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Fund Management and Decision-making in Financial Institutions: A Case Study of ICICI Bank

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Abstract: This research examines the critical role of funds management in influencing the profitability and sustainability of ICICI Bank over the period 2011–2024. The analysis highlights significant trends in deposit growth, borrowing efficiency, cost of funds, and returns on funds. ICICI Bank has demonstrated consistent deposit growth, declining costs of deposits, and effective borrowing strategies, underscoring its ability to adapt to dynamic market conditions. Despite recent increases in borrowing costs, the bank's long-term financial management strategies have contributed to a significant reduction in the overall cost of funds and a strong rebound in returns on funds in 2023 and 2024. The findings emphasize the strategic importance of optimizing funding sources and leveraging advances and investments to maximize profitability. Implications extend to the banking industry, academia, and policy-making, emphasizing efficient cost management practices, offering a foundation for further research, and advocating for policies that support financial literacy and sustainable growth in the banking sector.

1. Introduction

The main function of banks is to receive deposits and use these funds for lending. Deposits, as resources, come with a cost, whereas lending represents the banks' assets and generates income. Since banks are businesses, they are expected to be profitable. To achieve this, lending activities should be managed to ensure that the income from loans exceeds the interest paid on deposits by a healthy margin. Bank profitability is significantly influenced by the efficient use of resources and the effectiveness of operations. Since money lending is a risky endeavour, it is likely that some of the loans and advances made by banks to their clients will become bad and unlikely to be recovered. Such bad and dubious assets do not generate income for banks and need loan loss provisions, thereby reducing the bank's profit and profitability. Banks make money when their interest and operating costs are less than their interest and non-interest income from services and investments. Profits are essential for the survival of any business. Banking is no exception. Although banking is regarded as a nation's bloodline, in order to offer a decent return on the aforesaid huge capital expenditures and to continue supporting any economy, bank profitability is required. To be profitable, the banking sector must practice 'efficient and effective funds management' across all of its operations.

Effective fund management and strategic decision-making are cornerstones of financial stability and profitability in banking institutions. In a dynamic and competitive financial environment, the ability to optimize funding costs while maximizing returns is critical for sustainable growth. This research paper focuses on ICICI Bank, one of India's leading private sector banks, as a case study to analyse the intricate relationship between fund management and financial performance over the period 2011–2024. Key parameters such as the cost of deposits, cost of borrowings, cost of funds, and return on funds serve as the focal points of this analysis, offering valuable insights into the bank's financial strategies and adaptability.

Cost of Deposits: Cost of Deposits has a pertinent bearing upon the bank's profitability. The components of deposits such as savings deposits, fixed deposits, and current deposits, have varying risk-return profiles that impact a bank's profitability. The cost of deposits turns out to be an indicator of deposit efficiency, as lower-cost funds enable banks to lend profitably. The higher cost of deposits of bank reflects the inefficiency in deposits management on the part of bank and vice versa. Thus, low cost of deposits can be the key for bank's profitability in the long-run though its sustainability would depend on factors like return on assets, credit growth, etc.

Cost of Borrowings: The cost of borrowings reflects the interest expenses incurred by banks to raise funds from financial markets, including inter-bank loans, institutional liabilities, and certificates of deposit. These funds, while crucial for addressing short-term liquidity needs, are often more volatile than deposits, exposing banks to liquidity risks. Recently, borrowing costs have declined to decade-low levels due to ample liquidity in the market, driven by the Reserve Bank of India's (RBI) measures, such as reducing the cash reserve ratio (CRR) and increasing the marginal standing facility (MSF) ceiling. This enhanced liquidity has enabled banks to manage short-term funding efficiently and prioritize lending activities to generate additional revenue. However, the surplus liquidity provided during the pandemic requires careful monitoring, as the RBI may reduce excess liquidity to prevent financial imbalances. Consequently, banks must strategically manage borrowing costs to balance liquidity needs and profitability amidst evolving market conditions. Thus, the cost of borrowings reveals the efficiency of cost of borrowed funds and hence, it is feasible on the part of the bank to maintain lower cost of borrowings which is an indicator of higher productivity of funds management.

Cost of Funds: The Cost of Funds represents the interest rate financial institutions incur for the funds they utilize in their operations. This cost is critical for a bank since lower funding costs lead to higher returns when these funds are lent out for short-term and long-term loans. The spread between the cost of funds and the interest rate charged to borrowers is a key source of profit for banks. The cost of funds indicates the significant interest rate banks and financial institutions must pay to acquire funds. If the cost of funds rises, banks may need to increase lending rates to maintain profitability. Higher lending rates might discourage borrowers, potentially reducing loan demand and consequently, the bank's income.

A downward trend in the overall cost of funds positively impacts a bank's profitability. This decrease is attributed to lower costs of deposits and borrowings, stemming from a low-interest rate environment and improved bank liquidity. Hence, a lower cost of funds enhances the efficiency of fund management.

Return on Funds: The Return on Funds is the interest income that the financial institutions earn on funds used in their investing and lending operations. A major share of bank's revenue emanates from return on funds. Return on funds is a metric that indicates the bank's revenue in relation to the average advances and investment made by bank. Return on funds comprises both advances and investments, with the return on advances reflecting a bank's ability to generate income from its lending activities. This includes interest and discounts on various loans and advances such as bills purchased, bill discounted, cash credits, overdrafts, and term loans. On the contrary, return on investments reveals the influence of movements of market interest rates on the portfolio value. Employment of bank funds in investments is intended to meet the requirements of statutory liquidity ratio (SLR). This serves two-fold purposes: maintaining liquidity needs and yielding a fair return with limited risk. Thus, return on funds is a fundamental factor in determining bank' profitability. A lower return on funds signifies poor return on advances and investments or higher losses in loans and vice-versa.

An increasing trend in overall return of funds favourably influence the bank's profitability. The increase in overall return of funds is attributable to an increase in the return on advances and investments as result of comparatively high-interest rate scenario and the bank's improved liquidity position. Thus, the higher the return on funds, the higher will be the productivity of funds management.

This study aims to provide a comprehensive analysis of these parameters to understand the interplay between fund management and profitability in financial institutions. By exploring the trends and underlying factors that influence these metrics, the research sheds light on ICICI Bank's ability to navigate economic cycles, manage funding costs, and sustainable growth. The findings hold implications for industry practitioners, academic researchers, and policymakers, offering actionable insights to enhance financial decision-making and ensure the long-term stability of financial institutions.

1.1. Brief Profile of ICICI Bank

ICICI Bank Limited, headquartered in Vadodara, is an Indian multinational bank and financial services provider. It offers a wide array of banking products and financial services to both corporate and retail clients through numerous delivery channels and specialized subsidiaries, including those focused on investment banking, life and non-life insurance, venture capital, and asset management. The bank operates 5,418 branches and 13,463 ATMs throughout India and has a presence in 17 countries. ICICI Bank has subsidiaries in the UK and Canada, and branches in the US, Singapore, Bahrain, Hong Kong, Qatar, Oman, the Dubai International Finance Centre, China, and South Africa. Additionally, it has representative offices in the UAE, Bangladesh, Malaysia, and Indonesia. As a leading private sector bank in India, ICICI Bank caters to retail, SME, and corporate customers with a broad spectrum of financial products and services, emphasizing technology-driven solutions through digital banking on mobile and internet platforms. As on 31st March 2024, the financial highlights of ICICI Bank are as below:

Key Financial Highlights of ICICI Bank (31st March, 2024)

Consolidated Total Assets	Rs. 18,715.15 billion
Core Operating Profit	Rs. 581.22 billion
Profit after Tax	Rs. 408.88 billion
Net Worth	Rs. 2,383.99 billion
Total deposits	Rs. 14,128.25 billion
Total Capital Adequacy Ratio	16.33%
Net Interest Margin	4.53%

Source: Compiled from the annual report 2024 of ICICI bank

2. Literature Review

Aguilar Omar and Balaji Sam (2019) the article titled "Cost Management in the Banking Industry" documented that banks today face significant challenges from every direction. The ongoing environment of low, or even negative, interest rate continues to create intense margin pressure and barriers to growth. At the same time, increased competition from neo-banks and fin-techs continue to nibble away at the edges of the traditional banking business, posing a constant threat of disruption. In this challenging environment, cost management remains a strong imperative for the entire global banking industry. Reaching the next level will require greater focus on strategic cost actions, as well as increased adoption of breakthrough technologies such as automation, cognitive/AI, and business intelligence. These digital innovations have the potential to generate substantial cost savings necessary to fund and implement business improvement that are not only for growth but transformational for the existing business model.

Oracle White Paper (2017) published an article titled "A Strategic Approach to Cost Efficiency in the Banking Industry." The article concluded that in a dynamic market, banks must identify areas of opportunity where they excel and leverage their existing strengths. Simply focusing on products and markets is insufficient for achieving rapid growth. In addition to exploring new market and product opportunities, banks need to modernize their business models and capabilities to better adapt to the current banking environment. Challenges such as rising costs, narrowing margins, heightened competition, and stringent regulations should be viewed as catalysts, not obstacles, for growth. However, sustainable growth requires profitability. To sustain competitiveness and profitability, banks should prioritize efficient cost management. Conducting a thorough cost-benefit analysis of processes, products, personnel, and infrastructure can enable banks to strategically manage costs and enhance profitability.

Earnest & Young (2015) in an article "Effective Cost Management and Profitability Analysis for the Financial Services Sector" contemplated that the financial sector is encountering growing challenges, compelling managers to focus on cost reduction and profit growth to generate value. To achieve this, they depend on business intelligence for decision-making aimed at value creation. Adapting to global changes necessitates that cost and profitability information be reliable, relevant, and timely. This requires robust and well-executed cost management and profitability analysis, enabling management to make informed decisions to sustain and enhance organizational performance.

The Institute of Cost Accountants of India (2014) in an article "Relevance and Applicability of Cost Management in Banking Sector" set forth that Banking is considered as a bloodline of economy of a nation; to provide a reasonable return for the huge capital expenditures and to remain servicing any economy, profitability of the banks is a must. In order to maintain profitability, the banking sector must prioritize efficient and effective management of costs across its operations. Increasing competition and the evolving complexity of banking require banks to innovate by developing intricate products, adopting new delivery channels for these innovations, and implementing new business processes, often involving significant capital investments. Cost control in banks should involve strategic planning, while cost reduction efforts should encompass both strategic and tactical aspects. Financial institutions should adopt a strategic perspective, viewing cost-cutting as part of a broader efficiency drive. Balancing short-term tactical cost reductions with longer-term strategic cost initiatives will position banks more effectively for sustained high performance in the future.

Shollapur and Balligati (2010) in their work "Funds Management in Banks: A Cost-Benefit Perspective" opined that the success of a bank relies heavily on how it manages the acquisition and deployment of funds. Efficient fund management involves acquiring funds and using them in a way that generates sufficient revenue to cover operational and financial costs while also yielding a reasonable return on investment. The Indian banking sector underwent significant changes in its operations following financial sector reforms in 1991. These reforms ushered in new banks, financial instruments, business methodologies, and increased competition within the banking industry. Given this environment, it is crucial for the Indian banking sector to bolster its financial foundation, enhance overall efficiency, and boost profitability through well-designed fund management policies and practices. Therefore, achieving profit objectives hinges on implementing sound and commercially viable fund management strategies.

2.1. Research Gap

After reviewing several articles related to the topic, it has been determined that there is significant potential for the current study. The focal point of earlier studies was fund management policies, cost management practices and its influence on the banking sector as a whole. It seems that no effort had been made to apprehend the effectiveness of fund management for decision making in financial institutions. Thus, present case study is an important venture for studying, measuring and analysing the effectiveness of efficient fund management and its implications on the overall profitability and sustainable growth of the bank.

3. Objectives and Hypothesis of the Study

The stated objectives and hypothesis provide a roadmap for exploring the core aspects of the research and achieving meaningful conclusions.

3.1. Objectives

The following are the specific objectives of this study:

i. Assessing the costs associated with acquiring funds and analysing the returns generated from distributing these funds.
ii. Examining how fund management practices influence the productivity, and profitability of the selected bank.
iii. Identifying the challenges encountered by the bank in managing its funds.

iv. Proposing cost-effective solutions to facilitate improved decision-making for effective fund management.

3.2. Hypothesis

Hypothesis for the present study is:

i. H_0: There is no significant relationship between funds management indicators and profitability of bank.
ii. H_1: There is a significant relationship between funds management indicators and profitability of bank.

4. Research Methodology

This section outlines the systematic approach adopted to collect, analyse, and interpret data, ensuring the credibility and reliability of the findings.

4.1. Research Design

This study is purely based upon empirical research design. Empirical research is a research approach that relies on verifiable evidence to draw conclusions. This methodology uses scientific data collection methods and analysis to obtain and interpret evidence for research outcomes.

4.2. Sample Profile

The sample size is the case study of ICICI Bank. The sampling technique used is non-probabilistic sampling more specifically the judgmental sampling.

4.3. Period of Study

For the purpose of study data for 14 years commencing from the year 2011 till 2024 has been taken into consideration.

4.4. Sources of Data Collection

The study radically relies only on Secondary sources of information viz; annual reports of ICICI bank, RBI Bulletin, published journals, websites, etc.

4.5. Statistical Tools and Techniques

The collected data has been analysed by using MS-Excel.

5. Data Analysis and Interpretation

The primary cost components of the ICICI Bank in relation to the problem under consideration are Cost of Deposits, Cost of Borrowings, Cost of Funds and Return on Funds. The requisite tables and figures have been used to present the detailed study of these components.

Table 1: Cost of Deposits

(INR in billions)

Year	Current Year Deposits	Previous Year Deposits	Average(D)*	Interest paid on Deposits	Cost of Deposit**
2011	2,256.02	2,020.16	2,138.09	100.71	4.71%
2012	2,555.00	2,256.02	2,405.51	143.04	5.95%
2013	2,926.14	2,555.00	2,740.56	168.89	6.16%
2014	3,319.14	2,926.14	3,122.63	178.68	5.72%
2015	3,615.63	3,319.14	3,467.38	202.94	5.85%
2016	4,214.26	3,615.63	3,914.94	215.49	5.50%
2017	4,900.39	4,214.26	4,557.32	228.72	5.02%
2018	5,609.75	4,900.39	5,255.07	234.29	4.46%

2019	6,529.20	5,609.75	6,069.47	265.25	4.37%
2020	7,709.69	6,529.20	7,119.44	326.88	4.59%
2021	9,325.22	7,709.69	8,517.45	332.56	3.90%
2022	10,645.72	9,325.22	9,985.47	333.00	3.33%
2023	11,808.41	10,645.72	11,227.07	389.68	3.47%
2024	14,128.25	11,808.41	12,968.33	578.57	4.46%

Source: Compiled from the various Annual Reports of ICICI Bank

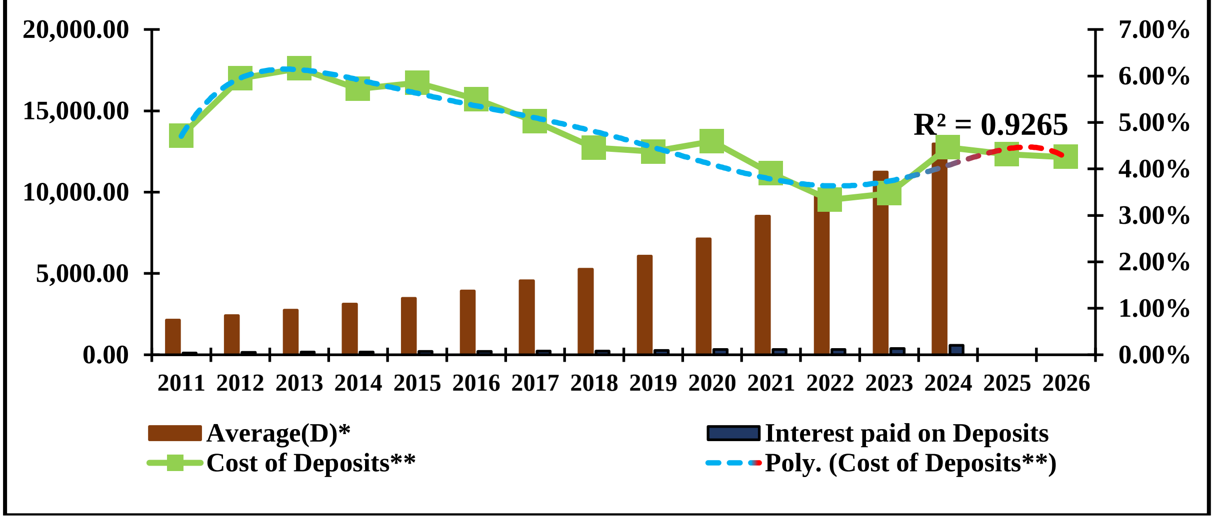
*Average(D)= (Current Year Deposits + Previous Year Deposits)/2
** Cost of Deposit = Interest paid on Deposits/ Average (D)

The table no. 1 provides an overview of the cost of deposits for ICICI Bank from 2011 to 2024, revealing significant trends in deposit growth, interest expenses, and cost efficiency. Over the 14-year period, the bank's deposits have shown a consistent upward trend, increasing from INR 2,256.02 billion in 2011 to INR 14,128.25 billion in 2024. This growth reflects the bank's expanding depositor base and its ability to attract substantial financial resources.

The cost of deposits, calculated as the percentage of interest paid on deposits relative to the average deposit balance, illustrates the bank's efficiency in managing deposit-related expenses. Initially, the cost of deposits was 4.71% in 2011, with notable fluctuations over the years. While the cost peaked at 6.16% in 2013, it generally declined thereafter, reaching a low of 3.33% in 2022. This decline indicates the bank's efforts to optimize interest rates and reduce funding costs despite a growing deposit base. However, a slight increase in the cost of deposits to 4.46% in 2024 suggests adjustments in the bank's financial strategy, potentially influenced by market dynamics or economic conditions.

The interest paid on deposits has grown alongside the increase in deposits, reflecting the bank's ability to honour its financial commitments to depositors. Despite this rise in absolute interest payments, the declining trend in the cost of deposits highlights improved financial management and strategic decision-making by the bank. The data from Table 1 is also presented graphically in Chart 1.

Chart 1 : Cost of Deposits



Graphical Representation of Table 1

The Brown and Blue coloured bars depict the average of deposits and interest paid on deposits respectively. The Green line depicts the cost of deposits whereas the multi-coloured line is the trend line wherein the sky-blue colour illustrates the changes in cost of deposits over the period under study and the red colour forecasts the trend of cost of deposits for the year 2025 and 2026. The trend line initially increased in the year 2011 and 2012, reached its maximum in the year 2013 and then from the year 2014 onwards it started to diminish. The estimated value of $R^2 = 0.9265$ which brings into view that the line is a best fit for the data under study.

On the grounds of above discussion, the value of cost of deposits for the year 2025 and 2026 has been forecasted and presented in Table 1.1.

Table 1.1: Forecasted Cost of Deposits

(INR in billions)

Year	Current Year Deposits*	Previous Year Deposits	Average(D)	Interest paid on Deposits*	Cost of Deposits
2025	16,240.26	14,128.25	15,184.25	655.24	**4.32%**
2026	18,667.98	16,240.26	17,454.12	742.07	**4.25%**

Source: Computed with the help of MS-Excel

*Forecasted Value_{t+1}=Current Year Deposits_t × (1+Average Growth Rate)

The forecasted value of the cost of deposits for the year 2025 and 2026 is 4.32% and 4.25% respectively. Thus, it indicates that ICICI bank is decisively managing the deposits.

Table 2: Cost of Borrowings

(INR in billions)

Year	Current Year's Borrowings	Previous Year's Borrowings	Average Borrowings	Interest on Borrowings*	Cost of Borrowings**
2011	1,095.54	942.63	1,019.08	68.86	6.76%
2012	1,401.64	1,095.54	1,248.59	85.04	6.81%
2013	1,453.41	1,401.64	1,427.53	93.20	6.53%
2014	1,547.59	1,453.41	1,500.50	98.34	6.55%
2015	1,724.17	1,547.59	1,635.88	97.57	5.96%
2016	1,748.07	1,724.17	1,736.12	99.66	5.74%
2017	1,475.56	1,748.07	1,611.81	95.47	5.92%
2018	1,828.58	1,475.56	1,652.07	85.11	5.15%
2019	1,653.19	1,828.58	1,740.89	98.61	5.66%
2020	1,628.96	1,653.19	1,641.08	88.43	5.39%
2021	916.30	1,628.96	1,272.63	68.72	5.40%
2022	1072.31	916.30	994.31	56.07	5.64%
2023	1193.25	1072.31	1,132.78	81.34	7.18%
2024	1249.68	1193.25	1,221.47	107.27	8.78%

Source: Compiled from the various Annual Reports of ICICI Bank

*Interest on Borrowings includes Interest on RBI/inter-bank borrowings and others (including interest on borrowings of erstwhile ICICI Limited)

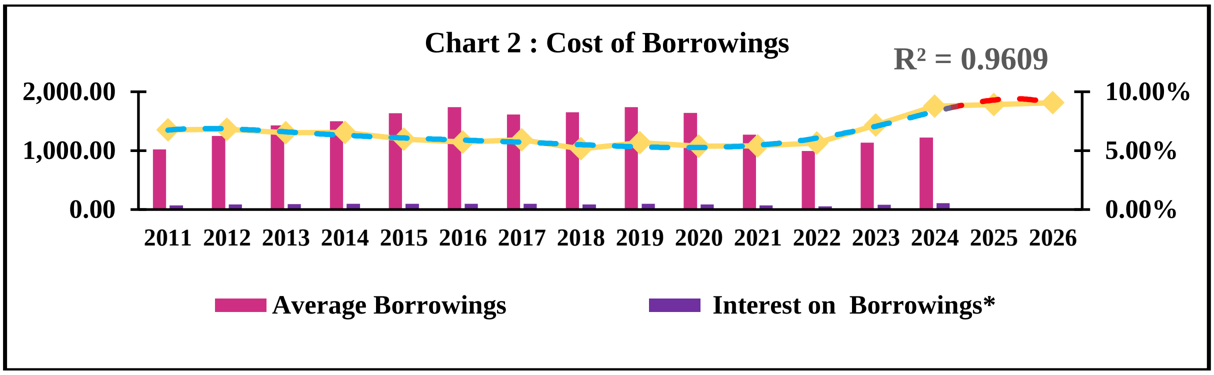
Average Borrowings = (Current Year Borrowings + Previous Year Borrowings)/2

** Cost of Borrowings = Interest paid on Borrowings/ Average Borrowings

The table no. 2 outlines the cost of borrowings for ICICI Bank from 2011 to 2024, showcasing trends in borrowing amounts, interest expenses, and borrowing efficiency. Over the period, the bank's current year borrowings display fluctuations, starting at INR 1,095.54 billion in 2011 and rising to INR 1,249.68 billion in 2024. This variability reflects the bank's changing reliance on borrowings as a source of funding across different economic cycles.

The cost of borrowings, which measures the percentage of interest paid relative to the average borrowings, shows notable trends. In 2011, the cost stood at 6.76%, with moderate fluctuations over the years. A decline is observed in certain years, reaching a low of 5.15% in 2018, highlighting periods of cost-efficiency in managing borrowed funds. However, the cost of borrowings rises sharply in 2023 and 2024, peaking at 8.78% in 2024. This increase might be attributed to rising interest rates or a shift in borrowing strategies due to economic or market conditions.

Interest paid on borrowings generally aligns with the changes in average borrowings, reflecting the bank's financial commitments to lenders. Despite a reduction in absolute borrowing amounts in some years, the cost of borrowings demonstrates variability, indicating the influence of external factors such as interest rate trends and internal strategies for managing borrowed funds. The data in table 2 has been graphically plotted in chart no. 2.



Graphical Representation of Table 2

The average borrowings and the interest paid on borrowings has been depicted by pink- and purple-coloured bars. The Yellow line depicts the cost of borrowings whereas the multi-coloured line is the trend line which clearly illustrates the fluctuations in the cost by blue colour and the point where the line changes to colour red is a projection of cost for the year 2025 and 2026, signalling potential challenges due to rising interest rates or increased reliance on borrowings. The estimated value of R^2 = 0.9609 which exhibits that the line is a best fit for sample data. In line with the above discussion, the value of cost of borrowings for the year 2025 and 2026 has been forecasted in Table 2.1.

Table 2.1: Forecasted Cost of Borrowings **(INR in billions)**

Year	Current Year's Borrowings*	Previous Year's Borrowings	Average Borrowings	Interest on Borrowings*	Cost of Borrowings
2022	1297.61	1249.68	1273.64	113.40	**8.90%**
2023	1347.38	1297.61	1322.49	119.88	**9.06%**

Source: Computed with the help of MS-Excel

*Forecasted Value$_{t+1}$=Current Year Deposits$_t$ × (1+Average Growth Rate)

The projected cost of borrowings for 2025 and 2026 is estimated at 8.90% and 9.06% respectively. The rise in borrowing costs is theoretically attributed to an uptick in the expenses associated with foreign currency call and term borrowings, as well as interest costs on funding swaps, partially mitigated by a decline in refinance borrowing expenses.

Table 3: Cost of Funds **(INR in billions)**

Year	Average (D)	Average (B)	Average (D+B)	Interest on Deposits	Interest on Borrowings*	Interest (D+B)	Cost of Funds* *
2011	2,138.09	1,019.08	3,157.17	100.71	68.86	169.57	5.37 %
2012	2,405.51	1,248.59	3,654.10	143.04	85.04	228.08	6.24%
2013	2,740.56	1,427.53	4,168.09	168.89	93.20	262.09	6.29%
2014	3,122.63	1,500.50	4,623.13	178.68	98.34	277.02	5.99%
2015	3,467.38	1,635.88	5,103.26	202.94	97.57	300.51	5.89%
2016	3,914.94	1,736.12	5,651.06	215.49	99.66	315.15	5.58%
2017	4,557.32	1,611.81	6,169.13	228.72	95.47	324.19	5.26%

2018	5,255.07	1,652.07	6,907.14	234.29	85.11	319.4	4.62%
2019	6,069.47	1,740.89	7,810.36	265.25	98.61	363.86	4.66%
2020	7,119.44	1,641.08	8,760.52	326.88	88.43	415.31	4.74%
2021	8,517.45	1,272.63	9,790.08	332.56	68.72	401.28	4.10%
2022	9,985.47	994.31	10,979.78	333.00	56.07	389.07	3.54%
2023	11,227.07	1,132.78	12,359.85	389.68	81.34	471.02	3.81%
2024	12,968.33	1,221.47	14,189.80	578.57	107.27	685.84	4.83%

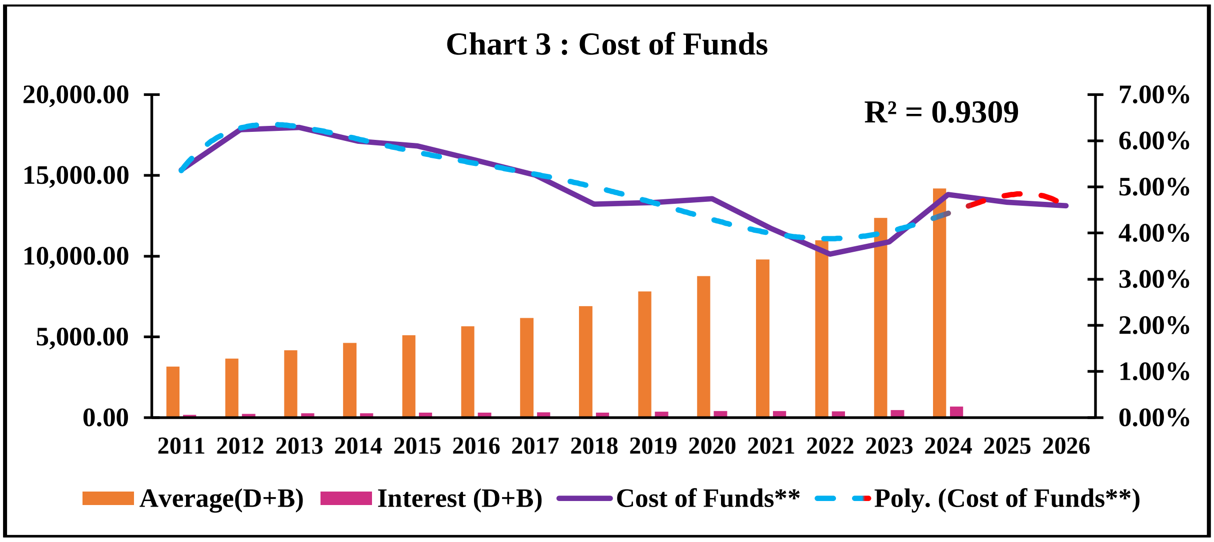
Source: Compiled from the various Annual Reports of ICICI Bank

*Interest on Borrowings includes Interest on RBI/inter-bank borrowings and others (including interest on borrowings of erstwhile ICICI Limited)
Interest (D+B) = Interest on Deposits + Interest on Borrowings
Average(D)= (Current Year Deposits + Previous Year Deposits)/2
Average (B) = (Current Year Borrowings + Previous Year Borrowings)/2
Average (D+B) = Sum of Average of Deposits and Borrowings

$$\text{** Cost of Funds} = \frac{\text{(Interest paid on Deposits + Interest paid on Borrowings)}}{\text{(Average of Current and Previous Years' Deposits + Borrowings)}}$$

The table no. 3 presents the cost of funds for ICICI Bank from 2011 to 2024, detailing the dynamics between deposits, borrowings, and their combined impact on interest expenses and efficiency. The average funds (deposits and borrowings combined) increased significantly over the years, rising from INR 3,157.17 billion in 2011 to INR 14,189.80 billion in 2024, reflecting the bank's growing resource base.

Interest paid on deposits and borrowings follows a similar upward trajectory, with total interest (on both deposits and borrowings) increasing from INR 169.57 billion in 2011 to INR 685.84 billion in 2024. The cost of funds, which measures the percentage of interest paid relative to the total average funds, exhibits fluctuations. It starts at 5.37% in 2011, peaks at 6.29% in 2013, and then declines steadily to 3.54% in 2022, reflecting improved cost management. However, it rises again to 4.83% in 2024, possibly due to increased interest rates or changes in funding structures. Despite the recent increase, the overall reduction in the cost of funds over the long term showcases the bank's effective financial management and adaptability to changing economic conditions. The data from Table 3 is illustrated in Chart 3.



Graphical Representation of Table no. 3

The average funds (deposits + borrowings) and the total interest paid on funds has been depicted by Orange and Pink coloured bars. The Purple line depicts the cost of funds. Besides, the multi-coloured line is the trend line which clearly illustrates the declining trend in the cost from 2014 onwards by blue colour for the period under study and a projection of cost for the year 2025 and 2026 has been depicted where the line changes to colour red. The estimated value of $R^2 = 0.9309$ which brings to view that the line is a best fit for sample data.

On the grounds of above discussion, the value of cost of funds for the year 2025 and 2026 has been forecasted in table 3.1.

Table 3.1: Forecasted Cost of Funds (INR in billions)

Year	Average (D)	Average (B)	Average (D+B)	Interest on Deposits	Interest on Borrowings	Interest (D+B)	Cost of Funds
2025	15,184.25	1273.64	16,457.90	655.24	113.40	768.64	4.67%
2026	17,454.12	1322.49	18,776.61	742.07	119.88	861.95	4.59%

Source: Computed with the help of data in Table 1.1 and Table 2.1

The forecasted value of the cost of funds for the year 2025 and 2026 is 4.67% and 4.59% respectively. Thus, it reflects the bank's anticipated ability to manage interest expenses on deposits and borrowings efficiently, ensuring lower funding costs while maintaining growth in its funding base.

Table 4: Return On Funds (INR in billions)

Year	Average (Advances)	Average (Investment)	Average(A+I)	Total Interest*	Return on funds**
2011	1,987.85	1,277.89	3,265.74	259.74	7.95%
2012	2,350.46	1,471.23	3,821.69	335.42	8.78%
2013	2,719.88	1,654.76	4,374.64	400.75	9.16%
2014	3,144.76	1,742.07	4,886.83	441.78	9.04%
2015	3,631.12	1,818.00	5,449.12	490.91	9.01%
2016	4,113.93	1,734.95	5,848.88	527.39	9.02%
2017	4,497.48	1,609.59	6,107.07	541.56	8.87%
2018	4,883.13	1,822.50	6,705.63	549.65	8.20%
2019	5,495.20	2,053.63	7,548.83	634.01	8.40%
2020	6,159.68	2,286.32	8,446.00	747.98	8.86%
2021	6,895.09	2,654.09	9,549.18	791.18	8.29%
2022	7,963.75	2,957.64	10,921.38	863.74	7.91%
2023	9,393.29	3,362.85	12,756.14	1092.31	8.56%
2024	11,020.22	4,121.36	15,141.58	1428.90	9.44%

Source: Compiled from the various Annual Reports of ICICI Bank

*Total Interest includes Interest / Discount on Advances, Income on Investment, Interest on balances with RBI and other inter- bank funds and other interest

Average (Advances) = (Current Year Advances + Previous Year Advances)/2

Average (Investment) = (Current Year Investment + Previous Year Investment) /2

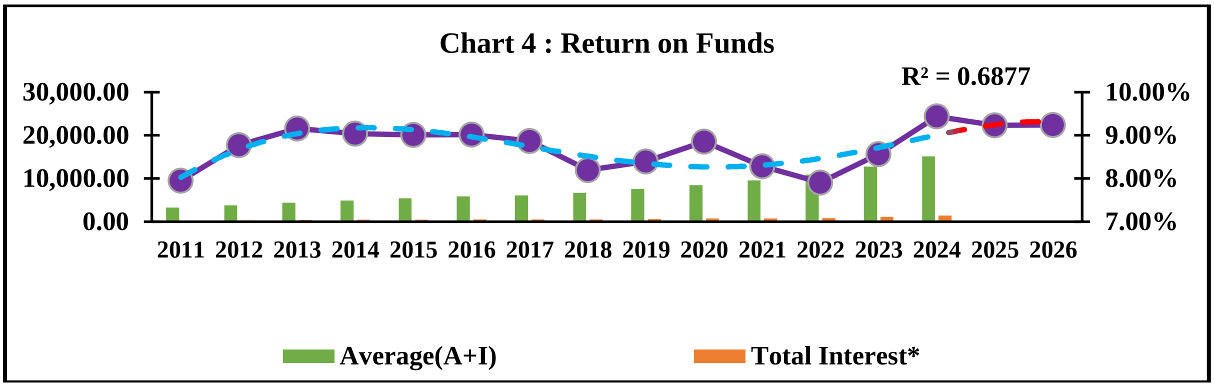
Average(A+I) = Sum of Average Advances and Average Investment

$$\text{** Return on Funds} = \frac{\text{(Interest earned on Advances + Interest earned on Investments)}}{\text{(Average of Current and Previous Years' Advances + Investment)}}$$

The table no. 4 highlights ICICI Bank's return on funds by analysing its advances, investments, and the resulting total interest earned over time. From 2011 to 2024, there is a consistent growth in the average funds, which are the combined values of advances and investments. These averages increased from INR 3,265.74 billion in 2011 to INR 15,141.58 billion in 2024, showcasing the bank's expanding scale of operations.

The total interest earned, a critical indicator of the bank's performance, rose substantially from INR259.74 billion in 2011 to INR1,428.90 billion in 2024, driven by an increase in both advances and investment activities. The return on funds fluctuated slightly over the years, reflecting varying market conditions and operational efficiencies.

Initially, the return on funds increased from 7.95% in 2011 to a peak of 9.16% in 2013, indicating strong fund utilization during that period. However, it stabilized around 9.0% until 2016 before experiencing a gradual decline to 7.91% in 2022, likely due to lower interest rate environments or changes in the bank's portfolio structure. In 2023 and 2024, the return rebounded to 8.56% and 9.44%, respectively, marking a significant improvement, which may be attributed to favourable interest rates and effective management of advances and investments. The data from Table 4 is illustrated in Chart 4



Graphical Representation of Table No. 4

The average funds (advances+investments) and the total interest received on funds has been depicted by green- and orange-coloured bars. The Purple line depicts the return on funds. Besides, the multi-coloured line is the trend line which clearly illustrates the slight fluctuating trend in the returns from 2011 to 2024 by blue colour and a projection of return for the year 2025 and 2026 has been depicted where the line changes to colour red. The estimated value of $R^2 = 0.9877$ which brings to view that the line is a best fit for sample data.

Based on above discussion, the return on funds for the year 2025 and 2026 has been forecasted in table 4.1.

Table 4.1: Forecasted Return on Funds **(INR in billions)**

Year	Average (Advances)*	Average (Investment)*	Average(A+I)	Total Interest*	Return on funds
2025	12,697.04	4,863.72	17,560.76	1620.96	**9.23%**
2026	14,525.86	5,378.16	19,904.02	1838.83	**9.24%**

Source: Computed with the help of data in Table No.4

*Forecasted Value_{t+1}=Current Year Deposits_t × (1+Average Growth Rate)

The forecasted value of the return on funds for the year 2025 and 2026 is 9.23% and 9.24% respectively, highlighting ICICI Bank's ability to maintain strong financial performance. The marginal increase in return on funds suggests that the bank is effectively managing its advances and investments to generate higher interest income.

6. Result and Discussion

On the basis of analysis and interpretation of data, this section provides meaningful insights, validating or rejecting the hypothesis while uncovering key findings related to the study's objectives.

6.1. Hypothesis Testing

The Cost of Funds and Return on Funds for ICICI Bank stands out to be 5.07% (average) and 8.68% (average), resulting in a bank spread of 3.61% (average). This reflects the bank's proficient fund management, showcasing how the strategic and efficient utilization of resources significantly enhances its profitability. The trends in the cost of deposits, borrowings, funds, and returns on funds clearly illustrate a significant relationship between ICICI Bank’s funds management and its profitability. The bank's ability to reduce funding costs over time, optimize interest rates, and efficiently utilize funds to maximize returns demonstrates the critical role of effective funds management in enhancing financial performance. The recovery in returns on funds in recent years and the projected improvements further underline this connection.

Thus, based on the data analysis, the null hypothesis- no significant relationship between funds management indicators and profitability of bank has been rejected.

6.2.Findings

The analysis of ICICI Bank’s financial data over the study period reveals several key trends in the domain of fund management, offering insights into its strategic financial operations. One of the most prominent observations is the bank’s consistent expansion in its deposit base. This upward trajectory not only signifies strong depositor confidence but also points to the bank’s growing market presence and its effective mobilization of financial resources. A noteworthy trend is the steady decline in the cost of deposits over the years, with the bank achieving its most favourable rate in 2022. This downward movement highlights enhanced operational efficiency and a strategic shift toward low-cost deposit mobilization. However, the marginal increase observed in 2024 suggests a recalibration in financial strategies, possibly driven by evolving market interest rates, regulatory shifts, or efforts to maintain liquidity buffers. In contrast, cost of borrowings has exhibited greater volatility. The recent escalation in borrowing costs can be attributed to broader macroeconomic pressures, including tightening monetary policy and higher benchmark interest rates. This trend underscores the sensitivity of market-based funding sources to external economic factors, emphasizing the need for a diversified and balanced funding mix.

Despite these individual movements, the overall cost of funds has followed a generally downward trajectory across the study period. This long-term reduction serves as evidence of ICICI Bank’s comprehensive and effective financial management practices, even though there was a slight reversal in the most recent year, indicating ongoing responsiveness to short-term funding dynamics. The analysis of return on funds reveals intermittent fluctuations, reflective of both internal strategic decisions and external economic influences. Importantly, the return on funds witnessed a marked improvement in 2023 and sustained momentum in 2024. This resurgence demonstrates the bank’s strengthened capability to deploy its funds in avenues that yield higher returns, even amid changing economic conditions. The overall findings suggest that ICICI Bank has adeptly navigated complex financial environments, achieving cost efficiency while steadily enhancing returns. These patterns not only affirm the bank’s resilience but also establish a foundation for expected gains in profitability and competitiveness in the years ahead.

7. Conclusion

ICICI Bank’s financial trajectory over the past decade reaffirms the pivotal role of strategic funds management in driving sustainable profitability. The empirical findings of the study highlight the bank's prudent approach in managing its key cost components—specifically, the cost of deposits, cost of borrowings, and overall cost of funds. Through meticulous financial planning and resource allocation, ICICI Bank has successfully maintained a delicate balance between minimizing funding costs and optimizing the return on funds deployed. The bank’s performance reflects not only effective cost control mechanisms but also a proactive investment strategy that maximizes returns on advances and investments, contributing positively to its net interest margins and overall financial health. Notably, ICICI Bank has demonstrated an exceptional capacity to adapt to evolving macroeconomic conditions and regulatory frameworks, thereby strengthening its risk management practices and reinforcing financial resilience.

The recent uptrend in return on funds, observed during the latter part of the study period, signals a promising recovery and affirms the bank's capacity to align its fund deployment strategies with profitability goals. This resurgence, coupled with optimistic forward-looking indicators, positions

ICICI Bank as a model for effective fund management among Indian commercial banks. In conclusion, the case of ICICI Bank underscores that efficient funds management is not merely a support function but a core driver of profitability and long-term value creation. Its strategic financial governance serves as a benchmark for both public and private sector banks aiming to enhance operational efficiency, withstand economic volatilities, and achieve sustainable growth in a highly competitive banking environment.

7.1. Suggestions

In light of the analytical insights derived from the study, several strategic recommendations are proposed to further enhance ICICI Bank's financial performance through optimized funds management. Firstly, greater cost efficiency can be achieved by actively diversifying the bank's funding sources beyond traditional deposits and borrowings. Exploring alternative instruments such as long-term infrastructure bonds, green finance options, or international debt markets may provide access to funds at competitive rates while improving funding stability. In parallel, the bank could benefit from negotiating more favourable terms with institutional lenders and capital markets, particularly during periods of lower interest rate volatility. Secondly, portfolio diversification should be emphasized as a risk-mitigation strategy. By allocating funds across a broader range of sectors—such as infrastructure, renewable energy, MSMEs, and digital financial services—ICICI Bank can reduce its exposure to sector-specific downturns and maintain stable returns across economic cycles. Such diversification will also enhance resilience against credit concentration risks. Another key recommendation is the institutionalization of a dynamic market intelligence framework to facilitate regular monitoring of interest rate movements, liquidity patterns, and regulatory changes. This proactive approach will allow the bank to adapt its fund allocation strategies promptly and ensure optimal timing in pricing deposits and loans. Furthermore, product innovation tailored to evolving customer preferences can significantly strengthen the bank's competitive edge. By developing customized deposit schemes, flexible loan structures, and value-added financial products, the bank can attract a more diversified clientele while improving its cost-benefit ratio. Leveraging digital platforms to enhance outreach and delivery efficiency will further support these efforts.

Finally, investments in financial technology and data analytics should be prioritized to enable precision-based decision-making in fund management. A tech-enabled infrastructure can streamline operations, reduce overhead costs, and enhance the accuracy of profitability forecasts. These suggestions, if implemented effectively, will not only reinforce ICICI Bank's market leadership but also contribute to sustainable and inclusive banking practices in an increasingly competitive financial landscape.

7.2. Limitations of the Study

The limitations of the study are as follows:

i. This research study is conducted within a specific time frame and focuses on certain criteria only.
ii. The day-to-day fluctuations in data have been excluded from the study due to limitations in obtaining detailed and comprehensive information for the research.
iii. All the computations have been done on the basis of data as at balance sheet date.
iv. In the absence of certain information which was not disclosed by the concerned bank, the computation of ratios has been done on the basis of GAAP.
v. The study focuses on the fund management of ICICI bank only. Hence, findings may differ for other banks.
vi. The secondary data has its own limitations.

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