ECONOMIC OVERVIEW

The year 2001 witnessed a continuation of the global economic slowdown that had begun to set in at the end of the year 2000. This recessionary trend deepened in the aftermath of the terrorist attacks in the United States in September 2001. This broad-based nature of the global slowdown, the most marked in recent times, impacted the outlook for emerging market economies in terms of reduced capital inflows and restricted access to funds from international capital markets. However, India remained relatively insulated from the global slowdown due to the lower significance of the external sector in its Gross Domestic Product (GDP). Despite the external environment, India's real GDP recorded one of the highest growth rates among all the economies of the world. This also marked a recovery over the low growth in fiscal 2001, though still below the average growth rate of the previous five years.

The overall GDP growth was supported mainly by agriculture and allied sectors and services. Services continued to fuel the economy, reflecting robust performance in financial services and technology. While consumer finance saw major growth, industrial growth witnessed a decline which may be attributed to various factors such as business and investment cycles, inherent adjustment lags of corporate restructuring, absence of investment demand, infrastructure constraints in power and transport and delays in establishing a credible institutional and regulatory framework for private participation in some key sectors. However, select infrastructure sectors, such as telecommunications and roads, saw significant success. The implementation of the National Highways Development Programme (NHDP) "Golden Quadrilateral" project is expected to be completed on schedule. The port sector has witnessed progress in private investments in new container terminals and minor ports and in corporatization of port trusts. In the telecom sector, significant progress has been made by Telecom Regulatory Authority of India (TRAI) in opening up all segments of the sector to competition, reducing prices in both long distance and cellular services. However, railways, power and urban infrastructure are key areas requiring reforms. The Union Budget for fiscal 2003 takes these concerns into account as it emphasizes rationalization of user charges and increased public expenditure on infrastructure.

The average annual rate of inflation in terms of the Wholesale Price Index (WPI) has declined significantly from 7.1% at the beginning of fiscal 2002 to 2.1% for the week ended July 8, 2002. This is in line with the deflationary trends experienced globally in commodity and manufactured product prices.

Interest rates declined significantly during the year. Yields on Government securities declined, reflecting the ample liquidity in the system. The small savings rate was further lowered by 50 basis points in Reserve Bank of India's (RBI) Monetary and Credit Policy announced in April 2002. This removed a key impediment for structurally lower interest rates. Reserve Bank of India has stated its preference for maintaining the current interest rate environment with a bias towards softer interest rate regime in the medium term, in order to create an environment that facilitates credit growth and investment activity in the economy.

Fiscal 2002 was a volatile year for the Indian equity capital markets. The markets underwent major structural reforms including the introduction of compulsory rolling settlement in a large number of stocks, margin trading, derivative instruments and the first Exchange Traded Fund. At the same time, the worldwide recession and decline in technology stock prices impacted the markets. However, notwithstanding adverse developments, the year 2001 witnessed the highest FII investment in Indian equity.

In the foreign exchange markets, other than occasional fluctuations caused by normal market forces, the exchange rate of the rupee in terms of the major currencies of the world remained reasonably stable during the year, with close monitoring by RBI. The exchange rate policy has by and large focused on managing volatility with no fixed rate target. During the year, foreign exchange reserves (including gold and special drawing rights) grew significantly, reaching a record level of nearly USD 58.00 billion as of July 5, 2002. An increase in inflow of invisibles and a lower trade deficit resulted in the current account showing a surplus of USD 1.40 billion (0.3% of GDP) in fiscal 2002 compared to a deficit of USD 2.60 billion in fiscal 2001. Foreign investments grew 15.2% aided by a sharp rise in Foeign Direct Investment (FDI) inflows of 67%. Moreover, as a result of effective external debt management by the Government, India's external debt situation improved significantly, as reflected in the declining external debt-to-GDP and debt service ratios. It is particularly noteworthy that for the first time, the World Bank has classified India as a less-indebted country.

FINANCIAL SECTOR OVERVIEW

The past year saw the process of financial sector reforms being carried forward with particular focus on banks and financial institutions. Considerable attention was given to asset classification and provisioning norms in banks. RBI announced guidelines on universal banking to facilitate the transformation of financial institutions into banks. It also granted licenses for two new private sector banks and reduced the cash reserve ratio in October 2001 and April 2002, bringing it down to 5.0%. The Union Budget for fiscal 2003 provided for higher tax deduction on provisions for bad debts. It also proposed the enactment of new legislation for banking sector reforms and foreclosure laws. The Union Budget also permitted incorporation of subsidiaries by foreign banks.

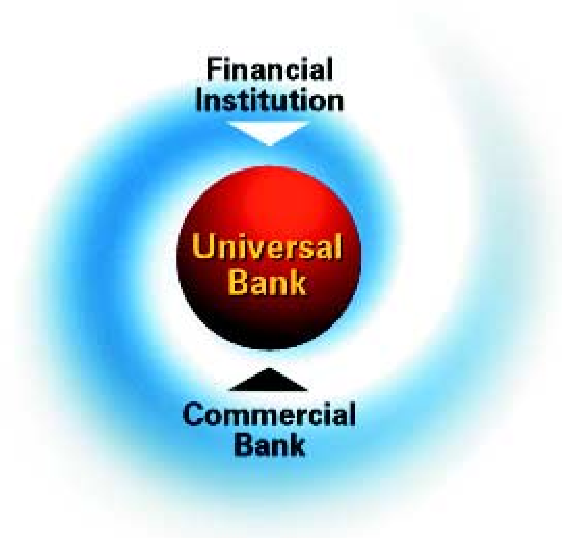
The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Ordinance, 2002 has significantly strengthened the ability of lenders to resolve non-performing assets by granting them greater rights as to enforcement of security and recovery of dues. The setting up of a pilot asset reconstruction company is also expected to facilitate faster resolution of non-performing assets in the financial system.

Fiscal 2002 saw measures designed to move towards a flexible interest rate regime. Measures such as reduction in interest rates and withdrawal of tax incentives across various small savings schemes, and benchmarking small savings rates to the average annual yields on Government securities of equivalent maturities are designed to make all interest rates market-linked and give banks greater flexibility in repricing their deposits. The introduction of floating rate deposits with reset at six-monthly intervals and the option to depositors to convert current fixed rate deposits to variable deposits is also designed to encourage better spread management for banks.

The liquidity scenario during the past year was comfortable. RBI has indicated that the policy of active demand management of liquidity through open market operations and liquidity adjustment facility would be continued. Credit growth and investment demand would be supported by maintaining the bias towards soft interest rates. RBI has also given a significant boost to housing finance by reducing the risk weightage on residential housing loans and mortgage-backed securities pertaining to residential housing loans from 100% to 50%.

MERGER OF ICICI WITH ICICI BANK

ICICI Bank and ICICI, along with other ICICI group companies, were operating as a "virtual universal bank", offering a wide range of financial products and services. The merger of ICICI and two of its subsidiaries with ICICI Bank has combined two organizations with complementary strengths and products and similar processes and operating architecture. The merger has combined the large capital base of ICICI with the strong deposit raising capability of ICICI Bank, giving ICICI Bank improved ability to increase its market share in banking fees and commissions, while lowering the overall cost of funding through access to lower-cost retail deposits. ICICI Bank would now be able to fully leverage the strong corporate relationships that ICICI has built, seamlessly providing the whole range of financial products and services to corporate clients. The merger has also resulted in the integration of the retail finance operations of ICICI, and its two merging subsidiaries, and ICICI Bank into one entity, creating an optimal structure for the retail business and allowing the full range of asset and liability products to be offered to all retail customers.



The share exchange ratio approved for the merger was one fully paid-up equity share of ICICI Bank for two fully paid-up equity shares of ICICI. This was determined on the basis of a comprehensive valuation process incorporating international best practices, carried out by two separate financial advisors and an independent accounting firm. The equity shares of ICICI Bank held by ICICI have not been cancelled in the merger. In accordance with the provisions of the Scheme of Amalgamation, these shares have been transferred to a Trust to be divested by appropriate placement. The proceeds of such divestment would accrue to the merged entity. With the merger taking effect, the paid-up share capital of the Bank has increased to Rs. 6.13 billion, comprising 613 million shares of Rs.10 each.

The merger process was complex and posed significant challenges. The merger of a financial institution with a commercial bank to create the country's first universal bank had significant implications for the entire financial system. It therefore involved extensive dialogue with the Government and Reserve Bank of India. The merger also posed the challenge of compliance with regulatory norms applicable to banks in respect of ICICI's assets and liabilities, particularly the reserve requirements. This required resources of about Rs. 210.00 billion to be raised in less than six months for investment in Government securities and cash reserves, in addition to normal resource mobilization for ongoing business requirements. We leveraged our strong retail franchise, including the distribution network acquired in the merger of the erstwhile Bank of Madura Limited with ICICI Bank in fiscal 2001, to grow our retail deposit base. We also achieved significant success in securitizing loans and developing a market for securitized debt in India. We also adopted proactive strategies to minimize the duration of our Government securities portfolio, in order to mitigate the interest-rate risk arising from the acquisition of a portfolio of about Rs. 180.00 billion in five months.

As both ICICI and ICICI Bank were listed in Indian and US markets, effective communication to a wide range of investors was a critical part of the merger process. It was equally important to communicate the rationale for the merger to international and domestic institutional lenders and to rating agencies. The merger process was required to satisfy legal and regulatory procedures in India as well as to comply with United States Securities and Exchange Commission requirements under US securities laws.

The merger of India's largest financial institution with its largest private sector bank also involved significant accounting complexities. In accordance with best practices in accounting, the merger has been accounted for under the purchase method of accounting under Indian GAAP. Consequently, ICICI's assets have been fair-valued for their incorporation in the books of accounts. The fair value of ICICI's loan portfolio was determined by an independent valuer, while ICICI's equity and related investment portfolio was fair-valued by determining its mark-to-market value. The total additional provisions & write-offs required to reflect the fair values of ICICI's assets determined at Rs. 37.80 billion have de-risked the loan and investment portfolio and created a significant cushion in the balance sheet, while maintaining healthy levels of capital adequacy.

The merger was approved by the shareholders of both companies in January 2002, by the High Court of Gujarat at Ahmedabad in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India (RBI) in April 2002. The challenge of mobilization of resources for compliance with statutory reserve requirements applicable to banks, on ICICI's outstanding liabilities on merger, was met successfully within the target date of March 30, 2002. While the merger became effective on May 3, 2002, in accordance with the provisions of the Scheme of Amalgamation and the terms of approval of RBI, the Appointed Date for the merger was March 30, 2002.

ORGANIZATION STRUCTURE

We believe that the structure of an organization needs to be dynamic, constantly evolving and responsive to changes both in the external and internal environments. Our organizational structure is designed to support our business goals, and is flexible while at the same time ensuring effective control and supervision and consistency in standards across business groups. The organization structure is divided into five principal groups – Retail Banking, Wholesale Banking, Project Finance & Special Assets Management, International Business and Corporate Centre.

The Retail Banking Group comprises ICICI Bank's retail assets business including various retail credit products, retail liabilities (including our own deposit accounts as well as distribution of third part liability products) and rural micro-banking.

The Wholesale Banking Group comprises ICICI Bank's corporate banking business including credit products and banking services, with separate dedicated groups for large corporates, Government and public sector entities and emerging corporates. Treasury, structured finance and credit portfolio management also form part of this group.

ICICI BANK

- **Retail Banking**
- **Wholesale Banking**
- **Project Finance & Special Assets Management**
- **International Business**
- **Corporate Centre**

The Project Finance Group comprises our project finance operations for infrastructure, oil & gas, manufacturing and shipping sectors. The Special Assets Management Group is responsible for large non-performing loans and accounts under watch.

The International Business Group is responsible for ICICI Bank's international operations as well as coordinating the international strategies and alliances of its subsidiaries and affiliates.

The Corporate Centre comprises all shared services and corporate functions, including finance and secretarial, investor relations, risk management, legal, human resources and corporate branding and communications.

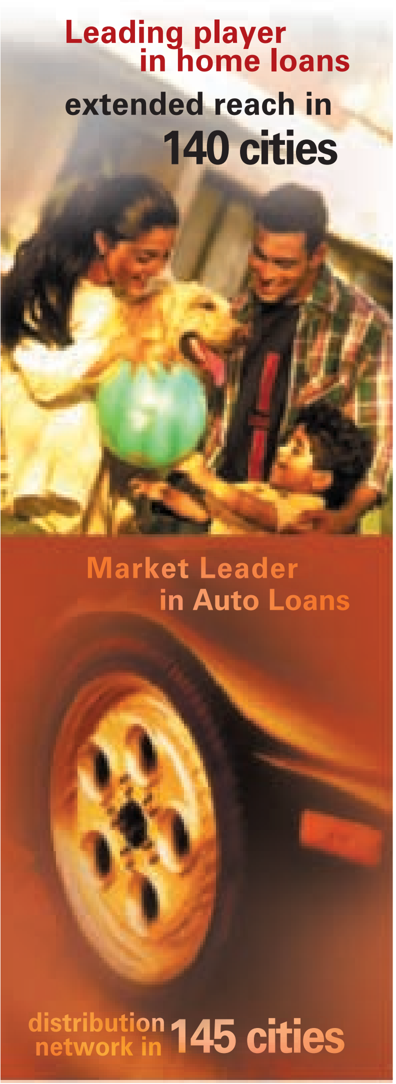
BUSINESS REVIEW

Retail Banking

The retail business is the key driver of ICICI Bank's growth strategy, with the objective of diversifying the asset portfolio and building a low-cost stable resource base. With a complete product suite across both asset and liability products as well as a wide range of banking services, ICICI Bank is today a retail financial supermarket with the ability to cross-sell the entire range of credit and investment products and other banking services to our customers. The key dimensions of our retail strategy are products, channels and processes, underpinned by a strong customer focus.

Changing demographics and the trend towards upward migration in income levels coupled with existing low retail credit penetration levels have created a major growth opportunity in retail finance. ICICI Bank's retail assets business is capitalizing on this opportunity with a competitive positioning and strategy comprising innovative products, wide distribution, strong credit controls and high customer service standards and rapidly growing volumes in each segment to achieve economies of scale. ICICI Bank's retail portfolio (including the portfolio of ICICI Home Finance Company Limited, its wholly-owned subsidiary) at March 31, 2002 was over Rs. 76.00 billion, as compared to the combined retail portfolio of ICICI and ICICI Bank of about Rs. 29.00 billion at March 31, 2001. Our retail asset products include mortgages, automobile and two-wheeler loans, commercial vehicles and construction equipment financing, consumer durable loans, personal loans and credit cards.

ICICI Bank



In the mortgages business, we expanded our reach to more than 140 locations across the country. We were the first to introduce adjustable rate home loans, with interest rates linked to a floating prime lending rate. This product received excellent response from customers across the country and was a key driver of growth in the mortgages segment. It also enabled us to price loans competitively and achieve better asset-liability management. Other products and product variants introduced this year included loans against existing property as well as several value-added features – retail property services and home insurance policies bundled with the loan. During fiscal 2002 we emerged as a leading player in the mortgages business.

During fiscal 2002 we consolidated our position as clear market leaders in automobile loans. We expanded our distribution network to 145 cities and towns across the country. The key drivers of growth were the strength of our corporate relationships with leading automobile manufacturers, strong distribution capability and customer service focus. We rapidly increased our presence in other segments as well. We expanded our two-wheeler business to over 140 locations. ICICI Bank partners manufacturers in distributing their products and therefore enjoys preferred status with them. We were able to offer competitive products to our customers by leveraging economies of scale resulting from the rapid growth in operations.

In the credit cards business we expanded our distribution to 36 locations. The total number of cards in force increased by 450,000 to about 650,000 at the end of fiscal 2002. During the year we launched two co-branded cards, with Hindustan Petroleum Corporation Limited (HPCL) and BPL Mobile respectively. We also entered the merchant acquiring business during the year.

ICICI Bank is the largest incremental issuer of cards (including both debit and credit cards) in India. ICICI Bank's "Ncash" debit card is a deposit access product that allows cash withdrawals through ATMs and also enables purchases at merchant establishments with point-of-sale terminals. The card is valid internationally and earns loyalty points on usage. We also introduced a domestic debit card variant primarily for our payroll customers. As at March, 31, 2002, ICICI Bank had issued about 600,000 debit cards. During fiscal 2002, ICICI Bank also implemented two smart card projects, at a corporate worksite and an educational institution.

In order to reduce our funding cost and create a stable funding base, we continued our focus on retail deposits in fiscal 2002. The number of customer accounts increased from 3.2 million to over 5 million. ICICI Bank's life stage segmentation strategy offering differentiated liability products to various categories of customers (kid-e-bank for children, bank@campus for students, PowerPay for salaried employees, ICICISelect for high networth individuals and Business Multiplier for businessmen) contributed significantly to the rapid growth in the retail liability base.

We have developed a successful third party distribution model with a growing market share in distribution of mutual funds, Reserve Bank of India relief bonds and insurance products. This allows us to meet all customer needs through products that are complementary to those that we offer directly, while leveraging our distribution capability to earn fee income from third parties.

We also provide online trading facilities through www.ICICIdirect.com. ICICIdirect provides complete end-to-end integration for seamless electronic trading on the stock exchanges and has been rated "TxA1" by CRISIL, indicating highest ability to service broking transactions. ICICIdirect has also launched India's first Digitally Signed Contract Notes (DSCN), which allows a customer to view and print their contract notes online.

ICICI Bank has pioneered a multi-channel distribution strategy in India, giving our customers 24x7 access to banking services. The enhanced convenience that this offers the customer has supported our customer acquisition efforts and migration of customer transactions from branches to lower-cost technology-enabled channels. During the year, ICICI Bank continued to expand its non-branch channels aggressively and successfully migrated customer transaction volumes to these channels. Only 35% of customer induced transactions now take place at branches. ICICI Bank set up over 500 new ATMs during fiscal 2002, taking the ATM network to over 1,000 ATMs. Master, Cirrus and Maestro cards can now be used on all our ATMs. Other new initiatives on ATMs include multilingual screens, bill payments and prepaid mobile card recharge facility.

ICICI Bank now has over one million retail Internet banking accounts. Retail Internet banking customers can view their bank accounts, transfer funds between their own accounts and to any other ICICI Bank account. ICICI Bank also offers the facility of transferring funds to accounts in any branch of any bank, in eight cities through eCheques, India's first Internet based inter-bank fund transfer facility. Customers can also open a fixed or recurring deposit, make a stop-cheque request and inquire into the status of a cheque online. Customers can write to the account manager through the secure channel and subscribe to account statement by e-mail. ICICI Bank offers its customers the facility of paying utility bills online in over 120 cities in India. All major online shopping services are linked to ICICI Bank's online payments facility.

ICICI Bank has also focused on the call centre as a key channel. ICICI Bank's call centre can now be accessed by customers in 100 cities, and is India's largest domestic call centre. The call centre is a single point of contact for customers across all products. It provides various self-service options and also personalized communication with customer service officers for a full range of transactions and account and product related queries. The call centre is now evolving into a complete relationship management channel not only for complaint resolution but also for cross-selling on inbound calls. The call centre uses state-of-the-art voice-over Internet-protocol technology and cutting-edge desktop applications to provide a single view of the customer's relationship.

ICICI Bank's mobile banking services provide the latest information on account balances, previous transactions, credit card outstanding and payment status and allow customers to request a checkbook or account statement.

Corporate Banking

ICICI Bank's corporate banking strategy is based on providing customized financial solutions to clients, tailored to meet their specific requirements. The corporate banking strategy focuses on careful management of credit risk and adequate return on risk capital through risk-based pricing and proactive portfolio management, rapid growth in fee-based services and extensive use of technology to deliver high levels of customer satisfaction in a cost effective manner.

Our focus in fiscal 2002 was on expanding the range and depth of our corporate relationships, acquiring new clients and cross-selling all our corporate banking products and services to the

existing client base. We continued to focus on working capital finance for highly-rated clients, structured transactions and channel financing. In longer-term loans, in the absence of traditional capital expenditure financing opportunities and limited corporate-credit growth, ICICI Bank has taken advantage of emerging opportunities in the public sector disinvestment process, through structuring and advisory services. We focused strongly on transaction banking services such as cash management and non-fund-based facilities such as letters of credit and bank guarantees to increase our market share in banking fees and commissions. We have already achieved significant success in cash management services, with total volumes of Rs. 1.72 trillion for fiscal 2002. We also targeted high value current accounts to reduce our cost of funding. We implemented a customer-level profitability-based pricing model. As the pioneers of securitization in India, we were successful in creating a market for securitized corporate debt, which would help to expand and deepen the debt markets.

During the year we enhanced our technology-based delivery platforms and expanded the scope of our web-based services. ICICI Bank provides Internet banking services to its wholesale banking clients through ICICImarkets.com, a finance portal that is the single point web-based interface for all our corporate clients. The Corporate Internet Banking (CIB) platform of ICICImarkets allows clients to conduct banking business online in a secure environment. Clients can view accounts online, transfer funds between their own accounts or to other accounts, and avail of other such services. ICICI Bank offers forex trading through the Internet on FXOnline and Government of India securities trading through Debt Online.

The corporate banking business is organized into special relationship groups for the Government and public sector, large corporates, emerging corporates and agri-business. ICICI Bank has strong linkages with several large public sector companies, and is leveraging these relationships to expand the range of services that it offers to them. ICICI Bank has also established relationships with several state governments, having financed state-level enterprises. Besides, ICICI Bank has been empanelled in eight states for collection of sales tax. ICICI Bank is also involved with several other state government initiatives. In the corporate client segment, ICICI Bank is focusing on increasing its share of banking business with its corporate clients. In the emerging corporates segment, ICICI Bank's focus is on establishing structured financing arrangements and implementing a liability-led business strategy, providing sophisticated banking services to its clients. ICICI Bank has also developed several innovative structures for agri-business, including dairy farming. ICICI Bank is working with state governments and agri-based corporates to evolve viable and sustainable systems for financing agriculture. ICICI Bank's dedicated Structured Products & Portfolio Management Group, with access to expertise in financial structuring and related legal, accounting and tax issues, actively supports the business groups in designing financial products and solutions. This Group is also responsible for managing the asset portfolio by structuring portfolio buyouts and sell-downs.

The enhanced capital base consequent to the merger will significantly increase ICICI Bank's ability to leverage its strong corporate relationships and provide non-fund-based facilities and trade finance services to its corporate clients. ICICI Bank is leveraging technology to set up centralized processing facilities to process large transaction volumes, thereby benefiting from economies of scale. A dedicated Corporate Operations & Technology Group has been set up for developing and managing back-office processing and delivery capabilities.

Treasury

The principal responsibilities of the Treasury include management of liquidity and exposure to market risks, mobilization of resources from domestic and international financial institutions and banks, and proprietary trading. Additionally, the Treasury is leveraging its strong relationships with financial sector players to provide a wide range of banking services in addition to its liability products. The Treasury is also responsible for ICICI Bank's capital markets and custodial services operations.

During fiscal 2002, the focus was on the challenge of meeting regulatory reserve requirements on ICICI's liabilities prior to the merger. This posed the dual challenge of raising resources for meeting the reserve requirements and managing the interest-rate risk arising from the acquisition of Government securities aggregating about Rs. 180.00 billion in an environment of low interest rates. Yields on Government securities reached historic lows during 2001-2002 as a consequence of the easy liquidity environment and RBI's soft-interest-rate policy. To minimize the risk of adverse mark-to-market impact on any rise in interest rates, ICICI Bank adopted a strategy of acquiring securities of lower duration. A significant portion of the requirement of Government securities was acquired through active participation in primary auctions of floating-rate bonds and short-maturity Treasury bills.

Prior to the merger, in addition to its resource mobilization from the wholesale segment, ICICI had raised a foreign currency loan of USD 75 million at LIBOR + 70 basis points, setting a new benchmark for a five-year borrowing by an Indian entity in the international markets after the Asian currency crisis. ICICI had also borrowed USD 50 million from Kreditanstalt fur Wiederaufbau (KfW), a German financial institution, for twelve-and-a-half years. This was the first borrowing by ICICI from KfW without a Government of India guarantee. ICICI also entered into an agreement with Asian Development Bank (ADB) for availing a 25-year USD 80 million loan for housing finance, and with DEG, Germany for an 8-year USD 25 million loan.

The focus of trading operations was active, broad-based market-making in key markets including corporate bonds, Government securities and interest-rate swap markets. Substantial reduction in interest rates provided an opportunity to capture gains in the fixed-income market by active churning of the trading portfolio.

Project Finance and Special Assets

Our project finance activities include financing new projects as well as capacity additions in the manufacturing sector and structured finance to the infrastructure and oil, gas and petrochemicals sectors. Over the years, we have developed considerable expertise in financing complex project finance transactions and effectively allocating the associated risks. Our presence has been viewed by most sponsors as critical to the success of their projects, on account of our proficiency in developing enforceable contract models, syndicating requisite funds and working out complex issues related to Government regulations. Our project finance business is focused on structuring and syndication of financing for large projects by leveraging our expertise in project financing, and churning our project finance portfolio to prevent portfolio concentration and to manage portfolio risk. We view our role not only as providers of project finance but as arrangers and facilitators, creating appropriate financing structures that may serve as financing and investment vehicles for a wider range of market participants.

Infrastructure Sector

The infrastructure sector has not witnessed the anticipated growth, mainly due to policy-level issues and delay in closure of various projects. While there were few opportunities in the power sector, the telecom and road sectors witnessed considerable activity. Guarantees to Department of Telecommunications on behalf of various telecom companies for basic, cellular and national and international long-distance licenses presented a significant non-fund based business opportunity. We have also capitalized on opportunities in the road sector, in both annuity and toll-based projects, including lead arranger mandates for four road projects of National Highway Authority of India (NHAI). The pace of growth in the road sector is expected to increase both due to NHAI's National Highway Development Programme and the larger state-level projects. Going forward, we expect ports and urban infrastructure sectors, in addition to telecom and roads, to provide significant business opportunities. Corporatization has already been initiated for five out of twelve major ports. Ports would also require significant expansion and modernization of facilities. We were appointed lead arrangers for a chemical port terminal project. The power sector is also expected to pick up with opportunities in the privatization of distribution, financial closure of select private projects with competitive tariffs, capacity additions in the public sector and its own reform and restructuring. We provided advisory services to the Ministry of Power, developing a comprehensive blueprint for private sector participation in hydropower. The Managing Director & CEO was a member of the Distribution Policy committee which submitted a report improving efficiency in power distribution in the country.

Manufacturing Sector

Fiscal 2002 saw few new projects in the manufacturing sector on account of lower economic growth and existing over-capacities in several commodities. Our focus in this sector is on projects sponsored by entities that have proven ability to commit the required financial resources and implement projects successfully within planned time-frames. We are also implementing tighter security measures, such as security interests in project contracts and escrow accounts to capture cash flows. We also believe that there is significant scope for consolidation in several segments in the manufacturing sector, which presents opportunities for structuring and syndicating acquisition financing.

Special Assets Management

Liberalization and integration with the global economy have posed major competitive challenges for Indian industry. Cyclical downturns in commodity demand and prices have adversely affected the performance of several sectors. This has impacted asset quality in the financial system. ICICI Bank's efforts at asset resolution are driven by the Special Assets Management Group (SAMG), set up to manage large non-performing loans and large accounts under watch that require close monitoring. In case of exposures to essentially viable companies. SAMG's approach includes operational and financial restructuring, completion of projects under implementation, sale of unproductive assets and catalyzing consolidation. In respect of exposures to unviable and essentially uneconomical projects, we adopt an aggressive approach aimed at out-of-court settlements, enforcing collateral and driving consolidation. The accent is on time-value of recovery and a pragmatic approach towards settlements. During fiscal 2002, SAMG was strengthened by the induction of some of our highest-rated performers into the group.

International Business

We have already established a presence in the international markets, primarily in the areas of information technology, investment banking and banking products and services for the

Non-Resident Indian (NRI) community. We believe that the international markets present a major growth opportunity and have therefore expanded the range of our international business initiatives. The International Business Group was set up in fiscal 2002 to develop and implement a focused strategy for the international business.

The international business strategy is based on leveraging home country links for international expansion by capturing market share in select international markets. The critical strengths, which can be leveraged to create value, include strong relationships with domestic corporates, preferential access to local currency markets, strong domestic distribution network and cultural ties with the home country. The initial focus areas would be supporting Indian companies in raising corporate and project finance for their investments abroad, trade finance, personal financial services for NRIs and international alliances to support domestic businesses.

We have identified the United States, United Kingdom, the Middle-East and South-East Asia as the key regions for establishing our international presence. We have already established Representative Offices in New York and London and are awaiting regulatory approval for offices in Singapore, Canada and United Arab Emirates.

CREDIT RATING

During the year, ICICI became the first Indian company to be rated higher than the sovereign rating for India by Moody's Investor Service, when its senior and subordinated long term foreign currency debt was rated Ba1 i.e. one notch above the sovereign rating for India. The same rating has been assigned to ICICI Bank post-merger. ICICI Bank's credit ratings as per various credit rating agencies (including ratings assigned to debt instruments issued by ICICI now transferred to ICICI Bank on merger) are given below:

Agency	Rating
Moody's Investor Service (Moody's)	
– Foreign currency debt	Ba1
– Foreign currency deposits	Ba3
Standard & Poor's (S&P)	BB
Credit Analysis & Research Limited (CARE)	CARE AAA
Investment Information and Credit Rating Agency (ICRA)	LAAA

RISK MANAGEMENT

Risk is an integral part of the banking business. The delivery of superior shareholder value depends on achieving an appropriate trade-off between risk and returns. ICICI Bank is exposed to specific risks that are particular to its businesses and the environment within which it operates, including credit risk, market risk and operational risk. Our risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked with international best practices.

The Risk, Compliance & Audit Group is responsible for assessment, management and mitigation of risk in ICICI Bank. This group forms part of the Corporate Centre, is completely independent of all business operations and is accountable to the Audit Committee of the Board of Directors. The group is organized into six sub-groups: Credit Risk Rating & Industry Analysis, Credit Policies & Credit Audit, Risk Analytics, Internal Audit, Subsidiaries Audit and Retail Risk.

Credit Risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender, ICICI Bank. ICICI Bank measures, monitors and manages credit risk for each borrower and also at the portfolio level. ICICI Bank has a standardized credit approval process, which includes a well-established procedure of comprehensive credit appraisal and rating. The credit rating for every borrower is reviewed at least annually and for higher risk credits and large exposures typically on a quarterly basis. ICICI Bank also reviews the ratings of all borrowers in a particular industry, upon the occurrence of any significant event impacting the industry. Institutionalization of sector knowledge across ICICI Bank has also been initiated through the availability of sector-specific information on the Intranet. ICICI Bank is also focusing on the development of models for assessing credit risk in the emerging corporates segment and in agricultural credit.

Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, equity prices and commodity prices. ICICI Bank's market risk arises principally from interest-rate risk. ICICI Bank's exposure to market risk is a function of its asset and liability management activities, trading activities and its role as a financial intermediary in customer-related transactions. The objective of market risk management is to effectively manage exposure of earnings and equity to losses and to reduce the volatility inherent in financial instruments. Interest-rate risk is measured through the use of re-pricing gap analysis and duration analysis.

Market risk is managed within an overall asset-liability framework approved by the Asset-Liability Management Committee (ALCO) of the Board of Directors. Its role encompasses stipulating liquidity and interest-rate risk limits, monitoring market-risk levels by adherence to set limits, articulating the organization's interest rate view and determining business strategy, in the light of the current and expected business environment. ICICI Bank proactively manages market risk through the re-pricing profile of incremental assets and liabilities and also uses the rupee interest rate derivatives market in India, to the extent feasible, to actively manage asset and liability positions. ICICI Bank ensures adequate liquidity at all times through systematic funds planning and maintenance of liquid investments, as well as by focusing on more stable funding sources such as retail deposits.

The Risk, Compliance & Audit Group formulates market risk management policy and monitors market risk on an ongoing basis. The asset-liability management group reporting to the Chief Financial Officer (CFO) monitors the asset-liability position under the supervision of the ALCO. The Middle Office group, which also reports to the CFO, monitors treasury activities, including determining compliance with various exposure and dealing limits, verifying the appropriateness and accuracy of various transactions, processing these transactions, tracking the daily funds position and all treasury-related management and regulatory reporting.

Operational Risk

ICICI Bank is exposed to many types of operational risk. Operational risk can result from a variety of factors, including failure to obtain proper internal authorizations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors. We attempt to mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining key back-up procedures and undertaking regular contingency planning. The Middle Office group monitors adherence to credit procedures. The Internal Audit group undertakes a comprehensive audit of all business groups and other functions, in accordance with a risk-based audit plan. This plan allocates audit resources based on an assessment of the operational risks in the various businesses. The Audit Department conceptualizes and implements improved systems of internal controls, to minimize operational risk.

INFORMATION TECHNOLOGY

ICICI Bank continues to leverage information technology as a strategic tool for its business operations, to gain competitive advantage by offering customer convenience and improved service as well as improving productivity and efficiency. ICICI Bank's technology strategy emphasizes enhanced level of customer services through 24x7 availability, multi-channel banking and straight through processing, and cost efficiency through optimal use of electronic channels, wider and focused market reach and opportunities for cross-selling. The Technology Management Group (TMG) is the focal point for the ICICI Group's technology strategy and Group-wide technology initiatives. This group reports directly to the Managing Director & CEO.

ICICI Bank is focusing on harnessing technology for integrating diverse products by unifying the enterprise IT architecture. In January 2002, we commenced implementation of an Enterprise Application Integration initiative in a phased manner. This initiative is aimed at providing a single customer view leading to increased customer satisfaction and employee productivity. The core banking software was upgraded during the first half of fiscal 2002. New initiatives include, among others, sending customer statements in electronic form over e-mails, facilities to invest in mutual funds through a bank account which could be operated across the delivery channels (ISWEEP) and integration of depository account of corporates with their bank account to facilitate on-line trading in debt instruments. Centralization of branch databases has permitted centralization of cheque-book issuance, account-opening processing, statement generation and printing, ATM card issue and generation of MIS and reports, thereby releasing significant resources at branches. Presently, the bank manages the largest centralized database among all banks in India.

A Customer Relationship Management (CRM) solution from Siebel was implemented for the automation of customer handling in all key retail

products of the Group. The solution allows customer service agents to track all customer complaints and requests. It also allows target setting and centralized tracking of turnaround times for request fulfilment. The solution went live in phases during fiscal 2002. The Bank has also undertaken a retail data warehouse initiative to achieve customer integration at the back-office. This central view of the total customer relationship is being used extensively for identifying opportunities to cross-sell new products and services to the existing customer base.

HUMAN RESOURCES

ICICI Bank views its human capital as a key source of competitive advantage. Consequently the development and management of human capital is an essential element of our strategy and a key management activity.

Human resources management in fiscal 2002 focused on smooth integration of the employees and human resource management systems in the context of the merger, as well as on continuous improvement of recruitment, training and performance management processes. The process of integration involved defining the organizational structure of the merged entity, people placement in various positions across the business and corporate groups, and integration of the grade and remuneration structure for the employees of the four entities. The organizational structure was announced in February 2002 and became effective on May 3, 2002. The people placement process was based on appropriate competency profiling tools and matching employee profiles to job specifications. The grade integration process has also been succesfully completed, using job evaluation techniques. While ICICI Bank is India's second-largest bank, it had just over 7,700 employees at March 31, 2002, demonstrating our unique technology-driven, productivity-focused business model.

The recruitment process has been streamlined and a uniform recruitment policy and process implemented across the merged organization. Robust ability-testing and competency-profiling tools are being used to strengthen the campus recruitment process and match the profiles of employees to the needs of the organization. ICICI Bank continues to be a preferred employer at leading business schools and higher education institutions across the country, offering a wide range of career opportunities across the entire spectrum of financial services. In addition to campus recruitment, ICICI Bank also undertakes lateral recruitment to bring new skills, competencies and experience into the organization and meet the requirements of rapidly growing businesses. A Six Sigma initiative has been undertaken for the lateral recruitment process to improve capabilities in this area. ICICI Bank encourages cross-functional movement, enriching employees' knowledge and experience and giving them a holistic view of the organization while ensuring that the bank leverages its human capital optimally.

The rapidly changing business environment and the constant challenges it poses to organizations and businesses make it imperative to continuously enhance knowledge and skill sets across the organization. ICICI Bank believes that building a learning organization is critical for being competitive in products and services and meeting customer expectations. ICICI Bank has built strong capabilities in training and development to build competencies. Training on products and operations is imparted through web-based training modules. Special programmes on functional training and leadership development to build knowledge as well as management ability are conducted at a dedicated training facility. ICICI Bank also draws from the best available training programmes and faculty, both international and domestic, to meet its training and development needs and build globally benchmarked skills and capabilities.

ICICI Bank seeks to build in all its employees a total commitment towards exceptional standards of performance and productivity, adaptability to changing organizational needs and the demands of the business environment and a willingness to learn and acquire new capabilities. ICICI Bank believes in defining clear performance parameters for employees and empowering them to achieve their goals. This has helped to create a culture of high performance across the organization. ICICI Bank also has a structured process of identifying and developing leadership potential.

The focus on human resources management as a key organizational activity has resulted in the creation of an exceptional pool of talent, a performance-oriented organizational culture and has imparted agility and flexibility to the organization, enabling it to capitalize on opportunities and deliver value to its stakeholders.

ORGANIZATIONAL EXCELLENCE

ICICI Bank recognizes the importance of organizational excellence in its business. Developing and deploying world-class skills in a variety of areas such as technology, financial engineering, transaction processing and portfolio management, credit evaluation, customer segmentation and product design, and building and maintaining deep and enduring relationships of trust with our retail and wholesale customers are essential elements of our strategy.

Different businesses across the ICICI group have over the past few months used successfully the Six Sigma methodology to focus on customer satisfaction and enhanced efficiency in operations. Application of Six Sigma techniques in regional processing centres, branch layout and design, and the home finance and demat services businesses have reduced turnaround time and significantly improved operational efficiency. In recognition of the critical importance of excellence in internal processes and delivery to customers, we have set up an Organizational Excellence Group headed by a Senior General Manager reporting to the Managing Director & CEO. This group will be responsible for institutionalization of quality initiatives, including Six Sigma, and for building the skills necessary for implementing and accelerating quality initiatives, reporting to the management the progress and value generated from these initiatives and replicating the successes across ICICI Bank as well as group companies.

COMMUNITY DEVELOPMENT

ICICI Bank believes that, as one of India's largest business enterprises and one of the largest participants in the financial system, it needs to make focused efforts towards contributing to economic and social development in India. This complements our business operations of providing financial services to government, industry and individual customers. ICICI Bank's community development initiatives are channelized through a dedicated not-for-profit group, the Social Initiatives Group (SIG), which seeks to identify and support cost-effective, time-bound, scalable and replicable initiatives designed to improve the capacity of the under-priviliged to participate in the larger economy. ICICI Bank supports initiatives that have both near and long-term impact. In this context, health, education and availability of financing have been identified as three key areas. Within these, infant health at birth, elementary education and micro-financial services have been identified for focused attention.

Infant Health at Birth

The objective of initiatives in this area is to maximize the proportion of infants born healthy.

We seek to support research in nutritional deficiencies that cause infant mortality and strategies to improve nutrition, particularly female nutrition. Some of the key initiatives we supported in this area during fiscal 2002 were a "Maternal Nutrition Workshop" at Aurangabad organized by SNEHA–India, a three-year community-based action research project on preventing iron deficiency in mothers in conjunction with Topiwala Medical College and B.Y.L. Nair Charitable Hospital in Mumbai and "Mumbai Maternal Diet Study" undertaken by Medical Research Council, University of Southampton, UK in conjunction with SNEHA-India and the Centre for the Study of Social Change, Mumbai.

Elementary Education

The objective of initiatives in this area is to maximize the number of 14-year-olds who have a basic level of elementary education. Pratham, a non-governmental organization in Mumbai, which we have partnered for seven years, has developed innovative strategies for motivating children to enrol in and complete primary school. We support Pratham's pre-school, remedial education and bridge course programmes, as well as related research studies. Some of the other initiatives we supported in this area during fiscal 2002 were the Jana Sanskriti Centre for Theatre of the Oppressed in rural West Bengal, which uses theatre to enable children to make an easy transition to formal school, and Digantar, a voluntary organization based in Jaipur that runs three village schools.

Micro-financial Services

Participation of the poor in the larger economy necessitates a transition from being passive observers to active participants in the growth process. Micro-financial services therefore include those financial services that enable the poor to reduce their economic vulnerability and participate in the growth process. The objective of our initiatives in micro-finance is to maximize access to basic financial services – basic banking (savings and cash management), finance (debt, equity and leasing) and insurance (life and health). ICICI's Rural Micro-Banking Group is engaged in delivering micro-finance to self-help groups of rural women. It has also developed models for delivering micro-finance and other banking facilities to groups at centres without branches. An important strategy has been to understand the role of technology in providing cost-effective financial services to the poor, including the use of wireless technology to develop a low-cost banking model and the use of smart cards in rural banking.

We seek to disseminate our research and experience in each of these three areas, and plan to create web-based resource centres on the portal www.icicisocialinitiatives.org. In addition to the above core focus areas, we also support capacity-building in non-governmental organizations through the GIVE (Giving Impetus to Voluntary Effort) Foundation and the portal ICICIcommunities.org, which provides a variety of services. We also encourage appropriate research and institution-building efforts for the development of the Indian financial system. The web site, www.ICICIresearchcentre.org, is a virtual non-profit research centre that acts as a platform to encourage debate, and develop a non-partisan opinion on various issues of concern and interest in financial economics relating to emerging markets.

PUBLIC RECOGNITION

During fiscal 2002, we received several prestigious awards in recognition of our business strategies, customer services, human resources practices and transparency in financial reporting, including:

- The title “Best Retail Bank in India” by Asian Banker for the second consecutive year;
- Asian Business Leader Award (organized by CNBC Asia-Pacific and TNT) awarded to K. V. Kamath, Managing Director & CEO;
- Asian Banker’s Product Innovation Award for “Kid-e-bank” account;
- Among the top three in a “Best Employer” study amongst the students of the best business schools in India conducted by ORG-MARG;
- Indian Express Marketing Excellence Award for the “Most Recalled Advertisement on Television”; and
- “Best Presented Accounts Award” in the category of banks and financial institutions from the Institute of Chartered Accountants of India, for the third consecutive year.