MANAGEMENT'S DISCUSSION & ANALYSIS

OPERATING ENVIRONMENT

Growth

The growth of India's Gross Domestic Product (GDP) was 7.2% in the nine months ended December 31, 2018 (9M-2019), the same level as in fiscal 2018. The Central Statistical Organisation has estimated that India's GDP would grow by 7.0% in fiscal 2019. Investments, as measured by gross fixed capital formation, have grown by 10.8% during 9M-2019 compared to 9.3% in fiscal 2018. On a gross value added basis, growth in the agriculture sector is estimated to be 2.7% in fiscal 2019 compared to 5.0% in fiscal 2018 and in the services sector to be 7.4% in fiscal 2019 compared to 8.1% in fiscal 2018. Industrial sector growth is expected to be 7.7% in fiscal 2019 compared to 5.9% in fiscal 2018.

Inflation and interest rates

Inflation as measured by the Consumer Price Index (CPI) increased in the initial part of the year from 4.3% in March 2018 to 6.4% in June 2018 and subsequently declined to 2.9% in March 2019. Core inflation (inflation excluding food and fuel) increased from 5.4% in March 2018 to 6.4% in June 2018 and eased to 5.0% in March 2019. The Reserve Bank of India (RBI) increased the repo rate by 25 basis points each in June 2018 and August 2018, from 6.0% to 6.5%, and subsequently reduced the repo rate by 25 basis points in February 2019 to 6.25%. The policy stance was changed from "neutral" to "calibrated tightening" in October 2018 and again changed to "neutral" in February 2019.

Financial markets

The Rupee depreciated from ₹ 65.11 per US dollar at end-March 2018 to a high of ₹ 74.33 per US dollar on October 9, 2018 and subsequently appreciated to ₹ 69.16 per US dollar at end-March 2019. Since Indian banks are subject to reserve requirements, with a large part of the reserves held in government securities, movement in government bond yields have an impact on the treasury portfolio. During fiscal 2019, yields on government securities were volatile particularly in view of tight liquidity conditions between September-December 2018. This resulted in significant losses in the treasury book for most Indian banks during the third quarter of fiscal 2019. Yields on the 10-year benchmark government bonds increased from 7.4% at end-March 2018 to over 8.0% in September 2018, and subsequently declined to 7.4% at end-March 2019.

Current account and fiscal position

The increase in global crude oil prices in fiscal 2019 led to an increase in India's current account deficit to 2.5% as a proportion of GDP during the nine months ended December 31, 2018, compared to 1.9% in fiscal 2018. The fiscal deficit position remained stable at 3.4% of GDP in fiscal 2019. In the interim budget for fiscal 2020, the government of India has announced measures that are expected to stimulate consumption in the Indian economy. At the same time, the interim budget has a significant borrowing programme for fiscal 2020, which could lead to pressures on government bond yields.

Banking sector trends

During fiscal 2019, non-food credit grew by 13.3% at March 29, 2019 while deposits grew by 10.0%. This resulted in the credit to deposit ratio increasing from 75.5% at March 31, 2018 to 77.7% at end-March 2019. In terms of sector-wise deployment of credit, credit growth in the services sector was at 17.8%, in the retail sector was at 16.4%, in industry was at 6.9% and in agriculture sector was at 7.9%, as on March 29, 2019. Additions to non-performing assets moderated during the nine months ended December 31, 2018. As per RBI's Financial Stability Report for December 2018, the gross non-performing asset ratio for Indian banks declined from a peak of 11.5% at March 31, 2018 to 10.8% at September 30, 2018. However, challenges emerged for the non-banking financial companies (NBFCs) following a default by a large non-banking financial company engaged primarily in infrastructure. This resulted in tightening liquidity conditions and increase in yields on their debt, leading to refinancing challenges for NBFCs. In a step towards initiating consolidation in the banking sector, the government announced the merger of three public sector banks in fiscal 2019. The merger was effective from April 1, 2019.

The process of resolution of large stressed accounts continued. Of the accounts referred under the Insolvency and Bankruptcy Code (IBC) with the National Company Law Tribunal (NCLT), as required by the RBI, five large accounts from the first list were resolved during the year with the average recovery rate from these accounts exceeding 44.0%. Additions to the non-performing pool of banks declined during the year. However, challenges emerged in a few sectors and specific corporates/promoter groups during the year. Provisions made by banks continued to be elevated.

The key regulatory developments impacting banks during fiscal 2019 were as follows:

- In March 2019, RBI deferred the implementation of Ind AS till further notice as the legislative amendments recommended by it were still under the consideration of the Government of India.
- RBI deferred the implementation of the last tranche of 0.625% of Capital Conservation Buffer (CCB) from March 31, 2019 to March 31, 2020. Accordingly, the minimum capital conservation ratios as earlier applicable from March 31, 2018 would now apply from March 31, 2019 till the CCB attains the level of 2.5% of risk weighted assets (RWA) as on March 31, 2020. The pre-specified trigger for loss absorption through conversion/write-down of Additional Tier 1 instruments shall remain at 5.5% of RWAs and would increase to 6.125% of RWAs on March 31, 2020.
- In September 2018, RBI permitted banks to reckon an additional 2.0% of their net demand and time liabilities (NDTL), under Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) within the

mandatory statutory liquidity requirement (SLR), as level one high quality liquid assets (HQLA) for the purpose of computing their liquidity coverage ratio (LCR). This was applicable from October 1, 2018 resulting in a total of 15.0% of NDTL comprising statutory liquidity ratio securities available for banks to be recognised as level one HQLA. In April 2019, RBI permitted a further 2.0% of NDTL to be reckoned as level one HQLA in a phased manner.

- With a view to align the SLR with the LCR requirement, RBI decided to reduce the SLR by 25 basis points every quarter until the SLR reaches 18.0% of NDTL. The first reduction of 25 basis points from 19.50% to 19.25% was effective from January 1, 2019.
- With a view to facilitate meaningful restructuring of micro, small and medium enterprises’ (MSME) accounts that are stressed, RBI permitted a one-time restructuring of existing loans to MSMEs that are in default but ‘standard’ as on January 1, 2019, without an asset classification downgrade. To be eligible for the scheme, the aggregate exposure, including non-fund based facilities of banks and NBFCs, to a borrower should not exceed ₹ 250.0 million as on January 1, 2019. The restructuring will have to be implemented by March 31, 2020. A provision of 5.0%, in addition to the provisions already held, shall be made in respect of accounts restructured under this scheme.
- With a view to facilitate flow of credit to well-rated NBFCs, in February 2019 RBI revised the risk weights on exposures to non-deposit taking systemically important NBFCs. From a uniform risk weight of 100%, RBI allowed rated exposures of banks to these NBFCs to be risk-weighted as per the rating assigned by the accredited rating agencies, in a manner similar to that for corporates. The rated exposures of banks to all NBFCs excluding Core Investment Companies (CICs), will now be risk-weighted in a manner similar to that for corporates. Exposures to CICs continue to be risk-weighted at 100%.
- In February 2019, RBI revised the definition of bulk deposits (i.e. deposits where banks have the discretion to offer differential rate of interest) from single deposit of ₹ 10.0 million and above to single deposit of ₹ 20.0 million and above. Banks are henceforth required to maintain their bulk deposit interest rate cards in the core banking system for supervisory review.
- In April 2019, the Supreme Court declared the RBI circular on revised framework for resolution of stressed assets dated February 12, 2018 as unconstitutional. RBI is in the process of issuing revised guidelines.
- In November 2018, the Securities and Exchange Board of India released a framework that requires a company rated AA and above and with an outstanding long term borrowing of ₹ 1.00 billion and above at March 31 in any given year, to necessarily raise 25.0% of its incremental borrowings for the following year through the bond market. This is effective from April 1, 2019.

Outlook

The Bank believes that the Indian economy has significant long-term potential, based on its demographic profile, consumption growth and vast potential for investment. These factors would drive the long-term growth of the Indian financial sector. The banking sector is expected to benefit from the growing formalisation of the economy, the recently introduced insolvency resolution regime and the rapid adoption of technology in banking.

STRATEGY

During fiscal 2019, the Bank was focussed on its strategic objective of risk calibrated profitable growth. Core operating profits of the Bank grew by 16.5% during fiscal 2019. The Bank made progress on increasing the granularity of its portfolio and enhancing the customer franchise during the year. Retail loans as a proportion of total loans increased from 56.6% at March 31, 2018 to 60.1% at March 31, 2019. Including non-fund based outstanding, retail loans as a proportion of total loans was 46.9% at March 31, 2019. The Bank continued to improve the portfolio mix by lending to higher rated well-established corporates and reduce concentration risk. The additions to non-performing loans moderated during the year, while provisions remained elevated. As a result, the provision coverage ratio improved substantially. The Bank maintained a strong capital position with capital adequacy ratios significantly above regulatory requirements.

Going forward, the Bank’s strategic focus of growing its core operating profits in a risk calibrated and granular manner would continue. The Bank seeks to build scalable and resilient businesses while operating within the guardrails of risk management. The Bank would seek to contain provisions within the levels set by its enterprise risk management framework. The Bank would aim to pursue growth in low capital consuming businesses and further strengthen its liabilities franchise. A customer-centric approach with ownership of growing the core operating profit at every level within the organisation would be an important driver in meeting the Bank’s strategic objectives.

The Bank would leverage its extensive network with wide geographical reach, a comprehensive range of products and services and state-of-the-art technology for providing superior customer experience. The Bank believes that there are significant opportunities across customer segments and their ecosystems. The Bank will aim to provide a comprehensive suite of financial services while profitably maximising its share of these opportunities, including by entering into mutually beneficial partnerships. The Bank is leveraging technology and analytics for deeper insights into customer needs and behaviour and making customer onboarding and transacting smooth and frictionless. The Bank would continue to invest in technologies to provide an edge in its offerings to customers.

The Bank aims to be the trusted financial services provider of choice for its customers and deliver products and services that create value. The Bank will focus on consistent execution of strategy, enhancing stakeholder confidence and shareholder value.

STANDALONE FINANCIALS AS PER INDIAN GAAP

SUMMARY

Core operating profit increased by 16.5% from ₹ 189.39 billion in fiscal 2018 to ₹ 220.72 billion in fiscal 2019 primarily due to a 17.3% increase in net interest income and a 15.9% increase in fee income, offset, in part, by a 15.2% increase in operating expenses. Income from treasury-related activities decreased from ₹ 58.02 billion in fiscal 2018 to ₹ 13.66 billion in fiscal 2019 and provisions and contingencies (excluding provision for tax) increased by 13.6% from ₹ 173.07 billion in fiscal 2018 to ₹ 196.61 billion in fiscal 2019. Hence, profit after tax decreased by 50.4% from ₹ 67.77 billion in fiscal 2018 to ₹ 33.63 billion in fiscal 2019.

Net interest income increased by 17.3% from ₹ 230.26 billion in fiscal 2018 to ₹ 270.15 billion in fiscal 2019 reflecting an increase of 10.7% in the average volume of interest-earning assets and an increase in the net interest margin from 3.23% in fiscal 2018 to 3.42% in fiscal 2019.

Fee income increased by 15.9% from ₹ 103.41 billion in fiscal 2018 to ₹ 119.89 billion in fiscal 2019. Dividend from subsidiaries decreased by 11.2% from ₹ 12.14 billion in fiscal 2018 to ₹ 10.78 billion in fiscal 2019.

Operating expenses increased by 15.2% from ₹ 157.04 billion in fiscal 2018 to ₹ 180.89 billion in fiscal 2019 primarily due to an increase in staff cost and other administrative expenses.

Income from treasury-related activities decreased from ₹ 58.02 billion in fiscal 2018 to ₹ 13.66 billion in fiscal 2019. During fiscal 2019, the Bank sold equity shares representing 2.00% shareholding in ICICI Prudential Life Insurance Company Limited resulting in a net gain of ₹ 11.10 billion. During fiscal 2018, the Bank had sold equity shares representing 7.00% shareholding in ICICI Lombard General Insurance Company Limited resulting in a net gain of ₹ 20.12 billion and had sold equity shares representing 20.78% shareholding in ICICI Securities Limited resulting in a net gain of ₹ 33.20 billion through initial public offers (IPO).

Provisions and contingencies (excluding provision for tax) increased by 13.6% from ₹ 173.07 billion in fiscal 2018 to ₹ 196.61 billion in fiscal 2019. The Indian corporate sector experienced several challenges over the last few years. These challenges resulted in lower than projected cash flows for the corporates and the progress in reducing leverage in the corporate sector remained slow. As a result, there was 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 since fiscal 2016. The revised framework for resolution of stressed assets, released by the RBI in February 2018, further accelerated the recognition of stressed accounts as non-performing in fiscal 2018. In fiscal 2019, the additions to non-performing loans in the banking system declined sharply. During fiscal 2019, a few large accounts referred under the Insolvency and Bankruptcy Code were resolved. The additions to non-performing loans of the Bank reduced significantly, while provisions remained elevated. As a result, the provision coverage ratio improved substantially. The gross additions to NPAs were ₹ 171.13 billion in fiscal 2016, ₹ 335.44 billion in fiscal 2017 and ₹ 287.30 billion in fiscal 2018. Gross additions to the Bank's non-performing assets (NPAs) in fiscal 2019 decreased significantly to ₹ 110.39 billion. Gross NPAs (net of write-offs) decreased from ₹ 540.63 billion at March 31, 2018 to ₹ 462.92 billion at March 31, 2019. Net NPAs decreased by 51.3% from ₹ 278.86 billion at March 31, 2018 to ₹ 135.77 billion at March 31, 2019. The net NPA ratio decreased from 4.77% at March 31, 2018 to 2.06% at March 31, 2019. The provision coverage ratio (excluding cumulative technical/prudential write-offs) increased from 47.7% at March 31, 2018 to 70.6% at March 31, 2019.

The income tax expense decreased by 37.0% from ₹ 6.57 billion in fiscal 2018 to ₹ 4.14 billion in fiscal 2019. The effective tax rate increased from 8.8% in fiscal 2018 to 10.9% in fiscal 2019 primarily reflecting the composition of income.

Net worth increased from ₹ 1,051.59 billion at March 31, 2018 to ₹ 1,083.68 billion at March 31, 2019 primarily due to accretion to reserves out of profit for the year, offset, in part, by payment of dividend for fiscal 2018.

Total assets increased by 9.7% from ₹ 8,791.89 billion at March 31, 2018 to ₹ 9,644.59 billion at March 31, 2019. Total advances increased by 14.5% from ₹ 5,123.95 billion at March 31, 2018 to ₹ 5,866.47 billion at March 31, 2019 primarily due to an increase in domestic advances by 16.9%, offset, in part, by a decrease in overseas advances by 2.2%. Total deposits increased by 16.4% from ₹ 5,609.75 billion at March 31, 2018 to ₹ 6,529.20 billion at March 31, 2019. Term deposits increased by 21.4% from ₹ 2,710.50 billion at March 31, 2018 to ₹ 3,289.79 billion at March 31, 2019. Current and savings account (CASA) deposits increased by 11.7% from ₹ 2,899.25 billion at March 31, 2018 to ₹ 3,239.40 billion at March 31, 2019.

The Bank had a branch network of 4,874 branches and an ATM network of 14,987 ATMs at March 31, 2019.

The Bank is subject to Basel III capital adequacy guidelines stipulated by RBI. As per these guidelines, the total capital adequacy ratio of the Bank at March 31, 2019 (after deduction of proposed dividend from capital funds) in accordance with RBI guidelines on Basel III was 16.89% with a Tier-1 capital adequacy ratio of 15.09%

as compared to 18.42% with a Tier-1 capital adequacy ratio of 15.92% at March 31, 2018. The CET-1 ratio was 13.63% at March 31, 2019 as compared to 14.43% at March 31, 2018.

OPERATING RESULTS DATA

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

₹ in billion, except percentages

Particulars	Fiscal 2018	Fiscal 2019	% change
Interest income	₹ 549.66	**₹ 634.01**	15.3%
Interest expense	319.40	**363.86**	13.9
Net interest income	**230.26**	**270.15**	**17.3**
Fee income[1]	103.41	**119.89**	15.9
Dividend from subsidiaries	12.14	**10.78**	(11.2)
Other income (including lease income)	0.62	**0.79**	27.4
Core operating income	**346.43**	**401.61**	**15.9**
Operating expenses	157.04	**180.89**	15.2
Core operating profit	**189.39**	**220.72**	**16.5**
Treasury income	58.02	**13.66**	(76.5)
Operating profit	**247.41**	**234.38**	**(5.3)**
Provisions, net of write-backs	173.07	**196.61**	13.6
Profit before tax	**74.34**	**37.77**	**(49.2)**
Tax, including deferred tax	6.57	**4.14**	(37.0)
Profit after tax	**₹ 67.77**	**₹ 33.63**	**(50.4%)**

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.

Particulars	Fiscal 2018	Fiscal 2019
Return on average equity (%)[1]	6.60	**3.16**
Return on average assets (%)[2]	0.87	**0.39**
Net interest margin (%)	3.23	**3.42**
Cost to income (%)[3]	38.83	**43.56**
Earnings per share (₹)	10.56	**5.23**
Book value per share (₹)	163.60	**168.11**

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 Cost represents operating expense. Income represents net interest income and non-interest income.

The return on average equity, return on average assets and earnings per share decreased primarily due to a decrease in profit after tax.

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 2018	Fiscal 2019	% change
Interest income	₹ 549.66	**₹ 634.01**	15.3%
Interest expense	319.40	**363.86**	13.9
Net interest income	**230.26**	**270.15**	**17.3**
Average interest-earning assets	7,129.46	**7,892.29**	10.7
Average interest-bearing liabilities	₹ 6,382.35	**₹ 7,132.64**	11.8%
Net interest margin	**3.23%**	**3.42%**	**-**
Average yield	7.71%	**8.03%**	-
Average cost of funds	5.00%	**5.10%**	-
Interest spread	2.71%	**2.93%**	-

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

Net interest income increased by 17.3% from ₹ 230.26 billion in fiscal 2018 to ₹ 270.15 billion in fiscal 2019 reflecting an increase of 10.7% in the average volume of interest-earning assets and an increase in net interest margin by 19 basis points.

The yield on average interest-earning assets increased by 32 basis points from 7.71% in fiscal 2018 to 8.03% in fiscal 2019. The cost of funds increased by 10 basis points from 5.00% in fiscal 2018 to 5.10% in fiscal 2019. The interest spread increased by 22 basis points from 2.71% in fiscal 2018 to 2.93% in fiscal 2019. Net interest margin increased by 19 basis points from 3.23% in fiscal 2018 to 3.42% in fiscal 2019.

The net interest margin on domestic operations increased by 17 basis points from 3.60% in fiscal 2018 to 3.77% in fiscal 2019 primarily due to an increase in yield on interest-earning assets and a decrease in cost of funds. The yield on domestic interest-earning assets increased by 19 basis points from 8.28% in fiscal 2018 to 8.47% in fiscal 2019 primarily due to an increase in the proportion of advances in total interest-earning assets, an increase in yield on advances, an increase in yield on investments and an increase in interest on income tax refund. The cost of domestic funds decreased by 2 basis points from 5.31% in fiscal 2018 to 5.29% in fiscal 2019 primarily due to a decrease in cost of borrowings.

The net interest margin of overseas branches decreased by 19 basis points from 0.49% in fiscal 2018 to 0.30% in fiscal 2019 primarily due to an increase in cost of funds and a decrease in interest income on non-trading interest rate swaps, offset, in part, by an increase in yield on advances. The cost of overseas funds increased by 59 basis points from 3.03% in fiscal 2018 to 3.62% in fiscal 2019 primarily due to an increase in cost of borrowings on account of an increase in LIBOR. The yield on overseas advances increased by 72 basis points from 3.69% in fiscal 2018 to 4.41% in fiscal 2019 primarily due to higher interest collections on NPAs and an increase in LIBOR.

During fiscal 2019, the Bank had an expense of ₹ 2.50 billion on non-trading interest rate swaps as compared to an income of ₹ 2.13 billion in fiscal 2018.

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

Particulars	Fiscal 2018	**Fiscal 2019**
Yield on interest-earning assets	**7.71%**	**8.03%**
- On advances	8.63	**8.96**
- On investments	6.82	**7.08**
- On SLR investments	7.07	**7.24**
- On other investments	6.11	**6.56**
- On other interest-earning assets	3.63	**3.63**
Cost of interest-bearing liabilities	**5.00**	**5.10**
- Cost of deposits	4.87	**4.87**
- Current and savings account (CASA) deposits	2.81	**2.73**
- Term deposits	6.60	**6.68**
- Cost of borrowings	5.41	**5.86**
Interest spread	**2.71**	**2.93**
Net interest margin	**3.23%**	**3.42%**

The yield on average interest-earning assets increased by 32 basis points from 7.71% in fiscal 2018 to 8.03% in fiscal 2019 primarily due to the following factors:

- The yield on domestic advances increased by 11 basis points from 9.51% in fiscal 2018 to 9.62% in fiscal 2019. The yield on overseas advances increased by 72 basis points from 3.69% in fiscal 2018 to 4.41% in fiscal 2019 primarily due to higher interest collections on NPAs and an increase in LIBOR.

  The overall yield on average advances increased by 33 basis points from 8.63% in fiscal 2018 to 8.96% in fiscal 2019 primarily due to an increase in proportion of domestic advances to total advances.

- The yield on average interest-earning investments increased by 26 basis points from 6.82% in fiscal 2018 to 7.08% in fiscal 2019. The yield on Statutory Liquidity Ratio (SLR) investments increased by 17 basis points from 7.07% in fiscal 2018 to 7.24% in fiscal 2019 primarily due to an increase in investment in government securities at higher yields and a reset of rate of interest on floating rate bonds at higher levels. The yield on non-SLR investments increased by 45 basis points from 6.11% in fiscal 2018 to 6.56% in fiscal 2019 primarily due to an increase in yield on certificate of deposits, commercial papers, pass through certificates and mutual funds.

- The yield on other interest-earning assets remained at a similar level of 3.63% in fiscal 2018 and fiscal 2019.

  The Bank has foreign currency bond borrowings where the interest rate is fixed. In order to manage the market risk, the Bank undertakes non-trading fixed to floating interest rate swaps, where the Bank receives fixed and pays floating interest rate. During fiscal 2019, the Bank had an expense of ₹ 2.50 billion as compared to an income of ₹ 2.13 billion in fiscal 2018 primarily due to an increase in LIBOR.

  The yield on Rural Infrastructure Development Fund (RIDF) and related deposits decreased by 29 basis points from 5.34% in fiscal 2018 to 5.05% in fiscal 2019.

  Interest on income tax refund increased from ₹ 2.63 billion in fiscal 2018 to ₹ 4.48 billion in fiscal 2019. The receipt, amount and timing of such income depends on the nature and timing of determinations by tax authorities and are hence neither consistent nor predictable.

The cost of funds increased by 10 basis points from 5.00% in fiscal 2018 to 5.10% in fiscal 2019 primarily due to the following factors:

- The cost of borrowings increased by 45 basis points from 5.41% in fiscal 2018 to 5.86% in fiscal 2019 primarily due to an increase in the cost of foreign currency call and term borrowings and interest expense on funding swaps, offset, in part, by a decrease in the cost of refinance borrowings.

- The cost of average deposits remained at a similar level of 4.87% in fiscal 2018 and fiscal 2019.

The cost of term deposits increased by 8 basis points from 6.60% in fiscal 2018 to 6.68% in fiscal 2019.

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%. This reduction positively impacted the cost of deposits by about 4 basis points during fiscal 2019 as compared to fiscal 2018. The average CASA deposits increased from 45.6% of total average deposits in fiscal 2018 to 45.9% of total average deposits in fiscal 2019. While the Bank expects continued growth in CASA deposits, the stronger growth in retail term deposits is likely to result in some decline in the proportion of average CASA deposits in total average deposits.

The Bank's interest income, yield on advances, net interest income and net interest margin are also likely to be impacted by recoveries from NPAs, systemic liquidity, the competitive environment and regulatory developments. The timing and quantum of recoveries and interest on income tax refund is uncertain.

The RBI, in its statement of Development and Regulatory Policies dated December 5, 2018, had proposed that from April 1, 2019, all new floating rate loans (housing, auto, etc.) and floating rate loans to micro and small enterprises should be benchmarked to one of the prescribed external rates. The final guidelines are awaited. Any change in the methodology of determining benchmark rates may impact the Bank's 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 2018	**Fiscal 2019**	% change
Advances	₹ 4,736.93	**₹ 5,351.93**	13.0%
Interest-earning investments[1]	1,695.33	**1,806.88**	6.6
Other interest-earning assets	697.20	**733.48**	5.2
Total interest-earning assets	**7,129.46**	**7,892.29**	**10.7**
Deposits	4,809.02	**5,448.71**	13.3
Borrowings[1,2]	1,573.33	**1,683.93**	7.0
Total interest-bearing liabilities	**₹ 6,382.35**	**₹ 7,132.64**	**11.8%**

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 volume of interest-earning assets increased by 10.7% from ₹ 7,129.46 billion in fiscal 2018 to ₹ 7,892.29 billion in fiscal 2019. The increase in average interest-earning assets was primarily on account of an increase in average advances by ₹ 615.00 billion and average interest-earning investments by ₹ 111.55 billion.

Average advances increased by 13.0% from ₹ 4,736.93 billion in fiscal 2018 to ₹ 5,351.93 billion in fiscal 2019 primarily due to an increase in domestic advances, offset, in part, by a decrease in overseas advances.

Average interest-earning investments increased by 6.6% from ₹ 1,695.33 billion in fiscal 2018 to ₹ 1,806.88 billion in fiscal 2019 primarily due to an increase in SLR investments by 9.9% from ₹ 1,256.31 billion in fiscal 2018 to ₹ 1,380.54 billion in fiscal 2019. Average interest-earning non-SLR investments decreased by 2.9% from ₹ 439.02 billion in fiscal 2018 to ₹ 426.34 billion in fiscal 2019.

Average other interest-earning assets increased by 5.2% from ₹ 697.20 billion in fiscal 2018 to ₹ 733.48 billion in fiscal 2019 primarily due to an increase in balances with banks outside India, RIDF and related deposits and balance with RBI, offset, in part, by a decrease in call money lent.

Average interest-bearing liabilities increased by 11.8% from ₹ 6,382.35 billion in fiscal 2018 to ₹ 7,132.64 billion in fiscal 2019 primarily due to an increase in average deposits by ₹ 639.69 billion and an increase in average borrowings by ₹ 110.60 billion.

Average deposits increased by 13.3% from ₹ 4,809.02 billion in fiscal 2018 to ₹ 5,448.71 billion in fiscal 2019 due to an increase in average CASA deposits by ₹ 310.36 billion and an increase in average term deposits by ₹ 329.33 billion.

Average borrowings increased by 7.0% from ₹ 1,573.33 billion in fiscal 2018 to ₹ 1,683.93 billion in fiscal 2019 primarily due to an increase in refinance borrowings and call and term money borrowings.

FEE INCOME

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

Fee income increased by 15.9% from ₹ 103.41 billion in fiscal 2018 to ₹ 119.89 billion in fiscal 2019 primarily due to an increase in fee income from cards business and retail lending linked fees.

DIVIDEND FROM SUBSIDIARIES

Dividend from subsidiaries decreased by 11.2% from ₹ 12.14 billion in fiscal 2018 to ₹ 10.78 billion in fiscal 2019. The following table sets forth, for the periods indicated, the details of dividend received from subsidiaries:

₹ in billion

Name of the entity	Fiscal 2018	**Fiscal 2019**
ICICI Prudential Life Insurance Company Limited	5.44	**3.72**
ICICI Securities Limited	1.77	**1.94**
ICICI Prudential Asset Management Company Limited	2.27	**1.66**
ICICI Bank Canada	1.09	**1.37**
ICICI Lombard General Insurance Company Limited	0.40	**1.27**
ICICI Venture Funds Management Company Limited	-	**0.46**
ICICI Securities Primary Dealership Limited	0.67	**0.36**
ICICI Prudential Trust	0.00[1]	**0.00[1]**
ICICI Home Finance Company Limited	0.50	**-**
Total dividend	**12.14**	**10.78**

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 ₹ 0.62 billion in fiscal 2018 to ₹ 0.79 billion in fiscal 2019.

OPERATING EXPENSES

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

₹ in billion, except percentages

Particulars	Fiscal 2018	**Fiscal 2019**	% change
Payments to and provisions for employees	₹ 59.14	**₹ 68.08**	15.1%
Depreciation on owned property (including non-banking assets)	7.81	**7.77**	(0.5)
Other administrative expenses	90.09	**105.04**	16.6
Total operating expense	**₹ 157.04**	**₹ 180.89**	**15.2%**

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 15.2% from ₹ 157.04 billion in fiscal 2018 to ₹ 180.89 billion in fiscal 2019.

Payments to and provisions for employees

Employee expenses increased by 15.1% from ₹ 59.14 billion in fiscal 2018 to ₹ 68.08 billion in fiscal 2019 primarily due to an increase in provision for retirement benefit obligations due to a decrease in the discount rate linked to yield on government securities, an increase in dearness allowances and an increase in provision for performance bonus and performance-linked retention pay. Employee expense also reflects the impact of annual increments and promotions. The average staff strength increased from 83,577 for fiscal 2018 to 84,523 for fiscal 2019 (number of employees at March 31, 2018: 82,724 and at March 31, 2019: 86,763), primarily in retail and rural business. The employee base includes sales executives, employees on fixed term contracts and interns.

Depreciation

Depreciation on owned property decreased by 0.5% from ₹ 7.81 billion in fiscal 2018 to ₹ 7.77 billion in fiscal 2019.

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 16.6% from ₹ 90.09 billion in fiscal 2018 to ₹ 105.04 billion in fiscal 2019. The increase in other administrative expenses was primarily due to an increase in retail business volumes.

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 share portfolio, units of venture funds and security receipts issued by asset reconstruction companies.

Profit from treasury-related activities decreased from ₹ 58.02 billion in fiscal 2018 to ₹ 13.66 billion in fiscal 2019. In fiscal 2019, the Bank made a net gain of ₹ 11.10 billion on sale of equity shares of ICICI Prudential Life Insurance Company Limited. 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. Further, treasury income in fiscal 2018 was higher due to higher realised gains in government securities and other fixed income portfolios.

PROVISIONS AND CONTINGENCIES (EXCLUDING PROVISIONS FOR TAX)

The following tables set forth, for the periods indicated, the components of provisions and contingencies.

₹ in billion, except percentages

Particulars	Fiscal 2018	Fiscal 2019	% change
Provision for non-performing and other assets[1]	₹ 142.45	**₹ 168.12**	18.0%
Provision for investments (including credit substitutes) (net)	18.77	**3.56**	(81.0%)
Provision for standard assets	2.77	**2.55**	(7.8%)
Others	9.08	**22.38**	-
Total provisions and contingencies (excluding provision for tax)	**₹ 173.07**	**₹ 196.61**	**13.6%**

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 either as per RBI regulations or as per 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 provisions on accounts directed by RBI to be referred to the National Company Law Tribunal under the Insolvency and Bankruptcy Code, 2016 (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 not exceeding four quarters starting from the quarter in which the fraud has been detected. In respect of non-retail loans where there have been delays in reporting the fraud to RBI or which are classified as loss accounts, the entire amount is provided for immediately. In cases of frauds in retail accounts, the entire amount is provided for 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 ₹ 173.07 billion in fiscal 2018 to ₹ 196.61 billion in fiscal 2019 primarily due to an increase in provision on advances, offset, in part, by a decrease in provision for investments.

Provision for advances increased from ₹ 142.45 billion in fiscal 2018 at ₹ 168.12 billion in fiscal 2019 primarily due to additional provisions on loans classified as NPAs in earlier years. The Indian corporate sector experienced several challenges over the last few years. These challenges resulted in lower than projected cash flows for the corporates and the progress in reducing leverage in the corporate sector remained slow. As a result, there was 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 since fiscal 2016. The revised framework for resolution of stressed assets, released by RBI in February 2018, further accelerated the recognition of stressed accounts as non-performing in fiscal 2018. In fiscal 2019, the additions to non-performing loans in the banking system declined sharply. During fiscal 2019, a few large accounts referred under the Insolvency and Bankruptcy Code were resolved. The additions to non-performing loans of the Bank reduced significantly, while provisions remained elevated. The provision coverage ratio improved substantially. The provision coverage ratio (excluding cumulative technical/prudential write-offs) increased significantly from 47.7% at March 31, 2018 to 70.6% at March 31, 2019.

During fiscal 2018, 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 at 40% of the secured portion and 100% of unsecured portion, or provision as per extant RBI guideline on asset classification norms, whichever is higher, as at March 31, 2018. Banks were required to further increase the provision on the secured portion of the loan to 50.0% at June 30, 2018. During the three months ended June 30, 2018, the Bank had made the provision on these accounts as per April 2018 guidelines of RBI. At March 31, 2019, the Bank holds a provision of ₹ 75.65 billion in respect of outstanding loans amounting to ₹ 103.06 billion to these borrowers which amounts to a provision coverage ratio (excluding cumulative technical/prudential write-offs) of 73.9%.

Provision for investments decreased from ₹ 18.77 billion in fiscal 2018 to ₹ 3.56 billion in fiscal 2019 primarily due to recovery towards bonds, which were fully provided in earlier years and lower provisions on equity shares.

Provision for standard assets decreased from ₹ 2.77 billion in fiscal 2018 to ₹ 2.55 billion in fiscal 2019. The cumulative general provision held at March 31, 2019 was ₹ 28.74 billion (March 31, 2018: ₹ 25.91 billion).

Other provisions and contingencies increased from ₹ 9.08 billion in fiscal 2018 to ₹ 22.38 billion in fiscal 2019 primarily due to provision on non-banking assets and non-fund based facilities.

TAX EXPENSE

The income tax expense decreased by 37.0% from ₹ 6.57 billion in fiscal 2018 to ₹ 4.14 billion in fiscal 2019. The effective tax rate increased from 8.8% in fiscal 2018 to 10.9% in fiscal 2019 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, 2018	**At March 31, 2019**	% change
Cash and bank balances	₹ 841.69	**₹ 802.96**	(4.6%)
Investments	2,029.94	**2,077.33**	2.3
- Government and other approved investments[1]	1,384.27	**1,479.09**	6.8
- Equity investment in subsidiaries	98.32	**98.03**	(0.3)
- Other investments	547.35	**500.21**	(8.6)
Advances	5,123.95	**5,866.47**	14.5
- Domestic	4,479.65	**5,236.15**	16.9
- Overseas branches	644.30	**630.32**	(2.2)
Fixed assets (including leased assets)	79.04	**79.31**	0.3
Other assets	717.27	**818.52**	14.1
- RIDF and other related deposits[2]	269.25	**292.55**	8.7
Total assets	**₹ 8,791.89**	**₹ 9,644.59**	**9.7%**

1 Banks in India are required to maintain a specified percentage, currently 19.25% (at March 31, 2019), 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.

MANAGEMENT'S DISCUSSION & ANALYSIS

Total assets of the Bank increased by 9.7% from ₹ 8,791.89 billion at March 31, 2018 to ₹ 9,644.59 billion at March 31, 2019, primarily due to a 14.5% increase in advances, 2.3% increase in investments and 14.1% 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 decreased from ₹ 841.69 billion at March 31, 2018 to ₹ 802.96 billion at March 31, 2019 primarily due to a decrease in money at call and short notice and balances with banks outside India, offset, in part, by an increase in balance with RBI.

Investments

Total investments increased by 2.3% from ₹ 2,029.94 billion at March 31, 2018 to ₹ 2,077.33 billion at March 31, 2019 primarily due to an increase in investments in government securities by ₹ 87.38 billion and pass through certificates by ₹ 14.63 billion, offset, in part, by a decrease in investment in commercial papers by ₹ 23.04 billion and bonds and debentures by ₹ 11.56 billion.

At March 31, 2019, the Bank had an outstanding net investment of ₹ 32.86 billion in security receipts issued by asset reconstruction companies compared to ₹ 34.38 billion at March 31, 2018.

Advances

Net advances increased by 14.5% from ₹ 5,123.95 billion at March 31, 2018 to ₹ 5,866.47 billion at March 31, 2019 primarily due to an increase in domestic advances. Domestic advances increased by 16.9% from ₹ 4,479.65 billion at March 31, 2018 to ₹ 5,236.15 billion at March 31, 2019. Net retail advances increased by 21.7% from ₹ 2,898.94 billion at March 31, 2018 to ₹ 3,528.33 billion at March 31, 2019. Net advances of overseas branches decreased by 2.2% from ₹ 644.30 billion at March 31, 2018 to ₹ 630.32 billion at March 31, 2019.

Fixed and other assets

Fixed assets (net block) increased by 0.3% from ₹ 79.04 billion at March 31, 2018 to ₹ 79.31 billion at March 31, 2019.

Other assets increased by 14.1% from ₹ 717.27 billion at March 31, 2018 to ₹ 818.52 billion at March 31, 2019 primarily due to an increase in receivables on account of treasury transactions, income tax paid in advance and RIDF and related deposits, offset, in part, by a decrease in trade receivables on account of pending settlement. RIDF and related deposits made in lieu of shortfall in directed lending requirements increased by 8.7% from ₹ 269.25 billion at March 31, 2018 to ₹ 292.55 billion at March 31, 2019.

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, 2018	**At March 31, 2019**	% change
Equity share capital	₹ 12.92	**₹ 12.94**	0.2%
Reserves	1,038.68	**1,070.74**	3.1
Deposits	5,609.75	**6,529.20**	16.4
- Savings deposits	2,009.67	**2,276.71**	13.3
- Current deposits	889.58	**962.69**	8.2
- Term deposits	2,710.50	**3,289.80**	21.4
Borrowings (excluding subordinated debt and preference share capital)	1,510.25	**1,382.85**	(8.4)
- Domestic	696.30	**635.07**	-
- Overseas branches	813.95	**747.78**	(8.1)
Subordinated debt (included in Tier-1 and Tier-2 capital)	314.84	**270.35**	(14.1)
- Domestic	314.84	**270.35**	(14.1)
- Overseas branches	-	**-**	-
Preference share capital[1]	3.50	**-**	(100.0)
Other liabilities	301.96	**378.51**	25.4
Total liabilities	**₹ 8,791.89**	**₹ 9,644.59**	**9.7%**

1 Included in Schedule 4 - 'Borrowings' of the balance sheet.

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

Total liabilities (including capital and reserves) increased by 9.7% from ₹ 8,791.89 billion at March 31, 2018 to ₹ 9,644.59 billion at March 31, 2019 primarily due to a 16.4% increase in deposits, offset, in part, by a 9.6% decrease in borrowings.

Deposits
Deposits increased by 16.4% from ₹ 5,609.75 billion at March 31, 2018 to ₹ 6,529.20 billion at March 31, 2019.

Term deposits increased by 21.4% from ₹ 2,710.50 billion at March 31, 2018 to ₹ 3,289.80 billion at March 31, 2019. Savings account deposits increased by 13.3% from ₹ 2,009.67 billion at March 31, 2018 to ₹ 2,276.71 billion at March 31, 2019 and current account deposits increased by 8.2% from ₹ 889.58 billion at March 31, 2018 to ₹ 962.69 billion at March 31, 2019. The current and savings account (CASA) deposits increased by 11.7% from ₹ 2,899.25 billion at March 31, 2018 to ₹ 3,239.40 billion at March 31, 2019. The CASA ratio was 49.6% at March 31, 2019 compared to 51.7% at March 31, 2018. The average CASA increased by 14.2% from ₹ 2,191.86 billion in fiscal 2018 to ₹ 2,502.22 billion in fiscal 2019. The average CASA ratio was 45.9% in fiscal 2019 compared to 45.6%in fiscal 2018.

Deposits of overseas branches increased by 9.3% from ₹ 49.58 billion at March 31, 2018 to ₹ 54.21 billion at March 31, 2019.

Total deposits at March 31, 2019 formed 79.8% of the funding (i.e., deposits and borrowings, other than preference share capital).

Borrowings
Borrowings decreased by 9.6% from ₹ 1,828.59 billion at March 31, 2018 to ₹ 1,653.20 billion at March 31, 2019 primarily due to a decrease in borrowings with RBI under liquidity adjustment facility, foreign currency term money borrowings, borrowings under collateralised lending and borrowing obligations and subordinated bond borrowings, offset, in part, by an increase in foreign currency call money borrowings and refinance borrowings. Net borrowings of overseas branches decreased from ₹ 813.95 billion at March 31, 2018 to ₹ 747.78 billion at March 31, 2019.

Other liabilities
Other liabilities increased by 25.4% from ₹ 301.96 billion at March 31, 2018 to ₹ 378.51 billion at March 31, 2019 primarily due to an increase in payables on account of forex transactions, sundry creditors and bills payable.

Equity share capital and reserves
Equity share capital and reserves increased from ₹ 1,051.59 billion at March 31, 2018 to ₹ 1,083.68 billion at March 31, 2019 primarily due to accretion to reserves out of retained profit, offset, in part, by payment of dividend.

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, 2018	At March 31, 2019
Claims against the Bank, not acknowledged as debts	₹ 62.66	**₹ 55.01**
Liability for partly paid investments	0.01	**0.01**
Notional principal amount of outstanding forward exchange contracts	4,326.69	**4,701.00**
Guarantees given on behalf of constituents	945.36	**1,066.66**
Acceptances, endorsements and other obligations	410.04	**433.79**
Notional principal amount of currency swaps	416.99	**423.34**
Notional principal amount of interest rate swaps and currency options and interest rate futures	6,592.93	**12,441.82**
Other items for which the Bank is contingently liable	137.76	**98.75**
Total	**₹ 12,892.44**	**₹ 19,220.38**

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

Contingent liabilities increased from ₹ 12,892.44 billion at March 31, 2018 to ₹ 19,220.38 billion at March 31, 2019 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 ₹ 6,592.93 billion at March 31, 2018 to ₹ 12,441.82 billion at March 31, 2019 primarily due to an increase in outstanding position of overnight index swaps.

Claims against the Bank, not acknowledged as debts, represent 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.

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 off-setting 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 ₹ 129.53 billion at March 31, 2019 as compared to ₹ 136.65 billion at March 31, 2018. 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 ₹ 6.70 billion at March 31, 2019 compared to ₹ 4.87 billion at March 31, 2018.

Other items for which the Bank is contingently liable decreased from ₹ 137.76 billion at March 31, 2018 to ₹ 98.75 billion at March 31, 2019 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, 2020 as per the transitional arrangement provided by RBI for Basel III implementation.

At March 31, 2019, the Bank was required to maintain a minimum Common Equity Tier-1 (CET1) capital ratio of 7.525%, minimum Tier-1 capital ratio of 9.025% and minimum total capital ratio of 11.025%. The minimum total capital requirement includes a capital conservation buffer of 1.875% and capital surcharge of 0.15% 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.

The following table sets forth the capital adequacy ratios computed in accordance with Basel III guidelines of RBI at March 31, 2018 and March 31, 2019.

₹ in billion, except percentages

Basel III	At March 31, 2018	**At March 31, 2019[1]**
CET1 capital	915.87	**936.89**
Tier-1 capital	1,010.64	**1,037.16**
Tier-2 capital	159.14	**123.74**
Total capital	**1,169.78**	**1,160.90**
Credit Risk — Risk Weighted Assets (RWA)	5,220.54	**5,741.03**
On balance sheet	4,433.49	**4,888.69**
Off balance sheet	787.05	**852.34**
Market Risk — RWA	523.37	**488.38**
Operational Risk — RWA	605.17	**644.34**
Total RWA	**6,349.08**	**6,873.75**
Total capital adequacy ratio	**18.42%**	**16.89%**
CET1 capital adequacy ratio	14.43%	**13.63%**
Tier-1 capital adequacy ratio	15.92%	**15.09%**
Tier-2 capital adequacy ratio	2.50%	**1.80%**

1 *Including retained earnings for fiscal 2019, post proposed mandatory appropriations and post appropriation of proposed dividend.*

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

At March 31, 2019, the Bank's Tier-1 capital adequacy ratio was 15.09% as against the requirement of 9.03% and total capital adequacy ratio was 16.89% as against the requirement of 11.03%.

Movement in the capital funds and risk weighted assets from March 31, 2018 to March 31, 2019 as per Basel III norms

Capital funds (net of deductions) decreased by ₹ 8.88 billion from ₹ 1,169.78 billion at March 31, 2018 to ₹ 1,160.90 billion at March 31, 2019 primarily due to progressive discounting of Tier 2 capital instruments as per RBI extant guidelines and exercise of call option for Tier 2 capital instruments of ₹ 45.21 billion and innovative perpetual debt instrument of ₹ 5.00 billion, offset, in part, by inclusion of retained earnings for fiscal 2019 and issuance of Additional Tier 1 capital instruments of ₹ 11.40 billion during fiscal 2019. The mandatory appropriation towards Investment Fluctuation Reserve of ₹ 12.69 billion has been considered under Tier-2 capital.

Credit risk RWA increased by ₹ 520.49 billion from ₹ 5,220.54 billion at March 31, 2018 to ₹ 5,741.03 billion at March 31, 2019 primarily due to an increase of ₹ 455.20 billion in RWA for on-balance sheet assets and an increase of ₹ 65.29 billion in RWA for off-balance sheet assets. On-balance sheet RWA increased primarily due to growth in advances during the year.

Market risk RWA decreased by ₹ 34.99 billion from ₹ 523.37 billion at March 31, 2018 to ₹ 488.38 billion at March 31, 2019 primarily due to a decrease in value of equity investments, offset, in part, by an increase in RWA for fixed income securities.

Operational risk RWA increased by ₹ 39.17 billion from ₹ 605.17 billion at March 31, 2018 to ₹ 644.34 billion at March 31, 2019. 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 80.3% at March 31, 2019 (at March 31, 2018: 81.8%).

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. Adequate stress testing, as determined by several stress scenarios is also done. 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;
- perception of shareholders and investors;
- 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.

LOAN CONCENTRATION

The Bank follows a policy of portfolio diversification and evaluates its total financing exposure to a particular industry in the 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 exposure 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.

MANAGEMENT'S DISCUSSION & ANALYSIS

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

₹ in billion, except percentages

Particulars	March 31, 2018		**March 31, 2019**	
	Total advances	% of total advances	**Total advances**	**% of total advances**
Retail finance[1, 2]	₹ 2,939.95	54.7%	**₹ 3,619.36**	**58.5%**
Services – finance	342.11	6.4	**456.24**	**7.4**
Road, ports, telecom, urban development and other infrastructure	204.50	3.8	**287.11**	**4.6**
Power	276.76	5.1	**201.60**	**3.3**
Iron/steel and products	203.18	3.8	**167.24**	**2.7**
Crude petroleum/refining and petrochemicals	132.80	2.5	**156.74**	**2.5**
Wholesale/retail trade	125.87	2.3	**152.42**	**2.5**
Services – non-finance	172.74	3.2	**145.51**	**2.4**
Construction	117.65	2.2	**120.66**	**1.9**
Electronics and engineering	81.40	1.5	**101.00**	**1.6**
Mining	105.06	1.9	**78.65**	**1.3**
Chemical and Fertilisers	53.29	1.0	**66.12**	**1.1**
Food and beverages	58.59	1.1	**56.03**	**0.9**
Cement	63.07	1.2	**33.83**	**0.5**
Other industries[3]	502.47	9.2	**547.34**	**8.8**
Total	**₹ 5,379.45**	**100.0%**	**₹ 6,189.85**	**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 ₹ 64.48 billion at March 31, 2019 (March 31, 2018: ₹ 15.48 billion).

3 Other industries primarily include developer financing portfolio, gems and jewellery, metal and products (excluding iron and steel), textile, shipping, 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 is focussed on higher growth in retail and rural lending and selective lending to the corporate sector with focus on an increase in lending to higher rated corporates and building a granular portfolio. Given the focus on the above priorities, gross retail finance advances (including loans against FCNR deposits) increased by 23.1% compared to an increase of 15.1% in total gross advances in fiscal 2019. As a result, the share of gross retail finance advances increased from 54.7% of gross advances at March 31, 2018 to 58.5% of gross advances at March 31, 2019.

The following table sets forth, at the dates indicated, the composition of the Bank's outstanding net advances:

₹ in billion

Particlars	At March 31, 2018	**At March 31, 2019**
Advances	5,123.95	**5,866.47**
- Domestic book	4,479.65	**5,236.14**
- Retail	2,898.94	**3,528.31**
- SME	254.45	**306.09**
- Corporate	1,326.60	**1,401.75**
- Overseas book	644.30	**630.32**

The following table sets forth, at the dates indicated, the rating wise categorisation of the Bank's outstanding net advances:

₹ in billion, except percentages

Ratings category[1,2]	At March 31, 2018	At March 31, 2019
AA- and above	42.4%	**45.1%**
A+, A, A-	20.1	**22.0**
A- and above	62.5	**67.1**
BBB+, BBB, BBB-	27.5	**28.2**
BB and below[3]	9.4	**4.5**
Unrated	0.6	**0.2**
Total	**100.0%**	**100.0%**
Total net advances	**5,123.95**	**5,866.47**

1 Based on internal ratings.

2 For retail loans, ratings have been undertaken at the product level.

3 Includes net non-performing loans

The exposure to top 20 borrowers (excluding banks) as a percentage of total exposure decreased from 12.5% at March 31, 2018 to 10.8% at March 31, 2019. The proportion of exposure to borrowers internally rated A- and above in top 20 borrowers (excluding banks) increased from 96.0% at March 31, 2018 to 100.0% at March 31, 2019. The exposure to top 10 borrower groups decreased from 14.3% at March 31, 2018 to 13.6% at March 31, 2019.

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, 2018		March 31, 2019	
	Total retail advances	% of total retail advances	Total retail advances	% of total retail advances
Home loans	₹ 1,505.43	51.2%	**₹ 1,784.11**	**49.3%**
Rural loans	443.06	15.1	**511.19**	**14.1**
Automobile loans	294.91	10.0	**318.80**	**8.8**
Personal loans (unsecured)	211.82	7.2	**314.63**	**8.7**
Business banking[1]	175.24	6.0	**236.62**	**6.5**
Commercial business	173.18	5.9	**227.20**	**6.3**
Credit cards (unsecured)	96.39	3.3	**126.90**	**3.5**
Others[2,3]	39.92	1.3	**99.91**	**2.8**
Total retail finance portfolio[3]	**₹ 2,939.95**	**100.0%**	**₹ 3,619.36**	**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 ₹ 64.48 billion at March 31, 2019 (March 31, 2018: ₹ 15.48 billion).

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

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 RBI and other approved financial institutions and certain investments including Priority Sector Lending Certificates (PSLCs) 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 titled 'Master Direction – Priority Sector Lending – Targets and Classification'. Further, the 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 were introduced from fiscal 2016. 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 shortfall. RBI would notify the banks of the banking system's average level at the beginning of each year. RBI notified a target level of 11.99% of ANBC for this purpose for fiscal 2019. 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 the RBI from time to time. These deposits have a maturity of up to seven years and carry interest rates lower than market rates. At March 31, 2019, the Bank's total investment in such bonds was ₹ 292.55 billion, which was fully eligible for consideration in overall priority sector lending achievement.

As prescribed in 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 2019 was ₹ 1,891.65 billion (fiscal 2018: ₹ 1,500.78 billion) constituting 41.5% (fiscal 2018: 37.7%) of ANBC, against the requirement of 40.0% of ANBC. The average lending to the agriculture sector was ₹ 749.77 billion (fiscal 2018: ₹ 587.55 billion) constituting 16.5% (fiscal 2018: 14.8%) of ANBC against the requirement of 18.0% of ANBC. The average advances to weaker sections were ₹ 403.47 billion (fiscal 2018: ₹ 246.63 billion) constituting 8.9% (fiscal 2018: 6.2%) of ANBC against the requirement of 10.0% of ANBC. Average lending to small and marginal farmers was ₹ 307.73 billion (fiscal 2018: ₹ 170.72 billion) constituting 6.8% (fiscal 2018: 4.3%) of ANBC against the requirement of 8.0% of ANBC. The average lending to micro enterprises was ₹ 360.10 billion (fiscal 2018: ₹ 266.32 billion) constituting 7.9% (fiscal 2018: 6.7%) of ANBC against the requirement of 7.5% of ANBC. The average lending to non-corporate farmers was ₹ 496.10 billion (fiscal 2018: ₹ 352.03 billion) constituting 10.9% (fiscal 2018: 8.9%) of ANBC against the requirement of 11.99% of ANBC (11.78% for fiscal 2018). The above includes the impact of PSLCs purchased/sold by the Bank.

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 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-scheduling 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-scheduling 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.

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	March 31, 2018	March 31, 2019
Non-performing assets		
Sub-standard assets	₹ 75.51	**₹ 52.98**
Doubtful assets	450.03	**385.24**
Loss assets	15.09	**24.70**
Total non-performing assets[1]	**₹ 540.63**	**₹ 462.92**

1 Include 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

Particulars	Gross NPA[1]	Net NPA	Net customer assets	% of net NPA to net customer assets[2]
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%
March 31, 2019	₹ 462.92	₹ 135.77	₹ 6,580.34	2.06%

1 Net of write-offs, interest suspense and derivatives income reversal.

2 Include 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, 2018 and March 31, 2019, the composition of gross non-performing assets (net of write-offs) by industry sector.

₹ in billion, except percentages

Particulars	March 31, 2018		**March 31, 2019**	
	Amount	%	**Amount**	**%**
Retail finance[1]	₹ 47.14	8.7%	**₹ 60.22**	**13.0%**
Power	105.35	19.5	**72.98**	**15.8**
Mining	89.72	16.6	**64.08**	**13.8**
Construction	59.65	11.0	**52.77**	**11.4**
Iron/steel and products	68.54	12.7	**41.54**	**9.0**
Road, ports, telecom, urban development and other infrastructure	26.90	5.0	**28.35**	**6.1**
Services – non-finance	47.71	8.8	**29.74**	**6.4**
Crude petroleum/refining and petrochemicals	18.37	3.4	**18.90**	**4.1**
Electronics and engineering	15.47	2.9	**16.90**	**3.6**
Food and beverages	6.72	1.2	**15.97**	**3.4**
Shipping	11.75	2.2	**10.64**	**2.3**
Wholesale/retail trade	6.20	1.1	**9.38**	**2.0**
Manufacturing products (excluding metal)	8.83	1.6	**5.77**	**1.2**
Services – finance	-	-	**3.33**	**0.7**
Metal & products (excluding iron & steel)	-	-	**0.10**	**-**
Other industries[2]	28.28	5.3	**32.25**	**7.2**
Total	**₹ 540.63**	**100.0%**	**₹ 462.92**	**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.

MANAGEMENT'S DISCUSSION & ANALYSIS

The operating environment for Indian banks had 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. Several challenges 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 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 was 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 from fiscal 2016. Further, the revised framework for resolution of stressed assets, released by RBI in February 2018, further accelerated the recognition of stressed accounts as non-performing in fiscal 2018. Subsequently, the additions to non-performing loans in the banking system declined sharply during fiscal 2019. During fiscal 2019, a few large accounts referred under the Insolvency and Bankruptcy Code were resolved. However, challenges emerged in some sectors and specific corporates/promoter groups towards the later part of the year.

The gross additions to NPAs were ₹ 171.13 billion in fiscal 2016, ₹ 335.44 billion in fiscal 2017 and ₹ 287.30 billion in fiscal 2018. The gross additions to NPAs decreased significantly to ₹ 110.39 billion in fiscal 2019. In fiscal 2019, additions to gross NPAs were primarily in the food and beverages, services-non finance and mining sectors. In fiscal 2019, the Bank recovered/upgraded non-performing assets amounting to ₹ 47.16 billion, wrote-off non-performing assets amounting to ₹ 112.49 billion and sold non-performing assets amounting to ₹ 28.45 billion. As a result, gross NPAs (net of write-offs) of the Bank decreased from ₹ 540.63 billion at March 31, 2018 to ₹ 462.92 billion at March 31, 2019.

Net NPAs decreased from ₹ 278.86 billion at March 31, 2018 to ₹ 135.77 billion at March 31, 2019. The ratio of net NPAs to net customer assets decreased from 4.77% at March 31, 2018 to 2.06% at March 31, 2019.

At March 31, 2019, gross non-performing loans in the retail portfolio were 1.69% of gross retail loans compared to 1.61% at March 31, 2018 and net non-performing loans in the retail portfolio were 0.72% of net retail loans compared to 0.65% at March 31, 2018.

The provision coverage ratio at March 31, 2019 including cumulative technical/prudential write-offs was 80.7% (March 31, 2018: 60.5%). Excluding cumulative technical/prudential write-offs, the provision coverage ratio was 70.6% (March 31, 2018: 47.7%).

The total non-fund based outstanding to borrowers classified as non-performing was ₹ 42.20 billion (March 31, 2018: ₹ 29.80 billion). The Bank held a provision of ₹ 15.91 billion at March 31, 2019 (March 31, 2018: ₹ 3.46 billion) against these non-fund based outstanding.

The gross outstanding loans to borrowers whose facilities have been restructured decreased from ₹ 15.95 billion at March 31, 2018 to ₹ 3.49 billion at March 31, 2019 billion at March 31, 2018 primarily due to upgradation from standard restructured category to standard category of ₹ 10.40 billion. The net outstanding loans to borrowers whose facilities have been restructured decreased from 15.53 billion at March 31, 2018 to ₹ 3.21 billion at March 31, 2019. The aggregate non-fund based outstanding to borrowers whose loans were restructured was ₹ 2.15 billion at March 31, 2019 (March 31, 2018: ₹ 3.96 billion).

At March 31, 2019 the Bank had performing loans of ₹ 6.24 billion where S4A had been implemented and performing loans of ₹ 19.14 billion where 5/25 scheme had been implemented. The aggregate non-fund based outstanding to these borrowers (where S4A had been implemented) was ₹ 15.39 billion.

In addition to the above, at March 31, 2019, the outstanding loans and non-fund facilities to borrowers in the corporate and small and medium enterprises portfolio rated BB and below were ₹ 175.25 billion, which included ₹ 42.20 billion of non-fund outstanding to borrowers classified as NPA.

The Bank, in its previous Annual Report for 2018, had reported on the various steps and measures taken pursuant to its becoming 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 NPA recoveries as fees, and overvaluation of collateral securing corporate loans. As previously reported, 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 in the complaint. The Bank has an established process whereby all whistleblower complaints and matters escalated to senior management are investigated for appropriate action, including an assessment of the impact on financial statements, if any.

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 SEC investigatory staff for information and continues to cooperate with the SEC on the matter.

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 2019, 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 requirements and directed lending requirements.

Retail banking segment

The profit before tax of the segment increased by 15.2% from ₹ 71.41 billion in fiscal 2018 to ₹ 82.23 billion in fiscal 2019 primarily due to an increase in net interest income and non-interest income, offset, in part, by an increase in non-interest expenses and provisions.

Net interest income increased by 17.7% from ₹ 134.48 billion in fiscal 2018 to ₹ 158.28 billion in fiscal 2019 primarily due to growth in average loan portfolio and an increase in average deposits.

Non-interest income increased by 15.9% from ₹ 65.72 billion in fiscal 2018 to ₹ 76.15 billion in fiscal 2019 primarily due to an increase in fee income from credit card portfolio, transaction banking fees and lending linked fees.

Non-interest expenses increased by 16.3% from ₹ 121.34 billion in fiscal 2018 to ₹ 141.16 billion in fiscal 2019 primarily due to an increase in employee cost and other administrative expenses reflecting an increase in business volume.

While the provision as a percentage of retail loan portfolio continues to remain low for the Bank, the provisions (net of write-back) increased by 48.2% from ₹ 7.45 billion in fiscal 2018 to ₹ 11.04 billion in fiscal 2019 primarily due to an increase in retail loan portfolio and a change in composition. The provision also included the impact of provision on farmer finance.

Wholesale banking segment

The loss (before tax) of the segment increased from ₹ 82.81 billion in fiscal 2018 to ₹ 102.42 billion in fiscal 2019 primarily due to an increase in provisions, offset, in part, by an increase in net interest income.

Net interest income increased by 20.3% from ₹ 60.97 billion in fiscal 2018 to ₹ 73.36 billion in fiscal 2019 primarily due to an increase in loan portfolio, an increase in average deposits and higher interest collection on non-performing assets during fiscal 2019.

Non-interest income increased by 12.4% from ₹ 35.91 billion in fiscal 2018 to ₹ 40.38 billion in fiscal 2019.

Provisions increased from ₹ 146.68 billion in fiscal 2018 to ₹ 181.52 billion in fiscal 2019 primarily due to additional provisions on cases classified as NPAs in earlier periods, provision on non-fund based facilities and provision on non-banking assets acquired under debt-asset swap.

Treasury segment

The profit before tax of the segment decreased by 36.3% from ₹ 81.14 billion in fiscal 2018 to ₹ 51.65 billion in fiscal 2019 primarily due to a decrease in non-interest income, offset, in part, by a decrease in provision on investments.

Non-interest income decreased from ₹ 71.70 billion in fiscal 2018 to ₹ 27.71 billion in fiscal 2019. 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. Non-interest income of fiscal 2019 included gain on sale of equity shares of ICICI Prudential Life Insurance Company Limited of ₹ 11.10 billion (before tax and after IPO expenses) through an offer for sale. Gain on government securities and other fixed income positions was higher in fiscal 2018 as compared to fiscal 2019 primarily due to higher realised gains.

Provisions decreased from ₹ 18.87 billion in fiscal 2018 to ₹ 3.71 billion in fiscal 2019 primarily due to recovery towards bonds, which were fully provided in earlier years and lower provision on equity shares.

Other banking segment

Profit before tax of other banking segment increased from ₹ 4.60 billion in fiscal 2018 to ₹ 6.31 billion in fiscal 2019 primarily due to an increase in net interest income.

Net interest income increased from ₹ 4.30 billion in fiscal 2018 to ₹ 6.53 billion in fiscal 2019 primarily due to an increase in interest on income tax refund. Interest on income tax refund increased from ₹ 2.63 billion in fiscal 2018 to ₹ 4.48 billion in fiscal 2019.

CONSOLIDATED FINANCIALS AS PER INDIAN GAAP

From April 1, 2018, certain group companies (ICICI Securities Limited, ICICI Securities Primary Dealership Limited, ICICI Prudential Asset Management Company and ICICI Home Finance Company) have adopted Ind AS. However, for preparation of consolidated financial statements of the Bank, financial statements as per Indian GAAP for these entities have been considered.

The consolidated profit after tax decreased by 44.8% from ₹ 77.12 billion in fiscal 2018 to ₹ 42.54 billion in fiscal 2019 primarily due to a decrease in the profit of ICICI Bank, ICICI Prudential Life Insurance and loss incurred by ICICI Bank UK PLC, offset, in part, by an increase in profit of ICICI Lombard General Insurance.

The consolidated assets of the Bank and its subsidiaries and other consolidating entities increased from ₹ 11,242.81 billion at March 31, 2018 to ₹ 12,387.94 billion at March 31, 2019. Consolidated advances increased from ₹ 5,668.54 billion at March 31, 2018 to ₹ 6,469.62 billion at March 31, 2019.

At March 31, 2019, the consolidated Tier-1 capital adequacy ratio was 14.73% as against the minimum requirement of 9.025% and total consolidated capital adequacy ratio was 16.47% as against the minimum requirement of 11.025%.

ICICI PRUDENTIAL LIFE INSURANCE COMPANY (ICICI LIFE)

ICICI Life offers a range of products within the protection and savings category. ICICI Life's market share was 17.7% in fiscal 2019 based on new business written premium (on a retail weighted new business premium basis) according to the Life Insurance Council. The Value of New Business (VNB) margin was 17.0% for fiscal 2019 compared to 16.5% for fiscal 2018. The company's VNB increased from ₹ 12.86 billion for fiscal 2018 to ₹ 13.28 billion for fiscal 2019. ICICI Life's total premium grew by 14.3% from ₹ 270.69 billion in fiscal 2018 to ₹ 309.30 billion in fiscal 2019. Annualised Premium Equivalent (APE) from the protection business increased by 61.9% from ₹ 4.46 billion in fiscal 2018 to ₹ 7.22 billion in fiscal 2019 and it accounts for 9.33% of overall APE for fiscal 2019. In fiscal 2019, the protection business contributed over 20% of new business premium received. The post-dividend Embedded Value grew by 15.1% from ₹ 187.88 billion at March 31, 2018 to ₹ 216.23 billion at March 31, 2019. The total assets under management of ICICI Life stood at ₹ 1,604.10 billion at March 31, 2019.

Net premium earned increased from ₹ 268.11 billion in fiscal 2018 to ₹ 305.79 billion in fiscal 2019. The profit after tax decreased from ₹ 16.20 billion in fiscal 2018 to ₹ 11.41 billion in fiscal 2019 primarily due to higher new business strain resulting from the new business growth of protection business.

ICICI LOMBARD GENERAL INSURANCE COMPANY (ICICI GENERAL)

ICICI General is among the large private sector general insurance companies in India. ICICI General's overall market share was 8.5% during fiscal 2019 on the basis of gross direct premium according to the General Insurance Council of India. The Gross Domestic Premium Income of ICICI General increased by 17.2% year-on-year to ₹ 144.88 billion in fiscal 2019. The company's combined ratio improved to 98.5% in fiscal 2019 from 100.2% in fiscal 2018. The return on equity increased to 21.3% in fiscal 2019 as against 20.8% in fiscal 2018. The solvency ratio at March 31, 2019 was 224.0% against the minimum regulatory requirement of 150.0%. The number of policies issued increased to 26.5 million in fiscal 2019 compared to 23.5 million policies in fiscal 2018.

Net earned premium increased from ₹ 69.12 billion in fiscal 2018 to ₹ 83.75 billion in fiscal 2019 primarily due to an increase in motor, health and personal accident insurance business. The profit after tax increased from ₹ 8.62 billion in fiscal 2018 to ₹ 10.49 billion in fiscal 2019 primarily due to an increase in net earned premium, offset, in part, by an increase in claims and benefits paid and tax expenses.

ICICI PRUDENTIAL ASSET MANAGEMENT COMPANY (ICICI PRUDENTIAL AMC)

ICICI Prudential AMC is India's leading asset manager with average quarterly assets under management (AUM) of ₹ 3,207.93 billion at March 31, 2019. The company's overall market share in the domestic mutual fund business was 13.1% on a quarterly average basis. At March 31, 2019, the quarterly average equity mutual fund AUM (excluding exchange traded funds) managed by the company was ₹ 1,376.42 billion with a market share of 14.3%.

As per Indian GAAP, the profit after tax of ICICI Prudential AMC increased from ₹ 6.26 billion in fiscal 2018 to ₹ 6.87 billion in fiscal 2019 primarily due to an increase in fee income, offset, in part, by an increase in staff cost. During fiscal 2019, ICICI Prudential AMC has paid a compensation to certain schemes and its investors amounting to ₹ 1.09 billion, in relation to certain investments made by the relevant schemes. This compensation was made based on an advice received from the regulators.

ICICI SECURITIES LIMITED (ICICI SECURITIES)

ICICI Securities is a leading retail broking firm. The company has a leadership position in the equity brokerage space with over 4.4 million operational accounts. Its customers have access to high quality research and advisory services, backed by a robust technology platform to meet their financial goals. In the distribution business, ICICI Securities is the second largest non-bank mutual fund distributor with assets under management of over ₹ 347.00 billion. The company also sells other financial products like National Pension Scheme, life, health and general insurance, sovereign gold bonds, corporate fixed deposits, etc. through a network of close to 200 branches in more than 75 cities and a network of sub-brokers and ICICI Bank branches.

As per Indian GAAP, the consolidated profit after tax of ICICI Securities Limited and its subsidiaries decreased from ₹ 5.58 billion in fiscal 2018 to ₹ 4.95 billion in fiscal 2019 primarily due to a decrease in brokerage income on account of a decrease in equity delivery volumes and a decrease in third party product distribution fees.

ICICI SECURITIES PRIMARY DEALERSHIP (I-SEC PD)

I-Sec PD maintained its leading position in auction bidding and underwriting as well as in secondary market trading activity in fiscal 2019. The company remained profitable, despite the spike in yields during the year. I-Sec PD managed multiple corporate debt placements in fiscal 2019 and was ranked 5th in the PRIME League Tables. The company is empanelled as one of the fund managers managing the corpus of both the Employee Provident Fund Organisation, India's largest retirement fund, and the Coal Mines Provident Fund, India's second largest fund.

As per Indian GAAP, the profit after tax of I-Sec PD decreased from ₹ 1.12 billion in fiscal 2018 to ₹ 0.61 billion in fiscal 2019 primarily due to a decrease in trading gains. Trading gains decreased primarily due to an increase in yield on government securities. During fiscal 2019, yield on 10-year government securities increased by 9 basis points.

ICICI HOME FINANCE COMPANY (ICICI HFC)

ICICI HFC is primarily engaged in providing retail mortgage loans to individuals. It also provides property search services to its individual and corporate customers. The Company is registered as a housing finance company with National Housing Bank (NHB). During fiscal 2019, the company diversified its liability portfolio by raising funds through external commercial borrowings of ₹ 19.66 billion, refinance line from NHB of ₹ 10.00 billion and also increased its fixed deposit portfolio to ₹ 10.49 billion. The company disbursed total loans amounting to ₹ 63.33 billion during the year, including buy-out of portfolios from other housing finance companies. This led to a 37% growth in its loan book to ₹ 133.33 billion at March 31, 2019.

As per Indian GAAP, the profit after tax of ICICI HFC decreased from ₹ 0.64 billion in fiscal 2018 to ₹ 0.28 billion in fiscal 2019 primarily due to an increase in staff costs and other administrative expenses. Net NPAs increased from ₹ 2.04 billion at March 31, 2018 to ₹ 2.71 billion at March 31, 2019 primarily due to addition to NPAs in Construction Realty Finance (CRF) portfolio.

ICICI VENTURE FUNDS MANAGEMENT COMPANY (ICICI VENTURE)

ICICI Venture concluded eight new investments with an aggregate capital outlay of over USD 565.0 million across IAF Series 4, iREIF, AION (a strategic partnership between ICICI Venture and Apollo Global Management in the area of special situations) and Resurgent (a power platform company co-sponsored by ICICI Venture and Tata Power). ICICI Venture also concluded nine full or partial exits across various funds for an aggregate realisation of about USD 300.0 million. During fiscal 2019, subsequent closings of its third real estate fund iREIF were concluded taking the total commitment beyond the target fund size of ₹ 5.0 billion to ₹ 5.25 billion, thereby triggering the green shoe option.

The profit after tax of ICICI Venture Fund Management Company Limited increased from ₹ 0.11 billion in fiscal 2018 to ₹ 0.70 billion in fiscal 2019 primarily due to an increase in income from venture capital units, offset, in part, by an increase in staff cost and a decrease in management fees.

ICICI BANK CANADA

The profit after tax of ICICI Bank Canada increased from CAD 44.2 million (₹ 2.22 billion) in fiscal 2018 to CAD 52.4 million (₹ 2.79 billion) in fiscal 2019 primarily due to an increase in net interest income, fee income and higher write-back of provisions, offset, in part, by loss on foreign exchange and an increase in operating expenses. ICICI Bank Canada's return on average net worth was 9.40% in fiscal 2019 as compared to 6.90% in fiscal 2018.

At March 31, 2019, ICICI Bank Canada had total assets of CAD 6.63 billion compared to CAD 6.32 billion at March 31, 2018. Net NPAs increased from nil at March 31, 2018 to CAD 9.3 million (₹ 0.48 billion) at March 31, 2019. ICICI Bank Canada had a total capital adequacy ratio of 17.1% at March 31, 2019 as against 17.3% at March 31, 2018. ICICI Bank Canada has distributed common share dividends of CAD 25.6 million in fiscal 2019 compared to CAD 21.6 million in fiscal 2018.

ICICI BANK UK PLC (ICICI BANK UK)

The operating income of ICICI Bank UK was USD 79.8 million for fiscal 2019, compared to USD 83.2 for fiscal 2018, primarily due to a decrease in non-interest income and loss on sale of financial assets, offset, in part, by an increase in net interest income. Loss of ICICI Bank UK increased from US$ 25.5 million (₹ 1.65 billion) in fiscal 2018 to US$ 52.9 million (₹ 3.71 billion) in fiscal 2019 primarily due to higher specific provisions on non-performing loans.

At March 31, 2019, ICICI Bank UK had total assets of USD 3.84 billion compared to USD 3.88 billion at March 31, 2018. Net NPAs decreased from US$ 194.0 million (₹ 12.64 billion) at March 31, 2018 to US$ 63.1 million (₹ 4.36 billion) at March 31, 2019. There was an improvement in the company's gross impairment ratio to 8.3% and net impairment ratio to 2.6% in fiscal 2019 compared to 13.0% and 8.2%, respectively, in fiscal 2018. ICICI Bank UK had a capital adequacy ratio of 16.8% at March 31, 2019 compared to 16.5% at March 31, 2018.

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 2018	**Fiscal 2019**	At March 31, 2018	**At March 31, 2019**
ICICI Prudential Life Insurance Company Limited	₹ 16.20	**₹ 11.41**	₹ 1,417.24	**₹ 1,629.32**
ICICI Lombard General Insurance Company Limited	8.62	**10.49**	297.41	**334.02**
ICICI Prudential Asset Management Company Limited	6.26	**6.87**	11.29	**13.10**
ICICI Securities Limited (consolidated)	5.58	**4.95**	28.49	**46.51**
ICICI Bank Canada	2.22	**2.79**	319.93	**341.61**
ICICI Venture Funds Management Company Limited	0.11	**0.70**	3.31	**3.07**
ICICI Securities Primary Dealership Limited	1.12	**0.61**	172.10	**115.93**
ICICI Home Finance Company Limited	0.64	**0.28**	100.60	**138.83**
ICICI Bank UK PLC	₹ (1.65)	**₹ (3.71)**	₹ 253.96	**₹ 266.43**

1 *Total assets are as per classification used in the consolidated financial statements and hence the total assets as per 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), which were based on convergence with the International Financial Reporting Standards (IFRS), for scheduled commercial banks, insurance companies and non-banking financial companies (NBFCs). In March 2019, RBI deferred the implementation of Ind AS for banks till further notice as the recommended legislative amendments were under consideration of Government of India.

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 is in the process of implementing a centralised system solution to cater to Ind AS specific accounting requirements in certain areas such as effective interest rate accounting and expected credit loss. 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.