages from restructured loans of 2.39 billion Rupees; slippages out of loans to companies internally rated below investment grade in key sectors of 29.43 billion Rupees; and devolvement of non-fund based exposure relating to accounts classified as non-performing in prior periods, that we have been disclosing for the past few quarters, of 17.99 billion Rupees. Thus about 75% of the corporate & SME NPA additions comprised these categories.

The retail portfolio had gross NPA additions of 4.29 billion Rupees and recoveries & upgrades of 4.34 billion Rupees during Q3 of 2017.

During the quarter, aggregate deletions from NPA due to recoveries and upgrades were 6.25 billion Rupees. The Bank sold gross NPAs aggregating to 0.87 billion Rupees during the quarter.

The Bank's net non-performing asset ratio was 3.96% as of December 31, 2016 compared to 3.21% as of September 30, 2016.

The net restructured loans were at 64.07 billion Rupees as of December 31, 2016 compared to 63.36 billion Rupees as of September 30, 2016.

While announcing our results for the quarter ended March 31, 2016, we had stated that there were continued uncertainties in respect of certain sectors due to the weak global economic environment, sharp downturn in the commodity cycle, gradual nature of the domestic economic recovery and high leverage. The key sectors identified in this context were power, iron & steel, mining, cement and rigs. The Bank had reported its exposure, comprising both fund based limits and non-fund based outstanding to companies in these sectors that were internally rated below investment grade across the domestic corporate, SME and international branches portfolios; and to promoter entities internally rated below investment grade where the underlying partly relates to these sectors. On slide 32 of the presentation, we have provided the movement in these exposures between September 30, 2016 and December 31, 2016. The aggregate fund based limits and non-fund based outstanding to companies that were internally rated below investment grade in these sectors and promoter entities, decreased from 324.90 billion Rupees as of September 30, 2016 to 275.36 billion Rupees as of December 31, 2016 reflecting the following:

- There was a net reduction in exposure of 21.23 billion Rupees

- Loans with exposure aggregating to 1.11 billion Rupees were downgraded to ‘below investment grade’ during the quarter
- Loans classified as non-performing during the quarter were 29.43 billion Rupees. Please refer slide 32 for further details.

Based on the transactions announced and in the public domain, we expect a further resolution in the above exposure going forward subject to necessary approvals and completion of the transactions. The Bank continues to work on the balance exposures. However, it may take time for these resolutions given the challenges in the operating and recovery environment. Our focus will continue to remain on maximising the Bank’s economic recovery and finding optimal solutions.

The exposure to companies internally rated below investment grade in key sectors and promoter entities of 275.36 billion Rupees includes non-fund based outstanding in respect of accounts included in this portfolio where the fund based outstanding has been classified as non-performing. Apart from this, the non-fund based outstanding to borrowers classified as non-performing was 15.84 billion Rupees at December 31, 2016 compared to 32.86 billion Rupees at September 30, 2016. Further, the exposure to companies internally rated below investment grade in key sectors and promoter entities of 275.36 billion Rupees excludes net exposure of ₹ 5.31 bn to a central public sector owned undertaking engaged in gas-based power generation. These are disclosed below the table in slide 32.

As of December 31, 2016, the Bank had outstanding loans of 34 billion Rupees where Strategic Debt Restructuring - SDR - had been implemented, of which about 28 billion Rupees were loans already classified as non-performing or restructured or to companies that were internally rated below investment grade in key sectors - i.e. power, iron & steel, mining, cement and rigs.

The outstanding portfolio of performing loans for which refinancing under the 5/25 scheme has been implemented was about 33 billion Rupees as of December 31, 2016, of which about 24 billion Rupees were loans to companies internally rated below investment grade in the key sectors mentioned above.

The Bank had not implemented the scheme for sustainable structuring of stressed assets, or S4A, for any account as of December 31, 2016.

Provisions were 27.13 billion Rupees in Q3 of 2017 compared to 70.83 billion Rupees in the preceding quarter which had included additional provisions of 35.88 billion Rupees. Provisions were 28.44 billion Rupees in the corresponding quarter last year. For the quarter, there was a drawdown of 5.27 billion Rupees from the collective contingency and related reserve. There was no drawdown or addition to floating provisions during the quarter.

The provisioning coverage ratio on non-performing loans, including cumulative technical/prudential write-offs and floating provisions was 57.1%.

As we had mentioned earlier, we expect NPA additions to remain elevated for the next quarter.

C. P&L Details

Net interest income was 53.63 billion Rupees in Q3 of 2017. The net interest margin was at 3.12% in Q3 of 2017 compared to 3.13% in the preceding quarter. The domestic NIM was at 3.51% in Q3 of 2017 compared to 3.41% in the preceding quarter. International margins were at 0.83% in Q3 of 2017 compared to 1.65% in the preceding quarter. International margins were impacted by higher non-accrual of interest income on NPAs in Q3 of 2017.

There was interest on income tax refund of 1.39 billion Rupees in Q3 of 2017 compared to 1.11 billion Rupees in the preceding quarter and 1.23 billion Rupees in the corresponding quarter last year.

Going forward, the yield on advances would continue to be impacted by non-accrual of income on non-performing assets and implementation of resolution plans for stressed borrowers. There has also been some moderation in loan growth in the banking system. Incrementally, there would be some impact of reduction of MCLR in January 2017 which will be partly offset by the decline in funding costs.

Total non-interest income was 39.39 billion Rupees in Q3 of 2017 compared to 42.16 billion Rupees in Q3 of 2016.

- Improvement in fee income growth was driven by a pickup in retail fees which grew by 18% year-on-year. Growth in retail fees was driven by higher transaction banking fees from liability customers, increase in credit card fees, fees relating to distribution of third-party products and higher forex fees. Retail fees constituted about 71% of overall fees in Q3 of 2017.
- Treasury recorded a profit of 8.93 billion Rupees in Q3 of 2017. In the corresponding quarter last year, treasury had recorded a profit of 1.98 billion Rupees, excluding gains of 12.43 billion Rupees relating to sale of shareholding in ICICI Life.
- Other income was 5.51 billion Rupees. The dividend from subsidiaries was 4.56 billion Rupees including 1.38 billion Rupees from ICICI Life. The Bank had exchange rate gains of 0.82 billion Rupees in relating to overseas operations in Q3 of 2017 compared to gains of 1.42 billion Rupees in the corresponding quarter last year.

ICICI Life along with its Q2 of 2017 results had announced that the company's Board will consider dividend proposals on a half-yearly basis going forward. Accordingly, the Bank will not receive dividend from ICICI Life in Q4 of 2017.

On Costs: the Bank's cost-to-income ratio was at 40.6% in Q3 of 2017 and 33.7% in 9M of 2017. Excluding gain on sale of shares of ICICI Life, the cost-to-income would have been 41.0% in 9M of 2017. Operating expenses increased by 21.5% year-on-year in Q3 of 2017. The increase was mainly due to a 23.4% year-on-year increase in employee expenses which among other factors includes the impact of decline in yields on provisions for retirement benefits in Q3 of 2017. The Bank added 6,803 employees in 9M of 2017 and had 80,899 employees as of December 31, 2016. Non-employee expenses increased by 20.4% year-on-year in Q3 of 2017. We would continue to focus on cost efficiency, while investing in the franchise as required.

The Bank's standalone profit before provisions and tax was 55.24 billion Rupees in Q3 of 2017.

I have already discussed the provisions for the quarter.

The Bank's standalone profit after tax was 24.42 billion Rupees in Q3 of 2017 compared to 31.02 billion Rupees in the preceding quarter and 30.18 billion Rupees in the corresponding quarter last year.

D. Subsidiaries

The profit after tax for ICICI Life for Q3 of 2017 was 4.50 billion Rupees compared to 4.35 billion Rupees in Q3 of 2016. The new business margin on actual cost based on Indian Embedded Value, or IEV, methodology was at 9.4% in 9M of 2017 compared to 8.0% in FY2016 and 5.7% in FY2015. The improvement in margins was driven by an increase in proportion of protection business from 1.6% in FY2015 and 2.7% in FY2016 to 3.9% in 9M of 2017. The company continues to retain its market leadership among the private players with a new business market share of about 13.0% in 9M of 2017.

The profit after tax of ICICI General increased from 1.30 billion Rupees in Q3 of 2016 to 2.20 billion Rupees in Q3 of 2017. The gross written premium of ICICI General grew by 33.5% on a year-on-year basis to 82.50 billion Rupees in 9M of 2017 compared to about 31.0% year-on-year growth for the industry. The company continues to retain its market leadership among the private sector players and had a market share of about 8.8% in 9M of 2017.

The profit after tax of ICICI AMC increased by 61.0% year-on-year from 0.82 billion Rupees in Q3 of 2016 to 1.32 billion Rupees in Q3 of 2017. With average assets under management of about 2.3 trillion Rupees for the quarter, ICICI AMC continues to be the largest mutual fund in India.

The profit after tax of ICICI Securities was at 0.88 billion Rupees in Q3 of 2017 compared to 0.55 billion Rupees in Q3 of 2016. The profit after tax of ICICI Securities Primary Dealership was 1.82 billion Rupees in Q3 of 2017 compared to 0.63 billion Rupees in the corresponding quarter last year.

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

The Bank's total equity investment in ICICI Bank UK and ICICI Bank Canada has reduced from 11.0% of its net worth at March 31, 2010 to 4.4% at December 31, 2016.

ICICI Bank Canada's total assets were 6.45 billion Canadian Dollars as of December 31, 2016 and loans and advances were 5.75 billion Canadian Dollars as of December 31, 2016. ICICI Bank Canada reported a net loss of 34.6 million Canadian Dollars in Q3 of 2017 compared to a net profit of 5.4 million Canadian Dollars in Q3 of 2016 on account of higher provisions on existing impaired loans, primarily India-linked loans. The net NPA ratio for ICICI Bank Canada had decreased from 2.29% as of December 31, 2015 to 1.22% at September 30, 2016 and further decreased to 0.40% as of December 31, 2016. The capital adequacy ratio of ICICI Bank Canada was 24.7% at December 31, 2016.

ICICI Bank UK's total assets were 3.42 billion US Dollars as of December 31, 2016. Loans and advances were 2.34 billion US Dollars as of December 31, 2016 compared to 2.51 billion US Dollars as of September 30, 2016. The decrease in loans and advances in Q3 of 2017 was on account of repayment of loans against FCNR deposits during the quarter. Profit after tax in Q3 of 2017 was 1.7 million US Dollars compared to 0.6 million US Dollars in Q3 of 2016. The capital adequacy ratio was 19.8% as of December 31, 2016.

The consolidated profit after tax was 26.11 billion Rupees in Q3 of 2017 compared to 31.22 billion Rupees in the corresponding quarter last year and 29.79 billion Rupees in the preceding quarter.

E. Capital

The Bank had a Tier 1 capital adequacy ratio of 13.33% and total standalone capital adequacy ratio of 16.73%, including profits for 9M of 2017. The Bank's consolidated Tier 1 capital adequacy ratio and the total consolidated capital adequacy ratio, including profits for 9M of 2017, were 13.51% and 16.82% respectively. The capital ratios are significantly higher than the regulatory requirements.

The Bank's pre-provisioning earnings, strong capital position and value created in its subsidiaries give the Bank the ability to absorb the impact of challenges in the operating and recovery environment for the corporate business while driving growth in identified areas of opportunities.

To sum up, during Q3 of 2017,

1. there was further improvement in our funding profile driven by deposit flows after announcement of demonetisation of specified bank notes;
2. there was further strong momentum in usage of our digital offerings;
3. we selectively grew our loan portfolio;
4. we continued to focus on resolution and recovery in the corporate segment; and
5. we continued to maintain healthy capital adequacy ratios.

We will now be happy to take your questions.