MANAGEMENT'S DISCUSSION & ANALYSIS

BUSINESS ENVIRONMENT

Global economic growth improved during calendar year 2017, with expansion in both advanced and developing economies. According to the International Monetary Fund, global output grew by 3.9% during calendar year 2017 compared to a growth of 3.2% in calendar year 2016. The advanced economies grew by 2.3% led by the United States and the emerging and developing economies expanded by 4.8% in calendar year 2017. Other economic developments during the year included a pickup in global trade flows and a rise in global commodity prices, particularly petroleum and metal prices. There were risks of a trade war between key large economies with focus on protectionist policies increasing during the year.

The economic environment in India was characterised by two distinct phases during fiscal 2018 owing to the transition to the Goods and Services Tax system. While economic activities slowed down during the transition in the first half of fiscal 2018, there was an improvement in economic growth during the latter part of the year. India's Gross Domestic Product (GDP) grew by 6.7% during fiscal 2018 with growth during the six months ended March 31, 2018 higher at 7.4%. Growth in fiscal 2018 was however slower compared to a 7.1% increase in fiscal 2017. As per industry-wise growth estimates on gross value added (GVA) basis, the agriculture sector grew by 3.4%, the industrial sector by 5.5% and the services sector by 7.9% during fiscal 2018 compared to 6.3% growth in agriculture, 6.8% in industrial sector and 7.5% in services sector during fiscal 2017.

Retail inflation, as measured by the Consumer Price Index (CPI), eased during the initial part of fiscal 2018 from 3.9% in March 2017 to 1.5% in June 2017, and then increased to 4.3% in March 2018. Core CPI inflation, excluding food and fuel products, increased from 4.9% in March 2017 to 5.4% in March 2018. Producers' inflation, as measured by the Wholesale Price Index (WPI), decreased from 5.1% in March 2017 to a low of 0.9% in June 2017, and increased to 2.5% in March 2018. Average WPI inflation during fiscal 2018 was 2.9% compared to 1.7% during fiscal 2017.

During fiscal 2018, the Reserve Bank of India (RBI) reduced the repo rate once by 25 basis points from 6.25% to 6.00% in August 2017. Accordingly, the reverse repo rate was revised to 5.75% and the marginal standing facility rate was revised to 6.25%. The reduction in the repo rate took the cumulative decline in the repo rate since January 2015, when the policy rate reduction cycle began, to 200 basis points. The policy stance, that was changed from accommodative to neutral in February 2017, continued in fiscal 2018 due to concerns on inflation rising and a focus on maintaining inflation at close to 4.0% on a durable basis.

Trends in merchandise trade were mixed during fiscal 2018. Merchandise exports grew by 9.8% while merchandise imports grew at a faster pace by 19.6% during fiscal 2018. The growth in imports largely reflected the pickup in oil imports and imports excluding oil and gold. This led to an increase in the trade deficit to USD 156.83 billion in fiscal 2018 compared to a trade deficit of USD 108.50 billion in fiscal 2017. As a result, India's current account deficit (CAD) increased from USD 15.30 billion in fiscal 2017 to USD 48.72 billion in fiscal 2018. As a proportion of India's GDP, CAD increased from 0.7% in fiscal 2017 to 1.9% in fiscal 2018. Foreign direct investment (FDI) inflows into India moderated to USD 39.43 billion during fiscal 2018 compared to USD 42.22 billion during fiscal 2017. There was a net inflow of USD 22.16 billion from foreign portfolio investors (FPI) during fiscal 2018, with a net inflow of USD 1.62 billion in equity markets and USD 20.55 billion in debt markets. The equity market benchmark, the S&P BSE Sensex increased by 11.3% during fiscal 2018 to close at 32,969 at end-March 2018. The Rupee remained in the range of 64 to 66 levels through fiscal 2018, and depreciated marginally from ₹ 64.9 per USD at March 31, 2017 to ₹ 65.2 per USD at March 31, 2018. Yields on the benchmark 10-year Government securities remained stable in the range of 6.4% to 7.0% during April-August 2017. Yields increased sharply from September 2017 and touched peak levels of 7.8% on March 5, 2018, subsequently easing to 7.4% at end-March 2018. Yields on the benchmark government securities increased sharply during the latter part of fiscal 2018 due to multiple factors including rise in global yields with a sharp increase in U.S. government treasury yields, and domestic factors including a decline in systemic liquidity and fiscal and inflation related uncertainties.

The first year retail premium underwritten in the life insurance sector (on weighted received premium basis) grew by 19.2% to ₹ 634.70 billion during fiscal 2018 compared to ₹ 532.18 billion during fiscal 2017. Gross premium of the non-life insurance sector (excluding specialised insurance institutions) grew by 18.0% to ₹ 1,415.07 billion during fiscal 2018 compared to ₹ 1,198.81 billion during fiscal 2017. The average assets under management of mutual funds increased by 26.0% from ₹ 18.30 trillion during the three months ended March 31, 2017 to ₹ 23.05 trillion for the three months ended March 31, 2018.

With regard to trends in banking, deposit and credit growth in fiscal 2018 reflected the impact of the surge in deposits and moderation in credit during fiscal 2017 following the withdrawal of legal tender status of Specified Bank Notes in

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November 2016. During fiscal 2018, banking system deposit growth moderated from 11.3% year-on-year at March 31, 2017 to 6.2% at March 30, 2018. There was a net increase of Rs. 6.7 trillion in total deposits in the banking system during the year. Growth in demand deposits moderated from 18.9% year-on-year at March 31, 2017 to 6.9% at March 30, 2018. Term deposit growth moderated from 10.3% year-on-year at March 31, 2017 to 6.1% at March 30, 2018. Non-food credit growth picked up gradually during fiscal 2018 to 10.2% year-on-year at March 30, 2018 compared to a growth of 5.2% at March 31, 2017. Based on sector-wise credit deployment data, credit growth in the services sector was 13.8%, retail 17.8%, agriculture 3.8% and industry 0.7% year-on-year at March 30, 2018. The banking system continued to experience stress on corporate asset quality. According to RBI's Financial Stability Report, the gross Non-Performing Assets (NPA) ratio for the banking system increased from 7.8% at March 31, 2016 to 9.6% at March 31, 2017 and further to 11.6% at March 31, 2018. Total stressed loans (defined as non-performing loans and standard restructured advances) for the banking system increased from 11.7% at March 31, 2016 to 12.5% at March 31, 2018. In October 2017, the Government of India announced a recapitalisation package of ₹ 2.11 trillion for public sector banks. The recapitalisation package included budgetary provisions of ₹ 181.39 billion, recapitalisation bonds of ₹ 1.35 trillion and capital raising by banks. During fiscal 2018, the Government infused over ₹ 880.00 billion of capital in public sector banks.

During fiscal 2018, significant steps were taken towards the resolution of stressed assets and provisioning by banks towards these assets. To facilitate the timely resolution of stressed assets, the Banking Regulation (Amendment) Ordinance, 2017 was promulgated in May 2017. The Banking Regulation (Amendment) Ordinance amended section 35A of the Banking Regulation Act, 1949 and inserted two new sections 35AA and 35AB. RBI was authorised to intervene and instruct banks to resolve specific stressed assets and initiate insolvency resolution process where required. RBI was also empowered to issue other directions for resolution, and could appoint authorities or committees to advise banks on the resolution of stressed assets. Subsequently, to facilitate timely decision making under the Joint Lenders' Forum (JLF), RBI issued guidelines directing banks to adhere to timelines and implement any resolution plan approved by 60.0% of the creditors by value and 50% of the creditors by number at the JLF. The guidelines were made binding on all members. The Overseeing Committee, that was set up to oversee resolution under the Scheme for Sustainable Structuring of Stressed Assets (S4A), was reconstituted and expanded and the scope of cases to be referred to the Overseeing Committee was also extended to cases other than under S4A and having aggregate banking system exposure greater than ₹ 5.00 billion.

In June 2017, RBI issued directions to banks to file for resolution under the Insolvency and Bankruptcy Code (IBC) with the National Company Law Tribunal (NCLT) in respect of 12 large stressed accounts. In August 2017, RBI identified additional accounts and directed banks to initiate an insolvency resolution process under the provisions of the IBC by December 31, 2017, if a resolution plan, where the residual debt was rated investment grade by two external credit rating agencies, was not implemented by December 13, 2017. RBI directed banks to make a provision for the identified cases to the extent of 50.0% of the secured portion and 100.0% of the unsecured portion of the outstanding loans or the provisions required as per the existing guidelines of RBI, whichever is higher, by March 31, 2018. The provision requirement was later revised from 50.0% on secured portion of debt to 40.0% by March 2018 and 50.0% by June 30, 2018.

In November 2017, an ordinance amending the IBC was promulgated, to prevent wilful defaulters and promoters of entities classified as non-performing from bidding for the assets of a company under a resolution plan. The newly included Section 29A of the ordinance made certain persons, including wilful defaulters and those who had their accounts classified as non-performing assets for one year or more, ineligible to be a resolution applicant under a resolution plan. The amendments were later approved by Parliament and enacted in January 2018.

In February 2018, RBI announced a revised framework for resolution of stressed assets aimed at time-bound resolution of non-performing and stressed borrowers. The framework withdrew the earlier resolution schemes (including the related stand-still benefits in asset classification of borrower accounts) like the Strategic Debt Restructuring (SDR), Change in Ownership of Borrowing Entities Outside SDR Scheme and S4A schemes. The guideline also requires commencement of proceedings under the IBC in respect of borrowers where a resolution satisfying specified criteria could not be achieved within a prescribed timeframe. According to the guidelines, banks would have to implement a resolution plan within 180 days in respect of any overdue account where aggregate exposure of the lenders is ₹ 20.00 billion or more and is in default on March 1, 2018. For any default in a borrower account after March 1, 2018, the resolution plan would have to be implemented within 180 days from the first instance of default by the borrower. In the event the resolution plan is not implemented within the stipulated timeline, the borrower would have to be referred to NCLT under the IBC. The resolution plan should necessarily have a minimum credit rating from one or two rating agencies depending on the size of exposure. The earlier schemes of regulatory forbearance including SDR, Change in Ownership of Borrowing Entities Outside SDR and S4A were withdrawn and JLF was discontinued.

Other key regulatory developments during the year were as follows:

- RBI deferred the implementation of Indian Accounting Standards (Ind AS) for banks by one year from April 1, 2018 to April 1, 2019.
- In view of the sharp increase in government bond yields during the second half of fiscal 2018, RBI allowed banks to spread provisioning for mark-to-market losses on investments held in the available-for-sale (AFS) and held-for-trading (HFT) categories for the quarters ended December 31, 2017 and March 31, 2018 equally over up to four quarters, commencing with the quarter in which the loss is incurred.
- With the aim of building adequate reserves to protect against sudden increase in yields, RBI advised banks to create an Investment Fluctuation Reserve (IFR) from fiscal 2019. A minimum amount equal to either the net profit on sale of investments during the year or net profit for the year excluding mandatory appropriations, whichever is lower, would have to be transferred to the IFR. The amount in the IFR should cover at least 2.0% of the HFT and AFS portfolio, on a continuing basis. Where feasible, this requirement should be achieved within a period of three years. IFR would be eligible for inclusion in tier 2 capital. In case the balance in the IFR is in excess of the minimum requirement of 2.0% of the HFT and AFS portfolio, banks can drawdown the excess amount at the end of the accounting year. If the balance is less than the minimum requirement, drawdown would be permitted only on meeting the minimum common equity tier 1/tier 1 capital requirements but cannot exceed the extent by which mark-to-market provisions surpass the net profit on sale of investments during the year.
- With regard to reserve requirements to be held by banks, the cash reserve ratio was maintained at 4.0% of net demand and time liabilities (NDTL) during fiscal 2018. The statutory liquidity ratio was reduced by 100 basis points (bps) with a 50 bps reduction from 20.5% of NDTL to 20.0% effective from the fortnight of June 24, 2017 and a further 50 bps reduction to 19.5% of NDTL from the fortnight starting October 14, 2017. RBI also reduced the ceiling on SLR holdings under the held-to-maturity (HTM) category from 20.5% to 20.0% by December 2017 and further to 19.5% by March 31, 2018.
- An internal study group report of RBI dated September 25, 2017 proposed that all floating rate loans extended from April 1, 2018 to be referenced to an external benchmark. The Group also suggested that the periodicity of resetting the interest rates be once a quarter and that banks should migrate all existing lending rates to the new benchmark without any additional charges for switchover within one year from the introduction of the external benchmark. RBI has yet to issue the necessary instructions/guidelines in this regard. Further, in February 2018, RBI proposed to harmonise the methodology of determining benchmark rates by linking the base rate to the marginal cost based lending rate. Final instructions/guidelines in this regard are awaited.
- RBI rationalised the merchant discount rate (MDR) for debit card transactions. Key changes include categorisation of merchants on the basis of turnover, differentiated MDR for QR-code based transactions and ceiling on maximum permissible MDR. This is effective from January 1, 2018.

STRATEGY

In fiscal 2018, the Bank continued to focus on its strategic priorities of improving the portfolio quality and enhancing the franchise. Within portfolio quality, the emphasis was on improving the portfolio mix with a focus on retail lending and lending to higher rated corporates, reducing concentration risks, resolution of stressed borrowers and proactive monitoring of loan portfolios across businesses. With regard to enhancing the franchise, the Bank focused on sustaining its robust funding profile including the proportion of current account and savings account deposits in total deposits, leveraging technology to improve customer experience and operating efficiency, and unlocking value from the investments in subsidiaries. The Bank maintained a strong capital position with capital adequacy ratios significantly above regulatory requirements.

Going forward, the Bank's focus would be on risk calibrated profitable growth. The priority would be on growing the retail portfolio with a focus on enhancing the customer franchise. The Bank would leverage all capabilities to be the trusted partner in serving its customers and become their banker of choice. The Bank would continue to invest in technology and preserve its digital leadership by offering best in class digital products to customers and automating internal processes to increase efficiency. The Bank would focus on lending to higher rated, well-established corporates and would remain cautious in lending to projects under implementation. The focus would be on growing the Bank's core operating profits. As a financial group with presence across customer segments, products and geographies, the Bank would leverage synergies across group companies.

STANDALONE FINANCIALS AS PER INDIAN GAAP

Summary

Profit after tax decreased by 30.9% from ₹ 98.01 billion in fiscal 2017 to ₹ 67.77 billion in fiscal 2018. The decrease in profit after tax was primarily due to a 10.7% decrease in non-interest income, 13.8% increase in provisions and contingencies and 6.4% increase in operating expenses, offset, in part, by a 5.9% increase in net interest income.

Net interest income increased by 5.9% from ₹ 217.37 billion in fiscal 2017 to ₹ 230.26 billion in fiscal 2018 reflecting an increase of 6.5% in the average volume of interest-earning assets, offset, in part, by a marginal decline in the net interest margin from 3.25% in fiscal 2017 to 3.23% in fiscal 2018.

Non-interest income decreased by 10.7% from ₹ 195.05 billion in fiscal 2017 to ₹ 174.19 billion in fiscal 2018 primarily due to a decrease in income from treasury-related activities, offset, in part, by an increase in fee income. Income from treasury-related activities decreased from ₹ 85.77 billion in fiscal 2017 to ₹ 58.02 billion in fiscal 2018 primarily due to a decrease in realised gains on government securities and other fixed income investments. Fee income increased by 9.4% from ₹ 94.52 billion in fiscal 2017 to ₹ 103.41 billion in fiscal 2018.

During fiscal 2018, the Bank sold equity shares representing 7.00% shareholding in ICICI Lombard General Insurance Company Limited resulting in a net gain of ₹ 20.12 billion and equity shares representing 20.78% shareholding in ICICI Securities Limited resulting in a net gain of ₹ 33.20 billion through initial public offers (IPO). During fiscal 2017, the Bank sold equity shares representing 12.63% shareholding in ICICI Prudential Life Insurance Company Limited through an IPO resulting in a net gain of ₹ 56.82 billion.

Operating expenses increased by 6.4% from ₹ 147.55 billion in fiscal 2017 to ₹ 157.04 billion in fiscal 2018 primarily due to an increase in staff cost and other administrative expenses.

Provisions and contingencies (excluding provision for tax) increased by 13.8% from ₹ 152.08 billion in fiscal 2017 to ₹ 173.07 billion in fiscal 2018. The operating environment for Indian banks has remained challenging for the past few years particularly due to the stress in the Indian corporate sector. The Indian corporate sector has experienced a prolonged period of muted growth in sales and profits. Over the years, several challenges have impacted the sector including delays in project completion due to policy changes, delays in approvals like clearances on environment and land, judicial decisions like the deallocation of coal mines, significant decline in global commodity prices in fiscal 2015 and fiscal 2016 and adjustments to recent structural reforms such as demonetisation and Goods & Services Tax. These challenges resulted in lower than projected cash flows and the progress in reducing leverage in the corporate sector remained slow. As a result, there has been a substantial increase in the level of additions to non-performing loans, including slippages from restructured loans, into non-performing status for the banking sector and the Bank. Gross additions to the Bank's NPAs in fiscal 2018 were ₹ 287.30 billion (fiscal 2017: ₹ 335.44 billion). The gross additions to non-performing loans include the impact of revised framework for resolution of stressed assets issued by RBI in February 2018 which withdrew the schemes of Strategic Debt Restructuring (SDR), change in ownership outside SDR and scheme for sustainable structuring of stressed assets (S4A) resulting in classification of loans under these schemes, which were not implemented, as non-performing. Gross NPAs (net of write-offs) increased from ₹ 425.52 billion at March 31, 2017 to ₹ 540.63 billion at March 31, 2018. Net NPAs increased from ₹ 254.51 billion at March 31, 2017 to ₹ 278.86 billion at March 31, 2018. The net NPA ratio decreased from 4.89% at March 31, 2017 to 4.77% at March 31, 2018.

The income tax expense decreased by 55.5% from ₹ 14.78 billion in fiscal 2017 to ₹ 6.57 billion in fiscal 2018 due to a lower effective tax rate in fiscal 2018, primarily reflecting the composition of income.

Net worth increased from ₹ 999.51 billion at March 31, 2017 to ₹ 1,051.59 billion at March 31, 2018 primarily due to accretion to reserves out of profit for the year, offset, in part, by payment of dividend. In fiscal 2018, the Bank made a provision for frauds amounting to ₹ 5.05 billion through reserves and surplus on certain non-retail accounts, which will be reversed and recognised through profit and loss account in the subsequent quarters of next fiscal year, as permitted by RBI.

Total assets increased by 13.9% from ₹ 7,717.91 billion at March 31, 2017 to ₹ 8,791.89 billion at March 31, 2018. Total advances increased by 10.4% from ₹ 4,642.32 billion at March 31, 2017 to ₹ 5,123.95 billion at March 31, 2018 primarily due to an increase in domestic advances by 15.1%, offset, in part, by a decline in overseas advances by 14.1%. Total deposits increased by 14.5% from ₹ 4,900.39 billion at March 31, 2017 to ₹ 5,609.75 billion at March 31, 2018. Current and savings account (CASA) deposits increased by 17.5% from ₹ 2,468.21 billion at March 31, 2017 to ₹ 2,899.25 billion at March 31, 2018. Term deposits increased by 11.4% from ₹ 2,432.17 billion at March 31, 2017 to ₹ 2,710.50 billion at March 31, 2018. The CASA ratio increased from 50.4% at March 31, 2017 to 51.7% at March 31, 2018.

The Bank had a branch network of 4,867 branches at March 31, 2018 and an ATM network of 14,367 ATMs at March 31, 2018.

The Bank is subject to the Basel III capital adequacy guidelines stipulated by RBI. The total capital adequacy ratio of the Bank at March 31, 2018 (after deduction of proposed dividend from capital funds) in accordance with RBI guidelines on Basel III was 18.42% with a Tier-1 capital adequacy ratio of 15.92% as compared to 17.39% with a Tier-1 capital adequacy ratio of 14.36% at March 31, 2017.

Operating results data

The following table sets forth, for the periods indicated, the operating results data.

₹ in billion, except percentages

Particulars	Fiscal 2017	**Fiscal 2018**	% change
Interest income	₹ 541.56	**₹ 549.66**	1.5%
Interest expense	324.19	**319.40**	(1.5)
Net interest income	**217.37**	**230.26**	**5.9**
Non-interest income			
- Fee income[1]	94.52	**103.41**	9.4
- Treasury income	85.77	**58.02**	(32.4)
- Dividend from subsidiaries	14.19	**12.14**	(14.4)
- Other income (including lease income)	0.57	**0.62**	8.8
Operating income	**412.42**	**404.45**	**(1.9)**
Operating expenses	147.55	**157.04**	6.4
Operating profit	**264.87**	**247.41**	**(6.6)**
Provisions, net of write-backs	152.08	**173.07**	13.8
Profit before tax	**112.79**	**74.34**	**(34.1)**
Tax, including deferred tax	14.78	**6.57**	(55.5)
Profit after tax	**₹ 98.01**	**₹ 67.77**	**(30.9%)**

1. *Includes merchant foreign exchange income and margin on customer derivative transactions.*
2. *All amounts have been rounded off to the nearest ₹ 10.0 million.*
3. *Prior period figures have been re-grouped/re-arranged, where necessary.*

Key ratios

The following table sets forth, for the periods indicated, the key financial ratios.

Particulars	Fiscal 2017	**Fiscal 2018**
Return on average equity (%)[1]	10.34	**6.60**
Return on average assets (%)[2]	1.35	**0.87**
Earnings per share (₹)[3]	15.31	**10.56**
Book value per share (₹)[3]	156.18	**163.60**
Fee to income (%)	22.92	**25.57**
Cost to income (%)[4]	35.78	**38.83**

1. *Return on average equity is the ratio of the net profit after tax to the quarterly average equity share capital and reserves.*
2. *Return on average assets is the ratio of net profit after tax to average assets.*
3. *Shareholders of the Bank approved the issue of bonus shares in ratio of 1:10 on June 12, 2017. Fiscal 2017 numbers have been re-stated.*
4. *Cost represents operating expense. Income represents net interest income and non-interest income.*

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Net interest income and spread analysis

The following table sets forth, for the periods indicated the net interest income and spread analysis.

₹ in billion, except percentages

Particulars	Fiscal 2017	**Fiscal 2018**	% change
Interest income	₹ 541.56	**₹ 549.66**	1.5%
Interest expense	324.19	**319.40**	(1.5)
Net interest income	**217.37**	**230.26**	**5.9**
Average interest-earning assets	6,697.02	**7,129.46**	6.5
Average interest-bearing liabilities	₹ 5,943.14	**₹ 6,382.35**	7.4
Net interest margin	3.25%	**3.23%**	-
Average yield	8.09%	**7.71%**	-
Average cost of funds	5.45%	**5.00%**	-
Interest spread	2.64%	**2.71%**	-

1. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

Net interest income increased by 5.9% from ₹ 217.37 billion in fiscal 2017 to ₹ 230.26 billion in fiscal 2018 reflecting an increase of 6.5% in the average volume of interest-earning assets, offset, in part, by a marginal decline in net interest margin by 2 basis points.

The yield on average interest-earning assets decreased by 38 basis points from 8.09% in fiscal 2017 to 7.71% in fiscal 2018. The cost of funds decreased by 45 basis points from 5.45% in fiscal 2017 to 5.00% in fiscal 2018. The interest spread increased by 7 basis points from 2.64% in fiscal 2017 to 2.71% in fiscal 2018. The net interest margin decreased by 2 basis points from 3.25% in fiscal 2017 to 3.23% in fiscal 2018.

The net interest margin for domestic operations increased marginally from 3.59% in fiscal 2017 to 3.60% in fiscal 2018. The cost of domestic funds decreased by 65 basis points from 5.96% in fiscal 2017 to 5.31% in fiscal 2018 primarily due to a decrease in cost of deposits. The yield on domestic interest-earning assets decreased by 49 basis points from 8.77% in fiscal 2017 to 8.28% in fiscal 2018 due to a decrease in yield on advances and investments.

The net interest margin of overseas branches decreased by 81 basis points from 1.30% in fiscal 2017 to 0.49% in fiscal 2018 primarily due to a decrease in yield on interest-earning assets. The yield on overseas interest-earning assets decreased primarily due to a decrease in yield on advances. Yield on advances decreased by 42 basis points from 4.11% in fiscal 2017 to 3.69% in fiscal 2018 primarily due to non-accrual of interest income on NPAs and prepayment of high yielding loans. The cost of funds of overseas branches increased by 5 basis points from 2.98% in fiscal 2017 to 3.03% in fiscal 2018.

The following table sets forth, for the periods indicated, the trend in yield, cost, spread and margin.

Particulars	Fiscal 2017	**Fiscal 2018**
Yield on interest-earning assets	**8.09%**	**7.71%**
- On advances	8.88	**8.63**
- On investments	7.23	**6.82**
- On SLR investments	7.45	**7.07**
- On other investments	6.57	**6.11**
- On other interest-earning assets	4.78	**3.63**
Cost of interest-bearing liabilities	**5.45**	**5.00**
- Cost of deposits	5.39	**4.87**
- Current and savings account (CASA) deposits	2.99	**2.81**
- Term deposits	7.25	**6.60**
- Cost of borrowings	5.61	**5.41**
Interest spread	**2.64**	**2.71**
Net interest margin	**3.25%**	**3.23%**

The yield on average interest-earning assets decreased by 38 basis points from 8.09% in fiscal 2017 to 7.71% in fiscal 2018 primarily due to the following factors:

- The yield on domestic advances decreased by 56 basis points from 10.07% in fiscal 2017 to 9.51% in fiscal 2018 and the yield on overseas advances decreased by 42 basis points from 4.11% in fiscal 2017 to 3.69% in fiscal 2018. However, due to an increase in the proportion of domestic advances in total advances, the overall yield on average advances decreased by 25 basis points from 8.88% in fiscal 2017 to 8.63% in fiscal 2018. The decrease was primarily due to the following reasons:

    - There have been significant additions to non-performing assets in fiscal 2017 and fiscal 2018. The Bank accounts for interest income on cash basis on NPAs.

    - The Bank's 1-year MCLR decreased by 100 basis points during fiscal 2017, of which a reduction of 75 basis points occurred in January 2017 subsequent to the demonetisation of currency notes. The incremental loans by the Bank during fiscal 2018 were made at lower rates due to reduction in the Bank's MCLR during fiscal 2017. Further, many existing customers with floating rate loans have also re-priced their loans to a lower rate linked to MCLR during fiscal 2018.

- The yield on average interest-earning investments decreased from 7.23% in fiscal 2017 to 6.82% in fiscal 2018. The yield on Statutory Liquidity Ratio (SLR) investments decreased by 38 basis points from 7.45% in fiscal 2017 to 7.07% in fiscal 2018 primarily due to realisation of capital gains in the SLR portfolio and reset of the rate of interest on floating rate bonds at lower levels. The yield on non-SLR investments decreased by 46 basis points from 6.57% in fiscal 2017 to 6.11% in fiscal 2018 primarily due to a decrease in the yield on corporate bonds and debentures, commercial paper and mutual funds.

- The yield on other interest-earning assets decreased from 4.78% in fiscal 2017 to 3.63% in fiscal 2018 primarily due to a decrease in interest income on non-trading interest rate swaps, interest on income tax refund and the yield on Rural Infrastructure and Development Fund (RIDF) and related deposits.

    Interest income on non-trading interest rate swaps, which are undertaken to manage the market risk arising from the assets and liabilities, decreased from ₹ 7.07 billion in fiscal 2017 to ₹ 2.29 billion in fiscal 2018 primarily due to an increase in LIBOR during fiscal 2018 as compared to fiscal 2017.

    Interest on income tax refund was at ₹ 2.63 billion in fiscal 2018 (fiscal 2017: ₹ 4.51 billion). The receipt, amount and timing of such income depend on the nature and timing of determinations by tax authorities and are neither consistent nor predictable.

The cost of funds decreased by 45 basis points from 5.45% in fiscal 2017 to 5.00% in fiscal 2018 primarily due to the following factors:

- The cost of average deposits decreased by 52 basis points from 5.39% in fiscal 2017 to 4.87% in fiscal 2018 primarily due to a decrease in cost of term deposits and savings deposits and an increase in the proportion of CASA deposits in total deposits.

    The cost of term deposits decreased by 65 basis points from 7.25% in fiscal 2017 to 6.60% in fiscal 2018 primarily due to a decrease in the cost of domestic term deposits by 74 basis points from 7.40% in fiscal 2017 to 6.66% in fiscal 2018. The Bank reduced retail term deposit rates for select maturities in phases during fiscal 2017 and fiscal 2018. For example, the rate on retail term deposits with maturities between 390 days up to two years declined from 7.50% at April 1, 2016 to 7.00% at April 1, 2017. The rate was further reduced to 6.90% on May 17, 2017 and 6.75% on July 19, 2017.

    Effective August 19, 2017, the Bank reduced its interest rate on savings account deposits by 50 basis points on deposits below ₹ 5.0 million from 4.00% to 3.50%. The average CASA deposits increased from 43.7% of total average deposits in fiscal 2017 to 45.6% of total average deposits in fiscal 2018.

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- The cost of borrowings decreased by 20 basis points from 5.61% in fiscal 2017 to 5.41% in fiscal 2018 primarily due to a decrease in interest expense on funding swaps and lower cost of refinance borrowings, offset, in part, by a decrease in term borrowings which are relatively lower cost.

The Bank's yield on advances, interest income, net interest income and net interest margin are likely to continue to be impacted going forward, due to the tightening of systemic liquidity, changes in benchmark lending rates and deposit rates, competitive market conditions, focus on lending to higher rated corporates, migration of I-Base rate linked floating rate loans to MCLR and non-accrual of income on NPAs.

In the Statement on Development and Regulatory policies released by RBI in February 2018, RBI decided to harmonise the methodology of determining benchmark rates by linking the Base Rate to the MCLR with effect from April 1, 2018. RBI is yet to issue the necessary instructions. Further, an internal study group of RBI has proposed that all floating rate loans extended from April 1, 2018 be referenced to an external benchmark. The Group also suggested that the periodicity of resetting the interest rates be once a quarter and that banks should migrate all existing lending rates to the new benchmark without any additional charges for switchover within a year. Any change in the methodology of determining benchmark rates may impact our interest income, yield on advances, net interest income and net interest margin.

The following table sets forth, for the period indicated, the trend in average interest-earning assets and average interest-bearing liabilities:

₹ in billion, except percentages

Particulars	Fiscal 2017	**Fiscal 2018**	% change
Advances	₹ 4,459.84	**₹ 4,736.93**	6.2%
Interest-earning investments[1]	1,573.06	**1,695.33**	7.8
Other interest-earning assets	664.12	**697.20**	5.0
Total interest-earning assets	**6,697.02**	**7,129.46**	**6.5**
Deposits	4,242.69	**4,809.02**	13.3
Borrowings[1,2]	1,700.45	**1,573.33**	(7.5)
Total interest-bearing liabilities	**₹ 5,943.14**	**₹ 6,382.35**	**7.4%**

1. *Average investments and average borrowings include average short-term repurchase transactions.*
2. *Borrowings exclude preference share capital.*
3. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

The average interest-earning assets increased by 6.5% from ₹ 6,697.02 billion in fiscal 2017 to ₹ 7,129.46 billion in fiscal 2018. The increase in average interest-earning assets was primarily on account of an increase in average advances by ₹ 277.09 billion and average interest-earning investments by ₹ 122.27 billion.

Average advances increased by 6.2% from ₹ 4,459.84 billion in fiscal 2017 to ₹ 4,736.93 billion in fiscal 2018 primarily due to an increase in domestic advances, offset, in part, by a decrease in overseas advances.

Average interest-earning investments increased by 7.8% from ₹ 1,573.06 billion in fiscal 2017 to ₹ 1,695.33 billion in fiscal 2018, primarily due to an increase in SLR investments by 6.4% from ₹ 1,181.10 billion in fiscal 2017 to ₹ 1,256.31 billion in fiscal 2018 and an increase in interest-earning non-SLR investments by 12.0% from ₹ 391.96 billion in fiscal 2017 to ₹ 439.02 billion in fiscal 2018. Average interest-earning non-SLR investments increased primarily due to an increase in investments in pass through certificates, commercial papers, mutual funds and equity shares, offset, in part, by maturity of investments in government bonds held by foreign branches.

Average other interest-earning assets increased by 5.0% from ₹ 664.12 billion in fiscal 2017 to ₹ 697.20 billion in fiscal 2018 primarily due to an increase in call and term money lent, offset, in part, by a decrease in RIDF and related deposits.

Average interest-bearing liabilities increased by 7.4% from ₹ 5,943.14 billion in fiscal 2017 to ₹ 6,382.35 billion in fiscal 2018 primarily due to an increase in average deposits by ₹ 566.33 billion, offset, in part, by a decrease in average borrowings by ₹ 127.12 billion.

Average deposits increased by 13.3% from ₹ 4,242.69 billion in fiscal 2017 to ₹ 4,809.02 billion in fiscal 2018 due to an increase in average CASA deposits by ₹ 339.05 billion and an increase in average term deposits by ₹ 227.28 billion.

Average borrowings decreased by 7.5% from ₹ 1,700.45 billion in fiscal 2017 to ₹ 1,573.33 billion in fiscal 2018 primarily due to a decrease in foreign currency term borrowings, borrowings under liquidity adjustment facility with RBI and refinance borrowings.

Non-interest income

The following tables set forth, for the periods indicated, the principal components of non-interest income.

₹ in billion, except percentages

Particulars	Fiscal 2017	**Fiscal 2018**	% change
Fee income[1]	₹ 94.52	**₹ 103.41**	9.4%
Income from treasury-related activities	85.77	**58.02**	(32.4)
Dividend from subsidiaries	14.19	**12.14**	(14.4)
Other income (including lease income)	0.57	**0.62**	8.8
Total non-interest income	**₹ 195.05**	**₹ 174.19**	**(10.7%)**

1. *Includes merchant foreign exchange income and income on customer derivative transactions.*
2. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

Non-interest income primarily includes fee and commission income, income from treasury-related activities, dividend from subsidiaries and other income including lease income. The non-interest income decreased by 10.7% from ₹ 195.05 billion in fiscal 2017 to ₹ 174.19 billion in fiscal 2018 primarily due to a decrease in income from treasury-related activities, offset, in part, by an increase in fee income.

Fee income

Fee income primarily includes fees from corporate clients such as loan processing fees and transaction banking fees and fees from retail customers such as loan processing fees, fees from cards business, account servicing charges and third party referral fees.

Fee income increased by 9.4% from ₹ 94.52 billion in fiscal 2017 to ₹ 103.41 billion in fiscal 2018 primarily due to an increase in transaction banking fees, third party referral fees, lending linked fees and income from forex and derivatives products, offset, in part, by a decrease in commercial banking fees.

Profit/(loss) on treasury-related activities (net)

Income from treasury-related activities includes income from sale of investments and unrealised profit/(loss) on account of revaluation of investments in the fixed income portfolio, equity and preference shares portfolio, units of venture funds and security receipts issued by asset reconstruction companies.

Profit from treasury-related activities decreased from ₹ 85.77 billion in fiscal 2017 to ₹ 58.02 billion in fiscal 2018 primarily due to a decrease in realised gain on government securities and other fixed income investments due to an increase in yield on fixed income securities in the latter part of fiscal 2018. In fiscal 2018, the Bank made a net gain of ₹ 20.12 billion on sale of equity shares of ICICI Lombard General Insurance Company Limited and a net gain of ₹ 33.20 billion on sale of equity shares of ICICI Securities Limited through an offer for sale in their IPOs. In fiscal 2017, the Bank had made a net gain of ₹ 56.82 billion on sale of equity shares of ICICI Prudential Life Insurance Company Limited through offer for sale in their IPO.

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Dividend from subsidiaries

Dividend from subsidiaries decreased by 14.4% from ₹ 14.19 billion in fiscal 2017 to ₹ 12.14 billion in fiscal 2018. The following table sets forth, for the periods indicated, the details of dividend received from subsidiaries:

₹ in billion

Name of the entity	Fiscal 2017	**Fiscal 2018**
ICICI Prudential Life Insurance Company Limited	5.45	**5.44**
ICICI Prudential Asset Management Company Limited	1.63	**2.27**
ICICI Securities Limited	2.05	**1.77**
ICICI Bank Canada	0.21	**1.09**
ICICI Securities Primary Dealership Limited	2.78	**0.67**
ICICI Home Finance Company Limited	1.07	**0.50**
ICICI Lombard General Insurance Company Limited	1.00	**0.40**
ICICI Prudential Trust	0.00[1]	**0.00[1]**
Total dividend	**14.19**	**12.14**

1. *Insignificant amount.*
2. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

Other income (including lease income)

Other income increased from ₹ 0.57 billion in fiscal 2017 to ₹ 0.62 billion in fiscal 2018.

Operating expense

The following table sets forth, for the periods indicated, the principal components of operating expenses.

₹ in billion, except percentages

Particulars	Fiscal 2017	**Fiscal 2018**	% change
Payments to and provisions for employees	₹ 57.34	**₹ 59.14**	3.1%
Depreciation on owned property (including non-banking assets)	7.58	**7.81**	3.0
Other administrative expenses	82.63	**90.09**	9.0
Total operating expenses	**₹ 147.55**	**₹ 157.04**	**6.4%**

1. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

Operating expenses primarily include employee expenses, depreciation on assets and other administrative expenses. Operating expenses increased by 6.4% from ₹ 147.55 billion in fiscal 2017 to ₹ 157.04 billion in fiscal 2018.

Payments to and provisions for employees

Employee expenses increased by 3.1% from ₹ 57.34 billion in fiscal 2017 to ₹ 59.14 billion in fiscal 2018 primarily on account of higher salary due to annual increments and promotions and an increase in average staff strength. The average staff strength increased from 79,671 for fiscal 2017 to 83,577 for fiscal 2018 (number of employees at March 31, 2017: 82,841 and at March 31, 2018: 82,724). The increase was primarily in retail and rural businesses. The employee base includes sales executives, employees on fixed term contracts and interns. This increase in cost was offset, in part, by a decrease in provision for retirement benefit obligations due to increase in the discount rate which is linked to the yield on government securities.

Depreciation

Depreciation on owned properties increased by 3.0% from ₹ 7.58 billion in fiscal 2017 to ₹ 7.81 billion in fiscal 2018.

Other administrative expenses

Other administrative expenses primarily include rent, taxes and lighting, advertisements, sales promotion, repairs and maintenance, direct marketing expenses and other expenditure. Other administrative expenses increased by 9.0% from ₹ 82.63 billion in fiscal 2017 to ₹ 90.09 billion in fiscal 2018. The increase in other administrative expenses was primarily due to an increase in retail business volumes.

Provisions and contingencies (excluding provisions for tax)

The following table sets forth, for the periods indicated, the components of provisions and contingencies.

₹ in billion, except percentages

Particulars	Fiscal 2017	**Fiscal 2018**	% change
Provision for non-performing and other assets[1]	₹ 146.86	**₹ 142.45**	(3.0%)
Provision for investments (including credit substitutes) (net)	6.09	**18.77**	-
Provision for standard assets	(3.39)	**2.77**	-
Others	2.52	**9.08**	-
Total provisions and contingencies (excluding provision for tax)	**₹ 152.08**	**₹ 173.07**	**13.8%**

1. *Includes restructuring related provision.*
2. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

Provisions are made by the Bank on standard, sub-standard and doubtful assets at rates prescribed by RBI. Loss assets and the unsecured portion of doubtful assets are provided for/written off as required by RBI guidelines. For loans and advances of overseas branches, provisions are made as per RBI regulations or host country regulations, whichever is higher. Provisions on retail non-performing loans are made at the borrower level in accordance with the retail assets provisioning policy of the Bank, subject to the minimum provisioning levels prescribed by RBI. The Bank holds specific provisions against non-performing loans and advances and against certain performing loans and advances in accordance with RBI directions, including RBI direction for provision on accounts referred to NCLT under IBC. The specific provisions on retail loans and advances held by the Bank are higher than the minimum regulatory requirement. In respect of non-retail loans reported as fraud to RBI and classified in doubtful category, the entire amount, without considering the value of security, is provided for over a period of four quarters starting from the quarter in which fraud has been detected. In respect of non-retail loans where there has been delay in reporting the fraud to RBI or which are classified as loss accounts, the entire amount is provided immediately. In case of fraud in retail accounts, the entire amount is provided immediately.

Provision on loans and advances restructured/rescheduled is made in accordance with the applicable RBI guidelines on restructuring of loans and advances by banks. In addition to the specific provision on NPAs, the Bank maintains a general provision on standard loans and advances at rates prescribed by RBI. For standard loans and advances in overseas branches, the general provision is made at the higher of host country regulatory requirements and RBI requirements. The Bank also makes additional general provision on loans to specific borrowers in specific stressed sectors. The Bank makes floating provision as per a Board approved policy, which is in addition to the specific and general provisions made by the Bank. The floating provision can be utilised with the approval of the Board and RBI.

Provisions and contingencies (excluding provisions for tax) increased from ₹ 152.08 billion in fiscal 2017 to ₹ 173.07 billion in fiscal 2018.

Provision for advances in fiscal 2018 remained elevated at ₹ 142.45 billion as compared to ₹ 146.86 billion in fiscal 2017 primarily due to high additions to NPAs in the corporate and small and medium enterprises loan portfolio, provision on certain cases referred to NCLT under the provisions of IBC and provisions on loan classified as NPAs in earlier years. The additions to NPAs during fiscal 2018 included the impact of revised framework for resolution of stressed assets issued by RBI in February 2018, which superceded the earlier guidelines on SDR, change in ownership outside SDR (except projects under implementation) and S4A with immediate effect. Under the revised framework, the stand-still benefits for accounts where any of these schemes had been invoked but not yet implemented were withdrawn and the accounts were classified as per the extant RBI norms on asset classification.

In fiscal 2018, the Bank also made a provision for frauds amounting to ₹ 5.25 billion through reserves and surplus on certain non-retail accounts, which will be reversed and recognised through the profit and loss account in fiscal 2019, as permitted by RBI.

During the three months ended June 30, 2017 and September 30, 2017, RBI advised the banks to initiate insolvency resolution process under the provisions of IBC for certain specific accounts. RBI also required the banks to make provision

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at 50% of the secured portion and 100% of the unsecured portion, or provision as per extant RBI guideline on asset classification norms, whichever is higher. Subsequently, in April 2018, RBI revised the provisioning requirements in respect of these specified cases from 50% of secured portion to 40% of secured portion at March 31, 2018 and to 50% of the secured portion at June 30, 2018.

Provision for investments increased from ₹ 6.09 billion in fiscal 2017 to ₹ 18.77 billion in fiscal 2018 primarily due to provision on equity shares, bonds and debentures and preference shares on loan conversion cases under SDR/S4A schemes.

Provision for standard assets increased from a write-back of ₹ 3.39 billion in fiscal 2017 to provision of ₹ 2.77 billion in fiscal 2018 primarily due to provision made on certain identified stressed sectors as per the RBI guidelines and increase in loan portfolio. In April 2017, RBI through its circular advised the banks that the provisioning rates prescribed under the prudential norms circular are the regulatory minimum and banks are encouraged to make provisions at higher rates in respect of advances to stressed sectors of the economy and had specifically highlighted the telecom sector. Accordingly, during fiscal 2018, the Bank as per its Board-approved policy made additional general provision amounting to ₹ 1.91 billion on standard loans to borrowers. The cumulative general provision held at March 31, 2018 was ₹ 25.91 billion (March 31, 2017: ₹ 23.13 billion).

Other provisions and contingencies increased from ₹ 2.52 billion in fiscal 2017 to ₹ 9.08 billion in fiscal 2018 primarily due to provision on non-banking assets.

Tax expense

The income tax expense decreased by 55.5% from ₹ 14.78 billion in fiscal 2017 to ₹ 6.57 billion in fiscal 2018. The effective tax rate decreased from 13.1% in fiscal 2017 to 8.8% in fiscal 2018, primarily reflecting the composition of income.

Financial condition

Assets

The following table sets forth, at the dates indicated, the principal components of assets.

₹ in billion, except percentages

Assets	At March 31, 2017	**At March 31, 2018**	% change
Cash and bank balances	₹ 757.13	**₹ 841.69**	11.2%
Investments	1,615.07	**2,029.94**	25.7
- Government and other approved investments[1]	1,085.39	**1,384.27**	27.5
- Equity investment in subsidiaries	103.23	**98.32**	(4.8)
- Other investments	426.45	**547.35**	28.4
Advances	4,642.32	**5,123.95**	10.4
- Domestic	3,892.39	**4,479.65**	15.1
- Overseas branches	749.93	**644.30**	(14.1)
Fixed assets (including leased assets)	78.05	**79.04**	1.3
Other assets	625.34	**717.27**	14.7
- RIDF and other related deposits[2]	241.13	**269.25**	11.7
Total assets	**₹ 7,717.91**	**₹ 8,791.89**	**13.9%**

1. *Banks in India are required to maintain a specified percentage, currently 19.50% (at March 31, 2018), of their net demand and time liabilities by way of liquid assets like cash, gold or approved unencumbered securities.*
2. *Deposits made in Rural Infrastructure Development Fund and other related deposits pursuant to shortfall in the amount required to be lent to certain specified sectors called priority sector as per RBI guidelines.*
3. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

Total assets of the Bank increased by 13.9% from ₹ 7,717.91 billion at March 31, 2017 to ₹ 8,791.89 billion at March 31, 2018, primarily due to a 10.4% increase in advances, 11.2% increase in cash and cash equivalents and 14.7% increase in other assets.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and balances with RBI and other banks, including money at call and short notice. Cash and cash equivalents increased from ₹ 757.13 billion at March 31, 2017 to ₹ 841.69 billion at March 31, 2018 primarily due to an increase in balances with banks outside India and foreign currency term money lent, offset, in part, by a decrease in money at call and short notice.

Investments

Total investments increased by 25.7% from ₹ 1,615.07 billion at March 31, 2017 to ₹ 2,029.94 billion at March 31, 2018 primarily due to an increase in investments in government securities by ₹ 287.77 billion, commercial paper by ₹ 57.35 billion, bonds and debentures by ₹ 53.14 billion and certificate of deposits by ₹ 39.19 billion.

At March 31, 2018, the Bank had an outstanding net investment of ₹ 34.38 billion in security receipts issued by asset reconstruction companies compared to ₹ 32.86 billion at March 31, 2017.

Advances

Net advances increased by 10.4% from ₹ 4,642.32 billion at March 31, 2017 to ₹ 5,123.95 billion at March 31, 2018 primarily due to an increase in domestic advances, offset, in part, by a decrease in overseas advances. Domestic advances increased by 15.1% from ₹ 3,892.39 billion at March 31, 2017 to ₹ 4,479.65 billion at March 31, 2018. Net advances of overseas branches decreased by 14.1% from ₹ 749.93 billion at March 31, 2017 to ₹ 644.30 billion at March 31, 2018.

Fixed and other assets

Fixed assets (net block) increased by 1.3% from ₹ 78.05 billion at March 31, 2017 to ₹ 79.04 billion at March 31, 2018.

Other assets increased from ₹ 625.34 billion at March 31, 2017 to ₹ 717.27 billion at March 31, 2018 primarily due to an increase in trade receivables and RIDF and related deposits. RIDF and other related deposits made in lieu of shortfall in directed lending requirements increased from ₹ 241.13 billion at March 31, 2017 to ₹ 269.25 billion at March 31, 2018.

Liabilities

The following table sets forth, at the dates indicated, the principal components of liabilities (including capital and reserves).

₹ in billion, except percentages

Liabilities	At March 31, 2017	**At March 31, 2018**	% change
Equity share capital	₹ 11.71	**₹ 12.92**	10.3%
Reserves	987.80	**1,038.68**	5.2
Deposits	4,900.39	**5,609.75**	14.5
- Savings deposits	1,718.38	**2,009.67**	17.0
- Current deposits	749.83	**889.58**	18.6
- Term deposits	2,432.17	**2,710.50**	11.4
Borrowings (excluding subordinated debt and preference share capital)	1,129.66	**1,510.25**	33.7
- Domestic	326.19	**696.30**	-
- Overseas branches	803.47	**813.95**	1.3
Subordinated debt (included in Tier-1 and Tier-2 capital)	342.40	**314.84**	(8.0)
- Domestic	342.40	**314.84**	(8.0)
- Overseas branches	-	**-**	-
Preference share capital[1]	3.50	**3.50**	0.0
Other liabilities	342.45	**301.96**	(11.8)
Total liabilities	**₹ 7,717.91**	**₹ 8,791.89**	**13.9%**

1. *Included in Schedule 4 - "Borrowings" of the balance sheet.*
2. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

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Total liabilities (including capital and reserves) increased by 13.9% from ₹ 7,717.91 billion at March 31, 2017 to ₹ 8,791.89 billion at March 31, 2018 primarily due to a 14.5% increase in deposits and 23.9% increase in borrowings.

Deposits

Deposits increased by 14.5% from ₹ 4,900.39 billion at March 31, 2017 to ₹ 5,609.75 billion at March 31, 2018.

Term deposits increased by 11.4% from ₹ 2,432.17 billion at March 31, 2017 to ₹ 2,710.50 billion at March 31, 2018. Savings account deposits increased by 17.0% from ₹ 1,718.38 billion at March 31, 2017 to ₹ 2,009.67 billion at March 31, 2018 and current account deposits increased by 18.6% from ₹ 749.83 billion at March 31, 2017 to ₹ 889.58 billion at March 31, 2018. The current and savings account deposits increased from ₹ 2,468.22 billion at March 31, 2017 to ₹ 2,899.25 billion at March 31, 2018. CASA ratio increased from 50.4% at March 31, 2017 to 51.7% at March 31, 2018.

Total deposits at March 31, 2018 formed 75.5% of the funding (i.e., deposits and borrowings, other than preference share capital).

Borrowings

Borrowings increased by 23.9% from ₹ 1,475.56 billion at March 31, 2017 to ₹ 1,828.59 billion at March 31, 2018 primarily due to an increase in borrowings with RBI under liquidity adjustment facility, refinance borrowings and foreign currency call money borrowings, offset, in part, by a decrease in foreign currency subordinated bond borrowings. Borrowings of overseas branches increased by 1.3% from ₹ 803.47 billion at March 31, 2017 to ₹ 813.95 billion at March 31, 2018.

Other liabilities

Other liabilities decreased by 11.8% from ₹ 342.45 billion at March 31, 2017 to ₹ 301.96 billion at March 31, 2018 primarily due to a decrease in security deposits and bills payable.

Equity share capital and reserves

Equity share capital and reserves increased from ₹ 999.51 billion at March 31, 2017 to ₹ 1,051.59 billion at March 31, 2018 primarily due to accretion to reserves out of profit. In fiscal 2018, the Bank made a provision for frauds amounting to ₹ 5.25 billion through reserves and surplus on certain non-retail accounts, which will be reversed and recognised through the profit and loss account in the subsequent quarters of next fiscal year, as permitted by RBI.

Off balance sheet items, commitments and contingencies

The following table sets forth, for the periods indicated, the principal components of contingent liabilities.

₹ in billion

Particulars	At March 31, 2017	**At March 31, 2018**
Claims against the Bank, not acknowledged as debts	₹ 46.43	**₹ 62.66**
Liability for partly paid investments	0.01	**0.01**
Notional principal amount of outstanding forward exchange contracts	4,272.34	**4,326.69**
Guarantees given on behalf of constituents	929.99	**945.36**
Acceptances, endorsements and other obligations	478.37	**410.04**
Notional principal amount of currency swaps	410.83	**416.99**
Notional principal amount of interest rate swaps and currency options and interest rate futures	4,131.19	**6,592.93**
Other items for which the Bank is contingently liable	40.78	**137.76**
Total	**₹ 10,309.94**	**₹ 12,892.44**

1. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

Contingent liabilities increased from ₹ 10,309.94 billion at March 31, 2017 to ₹ 12,892.44 billion at March 31, 2018 primarily due to an increase in notional amount of interest rate swaps and currency options. The notional amount of interest rate swaps and currency options increased from ₹ 4,131.19 billion at March 31, 2017 to ₹ 6,592.93 billion at March 31, 2018 primarily due to an increase in outstanding position of overnight index swaps.

Claims against the Bank, not acknowledged as debts, represents demands made in certain tax and legal matters against the Bank in the normal course of business and customer claims arising in fraud cases. In accordance with the Bank's accounting policy and Accounting Standard 29, the Bank has reviewed and classified these items as possible obligations based on legal opinion/judicial precedents/assessment by the Bank. No provision in excess of provisions already made in the financial statements is considered necessary. Claims against the Bank, not acknowledged as debts increased from ₹ 46.43 billion at March 31, 2017 to ₹ 62.66 billion at March 31, 2018 primarily due to an increase in demands made in tax matters against the Bank.

The Bank enters into foreign exchange contracts in its normal course of business, to exchange currencies at a pre-fixed price at a future date. This item represents the notional principal amount of such contracts, which are derivative instruments. With respect to the transactions entered into with its customers, the Bank generally enters into offsetting transactions in the inter-bank market. This results in generation of a higher number of outstanding transactions, and hence a large value of gross notional principal of the portfolio, while the net market risk is lower.

As a part of project financing and commercial banking activities, the Bank has issued guarantees to support regular business activities of clients. These generally represent irrevocable assurances that the Bank will make payments in the event that the customer fails to fulfil its financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment towards a specified financial obligation, including advance payment guarantee. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The guarantees are generally issued for a period not exceeding ten years. The credit risks associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Cash margins available to reimburse losses realised under guarantees amounted to ₹ 136.65 billion at March 31, 2018 compared to ₹ 84.60 billion at March 31, 2017. Other property or security may also be available to the Bank to cover potential losses under guarantees.

The Bank is obligated under a number of capital contracts. Capital contracts are job orders of a capital nature, which have been committed. Estimated amounts of contracts remaining to be executed on capital account in domestic operations aggregated to ₹ 4.87 billion at March 31, 2018 compared to ₹ 5.11 billion at March 31, 2017.

Other items for which the Bank is contingently liable increased from ₹ 40.78 billion at March 31, 2017 to ₹ 137.76 billion at March 31, 2018 primarily due to pending settlement for purchase/sale of Government of India securities where settlement date method of accounting is followed in accordance with RBI guidelines.

Capital resources

The Bank actively manages its capital to meet regulatory norms, current and future business needs and the risks in its businesses. The capital management framework of the Bank is administered by the Finance Group and the Risk Management Group under the supervision of the Board and the Risk Committee. The capital adequacy position and assessment is reported to the Board and the Risk Committee periodically.

Regulatory capital

The Bank is subject to the Basel III guidelines issued by RBI, effective from April 1, 2013, which are being implemented in a phased manner by March 31, 2019 as per the transitional arrangement provided by RBI for Basel III implementation. The Basel III rules on capital consist of measures for improving the quality, consistency and transparency of capital, enhancing risk coverage, introducing a supplementary leverage ratio, reducing pro-cyclicality and promoting counter-cyclical buffers and addressing systemic risk and inter-connectedness.

At March 31, 2018, the Bank was required to maintain a minimum Common Equity Tier-1 (CET1) capital ratio of 7.475%, minimum Tier-1 capital ratio of 8.975% and minimum total capital ratio of 10.975%. The minimum total capital requirement includes a capital conservation buffer of 1.875% and capital surcharge of 0.10% on account of the Bank being designated as a Domestic Systemically Important Bank (D-SIB). Under Pillar 1 of the RBI guidelines on Basel III, the Bank follows the standardised approach for measurement of credit risk, standardised duration method for measurement of market risk and basic indicator approach for measurement of operational risk.

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The following table sets forth the capital adequacy ratios computed in accordance with Basel III guidelines of RBI at March 31, 2017 and March 31, 2018.

₹ in billion, except percentages

Basel III	At March 31, 2017	**At March 31, 2018[2]**
CET1 capital	858.39	**915.87**
Tier-1 capital	897.25	**1,010.64**
Tier-2 capital	189.41	**159.14**
Total capital	**1,086.66**	**1,169.78**
Credit Risk — Risk Weighted Assets (RWA)	5,266.99	**5,220.54**
On balance sheet	4,363.08	**4,433.49**
Off balance sheet	903.91	**787.05**
Market Risk — RWA	420.25	**523.37**
Operational Risk — RWA	560.78	**605.17**
Total RWA	**6,248.02**	**6,349.08**
Total capital adequacy ratio	**17.39%**	**18.42%**
CET1 capital adequacy ratio	13.74%	**14.43%**
Tier-1 capital adequacy ratio	14.36%	**15.92%**
Tier-2 capital adequacy ratio	3.03%	**2.50%**

1. *All amounts have been rounded off to the nearest ₹ 10.0 million.*
2. *The proposed dividend has been reduced from capital funds though not deducted from net worth for the purpose of financial reporting at March 31, 2018*

At March 31, 2018, the Bank's Tier-1 capital adequacy ratio was 15.92% as against the requirement of 8.975% and total capital adequacy ratio was 18.42% as against the requirement of 10.975%.

Movement in the capital funds and risk weighted assets from March 31, 2017 to March 31, 2018 as per Basel III norms

Capital funds (net of deductions) increased by ₹ 83.12 billion from ₹ 1,086.66 billion at March 31, 2017 to ₹ 1,169.78 billion at March 31, 2018 primarily due to inclusion of retained earnings for fiscal 2018, repatriation of capital from overseas banking subsidiary, sale of partial shareholding in subsidiaries and issuance of Additional Tier 1 (AT-1) capital instruments of ₹ 55.55 billion during fiscal 2018, offset, in part, by decrease in eligible amount of non-common equity capital due to application of Basel III grandfathering rules.

Credit risk RWA decreased by ₹ 46.45 billion from ₹ 5,266.99 billion at March 31, 2017 to ₹ 5,220.54 billion at March 31, 2018 primarily due to a decrease of ₹ 116.86 billion in RWA for off-balance sheet assets, offset, in part, by an increase of ₹ 70.41 billion in RWA for on-balance sheet assets.

Market risk RWA increased by ₹ 103.12 billion from ₹ 420.25 billion at March 31, 2017 to ₹ 523.37 billion at March 31, 2018 primarily due to an increase in the portfolio of equity investments and fixed income securities.

Operational risk RWA increased by ₹ 44.39 billion from ₹ 560.78 billion at March 31, 2017 to ₹ 605.17 billion at March 31, 2018. The operational risk capital charge is computed based on 15% of the average of the previous three financial years' gross income and is revised on an annual basis at June 30. RWA is arrived at by multiplying the capital charge by 12.5. RWA as a percentage of average assets was 81.8% at March 31, 2018 (at March 31, 2017: 85.9%).

Internal assessment of capital

The capital management framework of the Bank includes a comprehensive internal capital adequacy assessment process conducted annually, which determines the adequate level of capitalisation necessary to meet regulatory norms and current and future business needs, including under stress scenarios. The internal capital adequacy assessment process is undertaken at both the standalone bank level and the consolidated group level. The internal capital adequacy assessment process encompasses capital planning for a four-year time horizon, identification and measurement of material risks and the relationship between risk and capital.

The capital management framework is complemented by the risk management framework, which covers the policies, processes, methodologies and frameworks established for the management of material risks. Stress testing, which is a key aspect of the internal capital adequacy assessment process and the risk management framework, provides an insight into the impact of extreme but plausible scenarios on the Bank's risk profile and capital position. Based on the stress testing framework approved by the Board, the Bank conducts stress tests on various portfolios and assesses the impact on the capital ratios and the adequacy of capital buffers for current and future periods. The Bank periodically assesses and refines its stress testing framework in an effort to ensure that the stress scenarios capture material risks as well as reflect possible extreme market moves that could arise as a result of market conditions and the operating environment. The business and capital plans and the stress testing results of certain key group entities are integrated into the internal capital adequacy assessment process.

Based on the internal capital adequacy assessment process, the Bank determines the level of capital that needs to be maintained by considering the following in an integrated manner:

- strategic focus, business plan and growth objectives;
- regulatory capital requirements as per RBI guidelines;
- assessment of material risks and impact of stress testing;
- future strategy with regard to investments or divestments in subsidiaries; and
- evaluation of options to raise capital from domestic and overseas markets, as permitted by RBI from time to time.

The Bank continues to monitor relevant developments and believes that its current robust capital adequacy position and demonstrated track record of access to domestic and overseas markets for capital raising will enable it to maintain the necessary levels of capital as required by regulations while continuing to grow its business.

ASSET QUALITY AND COMPOSITION

Loan concentration

The Bank follows a policy of portfolio diversification and evaluates its total financing exposure to a particular industry in light of its forecasts of growth and profitability for that industry. The Bank's Credit Risk Management Group monitors all major sectors of the economy and specifically tracks industries in which the Bank has credit exposures. The Bank monitors developments in various sectors to assess potential risks in its portfolio and new business opportunities. The Bank's policy is to limit its portfolio to any particular industry (other than retail loans) to 15.0% of its total exposure. In addition, the Bank has strengthened its framework for managing concentration risk with respect to single borrower and group exposures, based on the internal rating and track record of the borrowers. The exposure limits for lower rated borrowers and groups are substantially lower than the regulatory limits.

The following table sets forth, at the dates indicated, the composition of the Bank's gross advances (net of write-offs).

₹ in billion, except percentages

Particulars	March 31, 2017		**March 31, 2018**	
	Total advances	% of total advances	**Total advances**	**% of total advances**
Retail finance[1,2]	₹ 2,440.38	50.6%	**₹ 2,939.95**	**54.7%**
Services – finance	273.05	5.7	**342.11**	**6.4**
Power	302.84	6.3	**276.76**	**5.1**
Road, ports, telecom, urban development and other infrastructure	228.80	4.7	**204.50**	**3.8**

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Particulars	March 31, 2017		**March 31, 2018**	
	Total advances	% of total advances	**Total advances**	**% of total advances**
Iron/steel and products	235.62	4.9	**203.18**	**3.8**
Services – non-finance	180.77	3.7	**172.74**	**3.2**
Crude petroleum/refining and petrochemicals	66.59	1.4	**132.80**	**2.5**
Wholesale/retail trade	115.70	2.4	**125.87**	**2.3**
Construction	98.71	2.0	**117.65**	**2.2**
Mining	108.01	2.2	**105.06**	**1.9**
Electronics and engineering	73.75	1.5	**81.40**	**1.5**
Cement	75.40	1.6	**63.07**	**1.2**
Food and beverages	70.37	1.5	**58.59**	**1.1**
Metal & products (excluding iron & steel)	89.72	1.9	**49.02**	**0.9**
Other industries[3]	464.89	9.6	**506.75**	**9.4**
Total	**₹ 4,824.60**	**100.0%**	**₹ 5,379.45**	**100.0%**

1. *Includes home loans, automobile loans, commercial business loans, dealer financing and small ticket loans to small businesses, personal loans, credit cards, rural loans and loans against securities.*
2. *Includes loans against FCNR deposits of ₹ 15.48 billion at March 31, 2018 (March 31, 2017: ₹ 14.99 billion).*
3. *Other industries primarily include developer financing portfolio, gems and jewellery, chemical and fertilisers, textile, manufacturing products (excluding metal), automobiles, drugs and pharmaceuticals and FMCG.*
4. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

The Bank's capital allocation framework is focused on higher growth in retail and rural lending and selective lending to corporate sector with focus on an increase in lending to higher rated corporates. Given the focus on the above priorities, gross retail finance advances (including loans against FCNR deposits) increased by 20.5% in fiscal 2018 compared to an increase of 11.5% in total gross advances. As a result, the share of gross retail finance advances increased from 50.6% of gross advances at March 31, 2017 to 54.7% of gross advances at March 31, 2018. The proportion of exposure to borrowers internally rated A- and above, in the top 20 borrowers (excluding banks) increased from 75.3% at March 31, 2017 to 96.0% at March 31, 2018.

The following table sets forth, at the dates indicated, the composition of the Bank's gross (net of write-offs) outstanding retail finance portfolio.

₹ in billion, except percentages

Particulars	March 31, 2017		**March 31, 2018**	
	Total retail advances	% of total retail advances	**Total retail advances**	**% of total retail advances**
Home loans	₹ 1,281.90	52.5%	**₹ 1,505.43**	**51.2%**
Rural loans	370.25	15.2	**443.06**	**15.1**
Automobile loans	256.09	10.5	**294.91**	**10.0**
Personal loans	143.65	5.9	**211.82**	**7.2**
Business banking[1]	126.88	5.2	**175.24**	**6.0**
Commercial business	150.26	6.2	**173.18**	**5.9**
Credit cards	75.44	3.1	**96.39**	**3.3**
Others[2,3]	35.91	1.4	**39.92**	**1.3**
Total retail finance portfolio[3]	**₹ 2,440.38**	**100.0%**	**₹ 2,939.95**	**100.0%**

1. *Includes dealer financing and small ticket loans to small businesses.*
2. *Includes loans against securities*
3. *Includes loans against FCNR deposits of ₹ 15.48 billion at March 31, 2018 (March 31, 2017: ₹ 14.99 billion).*
4. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

The net domestic retail loan portfolio of the Bank grew by 20.6% during fiscal 2018.

Directed Lending

RBI requires banks to lend to certain sectors of the economy. Such directed lending comprises priority sector lending and export credit.

Priority Sector Lending and Investment

The RBI guidelines on priority sector lending require banks to lend 40.0% of their adjusted net bank credit (ANBC), to fund certain types of activities carried out by specified borrowers. The definition of ANBC includes bank credit in India adjusted by bills rediscounted with the RBI and other approved financial institutions and certain investments including priority sector lending certificates and investments in Rural Infrastructure Development Fund and other specified funds on account of priority sector shortfall and is computed with reference to the outstanding amount at corresponding date of the preceding year as prescribed by the RBI guidelines 'Master Direction – Priority Sector Lending – Targets and Classification'. Further RBI allows exclusion from ANBC for loans extended in India against incremental foreign currency non-resident (bank)/non-resident external deposits during specified period and funds raised by way of issue of long-term bonds for financing infrastructure and low-cost housing, subject to certain limits.

As prescribed by RBI's Master Direction on 'Priority Sector Lending - Targets and Classification' dated July 7, 2016, the priority sectors include categories such as agriculture, micro, small and medium enterprises, education, housing, social infrastructure, renewable energy and export credit. Out of the overall target of 40.0%, banks are required to lend a minimum of 18.0% of their ANBC to the agriculture sector. Sub-targets of 8.0% for lending to small & marginal farmers (out of agriculture) and 7.5% lending target to micro-enterprises have been introduced from fiscal 2016. The RBI has directed banks to maintain direct lending to non-corporate farmers at the banking system's average level for the last three years, failing which banks will attract penalties for the shortfall. The RBI would notify the banks of the banking system's average level at the beginning of each year. RBI has notified a target level of 11.78% of ANBC for this purpose for fiscal 2018. The banks are also required to lend 10.0% of their ANBC to certain borrowers under the "weaker section" category. Priority sector lending achievement is evaluated on a quarterly average basis from fiscal 2017 instead of only at the year-end.

The Bank is required to comply with the priority sector lending requirements prescribed by RBI from time to time. The shortfall in the amount required to be lent to the priority sectors and weaker sections may be required to be deposited in funds with government sponsored Indian development banks like the National Bank for Agriculture and Rural Development, the Small Industries Development Bank of India, the National Housing Bank, MUDRA Limited and other financial institutions as decided by RBI from time to time, based on the allocations made by RBI. These deposits have a maturity of up to seven years and carry interest rates lower than market rates. At March 31, 2018, the Bank's total investment in such bonds was ₹ 269.25 billion, which was fully eligible for consideration in overall priority sector lending achievement.

As prescribed by the RBI guideline, the Bank's priority sector lending achievement is computed on a quarterly average basis from fiscal 2017 onwards. Total average priority sector lending for fiscal 2018 was ₹ 1,500.78 billion (fiscal 2017: ₹ 1,399.41 billion) constituting 37.7% (fiscal 2017: 39.9%) of ANBC, against the requirement of 40.0% of ANBC. The average lending to the agriculture sector was ₹ 587.55 billion (fiscal 2017: ₹ 547.36 billion) constituting 14.8% (fiscal 2017: 15.6%) of ANBC against the requirement of 18.0% of ANBC. The average advances to weaker sections were ₹ 246.63 billion (fiscal 2017: ₹ 220.87 billion) constituting 6.2% (fiscal 2017: 6.3%) of ANBC against the requirement of 10.0% of ANBC. Average lending to small and marginal farmers was ₹ 170.72 billion (fiscal 2017: ₹ 142.16 billion) constituting 4.3% (fiscal 2017: 4.1%) of ANBC against the requirement of 8.0% of ANBC. The average lending to micro enterprises was ₹ 266.32 billion (fiscal 2017: ₹ 241.22 billion) constituting 6.7% (fiscal 2017: 6.9%) of ANBC against the requirement of 7.5% of ANBC. The average lending to non-corporate farmers was ₹ 352.03 billion (fiscal 2017: ₹ 300.86 billion) constituting 8.9% (fiscal 2017: 8.6%) of ANBC against the requirement of 11.78% of ANBC.

Classification of loans

The Bank classifies its assets as performing and non-performing in accordance with RBI guidelines. Under RBI guidelines, an asset is generally classified as non-performing if any amount of interest or principal remains overdue for more than 90 days, in respect of term loans. In respect of overdraft or cash credit, an asset is classified as non-performing if the account remains out of order for a period of 90 days and in respect of bills, if the account remains overdue for more than 90 days. RBI guidelines also require an asset to be classified as non-performing based on certain other criteria like restructuring of a loan, inability of a borrower to complete a project funded by the Bank within stipulated timelines and certain other non-financial parameters. In respect of borrowers where loans and advances made by overseas branches are identified

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as impaired as per host country regulations for reasons other than record of recovery, but which are standard as per RBI guidelines, the amount outstanding in the host country is classified as non-performing.

RBI has separate guidelines for classification of loans for projects under implementation which are based on the date of commencement of commercial production and date of completion of the project as originally envisaged at the time of financial closure. For infrastructure projects, a loan is classified as non-performing if it fails to commence commercial operations within two years from the documented date of commencement and for non-infrastructure projects, the loan is classified as non-performing if it fails to commence operations within 12 months from the documented date of such commencement.

RBI also has separate guidelines for restructured loans. Upto March 31, 2015, a fully secured standard asset could be restructured by re-schedulement of principal repayments and/or the interest element, but had to be separately disclosed as a restructured asset. The diminution in the fair value of the restructured loan, if any, measured in present value terms, was either written off or a provision was made to the extent of the diminution involved. Similar guidelines applied for restructuring of sub-standard loans. Loans restructured after April 1, 2015 (excluding loans given for implementation of projects in the infrastructure sector and non-infrastructure sector and which are delayed up to a specified period) by re-schedulement of principal repayments and/or the interest element are classified as non-performing. For such loans, the diminution in the fair value of the loan, if any, measured in present value terms, has to be provided for in addition to the provisions applicable to non-performing loans.

On February 12, 2018, RBI issued a revised framework for resolution of stressed assets, which superceded the existing guidelines on SDR, change in ownership outside SDR (except projects under implementation) and S4A with immediate effect. Under the revised framework, the stand-still benefits for accounts where any of these schemes had been invoked but not yet implemented were withdrawn and the accounts were classified as per the extant RBI norms on asset classification. RBI also clarified the definition of restructuring to include any concession to the borrower where time for payment of settlement amount exceeds three months.

The following table sets forth, at the dates indicated, information regarding asset classification of the Bank's gross non-performing assets (net of write-offs, interest suspense and derivative income reversals).

₹ in billion

Particulars	At March 31, 2017	**At March 31, 2018**
Non-performing assets		
Sub-standard assets	₹ 145.07	**₹ 75.51**
Doubtful assets	259.08	**450.03**
Loss assets	21.37	**15.09**
Total non-performing assets[1]	**₹ 425.52**	**₹ 540.63**

1. *Includes advances, lease receivables and credit substitutes like debentures and bonds. Excludes preference shares.*
2. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

The following table sets forth, at the dates indicated, information regarding the Bank's non-performing assets (NPAs).

₹ in billion, except percentages

Year ended	Gross NPA[1]	Net NPA	Net customer assets	% of net NPA to net customer assets[2]
March 31, 2015	₹ 152.42	₹ 63.25	₹ 4,516.34	1.40%
March 31, 2016	₹ 267.21	₹ 132.97	₹ 4,972.29	2.67%
March 31, 2017	₹ 425.52	₹ 254.51	₹ 5,209.52	4.89%
March 31, 2018	**₹ 540.63**	**₹ 278.86**	**₹ 5,848.78**	**4.77%**

1. *Net of write-offs, interest suspense and derivatives income reversal.*
2. *Includes advances, lease receivables and credit substitutes like debentures and bonds. Excludes preference shares.*
3. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

The following table sets forth, at March 31, 2017 and March 31, 2018, the composition of gross non-performing assets by industry sector.

₹ in billion, except percentages

Particulars	March 31, 2017		**March 31, 2018**	
	Amount	%	**Amount**	**%**
Retail finance[1]	₹ 36.67	8.6%	**₹ 47.14**	**8.7%**
Power	63.64	15.0	**105.35**	**19.5**
Mining	39.32	9.2	**89.72**	**16.6**
Iron/steel and products	80.39	18.9	**68.54**	**12.7**
Construction	31.29	7.4	**59.65**	**11.0**
Services – non-finance	36.15	8.5	**47.71**	**8.8**
Road, ports, telecom, urban development and other infrastructure	23.04	5.4	**26.90**	**5.0**
Crude petroleum/refining and petrochemicals	0.49	0.1	**18.37**	**3.4**
Electronics and engineering	3.18	0.7	**15.47**	**2.9**
Shipping	14.34	3.4	**11.75**	**2.2**
Food and beverages	6.36	1.5	**6.72**	**1.2**
Manufacturing products (excluding metal)	5.29	1.2	**8.83**	**1.6**
Wholesale/retail trade	7.03	1.7	**6.20**	**1.1**
Cement	53.78	12.6	**-**	**-**
Metal & products (excluding iron & steel)	0.04	0.0	**-**	**-**
Other industries[2]	24.51	5.8	**28.28**	**5.3**
Total	**₹ 425.52**	**100.0%**	**₹ 540.63**	**100.0%**

1. *Includes home loans, automobile loans, commercial business loans, dealer financing and small ticket loans to small businesses, personal loans, credit cards, rural loans and loans against securities.*
2. *Other industries primarily include textile, chemical and fertilizers, gems and jewellery, drugs and pharmaceuticals, FMCG, automobiles and developer financing.*
3. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

The operating environment for Indian banks has remained challenging for the past few years particularly due to the stress in the Indian corporate sector. The Indian corporate sector has experienced a prolonged period of muted growth in sales and profits. Over the years, several challenges have impacted the sector including an elongation of working capital cycles and a high level of receivables, including from the government, significant challenges in project completion and cash flow generation due to policy changes, delays in approvals like clearances on environment and land, judicial decisions like the deallocation of coal mines, significant decline in global commodity prices in fiscal 2015 and fiscal 2016 and adjustments to recent structural reforms such as demonetisation and Goods & Services Tax. These challenges resulted in lower than projected cash flows and the progress in reducing leverage in the corporate sector remained slow. As a result, there has been a substantial increase in the level of additions to non-performing loans, including slippages from restructured loans, into non-performing status for the banking sector and the Bank.

In fiscal 2018, the gross additions to NPAs amounted to ₹ 287.30 billion primarily due to addition to gross NPAs in the power sector of ₹ 53.66 billion, mining sector of ₹ 51.49 billion, services-non finance sector of ₹ 26.56 billion and food and beverages sector of ₹ 22.94 billion. The gross additions to non-performing loans includes the impact of revised framework for resolution of stressed assets issued by RBI in February 2018 which withdrew the schemes of SDR, change in ownership outside SDR and S4A resulting in classification of loans under these schemes, which were not implemented, as non-performing. In fiscal 2018, the Bank recovered/upgraded non-performing assets amounting to ₹ 81.07 billion and wrote-off/sold non-performing assets amounting to ₹ 91.12 billion. As a result, gross NPAs (net of write-offs) of the Bank increased from ₹ 425.52 billion at March 31, 2017 to ₹ 540.63 billion at March 31, 2018.

Net NPAs increased from ₹ 254.51 billion at March 31, 2017 to ₹ 278.86 billion at March 31, 2018. The ratio of net NPAs to net customer assets decreased from 4.89% at March 31, 2017 to 4.77% at March 31, 2018.

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At March 31, 2018, gross non-performing loans in the retail portfolio were 1.61% of gross retail loans compared to 1.51% at March 31, 2017 and net non-performing loans in the retail portfolio were 0.65% of net retail loans compared to 0.52% at March 31, 2017.

The provision coverage ratio at March 31, 2018 including cumulative technical/prudential write-offs was 60.5% (March 31, 2017: 53.6%). Excluding cumulative technical/prudential write-offs, the provision coverage ratio was 47.7% (March 31, 2017: 40.2%).

The gross outstanding loans to borrowers whose facilities have been restructured decreased from ₹ 45.48 billion at March 31, 2017 to ₹ 15.95 billion at March 31, 2018 primarily due to slippages of ₹ 22.84 billion from restructured loans to non-performing category. The net outstanding loans to borrowers whose facilities have been restructured decreased from ₹ 42.65 billion at March 31, 2017 to ₹ 15.53 billion at March 31, 2018. The aggregate non-fund based outstanding to borrowers whose loans were restructured was ₹ 3.96 billion at March 31, 2018 (March 31, 2017: ₹ 16.87 billion).

The Bank had disclosed its fund-based exposure and outstanding non-fund based facilities internally rated below investment grade (excluding borrowers classified as non-performing or restructured) at March 31, 2016 to the iron and steel, mining, power, rigs and cement sectors and promoter entities internally rated below investment grade where the underlying was partly linked to these sectors, amounting to ₹ 440.65 billion. The aggregate fund based exposure and outstanding non-fund based facilities to companies that were internally rated below investment grade in the above sectors and promoter entities decreased from ₹ 440.65 billion at March 31, 2016 to ₹ 190.39 billion at March 31, 2017, which further decreased to ₹ 47.28 billion at March 31, 2018. The decrease during fiscal 2018 was on account of slippage of loans of ₹ 135.50 billion to non-performing category, a net reduction in exposure of ₹ 20.25 billion, exclusion of outstanding non-fund based facilities for borrowers classified as NPAs amounting to ₹ 12.34 billion and upgrade of ratings of loans of ₹ 0.17 billion, offset, in part, by a downgrade of ratings of loans of ₹ 25.16 billion. The total non-fund based outstanding to borrowers classified as non-performing was ₹ 29.80 billion at March 31, 2018.

At March 31, 2018, the Bank had implemented S4A in five standard borrower accounts with an aggregate balance outstanding of ₹ 5.47 billion, comprising ₹ 2.87 billion of sustainable debt and ₹ 2.61 billion of unsustainable debt. Of these accounts, one account with an aggregate balance outstanding of ₹ 0.20 billion had been classified as a non-performing asset and two accounts with an aggregate balance outstanding of ₹ 0.94 billion had been classified as standard restructured at March 31, 2018. The aggregate non-fund based outstanding to these borrowers (excluding standard restructured accounts and accounts classified as NPAs) was ₹ 14.97 billion at March 31, 2018. Further, the Bank has implemented S4A in one NPA borrower account with an aggregate balance outstanding of ₹ 2.27 billion, comprising ₹ 1.33 billion of sustainable debt (upgraded to standard) and ₹ 0.94 billion of unsustainable debt. The outstanding loans where change of ownership scheme was invoked for projects under implementation were ₹ 2.35 billion at March 31, 2018 (March 31, 2017: Nil).

In fiscal 2016, RBI had issued guidelines permitting banks to refinance long-term project loans to infrastructure and other core industries at periodic intervals (5/25 scheme) without such refinancing being considered as restructuring. Accordingly, the portfolio of such loans for which refinancing under the 5/25 scheme had been implemented was ₹ 60.59 billion at March 31, 2018 out of which ₹ 21.20 billion was classified as performing loans. Of the loans of ₹ 21.20 billion, about ₹ 7.52 billion were loans to companies which were internally rated below investment grade in the key sectors mentioned above.

The Bank became aware in March 2018 of an anonymous whistleblower complaint alleging incorrect asset classifications stemming from claimed irregular transactions in borrower accounts, incorrect accounting of interest income and non-performing asset recoveries as fees and overvaluation of collateral securing corporate loans. The allegations related to fiscal 2016 and earlier. The Bank conducted an internal enquiry of these allegations under its Whistle Blower Policy, which was carried out by the Head of the Internal Audit Group and supervised directly by the Audit Committee, without the involvement of any other member of the Bank's senior management. The enquiry resulted in an Interim Report that was reviewed in detail by the Audit Committee and the statutory auditors before the finalisation of the accounts for the year ended March 31, 2018 and has been submitted to the RBI. In certain accounts, transactions were observed that may have delayed the classification of the account as non-performing in earlier years. Further, the Bank has reviewed certain additional accounts for any similar irregular transactions as alleged in the complaint. Based on the Interim Report and review undertaken for additional loan accounts, the Bank has concluded that the likely impact of these allegations is not material to the financial statements for the year ended March 31, 2018 or earlier periods reported in this annual report. The Bank has, since April 2016, implemented enhanced internal controls, relating to review of loan accounts which satisfy certain threshold parameters, primarily relating to size, credit rating and days-past-due, for identification of non-performing assets. The Bank also assessed and concluded that internal control over financial reporting was found to be effective as at March 31, 2018. The Bank, at the direction of the Audit Committee and with the assistance of external counsel, is continuing to investigate all of the allegations made by the whistleblower.

In addition, as a large and internationally active bank with operations and listing of its equity and debt instruments in multiple jurisdictions, the Bank is regularly engaged with regulators, including the United States Securities and Exchange Commission ("SEC"), on a range of matters, including regarding the March 2018 complaint. Even before this complaint, the Bank has been responding to requests for information from the SEC investigatory staff regarding an enquiry relating to the timing and amount of the Bank's loan impairment provisions taken under U.S. GAAP. The Bank evaluates loans for impairment under U.S. GAAP for the purpose of preparing the annual footnote reconciling the Bank's Indian GAAP financial statements to U.S. GAAP. The Bank has voluntarily complied with all requests of the U.S. SEC investigatory staff for information and interviews related to the Bank's U.S. GAAP loan impairment process.

Segment information

RBI in its guidelines on "segmental reporting" has stipulated specified business segments and their definitions, for the purposes of public disclosures on business information for banks in India.

The standalone segmental report for fiscal 2018, based on the segments identified and defined by RBI, has been presented as follows:

- **Retail Banking** includes exposures of the Bank, which satisfy the four qualifying criteria of 'regulatory retail portfolio' as stipulated by RBI guidelines on the Basel III framework.

- **Wholesale Banking** includes all advances to trusts, partnership firms, companies and statutory bodies, by the Bank which are not included in the Retail Banking segment, as per RBI guidelines for the Bank.

- **Treasury** includes the entire investment portfolio of the Bank.

- **Other Banking** includes leasing operations and other items not attributable to any particular business segment of the Bank.

Framework for transfer pricing

All liabilities are transfer priced to a central treasury unit, which pools all funds and lends to the business units at appropriate rates based on the relevant maturity of assets being funded after adjusting for regulatory reserve requirement and directed lending requirements.

Retail banking segment

The profit before tax of the segment increased by 32.6% from ₹ 53.85 billion in fiscal 2017 to ₹ 71.41 billion in fiscal 2018, primarily due to increase in net interest income and non-interest income.

Net interest income increased by 18.7% from ₹ 113.27 billion in fiscal 2017 to ₹ 134.48 billion in fiscal 2018, primarily due to growth in the average loan portfolio and an increase in average CASA deposits.

Non-interest income increased by 14.2% from ₹ 57.53 billion in fiscal 2017 to ₹ 65.72 billion in fiscal 2018, primarily due to increase in fees from credit card portfolio, transaction banking fees, third party product distribution fees and lending linked fees.

Non-interest expenses increased by 8.1% from ₹ 112.26 billion in fiscal 2017 to ₹ 121.34 billion in fiscal 2018, primarily due to increase in employee cost and other administrative expenses reflecting increase in business volume.

Provisions (net of write-back) increased by 58.8% from ₹ 4.69 billion in fiscal 2017 to ₹ 7.45 billion in fiscal 2018, primarily due to increase in provisions on retail products like auto loans, home loans, personal loans and credit cards.

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Wholesale banking segment

The loss (before tax) of the segment increased by 11.4% from ₹ 74.34 billion in fiscal 2017 to ₹ 82.81 billion in fiscal 2018, primarily due to decrease in net interest income.

Net interest income decreased by 7.2% from ₹ 65.71 billion in fiscal 2017 to ₹ 60.97 billion in fiscal 2018, primarily due to non-accrual of interest income on loans classified as non-performing.

Non-interest income increased marginally by 1.7% from ₹ 35.30 billion in fiscal 2017 to ₹ 35.91 billion in fiscal 2018.

On February 12, 2018, RBI issued a revised framework for resolution of stressed assets, which superceded the existing guidelines on SDR, change in ownership outside SDR (except projects under implementation) and S4A with immediate effect. Under the revised framework, the stand-still benefits for accounts where any of these schemes had been invoked but not yet implemented were withdrawn and the accounts were classified as per the extant RBI norms on asset classification during fiscal 2018.

Provisions during fiscal 2018 remained elevated at ₹ 146.68 billion as compared to ₹ 142.94 billion in fiscal 2017, primarily due to higher additions to NPA, higher provision on certain cases referred to NCLT under the provisions of the Insolvency and Bankruptcy Code, 2016 (IBC) and further provisions on loans classified as NPAs in earlier years.

Treasury segment

The profit before tax of the segment decreased from ₹ 126.71 billion in fiscal 2017 to ₹ 81.14 billion in fiscal 2018, primarily due to decrease in realised gain on government securities and increase in provisions during fiscal 2018 as compared to fiscal 2017.

Non-interest income decreased by 29.3% from ₹ 101.43 billion in fiscal 2017 to ₹ 71.70 billion in fiscal 2018, primarily due to decrease in realised gain on government securities and dividend from subsidiaries during fiscal 2018.

Non-interest income of fiscal 2017 included gain on sale of equity shares of ICICI Prudential Life Insurance Company Limited of ₹ 56.82 billion (before tax and after IPO expenses) through IPO. Non-interest income of fiscal 2018 included gain on sale of equity shares of ICICI Lombard General Insurance Company Limited of ₹ 20.12 billion (before tax and after IPO expenses) and ICICI Securities Limited of ₹ 33.20 billion (before tax and after IPO expenses) through IPO.

Provisions increased from ₹ 4.17 billion in fiscal 2017 to ₹ 18.87 billion in fiscal 2018, primarily due to higher provisions on equity shares, preference shares, bonds and debentures acquired on loan conversion cases under SDR/S4A schemes.

Other banking segment

Profit before tax of other banking segment decreased from ₹ 6.57 billion in fiscal 2017 to ₹ 4.60 billion in fiscal 2018, primarily due to decrease in net interest income.

Net interest income decreased from ₹ 6.79 billion in fiscal 2017 to ₹ 4.30 billion in fiscal 2018, primarily due to decrease in interest on income tax refund from ₹ 4.51 billion in fiscal 2017 to ₹ 2.63 billion in fiscal 2018.

CONSOLIDATED FINANCIALS AS PER INDIAN GAAP

The consolidated profit after tax decreased by 17.9% from ₹ 101.88 billion in fiscal 2017 to ₹ 77.12 billion in fiscal 2018 primarily due to a decrease in the profit of ICICI Bank, ICICI Securities Primary Dealership Limited, ICICI Home Finance Company Limited and ICICI Bank UK PLC, offset, in part, by an increase in profit of ICICI Bank Canada, ICICI Lombard General Insurance Company Limited, ICICI Securities Limited and ICICI Prudential Asset Management Company Limited.

At March 31, 2018, the consolidated Tier-1 capital adequacy ratio was 15.56% as against the current requirement of 8.975% and total consolidated capital adequacy ratio was 17.90% as against the current requirement of 10.975%.

ICICI Prudential Life Insurance Company Limited market share was 11.8% in fiscal 2018 based on new business written (on a retail weighted new business premium basis) according to the Life Insurance Council. The Value of New Business (VNB) margin was 16.5% for fiscal 2018 compared to 10.1% for fiscal 2017. The VNB increased from ₹ 6.66 billion for fiscal 2017 to ₹ 12.86 billion for fiscal 2018. Embedded Value of ICICI Prudential Life Insurance Company Limited was ₹ 187.88 billion at March 31, 2018 compared to ₹ 161.84 billion at March 31, 2017. Net premium earned increased from

₹ 221.55 billion in fiscal 2017 to ₹ 268.11 billion in fiscal 2018. The profit after tax decreased from ₹ 16.82 billion in fiscal 2017 to ₹ 16.20 billion in fiscal 2018 primarily due to an increase in transfer to linked funds and provision for policyholder liabilities, offset, in part, by an increase in net earned premium.

ICICI Lombard General Insurance Company Limited achieved, an overall market share of 8.2% during fiscal 2018 on the basis of gross direct premium according to the General Insurance Council of India. Net earned premium increased by 12.1% from ₹ 61.64 billion in fiscal 2017 to ₹ 69.12 billion in fiscal 2018 primarily due to an increase in health and motor insurance business. The profit after tax increased from ₹ 7.02 billion in fiscal 2017 to ₹ 8.62 billion in fiscal 2018 primarily due to an increase in net earned premium, offset, in part, by a decrease in commission income and an increase in claims and benefits paid.

The profit after tax of ICICI Prudential Asset Management Company increased from ₹ 4.80 billion in fiscal 2017 to ₹ 6.26 billion in fiscal 2018 primarily due to an increase in fee income, offset, in part, by an increase in administrative expenses and staff cost. Average assets under management (AUM) for mutual funds increased from ₹ 2,214.79 billion in fiscal 2017 to ₹ 2,963.42 billion in fiscal 2018. Average AUM for equity schemes increased from ₹ 777.15 billion in fiscal 2017 to ₹ 1,327.30 billion in fiscal 2018.

The consolidated profit after tax of ICICI Securities Limited and its subsidiaries increased from ₹ 3.39 billion in fiscal 2017 to ₹ 5.58 billion in fiscal 2018 primarily due to an increase in fee income, offset, in part, by an increase in staff cost and other administrative expenses.

The profit after tax of ICICI Securities Primary Dealership decreased from ₹ 4.12 billion in fiscal 2017 to ₹ 1.12 billion in fiscal 2018 primarily due to a decrease in trading gains. Trading gains decreased primarily due to an increase in yield on government securities. During fiscal 2018, yield on 10-year government securities increased by 74 basis points as compared to a decrease of 80 basis points during fiscal 2017.

The profit after tax of ICICI Home Finance Company decreased from ₹ 1.83 billion in fiscal 2017 to ₹ 0.64 billion in fiscal 2018 primarily due to an increase in provision on loans and investments and a decrease in fee income and net interest income. Net NPAs increased from ₹ 0.66 billion at March 31, 2017 to ₹ 2.04 billion at March 31, 2018.

The profit after tax of ICICI Venture Fund Management Company Limited increased from ₹ 0.09 billion in fiscal 2017 to ₹ 0.11 billion in fiscal 2018.

ICICI Bank Canada made a profit after tax of CAD 44.2 million (₹ 2.22 billion) in fiscal 2018 compared to a loss of CAD 33.0 million (₹ 1.69 billion) in fiscal 2017. Loss in fiscal 2017 was primarily due to higher provisions on loans. Net NPAs decreased from CAD 10.9 million (₹ 0.53 billion) at March 31, 2017 to Nil at March 31, 2018.

Loss of ICICI Bank UK PLC increased from USD 16.1 million (₹ 1.08 billion) in fiscal 2017 to USD 25.5 million (₹ 1.65 billion) in fiscal 2018 primarily due to higher specific provisions on loans. Net NPAs decreased from USD 225.6 million (₹ 14.63 billion) at March 31, 2017 to USD 194.0 million (₹ 12.64 billion) at March 31, 2018.

The consolidated assets of the Bank and its subsidiaries and other consolidating entities increased from ₹ 9,857.25 billion at March 31, 2017 to ₹ 11,242.81 billion at March 31, 2018. Consolidated advances increased from ₹ 5,153.17 billion at March 31, 2017 to ₹ 5,668.54 billion at March 31, 2018.

MANAGEMENT'S DISCUSSION & ANALYSIS

The following table sets forth, for the periods and at the dates indicated, the profit/(loss) and total assets of our principal subsidiaries.

₹ in billion

Company	Profit after tax		Total assets[1]	
	Fiscal 2017	**Fiscal 2018**	At March 31, 2017	**At March 31, 2018**
ICICI Prudential Life Insurance Company Limited	₹ 16.82	**₹ 16.20**	₹ 1,247.43	**₹ 1,417.24**
ICICI Lombard General Insurance Company Limited	7.02	**8.62**	233.51	**297.41**
ICICI Prudential Asset Management Company Limited	4.80	**6.26**	9.97	**11.29**
ICICI Securities Limited (consolidated)	3.39	**5.58**	20.47	**28.49**
ICICI Securities Primary Dealership Limited	4.12	**1.12**	128.19	**172.10**
ICICI Home Finance Company Limited	1.83	**0.64**	92.82	**100.60**
ICICI Venture Funds Management Company Limited	0.09	**0.11**	3.88	**3.31**
ICICI Bank Canada	(1.69)	**2.22**	308.26	**319.93**
ICICI Bank UK PLC	(1.08)	**(1.65)**	226.38	**253.96**

1. *Total assets are as per the classification used in the consolidated financial statements and hence the total assets as per the subsidiary's financial statements may differ.*
2. *See also "Financials- Statement pursuant to Section 129 of the Companies Act, 2013".*
3. *All amounts have been rounded off to the nearest ₹ 10.0 million.*

Migration to Indian Accounting Standards (Ind AS)

Banks in India currently prepare their financial statements as per the guidelines issued by RBI, the Accounting Standards notified under section 133 of the Companies Act, 2013 and generally accepted accounting principles in India (Indian GAAP). In January 2016, the Ministry of Corporate Affairs issued the roadmap for implementation of new Indian Accounting Standards (Ind AS), converged with International Financial Reporting Standards (IFRS), for scheduled commercial banks, insurance companies and non-banking financial companies (NBFCs). The roadmap required banks to migrate to Ind AS for accounting periods beginning from April 1, 2018 onwards, with comparatives for the periods ending March 31, 2018 or thereafter. In April 2018, the RBI through its statement on Developmental and Regulatory Policies has deferred the implementation of Ind AS by one year primarily due to pending legislative amendments in the Third Schedule to Banking Regulation Act, 1949 and level of preparedness of many banks.

The key impact areas for the Bank include accounting of financial instruments, employee stock options, consolidation accounting, deferred tax and implementation of technology systems. Of these, the accounting of financial assets differs significantly from Indian GAAP in many areas, which include classification, fair valuation, expected credit losses, effective interest rate accounting and derecognition. The Bank's Ind AS implementation project also focuses on technical evaluation of GAAP differences, selection of accounting policies and choices, implementation of system changes, business impact analysis and re-orientation of business practices in the Bank through regular trainings and workshops.

The Bank is in the process of formulating processes and methodologies for specific areas relating to Ind AS such as classification and measurement of financial instruments, effective interest rate accounting and measurement of expected credit loss allowance. Further, the Bank is in the process of implementing a centralised system solution to cater to Ind AS specific accounting requirements. For implementation of Ind AS, the Bank has formed a Steering Committee which meets regularly to supervise the progress of the project. An update on the implementation status is also submitted to the Audit Committee at quarterly intervals.