ICICI Bank

ICICI BANK LIMITED

FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2000, 2001 AND 2002

PREPARED IN ACCORDANCE WITH

UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)

contents

independent auditors' report

To the Board of Directors and Stockholders of ICICI Bank Limited

We have audited the accompanying balance sheets of ICICI Bank Limited as of March 31, 2002 and 2001 and the related statements of income, changes in stockholders' equity and other comprehensive income and cash flows for each of the years in the three-year period ended March 31, 2002. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ICICI Bank Limited as of March 31, 2002 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in note 1.20.1 to the financial statements, on April 1, 2001 the Bank adopted the provisions of Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended.

The United States dollar amounts are presented in the accompanying financial statements solely for the convenience of the readers and have been translated to United States dollars on the basis disclosed in note 1.4.1.

KPMG

Mumbai, India
May 2, 2002

balance sheets

(in millions, except share data)

at March 31,	2001	2002	2002(1)
			Convenience translation into USD (unaudited)
	Rs.	Rs.	USD
Assets			
Cash and cash equivalents	44,896	**87,965**	**1,801**
Interest-bearing deposits with banks	2,410	**1,406**	**29**
Amounts lent under reverse repurchase transactions	—	**9,116**	**187**
Trading assets	18,725	**26,075**	**534**
Securities:			
Available for sale	24,787	**155,758**	**3,190**
Held to maturity (fair value Rs. 11,524 million and Rs. 28,768 million at March 31, 2001 and 2002 respectively)	10,944	**24,294**	**498**
Loans (net of allowance for loan losses and unearned income)	93,030	**72,474**	**1,484**
Customers' liability on acceptances	12,869	**12,608**	**258**
Property and equipment, net	3,920	**4,831**	**99**
Intangible assets	2,641	**2,397**	**49**
Other assets	6,316	**7,881**	**161**
Total assets	220,538	**404,805**	**8,290**
Liabilities			
Interest bearing deposits	137,883	**295,647**	**6,054**
Non-interest bearing deposits	26,371	**29,574**	**606**
Total deposits	164,254	**325,221**	**6,660**
Amounts borrowed under repurchase transactions	537	**21,399**	**438**
Trading liabilities	5,958	**1,237**	**25**
Short-term borrowings	3,012	**1,409**	**29**
Bank acceptances outstanding	12,869	**12,608**	**258**
Other liabilities	15,180	**19,041**	**390**
Long-term debt	2,421	**5,740**	**118**
Total liabilities	204,231	**386,655**	**7,918**
Commitments and contingencies (Note 20)			
Stockholders' equity:			
Common stock (Rs. 10 par value, Authorized shares: 300 million Issued shares March 31, 2001: 220,358,680 shares and March 31, 2002: 220,358,680 shares)	2,203	**2,203**	**45**
Additional paid-in capital	10,927	**10,926**	**224**
Retained earnings	2,974	**4,040**	**83**
Deferred compensation .	(20)	**(5)**	**—**
Accumulated other comprehensive income.	223	**986**	**20**
Total stockholders' equity.	16,307	**18,150**	**372**
Total liabilities and stockholders' equity.	220,538	**404,805**	**8,290**

See accompanying notes to financial statements.
(1) Exchange Rate: Rs. 48.83 = USD 1.00 at March 30, 2002

statements of income

ICICI Bank

(in millions, except share data)

for the year ended March 31,	2000	2001	2002	2002[1]
				Convenience translation into USD (unaudited)
	Rs.	*Rs.*	**Rs.**	**USD**
Interest and dividend income				
Interest and fees on loans	*4,437*	*7,419*	**10,327**	**211**
Interest and dividends on securities, available for sale	*684*	*1,217*	**3,709**	**76**
Interest and dividends on securities held to maturity	—	*543*	**2,006**	**41**
Interest and dividends on trading assets	*3,073*	*2,833*	**3,965**	**81**
Interest on deposits with banks	*233*	*298*	**467**	**10**
Other interest income	*7*	*96*	**363**	**7**
Total interest and dividend income	*8,434*	*12,406*	**20,837**	**426**
Interest expense				
Interest on deposits	*5,789*	*7,261*	**13,582**	**278**
Interest on long term debt	*244*	*240*	**505**	**10**
Interest on trading liabilities	*542*	*784*	**723**	**15**
Other interest expense	*81*	*123*	**306**	**6**
Total interest expense	*6,656*	*8,408*	**15,116**	**309**
Net interest income.	*1,778*	*3,998*	**5,721**	**117**
Provision for loan losses	*(427)*	*(1,082)*	**(1,722)**	**(35)**
Net interest income after provision for loan losses	*1,351*	*2,916*	**3,999**	**82**
Non-interest income				
Fees and commissions	*607*	*1,125*	**1,733**	**36**
Net gain on trading activities	*857*	*602*	**2,196**	**45**
Net gain/(loss) on sales of available for sale securities	*75*	*(384)*	**872**	**18**
Foreign exchange income	*220*	*397*	**365**	**7**
Other revenue	—	*14*	**47**	**1**
Total non-interest income.	*1,759*	*1,754*	**5,213**	**107**
Non-interest expense				
Salaries and employee benefits	*316*	*507*	**1,518**	**31**
Occupancy and equipment	*520*	*1,171*	**2,166**	**44**
Advertising and publicity	*39*	*143*	**80**	**2**
Administration and other expense	*454*	*1,271*	**2,252**	**46**
Amortization of goodwill and other intangible assets	—	*12*	**244**	**5**
Total non-interest expense	*1,329*	*3,104*	**6,260**	**128**
Income before income taxes	*1,781*	*1,566*	**2,952**	**61**
Income tax expense	*379*	*258*	**931**	**19**
Income before cumulative effect of accounting changes	*1,402*	*1,308*	**2,021**	**42**
Cumulative effect of accounting changes (net of tax of Rs. 9 million)	—	—	**16**	**—**
Net income	*1,402*	*1,308*	**2,037**	**42**
Basic earnings per share				
Before cumulative effect of accounting changes	*8.49*	*6.60*	**9.17**	**0.19**
Cumulative effect of accounting changes, net of tax	—	—	**0.07**	**—**
	8.49	*6.60*	**9.24**	**0.19**
Weighted average number of common shares (in millions)	*165.09*	*198.24*	**220.36**	**220.36**
Diluted earnings per share				
Before cumulative effect of accounting changes	*8.49*	*6.60*	**9.17**	**0.19**
Cumulative effect of accounting changes, net of tax	—	—	**0.07**	**—**
	8.49	*6.60*	**9.24**	**0.19**
Weighted average number of common shares (in millions)	*165.11*	*198.24*	**220.36**	**220.36**

See accompanying notes to financial statements.
(1) Exchange Rate: Rs. 48.83 = USD 1.00 at March 30, 2002

statements of changes in stockholders' equity

and other comprehensive income

for the years ended March 31, 2000, 2001 and 2002 *(in millions, except share data)*

	Common Stock		Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income,net of Tax	Total Stockholders' Equity
	Shares	Amount Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as of March 31, 1999	**165,000,700**	**1,650**	**375**	**756**	**—**	**49**	**2,830**
Common stock issued	31,818,180	318	7,020	—	—	—	7,338
Compensation related to employee stock option plan	—	—	40	—	(40)	—	—
Amortization of deferred compensation	—	—	—	—	1	—	1
Comprehensive income							
Net income	—	—	—	1,402	—	—	1,402
Unrealized gain on securities, (net of tax of Rs. 15 million)	—	—	—	—	—	34	34
Comprehensive income	—	—	—	—	—	—	1,436
Dividend paid (Rs.1.2 per common share)	—	—	—	(218)	—	—	(218)
Balance as of March 31, 2000	**196,818,880**	**1,968**	**7,435**	**1,940**	**(39)**	**83**	**11,387**
Common stock issued	23,539,800	235	3,502	—	—	—	3,737
Compensation related to employee stock option plan	—	—	(10)	—	10	—	—
Amortization of deferred compensation	—	—	—	—	9	—	9
Comprehensive income							
Net income	—	—	—	1,308	—	—	1,308
Unrealized gain on securities, (net of tax of Rs. 91 million)	—	—	—	—	—	140	140
Comprehensive income	—	—	—	—	—	—	1,448
Dividend paid (Rs. 1.5 per common share)	—	—	—	(274)	—	—	(274)
Balance as of March 31, 2001	**220,358,680**	**2,203**	**10,927**	**2,974**	**(20)**	**223**	**16,307**
Compensation related to employee stock option plan	—	—	(1)	—	1	—	—
Amortization of deferred compensation	—	—	—	—	14	—	14
Comprehensive income							
Net income	—	—	—	2,037	—	—	2,037
Unrealized gain on securities, (net of tax of Rs. 466 million)	—	—	—	—	—	763	763
Comprehensive income	—	—	—	—	—	—	2,800
Dividend paid (Rs. 4.0 per common share)	—	—	—	(971)	—	—	(971)
Balance as of March 31, 2002	**220,358,680**	**2,203**	**10,926**	**4,040**	**(5)**	**986**	**18,150**
Balance as of March 31, 2002 (USD(1)) (unaudited)		**45**	**224**	**83**	**—**	**20**	**372**

See accompanying notes to financial statements.

(1) Exchange Rate: Rs. 48.83 = USD 1.00 at March 30, 2002

statements of cash flows

ICICI Bank

(in millions, except share data)

for the year ended March 31,	2000	2001	2002	2002[1]
				Convenience translation into USD (unaudited)
	Rs.	Rs.	Rs.	USD
Operating activities				
Net income	1,402	1,308	2,037	42
Adjustments to reconcile net income to net cash (used in) / provided by operating activities:				
Provision for loan losses	427	1,082	1,722	35
Depreciation	201	352	636	13
Amortization	173	253	1,032	21
Loss on sale of property and equipment	1	2	1	—
Deferred income tax expense/(benefit)	113	(442)	(240)	(5)
Realized (gain) / loss on sales of available for sale securities, net	(75)	384	(872)	(18)
Net change in:				
Trading assets	(12,509)	(6,091)	(7,413)	(152)
Other assets	(1,608)	(120)	(1,745)	(36)
Other liabilities	1,661	7,490	3,418	71
Trading liabilities	1,503	4,048	(4,720)	(96)
Net cash (used in) / provided by operating activities	(8,711)	8,266	(6,144)	(125)
Investing activities				
Changes in interest bearing deposits with banks	(2,048)	1,129	1,004	21
Activity in held to maturity securities				
Purchases	—	(1,174)	(13,466)	(276)
Activity in available for sale securities				
Purchases	(10,714)	(15,050)	(145,141)	(2,972)
Sales	10,020	11,517	15,955	327
Loan originations and principal collections, net	(19,843)	(29,288)	18,951	388
Purchases of property and equipment	(528)	(1,153)	(1,556)	(32)
Sales of property and equipment	2	1	9	—
Amounts lent under reverse repurchase transactions	(256)	—	(9,116)	(187)
Cash equivalents acquired net of purchase acquisitions	—	5,649	—	—
Net cash used in investing activities.	(23,367)	(28,369)	(133,360)	(2,731)
Financing activities				
Increase in deposits, net	37,931	30,368	160,967	3,296
Proceeds from issuances of long term debt	710	—	4,331	89
Repayment of long term debt	—	(771)	(1,012)	(21)
Amounts borrowed under repurchase transactions	—	537	20,862	427
Issuances of short term borrowings, net	702	826	(1,604)	(33)
Issuance of common stock, net	7,338	—	—	—
Cash dividends paid on common stock	(218)	(274)	(971)	(20)
Net cash provided by financing activities	46,463	30,686	182,573	3,738
Net increase /(decrease) in cash and cash equivalents	14,385	10,583	43,069	882
Cash and cash equivalents at beginning of the year	19,928	34,313	44,896	919
Cash and cash equivalents at end of the year.	34,313	44,896	87,965	1,801
Non-cash items				
Non-cash investing and financing activities were as follows:				
Acquisitions				
Fair value of net assets acquired, excluding cash and cash equivalents	—	(4,381)	—	—
Shares issued	—	23,539,800	—	—
Transfer to held to maturity from trading assets	—	10,178	—	—
Transfer to available for sale from trading assets	—	8,575	—	—
Change in unrealized gain/loss on securities available for sale, net	34	140	763	16
Foreclosed assets	—	—	105	2
Cash paid during the year for:				
Interest expense	6,569	8,209	13,920	285
Income taxes	247	460	870	18

See accompanying notes to financial statements

(1) Exchange Rate: Rs. 48.83 = USD 1.00 at March 30, 2002

1. Significant accounting policies

1.1 *Overview*

1.1.1 ICICI Bank Limited ("ICICI Bank" or "the Bank"), incorporated in the State of Gujarat having Registered Office at Vadodara, India is a publicly held bank providing a wide range of banking and financial services including corporate lending and retail lending, trade finance and treasury products. ICICI Bank is a banking company governed by the Banking Regulation Act, 1949.

1.1.2 In fiscal 2001, ICICI Bank acquired and merged Bank of Madura into itself in an all-stock deal accounted for under the purchase method. These financial statements include the assets and liabilities acquired at fair value and the results of the acquired entity from the effective date.

1.2 *Proposed business combination with ICICI Limited*

1.2.1 In January 2002, the shareholders of ICICI Limited and ICICI Bank approved a plan of combination whereby ICICI Bank will acquire ICICI Limited in a transaction, which would be accounted for as a reverse acquisition. Subsequent to the transaction, ICICI Bank which is the accounting acquiree will be the surviving legal entity. The transaction will be accounted for by the purchase method to reflect the increase in ownership interest of ICICI Limited in ICICI Bank from the existing 46.01% to 100%.

1.2.2 The plan of combination was subject to regulatory approvals which were obtained in April 2002. As the transaction was consummated in April 2002, it is not reflected in the financial statements for the year ended March 31, 2002.

1.2.3 ICICI Bank provides banking and financial services. The operations of ICICI Bank are governed by the Banking Regulation Act, 1949. As a result of the acquisition, ICICI Limited is expected to be a universal banking company offering the entire spectrum of financial services. The acquisition is expected to reduce the cost of funds for ICICI Limited through access to the extensive branch network and core deposit base of ICICI Bank. Subsequent to the acquisition, the operations of the combined entity, to be renamed as ICICI Bank, will be governed by the Banking Regulation Act, 1949.

1.2.4 The transaction will be consummated by issuing approximately 392 million shares of ICICI Bank to the shareholders of ICICI Limited. For accounting purposes, the aggregate purchase price will approximate Rs. 12,120 million.

1.2.5 The following table summarizes the preliminary allocation of the estimated purchase price:

(Rs. in millions)

	As of March 31, 2002
Assets	
Cash and cash equivalents	48,618
Securities	119,505
Loans	39,392
Property and equipment	2,790
Intangible assets	4,038
Other assets	11,171
Total assets	225,514
Liabilities	
Deposits	177,321
Long-term debt	3,213
Other liabilities	32,860
Total liabilities.	213,394
Net assets.	12,120

1.3 *Basis of preparation*

1.3.1 The accounting and reporting policies of ICICI Bank used in the preparation of these financial statements reflect industry practices and conform to generally accepted accounting principles in the United States of America ("US GAAP").

1.3.2 The preparation of financial statements in conformity with US GAAP requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported income and expenses during the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Significant estimates and assumptions are used to account for loan loss impairment, useful lives of assets, determination of amortisation period for goodwill, and computation of retirement benefits.

1.4 *Functional currency and convenience translation*

1.4.1 The financial statements have been prepared in Indian rupees ("Rs"), the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the year ended March 31, 2002 have been translated into US dollars at the noon buying rate in New York city at March 30, 2002 for the cable transfers in rupees as certified for customs purposes by the Federal Reserve of New York of USD1.00 = Rs. 48.83. No representation is made that the rupee amounts have been, could have been or could be converted into US dollars at such rate or any other rate on March 31, 2002 or at any other certain date.

1.5 *Cash equivalents*

1.5.1 ICICI Bank considers all highly liquid investments, which are readily convertible into cash and which have contractual maturities of three months or less from the date of purchase, to be cash equivalents. The carrying value of cash equivalents approximates fair value.

1.6 *Securities and trading activities*

1.6.1 The Bank classifies investments in fixed maturities and equity securities into three categories based upon management's intention at the time of purchase; securities held to maturity, trading securities and securities available for sale. Investments in fixed maturities include bonds, notes and redeemable preferred stocks, as well as certain loan backed and structured securities subject to prepayment risks. Realized gains and losses on the sale of securities are recorded at the time of sale (trade date).

1.6.2 Securities that are held principally for resale in the near term are recorded as trading assets. Trading assets, primarily debt securities and foreign exchange products are recorded at fair value with realized and unrealized gains and losses included in non-interest income. Interest on trading assets is included in interest income. The fair value of trading assets is based upon quoted market prices or, if quoted market prices are not available, the value is estimated using similar securities or pricing models.

1.6.3 Securities "held to maturity" are carried at cost, adjusted for amortization of premiums and accretion of discounts. The Bank has the intent and ability to hold these securities until maturity.

1.6.4 All securities not classified as held to maturity or trading securities are classified as "available for sale". These include securities used as part of the Bank's asset liability management strategy, which may be sold in response to changes in interest rates, prepayment risk, liquidity needs and similar factors. Securities available for sale are recorded at fair value with unrealized gains and losses recorded net of tax as a component of other comprehensive income.

1.6.5 Any "other than temporary diminution" in the value of held-to-maturity or securities available for sale is charged to the income statement. "Other than temporary diminution" is identified based on management's evaluation of the securities portfolio.

1.7 *Loans*

1.7.1 Loans are stated at the principal amount outstanding, net of unearned income, if any. Loan origination fees (net of loan origination costs) are deferred and recognized as an adjustment to yield over the period of the loan. Interest is accrued on the unpaid principal balance and is included in interest income. Loans include credit substitutes such as privately placed debt instruments, preferred shares which are in essence loans, pass through certificates ('PTCs') and loans underlying certain PTC's where the Bank consolidates the Special Purpose Vehicles ('SPV') established to facilitate the PTC transaction.

1.7.2 Lease financing receivables are reported at the aggregate of lease payments receivable and estimated residual values, net of unearned and deferred income. Unearned income is recognized to yield a level rate of return on the net investment in the leases.

1.7.3 Interest income is accounted on an accrual basis except in respect of non-accrual loans, where it is recognized on a cash basis. Income from leasing operations is accrued in a manner to provide a fixed rate of return on outstanding investments. Interest on bills discounted, is recognized on a straight-line basis over the tenure of the bills. Fees from non-fund based activities such as guarantees and letters of credit are amortized over the contracted period of the commitment.

1.7.4 ICICI Bank identifies a loan as impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. A loan is also considered to be impaired if interest or principal is overdue for more than 180 days. The value of impaired loans is measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the recovery of the loan is solely collateral dependent. If the value of the impaired loan is less than the recorded investment in the loan, ICICI Bank recognizes this impairment by creating a valuation allowance with a corresponding charge to the provision for loan losses or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to the provision for loan losses. A loan is also considered impaired if its terms are modified in a trouble debt restructuring. For these accruing impaired loans, cash receipts are typically applied to principal and interest in accordance with the terms of the restructured loan agreement.

1.7.5 ICICI Bank considers all loans on non-accrual status to be impaired. Commercial loans are placed on non-accrual status when doubt as to timely collection of principal or interest exists, or when principal or interest is overdue for 180 days or more. Delays or shortfalls in loan payments are evaluated along with other factors to determine if a loan should be placed on non-accrual status.Generally, loans with delinquencies under 180 days are placed on non-accrual status only if specific conditions indicate that impairment is probable. The decision to place a loan on non-accrual status is also based on an evaluation of the borrower's financial condition, collateral, liquidation value, and other factors that affect the borrower's ability to repay the loan in accordance with the contractual terms.

1.7.6 Generally, at the time a loan is placed on non-accrual status, interest accrued and uncollected on the loan in the current fiscal year is reversed from income, and interest accrued and uncollected from the prior year is charged off against the allowance for loan losses. Thereafter, interest on non-accrual loans is recognized as interest income only to the extent that cash is received and future collection of principal is not in doubt. If the collectibility of the outstanding principal is doubtful, such interest received is applied as a reduction of principal. When borrowers demonstrate, over an extended period the ability to repay a loan in accordance with the contractual terms of a loan, which the Bank classified as non-accrual, the loan is returned to accrual status.

1.8 *Allowance for loan losses*

1.8.1 The allowance for credit losses represents management's estimate of probable losses inherent in the portfolio. Loan losses deemed uncollectible by management are charged off against the reserve, while recoveries of amounts previously charged off are credited to the reserve. Amounts are charged off after giving consideration to factors such as the customer's financial condition, underlying collateral and guarantees, and general and industry economic conditions. The allowance for loan losses reflects management's estimate of probable losses inherent in the portfolio, considering evaluations of individual credits and concentrations of credit risk, changes in the quality of the credit portfolio, levels of non accrual loans and leases, current economic considerations, cross-border risks, changes in the size and character of the credit risks and other pertinent factors. The portion of the allowance for loan losses related to loans that are identified as impaired is based on discounted cash flows using the loan's effective interest rate or the fair value of the collateral for collateral-dependent loans, or the observable market price of the impaired loans.

1.8.2 Smaller balance homogeneous loans (including credit card receivables) are collectively evaluated for impairment based on historical loss experience, adjusted for changes in trends and conditions including delinquencies and non accruals. Based on these analyses, the allowance for loan losses is maintained at levels considered adequate by management to also provide for probable credit losses inherent in these portfolios.

1.9 *Property and equipment*

1.9.1 Property and equipment including assets under capital lease are stated at cost, less accumulated depreciation. The cost of additions, capital improvements and interest during the construction period are capitalized, while repairs and maintenance are charged to expenses when incurred.

1.9.2 Depreciation is provided over the estimated useful lives of the assets, or lease term, whichever is shorter.

1.9.3 Property under construction and advances paid towards acquisition of property, plant and equipment are disclosed as capital work in progress. The interest cost incurred for funding an asset during its construction period is capitalized based on the actual outstanding investment in the asset from the date of purchase/expenditure and the average cost of funds. The capitalized interest cost is included in the cost of the relevant asset and is depreciated over the asset's estimated useful life.

1.9.4 Capitalized cost of computer software obtained for internal use represents costs incurred to purchase computer software from third parties. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software. Deposits paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not put to use before such date are disclosed under capital work-in-progress.

1.9.5 The Bank accounts for long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed off." This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

1.10 *Goodwill and intangible assets*

1.10.1 Goodwill and other intangible assets such as tenancy rights are assets, which arise or have been acquired in business combination. Values have been assigned to the identified intangible assets based on available evidence and are amortized on a straight line basis over estimated useful life.

1.10.2 The Bank assesses the recoverability of goodwill by determining whether the amortization of its balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operations. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Bank's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

1.11 *Income taxes*

1.11.1 The provision for income taxes is determined under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets are recognized subject to a valuation allowance based upon management's judgement as to whether realization is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be received and settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the income statement in the period of change.

1.12 *Trading assets and liabilities*

1.12.1 Trading assets and liabilities include securities and derivatives and are recorded at either market value or where, market prices are not readily available, fair value, which is determined under an alternative approach. The determination of market or fair value considers various factors including stock exchange quotations, time value and volatility factors underlying derivatives, counterparty credit quality and derivative transaction cash maintenance during that period.

1.12.2 Derivatives used for trading purposes include forwards, exchange contracts, interest rate and currency swaps. The fair value of the derivatives is based on the liquid market prices evidenced by exchange traded prices, broker dealer quotations or prices of other transactions with similarly related counter parties. Derivatives in a net receivable position are reported as trading assets. Similarly derivatives in a net payable position are reported on trading liabilities.

1.13 *Employee benefit plans*

1.13.1 ICICI Bank provides a variety of benefit plans to eligible employees.

1.13.2 Current service costs for defined benefit plans are accrued in the period to which they relate. Prior service costs, if any, resulting from amendments to the plans are recognized and amortized over the remaining period of service of the employees.

1.14 *Foreign currency translation*

1.14.1 Revenue and expenses in foreign currency are accounted for at the exchange rate on the date of the transaction. Foreign currency balances at year-end are translated at the year-end exchange rates and the revaluation gains and losses are adjusted through the income statement.

1.15 *Debt issuance costs*

1.15.1 Debt issuance costs are amortized over the tenure of the debt.

1.16 *Dividends*

1.16.1 Dividends on common stock and the related dividend tax are recorded as a liability at the point of their approval by the Board of Directors.

1.17 *Earnings per share*

1.17.1 Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the dilution that could occur if securities or other contracts to issue common stock are converted.

1.18 *Stock-based compensation*

1.18.1 The Bank accounts for stock-based compensation issued to employees using the intrinsic value method under the provisions of Accounting Principles Board (APB) No. 25 *Accounting for Stock Issued to Employees*. The Bank's stock options are typically compensatory with the exercise price equal to the fair value of the stock on the date of grant, and accordingly, no expense is recognized.

1.18.2 Options granted to employees of ICICI Limited are accounted for in accordance with Statement of Financial Accounting Standard (SFAS) No. 123 *Accounting for Stock-Based Compensation*. The Bank values options issued using an option pricing model and recognizes the expenses over the period in which the options vest.

1.19 *Reclassifications*

1.19.1 Certain amounts in fiscal 2000 and fiscal 2001 were reclassified to conform with the presentation in fiscal 2002. These reclassifications have no effect on the stockholders' equity or net income as previously reported.

1.20 *Accounting changes*

1.20.1 On April 1, 2001 ICICI Bank adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities measured at fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. Derivatives that are not designated as part of a hedging relationship must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, the effective portion of the hedge's change in fair value is either (1) offset against the change in fair value of the hedged asset, liability or firm commitment through income or (2) held in equity until the hedged item is recognized in income. The ineffective portion of a hedge's change in fair value is immediately recognized in income. The majority of derivatives entered into by ICICI Bank are for trading purposes. The cumulative effect, net of tax, of adoption of SFAS 133 at April 1, 2001 of Rs. 16 million is included in net income.

1.20.2 Prior to April 1, 2001, currency swaps entered into for non-trading purposes, although considered effective as economic hedges, did not qualify for hedge accounting under SFAS 133. These currency swaps were accounted for on an accrual basis.

1.21 *Risk management instruments*

1.21.1 The Bank manages its exposures to market rate movements by modifying the asset and liability mix, either directly or through the use of derivative financial products including interest rate swaps, cross currency swaps and forwards. To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge which includes the item and risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed. A derivative must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. For fair value hedges, in which derivatives hedge the fair value of assets, liabilities or firm commitments, changes in the fair value of derivatives are reflected in other non-interest income, together with changes in the fair value of the related hedged item. The net amount representing hedge ineffectiveness, is reflected in current earnings. ICICI Bank's fair value hedges are primarily the hedges of fixed-rate-long-term debt.

2. Cash and cash equivalents

2.1 Cash and cash equivalents at March 31, 2002 include a balance of Rs. 14,610 million (March 31, 2001: Rs. 10,968 million) maintained with the Reserve Bank of India in accordance with the guidelines governing cash reserve requirements. This balance is subject to withdrawal and usage restrictions.

3. Trading assets

3.1 A listing of the trading assets is set out below:

(in Rs. millions)

		At March 31,
	2001	**2002**
Government of India securities	*14,055*	**20,765**
Debentures	*1,808*	**538**
Bonds	*2,348*	**727**
Fair value of derivatives and foreign exchange contracts	*127*	**541**
Commercial paper	*387*	**—**
Mutual fund units	—	**3,504**
Total.	*18,725*	**26,075**

At March 31, 2002, trading assets included certain securities amounting to Rs. Nil (March 31, 2001:Rs. 32 million), which were pledged in favour of certain banks against funds transfer facilities.

4. Securities

4.1 The portfolio of securities is set out below:

(in Rs. millions)

	At March 31, 2001			
	Book value	Gross unrealized gain	Gross unrealized loss	Fair Value
Securities, held to maturity				
Government of India securities	10,944	580	—	11,524
Securities, available for sale				
Corporate debt securities	6,057	210	(27)	6,240
Government of India securities	15,765	302	(7)	16,061
Total debt securities	21,822	512	(34)	22,301
Mutual fund units	2,513	4	(142)	2,375
Others	111	—	—	111
Total securities, available for sale	24,446	516	(176)	24,787

Continued

(in Rs. millions)

	At March 31, 2002			
	Book value	Gross unrealized gain	Gross unrealized loss	Fair Value
Securities, held to maturity				
Government of India securities	24,294	4,474	—	28,768
Securities, available for sale				
Corporate debt securities	4,437	142	—	4,579
Government of India securities	149,280	1,492	—	150,772
Total debt securities	153,717	1,634	—	155,351
Mutual fund units	350	—	(57)	293
Others	122	—	(8)	114
Total securities, available for sale	154,189	1,634	(65)	155,758

At March 31, 2002, available for sale securities included certain securities with fair value amounting to Rs. 21,360 million (March 31, 2001: Rs. Nil), which are pledged in favour of certain banks against funds transfer facilities and borrowings.

4.2 ***Income from securities, available for sale***

A listing of interest, dividends, gross realized gains and gross realized losses on available for sale securities is set out below:

(in Rs. millions)

	Year ended March 31		
	2000	*2001*	**2002**
Interest	*358*	*853*	**3,625**
Dividends	*326*	*364*	**84**
Total interest and dividends	*684*	*1,217*	**3,709**
Gross realized gain	*259*	*114*	**1,031**
Gross realized losses.	*(184)*	*(498)*	**(159)**
Total	*759*	*833*	**4,581**

4.3 ***Maturity profile of debt securities***

4.3.1 *Held to Maturity Securities*

Maturity profile of securities held to maturity at March 31, 2001 and March 31, 2002 is set out below:

(in Rs. millions)

	At March 31, 2001		**At March 31, 2002**	
	Amortized cost	*Fair Value*	**Amortized cost**	**Fair Value**
Government of India securities				
Less than one year	—	—	—	—
One to five years	*2,938*	*3,077*	**4,188**	**4,702**
Five to ten years	*6,380*	*6,726*	**9,288**	**10,753**
More than ten years	*1,626*	*1,721*	**10,818**	**13,313**
Total	*10,944*	*11,524*	**24,294**	**28,768**

4.3.2 *Available for sale securities*

Maturity profile of securities available for sale which have fixed contractual maturities at March 31, 2001 and March 31, 2002 is set out below:

(in Rs. millions)

	At March 31, 2001		**At March 31, 2002**	
	Amortized cost	*Fair Value*	**Amortized cost**	**Fair Value**
Corporate debt securities				
Less than one year	*1,835*	*1,849*	**996**	**992**
One to five years	*3,737*	*3,876*	**1,718**	**1,782**
More than five years	*485*	*515*	**1,723**	**1,805**
Total	*6,057*	*6,240*	**4,437**	**4,579**
Government of India securities				
Less than one year.	*5,963*	*5,971*	**78,860**	**79,316**
One to five years	*6,843*	*7,095*	**44,633**	**45,123**
More than five years	*2,959*	*2,995*	**25,787**	**26,333**
Total	*15,765*	*16,061*	**149,280**	**150,772**

5. Loans and leases

5.1 A listing of loans by category is set out below:

(in Rs. millions)

	At March 31,	
	2001	**2002**
Working capital finance	*57,316*	**37,340**
Term loans – commercial	*9,483*	**7,313**
Credit substitutes	*23,624*	**23,035**
Lease financing	*944*	**820**
Retail loans and credit card receivables	*4,909*	**7,150**
Total loans	*96,276*	**75,658**
Allowance for loan losses	*(2,890)*	**(2,820)**
Unearned income	*(356)*	**(364)**
Net loans	*93,030*	**72,474**

5.2 As at March 31, 2002, working capital finance included debit balances in savings and current accounts of Rs. 3,765 million and loans given to persons domiciled outside India of Rs. 620 million (March 31, 2001: Rs. 4,695 million and Rs. 951 million respectively).

5.3 Generally, the working capital advances are secured by a first lien on current assets, principally inventory and receivables. Additionally, in certain cases ICICI Bank may obtain additional security through a first or second lien on property and equipment, a pledge of financial assets like marketable securities and corporate/personal guarantees. The term loans are secured by a first lien on the property and equipment and other tangible assets of the borrower.

Corporate debt securities reported as loans (credit substitutes)

5.4 The Portfolio of credit substitutes is set out below:

(in Rs. millions)

	At March 31, 2001				**At March 31, 2002**			
	Amortized cost	*Gross unrealized gain*	*Gross unrealized loss*	*Fair value*	**Amortized Cost**	**Gross Unrealized gain**	**Gross unrealized loss**	**Fair Value**
Available for sale	*488*	*—*	*—*	*488*	**2,944**	**42**	**43**	**2,943**
Held to maturity	*23,136*	*98*	*—*	*23,234*	**20,091**	**208**	**—**	**20,299**

Income from credit substitutes available for sale

5.5 A listing of income from credit substitutes available for sale is set out below:

(in Rs. millions)

	Year ended March 31,		
	2000	*2001*	**2002**
Interest	—	—	**90**
Dividends	—	—	**—**
Total	—	—	**90**
Gross realized gain	—	—	**18**
Gross realized loss	—	—	—
Total	—	—	**18**

Net investment in leasing activities

5.6 Contractual maturities of ICICI Bank's net investment in leasing activities and its components, which are included in loans, are set out below:

(in Rs. millions)

Gross finance receivable for the year ending March 31,	
2003	265
2004	96
2005	87
2006	82
2007 and beyond	369
	899
Less: Unearned income	287
Security deposits	79
Investment in leasing and other receivables	533

Maturity profile of loans

5.7 A listing of each category of gross loans other than net investment in leases and other receivables by maturity is set out below:

(in Rs. millions)

	At March 31, 2001			
	Upto 1 year	1-5 years	More than 5 years	Total
Term loan	3,865	4,204	1,414	9,483
Working capital finance	54,798	2,518	—	57,316
Credit substitutes	6,907	12,794	3,923	23,624
Retail loans and credit card receivables	4,116	728	65	4,909
Total	69,686	20,244	5,402	95,332

(in Rs. millions)

	At March 31, 2002			
	Upto 1 year	1-5 years	More than 5 years	Total
Term loan	2,457	3,793	1,063	7,313
Working capital finance	35,413	1,856	71	37,340
Credit substitutes	7,400	14,296	1,339	23,035
Retail loans and credit card receivables	6,357	772	21	7,150
Total	51,627	20,717	2,494	74,838

Interest and fees on loans

5.8 A listing of interest and fees on loans (net of unearned income) is set out below:

(in Rs. millions)

	Year ended March 31,		
	2000	*2001*	**2002**
Working capital finance	*2,666*	*4,469*	**5,680**
Term loan	*480*	*847*	**940**
Credit substitutes	*981*	*1,539*	**2,669**
Leasing and related activities	*14*	*22*	**(27)**
Retail loans and credit card receivables	*296*	*542*	**1,065**
Total	*4,437*	*7,419*	**10,327**

Impaired loans

5.9 A listing of impaired loans is set out below:

(in Rs. millions)

	At March 31,	
	2001	**2002**
Working capital finance	*3,700*	**3,665**
Term loan	*1,242*	**1,041**
Credit substitutes	*121*	**86**
Leasing and related activities	*227*	**310**
Credit card receivables	*43*	**355**
Total	*5,333*	**5,457**
Related allowance for loan losses [1]	*(2,844)*	**(2,774)**
Impaired loans net of valuation allowance	*2,489*	**2,683**
Impaired loans with valuation allowance	*5,319*	**5,448**
Impaired loans without valuation allowance	*14*	**9**
Total	*5,333*	**5,457**
Interest foregone on non-performing assets	*495*	**451**
Average non-performing loans	*3,376*	**5,395**

[1] Related allowance for loan losses does not include general provision on loans of Rs. 46 million (March 31, 2001: Rs. 46 million).

Concentration of credit risk

5.10 Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to ICICI Bank's total credit exposure. ICICI Bank's portfolio of financial instruments is broadly diversified along industry, product and geographic lines within the country.

Allowance for loan losses

5.11 A listing of the changes in allowance for loan losses is set out below :

(in Rs. millions)

	Year ended March 31,		
	2000	*2001*	**2002**
Allowance for loan losses at beginning of the year	*880*	*748*	**2,890**
Additions			
Provisions for loan losses, net of release of provisions as a result of cash collections.	*427*	*1,082*	**1,722**
Provision for loan losses on loans acquired from Bank of Madura	—	*1,572*	—
	1,307	*3,402*	**4,612**
Loans charged off	*(559)*	*(512)*	**(1,792)**
Allowance for loan losses at end of the year	*748*	*2,890*	**2,820**

Troubled debt restructuring

5.12 The Bank classifies a debt restructuring as a troubled debt restructuring when it grants a concession, that it would not otherwise consider to a borrower in financial difficulties.

5.13 Loans at March 31, 2002 include loans aggregating Rs. 613 million (March 31, 2001: Rs. 467 million), which are currently under a scheme of debt restructuring and which have been identified as impaired loans. The gross recorded investment in these loans is Rs. 785 million (March 31, 2001: Rs. 890 million) against which an allowance for loan losses aggregating Rs. 172 million (March 31, 2001: Rs. 423 million) has been established. Income on restructured loans would have been Rs. 144 million for year ended March 31, 2002 (March 31, 2001: Rs. 101 million) based on original terms, and was Rs. 100 million based on the restructured terms (March 31, 2001: Rs. 85 million).

5.14 There are no commitments to lend incremental funds to any borrower who is party to a troubled debt restructuring.

6. Property and equipment

6.1 A listing of property and equipment by asset category is set out below:

(in Rs. millions)

	At March 31,	
	2001	**2002**
Land	*286*	**286**
Building	*1,954*	**2,185**
Equipment and furniture	*2,924*	**4,025**
Capital work in progress	*216*	**341**
	5,380	**6,837**
Accumulated depreciation	*(1,460)*	**(2,006)**
Net book value of property and equipment	*3,920*	**4,831**

6.2 Equipment and furniture includes an amount of Rs. 394 million as on March 31, 2002 (March 31, 2001: Rs. 246 million) for automated teller machines taken on capital lease. The following is a summary of future minimum lease rental commitments for non-cancellable leases:

(in Rs. millions)

Year ending March 31,	
2003	42
2004	54
2005	77
2006	103
2007	130
Thereafter	241
Total minimum lease commitments	647

7. Intangible assets

7.1 Intangible assets at March 31, 2002 include goodwill amounting to Rs. 2,353 million (March 31, 2001: Rs. 2,568 million) and tenancy rights amounting to Rs. 44 million (March 31, 2001: Rs. 73 million). During the year the bank amortized Rs. 215 million of goodwill and Rs. 29 million of tenancy rights

8. Other assets

8.1 Other assets at March 31, 2002 include interest accrued of Rs. 4,488 million (March 31, 2001: Rs. 2,248 million), advance taxes (net of provisions) Rs. 1,449 million (March 31, 2001: Rs. 1,051 million), deposits for leased premises and utilities of Rs. 744 million (March 31, 2001: Rs. 346 million), foreclosed assets held for resale of Rs. 235 million (March 31, 2001: Rs. 139 million) and prepaid expenses of Rs. 11 million (March 31, 2001: Rs. 13 million).

9. Deposits

9.1 Deposits include demand deposits, which are non-interest-bearing and savings and time deposits, which are interest-bearing. A listing of deposits is set out below:

(in Rs. millions)

	At March 31,	
	2001	**2002**
Interest bearing		
Savings deposits	*18,786*	**24,970**
Time deposits	*119,097*	**270,677**
	137,883	**295,647**
Non-interest bearing		
Demand deposits.	*26,371*	**29,574**
Total	*164,254*	**325,221**

9.2 Maturity profile of deposits is set out below:

(in Rs. millions)

	At March 31,	
	2001	**2002**
Less than one year (include savings and demand liabilities)	*111,215*	**185,264**
One to three years	*51,229*	**134,480**
Three to five years	*1,097*	**4,035**
Greater than five years	*713*	**1,442**
Total deposits	*164,254*	**325,221**

At March 31, 2002, aggregate of deposits with amounts greater than Rupees ten million was Rs. 175,326 million. Demand and savings deposits are included in less than one year bucket.

10. Short-term borrowings

10.1 Short term borrowings at March 31, 2002 represent borrowings from Reserve Bank of India for a term of six months. These funds are in the nature of export refinance with an interest rate of 6.5% per annum. The average level of such borrowings, during year ended March 31, 2002 was Rs. 888 million (March 31, 2001: Rs. 1,713 million). There were no unused lines of credit available to the Bank at March 31, 2002 (March 31, 2001: Rs. Nil).

11. Repurchase transactions

11.1 During the year, ICICI Bank has undertaken repurchase transactions in Government of India securities. The maximum amount of outstanding repurchase agreements at any month-end during the period was Rs. 21,399 million (March 31, 2001: Rs. 537 million). The average level of repurchase transactions during year ended March 31, 2002 was Rs. 1,754 million (March 31, 2001: Rs. 78 million). The repurchase contracts outstanding on March 31, 2002 were Rs. 21,399 million (March 31, 2001: Rs. 537 million) and were collateralised by a pledge of securities in the Bank's AFS portfolio with fair value of Rs. 21,360 million (March 31, 2001: Rs. 537 million).

11.2 ICICI Bank has also undertaken reverse repurchase transactions in Government of India securities. The maximum amount of outstanding reverse repurchase agreements at any month-end during the period was Rs. 9,116 million (March 31, 2001: Rs. Nil). The average level of reverse repurchase transactions outstanding during year ended March 31, 2002 was Rs. 584 million (March 31, 2001: Rs. 206 million). The reverse repurchase contracts outstanding on March 31, 2002 was Rs. 9,116 million (March 31, 2001: Rs. Nil).

12. Trading liabilities

12.1 Trading liabilities at March 31, 2002 include borrowings from banks in the interbank call money market of Rs. 274 million (March 31, 2001: Rs. 3,978 million) and fair value of losses on derivatives and foreign exchange contracts of Rs. 646 million (March 31, 2001: Rs. Nil).

13. Long-term debt

13.1 Long-term debt, represents debt with an original maturity of greater than one year, net of unamortized debt issuance costs. Long term debt bears interest at fixed contractual rates ranging from 6.50% to 17.25%. In fiscal 2002, long term debt includes Rs. 2,270 million raised by the Bank during the current year for a period of 69 months at 9.5%. A listing of long-term debt by residual maturity is set out below:

	At March 31, 2001		**At March 31, 2002**	
	(in Rs. millions)	*%*	**(in Rs. millions)**	**%**
Maturity				
2003	*461*	*19*	**1,370**	**24**
2004	*1,136*	*47*	**1,175**	**20**
2005	*101*	*4*	**132**	**2**
2006	*—*	*—*	**71**	**1**
2007 and later	*723*	*30*	**2,992**	**53**
Total	*2,421*	*100*	**5,740**	**100**

14. Other liabilities

14.1 Other liabilities at March 31, 2002 include outward clearing suspense of Rs. 5,988 million (March 31, 2001: Rs. 5,656 million), accounts payable of Rs. 2,649 million (March 31, 2001: Rs. 3,806 million), interest accrued but not due on deposits amounting to Rs. 1,752 million (March 31, 2001: Rs. 557 million), cash margins on LCs/guarantees of Rs. 69 million (March 31, 2001: Rs. 80 million) and obligations on account of capital leases amounting to Rs. 318 million (March 31, 2001: Rs. 251 million).

15. Earnings per share

15.1 A computation of earnings per share is set out below:

	Year ended March 31,					
	2000		*2001*		**2002**	
	(in Rs. millions except per share data)					
	Basic	*Fully diluted*	*Basic*	*Fully diluted*	**Basic**	**Fully diluted**
Earnings						
Net income before cumulative effect of accounting change	*1,402*	*1,402*	*1,308*	*1,308*	**2,021**	**2,021**
Cumulative effect of accounting change, net of tax	—	—	—	—	**16**	**16**
Net income	*1,402*	*1,402*	*1,308*	*1,308*	**2,037**	**2,037**
Common stock						
Weighted average common stock outstanding	*165.09*	*165.09*	*198.24*	*198.24*	**220.36**	**220.36**
Dilutive effect of employee stock options	—	*0.02*	—	—	**—**	**—**
Total	*165.09*	*165.11*	*198.24*	*198.24*	**220.36**	**220.36**
Earnings per share						
Before cumulative effect of accounting change	*8.49*	*8.49*	*6.60*	*6.60*	**9.17**	**9.17**
Cumulative effect of accounting change, net of tax	—	—	—	—	**0.07**	**0.07**
Net income	*8.49*	*8.49*	*6.60*	*6.60*	**9.24**	**9.24**

15.2 Options to purchase 1,636,125 equity shares and 6,327,825 equity shares granted to employees at a weighted average exercise price of Rs. 171.90 and Rs. 145.98 were outstanding as at March 31, 2001 and 2002, respectively, and have been included in the computation of diluted earnings per share wherever the average market price of the equity shares during the period was greater than the exercise price of the options.

16. Regulatory matters

16.1 ICICI Bank is a banking company within the meaning of the Indian Banking Regulation Act, 1949, registered with and subject to examination by the Reserve Bank of India.

Statutory liquidity requirements

16.2 In accordance with the Banking Regulation Act, 1949, the Bank is required to maintain a specified percentage of its net demand and time liabilities by way of liquid unencumbered assets like cash, gold and approved securities. The amount of securities required to be maintained at March 31, 2002 was Rs. 70,079 million (March 31, 2001: Rs. 38,087 million).

Capital adequacy requirements

16.3 ICICI Bank is subject to the capital adequacy requirements set by the Reserve Bank of India, which stipulate a minimum ratio of capital to risk adjusted assets and off-balance sheet items, at least half of which must be Tier I capital, of 9% be maintained. The capital adequacy ratio of the Bank calculated in accordance with the Reserve Bank of India guidelines at March 31, 2002 was 16.12% (March 31, 2001: 11.57%).

Restricted retained earnings

16.4 Retained earnings at March 31, 2002 computed as per generally accepted accounting principles of India include profits aggregating to Rs. 2,494 million (March 31, 2001: Rs. 1,844 million) which are not distributable as dividends under the Banking Regulation Act, 1949. These relate to requirements regarding earmarking a part of the profits under banking laws. Utilization of these balances is subject to approval of the Board of Directors and needs to be reported to Reserve Bank of India. Statutes governing the operations of ICICI Bank mandate that dividends be declared out of distributable profits only after the transfer of at least 25% of net income each year, computed in accordance with current banking regulations, to a statutory reserve. Additionally, the remittance of dividends outside India is governed by Indian statutes on foreign exchange transactions.

17. Business segments

Segmental disclosures

17.1 ICICI Bank's operations are solely in the financial services industry and consist of providing traditional banking services, primarily commercial lending activities, treasury operations and retail banking activities. ICICI Bank carries out these activities through offices in India. Effective March 10, 2001, the Bank acquired Bank of Madura Limited, a private sector bank in India. Immediately following the merger, the results of the Bank of Madura were being reviewed separately. During the current year the operations of Bank of Madura were completely integrated with the operations of ICICI Bank and Bank of Madura is no longer considered a segment.

17.2 Until the financial year ended March 31, 2000, the Bank had been analysing the business information and making the operating decisions based upon reviews of the Bank's operations as a whole. However, with continued growth in business, the Bank reorganized its business in three Strategic Business Units ('SBUs') namely Retail Banking, Corporate Banking and Treasury. Each of these SBUs caters to different segments of customers and offers different financial products and services. Retail Banking activity includes mobilising of funds from retail depositors by offering them a wide range of financial products and providing services through various channels like branches, ATM, internet banking, phone banking and mobile banking. Retail Banking SBU also offers consumer lending services namely credit cards, loans against deposits and securities etc. Corporate Banking SBU (CB-SBU) provides financial products and services to corporates, institutions and Government organizations. CB-SBU provides medium and short-term credit, fee and commission based services (e.g., documentary credits, letters of credit, forward contracts etc.) accepts deposits from corporate customers and also provides cash management services. The Treasury SBU manages the treasury operations of the bank through market operations. It also invests in various money market instruments, debt instruments, shares and debentures.

17.3 The following table gives information on segmental revenues and segmental profits for year ended March 31, 2001 and March 31, 2002 respectively:

(Rs. in millions)

	Fiscal 2001					
	SBU-Retail Banking	SBU-Corporate Banking	SBU-Treasury	Bank of Madura	Eliminations	Total
Revenue from external customers						
Interest revenue	1,464	7,932	2,777	233	—	12,406
Other revenue	238	984	468	64	—	1,754
Revenue from other operating segments						
Interest and Other revenue	4,323	—	267	—	(4,590)	—
Total Revenue	**6,025**	**8,916**	**3,512**	**297**	**(4,590)**	**14,160**
Interest expenses to external customers	4,406	2,025	1,808	169	—	8,408
Interest and other expenses from other operating segments	—	3,264	1,326	—	(Note 1) (4,590)	—
Depreciation	284	142	15	36	—	477
Provision for credit losses	30	1,052	—	—	—	1,082
Other expenses	1,927	550	116	34	—	2,627
Income/(loss) before Income Taxes	(622)	1883	247	58	—	1,566
Income tax expense/(benefit)	(101)	308	41	10	—	258
Net Income/(Loss)	**(521)**	**1,575**	**206**	**48**	**—**	**1,308**

(Rs. in millions)

	Fiscal 2002				
	SBU-Retail Banking	SBU-Corporate Banking	SBU-Treasury	Eliminations	Total
Revenue from external customers					
Interest revenue	4,389	11,645	4,803	—	20,837
Other revenue	685	1,736	2,792	—	5,213
Revenue from other operating segments					
Interest and Other revenue	9,517	—	—	(9,517)	—
Total Revenue	**14,591**	**13,381**	**7,595**	**(9,517)**	**26,050**
Interest expenses to external customers	9,424	3,190	2,502	—	15,116
Interest and other expenses from other operating segments	—	6,259	3,258	(Note 1) (9,517)	—
Depreciation.	505	88	43	—	636
Provision for credit losses	268	1,454	—	—	1,722
Other expenses.	3,843	1,015	766	—	5,624
Income/(loss) before Income Taxes	551	1,375	1,026	—	2,952
Income tax expense/(benefit)	161	460	310	—	931
Income before cumulative effect of accounting changes	**390**	**915**	**716**	**—**	**2,021**
Cumulative effect of accounting changes, net of tax	—	16	—	—	16
Net Income/(loss)	**390**	**931**	**716**	**—**	**2,037**

Note 1: Interest and other revenues from other segments represent the notional interest charged by 'Retail Banking' to other segments, on funds mobilized by it through deposits and which were utilized by other segments for lending and investment purposes. This item also includes notional management fee charged by 'Treasury' from other segments for managing part of their assets and liabilities.

A listing of certain assets of reportable segments for year ended March 31, 2001 and March 31, 2002 are set out below:

(Rs. in millions)

	Fiscal 2001					
Particulars	SBU-Retail Banking	SBU-Corporate Banking	SBU-Treasury	Bank of Madura	Eliminations	Total
Property and equipment	2,270	586	56	1,008	—	3,920
Other assets.	30,332	115,468	37,888	32,930	—	216,618
Total assets	**32,602**	**116,054**	**37,944**	**33,938**	**—**	**220,538**

(Rs. in millions)

	Fiscal 2002				
Particulars	SBU-Retail Banking	SBU-Corporate Banking	SBU-Treasury	Eliminations	Total
Property and equipment	3,565	896	370	—	4,831
Other assets	69,720	125,645	204,609	—	399,974
Total assets	**73,285**	**136,541**	**204,979**	**—**	**404,805**

17.4 Geographic distribution

The business operations of the Bank are largely concentrated in India. Activities outside India are restricted to resource mobilization in the international markets. The assets and net income from foreign operations are immaterial.

Major customers

ICICI Bank provides banking and financial services to a wide base of customers. There is no major customer which contributes more than 10% of total revenues.

18. Employee benefits

Retirement benefits

Gratuity

18.1 In accordance with Payment of Gratuity Act, 1972, ICICI Bank provides for gratuity a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement, on death while in employment or on termination of employment based on the respective employee's salary and the years of employment with ICICI Bank. The gratuity benefit conferred by ICICI Bank on its employees is equal to or greater than the statutory minimum.

18.1.1 ICICI Bank provides the gratuity benefit through annual contributions to either a fund administered by a Board of Trustees and managed by Life Insurance Corporation of India or to a fund administered and managed by a Board of Trustees. ICICI Bank's liability for provision of gratuity benefit to its employees is determined periodically through actuarial valuations in accordance with SFAS 87.

18.1.2 The following table sets forth the funded status of the plan and the amounts recognized in the financial statements:

(in Rs. millions)

	At March 31,	
	2001	**2002**
Change in benefit obligations		
Projected benefit obligations at beginning of the year/period	*12*	**336**
Obligations assumed on acquisition	*317*	**—**
Service cost	*3*	**24**
Interest cost	*4*	**34**
Benefits paid	*(1)*	**(11)**
Actuarial (gain) / loss on obligations	*1*	**9**
Projected benefit obligations at the end of the period	*336*	**392**
Change in plan assets		
Fair value of plan assets at beginning of the period	*17*	**333**
Fair value of plan assets acquired on acquisition	*303*	**—**
Expected return on plan assets	*3*	**33**
Employer contributions	*6*	**48**
Gain/(loss) on plan assets	*4*	**(1)**
Benefits paid	*—*	**(11)**
Plan assets at the end of the period	*333*	**402**
Net prepaid asset/(accrued liability)	*(3)*	**10**

18.1.3 The components of the net gratuity cost for the year ended March 31, 2001 and year ended March 31, 2002 are given below:

(in Rs. millions)

	At March 31, 2001	2002
Service cost	*3*	**24**
Interest cost	*4*	**34**
Expected return on assets	*(3)*	**(33)**
Actuarial (gain) / loss	*(3)*	**10**
Net gratuity cost	*1*	**35**

18.1.4 Assumptions used in accounting for the gratuity plan are given below:

	At March 31, 2001	2002
Discount Rate	*11%*	**10%**
Rate of increase in the compensation levels	*8%*	**8.0 - 8.5%**
Rate of return on plan assets	*10.5%*	**10%**

18.2 ***Pension Plan***

18.2.1 ICICI Bank provides for a pension, a deferred benefit retirement plan covering certain employees. The plan provides for pension payment on a monthly basis to these employees on their retirement based on the respective employees' salary and years of employment with ICICI Bank. Employees covered by the pension plan are not eligible for benefits under the provident fund plan, a defined contribution plan.

18.2.2 The pension plan is funded through periodic contributions to a fund set up by ICICI Bank and administrated by a Board of Trustees. Such contributions are actuarially determined in accordance with the provisions of SFAS 87.

18.2.3 The following table sets forth the funded status of the plan and the amounts recognized in the financial statements for the year ended March 31, 2001 and March 31, 2002:

(in Rs. Millions)

	At March 31, 2001	2002
Change in benefit obligations		
Projected benefit obligations at beginning of the year/period	—	**724**
Obligations assumed on acquisitions	*711*	**—**
Service cost	*1*	**26**
Interest cost	*4*	**72**
Benefits paid	—	**(27)**
Actuarial loss on obligations	*8*	**118**
Projected benefit obligations at the end of the period	*724*	**913**
Change in plan assets		
Fair value of plan assets at beginning of the period	—	**795**
Fair value of plan assets acquired on acquisitions	*779*	**—**
Expected return on plan assets	*1*	**79**
Employer contributions	*1*	**53**
Gain on plan assets	*14*	**13**
Benefits paid	—	**(27)**
Plan assets at the end of the period	*795*	**913**
Net prepaid benefit	*71*	**—**

18.2.4 The components of the net pension cost are given below:

(Rs. in millions)

	At March 31, 2001	2002
Service cost	*1*	**26**
Interest cost	*4*	**72**
Expected return on assets	*(1)*	**(79)**
Actuarial (gain) / loss	*(6)*	**105**
Net pension cost	*(2)*	**124**

18.2.5 Assumptions used in accounting for the pension plan are given below:

(Rs. in millions)

	At March 31, 2001	2002
Discount rate	*11%*	**10%**
Rate of increase in the compensation levels	*8%*	**8%**
Rate of return on plan assets	*10.50%*	**10%**

Superannuation

18.3 The permanent employees of ICICI Bank are entitled to receive retirement benefits under the superannuation fund operated by ICICI Bank. The Superannuation fund is a defined contribution plan under which ICICI Bank contributes annually a sum equivalent to 15% of the employee's eligible annual salary to Life Insurance Corporation of India, the manager of the fund, that undertakes to pay the lump sum and annuity payments pursuant to the scheme. The Bank has contributed Rs. 22 million and Rs. 28 million to the employees' superannuation plan in year ended March 31, 2001 and 2002 respectively.

Provident fund

18.4 In accordance with the Employees Provident Fund and Miscellaneous Provisions Act, 1952, all employees of ICICI Bank are entitled to receive benefits under the Provident Fund, a defined contribution plan, in which, both the employee and ICICI Bank contribute monthly at a determined rate (currently 12% of employees' salary). These contributions are made to a fund set up by ICICI Bank and administered by a Board of Trustees. Further, in the event the return on the fund is lower than 9.5% (current guaranteed rate of return to the employees), such difference will be contributed by ICICI Bank and charged to income. The contribution to the employees' provident fund amounted to Rs.23 million and Rs. 54 million in year ended March 31, 2001 and 2002 respectively.

Leave encashment

18.5 The liability for leave encashment on retirement or on termination of services of the employee of ICICI Bank is valued on the basis of the employee's last drawn salary and provided for. Other liabilities also include provision of Rs. 27 million on account of the leave encashment liability of the Bank at March 31, 2002 (March 31, 2001: Rs. 8 million).

18.6 Employee stock option plan

18.6.1 In February 2000, the Bank approved an employee stock option plan. Under the plan, the Bank is authorized to issue upto 9.84 million equity shares to its employees and the employees of the affiliate company.

18.6.2 The options vest in a graded manner over three years with 20%, 30% and 50% of the option vesting at the end of each year. The options can be exercised within 10 years from the date of the grant. During April 2001 and March 2002, the Bank issued additional options to its employees and wholetime directors. The Bank has not recorded any compensation cost as the exercise price was not less than the quoted market price of the underlying equity shares on the grant date.

18.7 ***Stock option activity***

18.7.1 A summary of the status of the Bank's option plan is presented below:

	Year ended March 31, 2000		*Year ended March 31, 2001*		**Year ended March 31, 2002**	
	Option shares Outstanding	*Range of exercise price and grant date fair values*	*Option shares outstanding*	*Range of exercise price and grant date fair values*	**Option shares outstanding**	**Range of exercise price and grant date fair values**
Outstanding at the beginning of the year	—	—	*1,713,000*	*Rs. 171.90*	**1,636,125**	**Rs. 171.90**
Granted during the year	*1,788,000*	*Rs. 171.90*	—	—	**4,735,200**	**Rs. 120.35 - Rs. 171.00**
Forfeited during the year	*75,000*	*Rs. 171.90*	*76,875*	*Rs. 171.90*	**43,500**	**Rs. 171.00 - Rs. 171.90**
Exercised during the year	—		—		**—**	
Outstanding at the end of the year	*1,713,000*		*1,636,125*		**6,327,825**	
Exercisable at the end of the year	—		—		**322,425**	

18.7.2 Had compensation costs of the Bank's stock based compensation plan been recognized based on the fair value on the grant date consistent with the method prescribed by SFAS No 123, the Bank's net income and earnings per share would have been impacted as indicated below:

(in Rs. millions, except per share data)

	Year ended March 31,		
	2000	*2001*	**2002**
Net income			
As reported	*1,402*	*1,308*	**2,037**
Proforma under SFAS No. 123	*1,401*	*1,273*	**1,956**
Basic earnings per share			
As reported	*8.49*	*6.60*	**9.24**
Proforma under SFAS No. 123	*8.49*	*6.42*	**8.88**
Diluted earnings per share			
As reported	*8.49*	*6.60*	**9.24**
Proforma under SFAS No. 123	*8.49*	*6.42*	**8.88**

The effects of applying SFAS No. 123, for disclosing compensation cost under such pronouncement may not be representative of the effects on reported net income for future years.

18.7.3 The fair value at date of grant was Rs. 55.78 for options granted during February 2000. Rs. 83.38 for options granted during April 2001 and Rs. 46.77 for options granted during March 2002 using Black - Scholes option-pricing model. The following assumptions have been used to fair value the options :

	For the year ended March 31,		
	2000	*2001*	**2002**
Expected life in years	*3*	—	**3**
Risk free interest rate	*10.35%*	—	**6.44% - 9.33%**
Volatility	*30.00%*	—	**54.40% - 67.90%**
Dividend yield	*0.70%*	—	**1.18% - 1.66%**

19. Income taxes

19.1 Components of deferred tax balances

19.1.1 The tax effects of significant temporary differences are reflected through a deferred tax asset/liability, which is included in the balance sheet of ICICI Bank.

19.1.2 A listing of the temporary differences is set out below :

(in Rs. millions)

	At March 31,	
	2001	**2002**
Deferred tax assets		
Allowance for loan losses	*824*	**763**
Amortization of held to maturity securities	*165*	**190**
Amortization of trading and available for sale securities	*82*	**323**
Deposits	*141*	**38**
Deferred loan fees	*25*	**29**
Others	*34*	**9**
Gross deferred tax asset	*1,271*	**1,352**
Valuation allowances	*2*	**2**
Deferred tax asset	*1,269*	**1,350**
Deferred tax liabilities		
Depreciation	*(475)*	**(445)**
Investments	*(77)*	**—**
Unrealized gain on securities, available for sale	*(117)*	**(584)**
Amortization of debt issue costs	*(34)*	**(8)**
Others	*(36)*	**(10)**
Total deferred tax liability	*(739)*	**(1,047)**
Net deferred tax asset	*530*	**303**

Management is of the opinion that the realization of the recognized net deferred tax asset, net of valuation allowances, of Rs. 1,350 million at March 31, 2002 (March 31, 2001: Rs. 1,269 million) will more likely than not be realized based on expectations as to future taxable income.

19.2 Reconciliation of tax rates

19.2.1 The following is the reconciliation of estimated income taxes at Indian statutory income tax rate to income tax expense as reported.The Indian statutory tax rate is 35% plus a surcharge. For the year ended March 31, 2000, the surcharge was 10%, resulting in a total statutory tax rate of 38.50%. During fiscal 2001, the surcharge was changed to 13% effective April 1, 2000, which resulted in a total statutory tax rate of 39.55% for the year ended March 31, 2001.

During fiscal 2002, the surcharge was changed to 2% effective April 1, 2001, which resulted in a total statutory tax rate of 35.70% for the year ended March 31, 2002.

(in Rs. millions)

	Year ended March 31,		
	2000	*2001*	**2002**
Net income before taxes	*1,781*	*1,566*	**2,952**
Statutory tax rate	*38.5%*	*39.55%*	**35.7%**
Income tax expense at statutory tax rate	*686*	*619*	**1,054**
Increase (reductions) in taxes on account of			
Income exempt from taxes	*(340)*	*(344)*	**(213)**
Amortization of goodwill	–	*6*	**81**
Effect of change in statutory tax rate	6	–	**26**
Others	*27*	*(23)*	**(17)**
Reported income tax expense	*379*	*258*	**931**

19.3 *Components of income tax expense*

19.3.1 The components of income tax expense/(benefit) are set out below:

(in Rs. millions)

	Year ended March 31,		
	2000	*2001*	**2002**
Current	*266*	*700*	**1,171**
Deferred	*113*	*(442)*	**(240)**
Total income tax expense	*379*	*258*	**931**

20. Commitments and contingencies

20.1 ***Loan commitments***

20.1.1 ICICI Bank has outstanding undrawn commitments to provide loans and financing to customers. These loan commitments aggregated Rs. 27,693 million and Rs. 13,690 million at March 31, 2001 and March 31, 2002 respectively. The interest rate on these commitments is dependent on the lending rates on the date of the loan disbursement. Further, the commitments have fixed expiry dates and may be contingent upon the borrowers ability to maintain specific credit standards.

20.2 ***Guarantees***

20.2.1 As a part of its commercial banking activities, ICICI Bank has issued guarantees to enhance the credit standing of its customers. These generally represent irrevocable assurances that ICICI Bank will make payments in the event that the customer fails to fulfill his financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The guarantees are generally for a period not exceeding 18 months.

20.2.2 The credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Fees are recognized over the term of the instruments.

20.2.3 Details of facilities outstanding are set out below:

(in Rs. millions)

	At March 31,	
	2001	**2002**
Financial guarantees	*7,511*	**12,551**
Performance guarantees	*5,949*	**8,565**
Total	*13,460*	**21,116**

20.3 ***Lease commitments***

20.3.1 ICICI Bank has commitments under long-term operating leases principally for premises. Lease terms for premises generally cover periods of nine years. The following is a summary of future minimum lease rental commitments for non-cancellable leases.

(in Rs. millions)

Year ending March 31,	
2003	174
2004	180
2005	183
2006	190
2007	197
Thereafter	630
Total minimum lease commitments.	1,554

Various related legal proceedings are pending against ICICI Bank. Potential liabilities, if any, have been adequately provided for, and management does not estimate any incremental liability in respect of legal proceedings.

20.3.2 Further, ICICI Bank is obligated under a number of capital contracts. Capital contracts are job orders of a capital nature which have been committed. Estimated amounts of contracts remaining to be executed on capital account aggregated to Rs. 93 million at March 31, 2002 (March 31, 2001: Rs. 60 million).

21. Related party transactions

21.1 ICICI Bank has entered into transactions with the following related parties:

- Affiliates of the Bank (including ICICI Limited (former parent company));
- Employees Provident Fund Trust; and
- Directors and employees of the group.

The related party transactions can be categorized as follows:

21.2 ***Banking services***

21.2.1 ICICI Bank provides banking services to all the related parties on the same terms that are offered to other customers.

The revenues earned from these related parties are set out below:

(in Rs. millions)

	Year ended March 31,	
	2001	**2002**
ICICI Limited (former parent company)	*45*	**29**
Other affiliates[1]	*27*	**4**
Total	*72*	**33**

[1] Comprising ICICI Securities and Finance Company Limited, ICICI Brokerage Services Limited, ICICI Capital Services Limited, Prudential ICICI Asset Management Company Limited, ICICI Venture Funds Management Company Limited, ICICI Personal Financial Services Limited, ICICI Home Finance Company Limited and ICICI Prudential Life Insurance Company Limited.

21.2.2 ICICI Bank has paid to the related parties interest on deposits and borrowings in call money markets amounting to Rs. 268 million for the year ended March 31, 2002 (March 31, 2001: Rs. 203 million).

21.2.3 ICICI Bank paid brokerage to ICICI Brokerage Services Limited amounting to Rs. Nil for the year ended March 31, 2002 (March 31, 2001: Rs. 1 million).

21.3 ***Leasing of premises and infrastructural facilities***

ICICI Bank has entered into lease agreements with ICICI Limited for lease of certain premises and infrastructural facilities to ICICI Bank. Net amount incurred, as rent for the year ended March 31, 2002 is Rs. 207 million (March 31, 2001: Rs. 177 million). Similarly, ICICI Bank paid Rs. 38 million for the year ended March 31, 2002 (March 31, 2001: Rs. 16 million) towards lease rentals on certain equipment leased from ICICI limited.

21.4 ***Acquisition of Equipment***

ICICI Bank purchased equipment from ICICI Limited and ICICI Infotech Services Limited for Rs. 11 million during the year ended March 31, 2002 (March 31, 2001 : Rs. 99 million).

21.5 ***Forward Contracts***

ICICI Bank enters into foreign exchange forward contracts with ICICI Limited. The outstanding contracts as at March 31, 2002 in respect of the forward contracts amounted to Rs. 251 million (March 31, 2001: Rs. 2,262 million).

21.6 ***Derivative transactions***

ICICI Bank enters into foreign exchange currency swaps and interest rate swaps with ICICI Limited on a back to back basis. The outstanding contracts as at March 31, 2002 in respect of cross currency swaps amounted to Rs. 2,272 million (Rs 4,352 million at March 31, 2001) and in respect of interest rate swap contracts amounted to Rs. 2,710 million (Rs Nil at March 31, 2001). Similarly, the Bank also enters into interest rate swap with the affiliates on a back to back basis. The outstanding contracts with other affiliates at March 31, 2002 in respect of interest rate swaps amounted to Rs. 6,050 million (March 31, 2001: Rs. 2,900 million). The interest paid in respect of swaps with ICICI Limited amounts to Rs. 275 million (March 31, 2001: Rs. 189 million)

21.7 ***Investments in pass through certificates***

During the year ICICI Bank Limited invested in certain securities issued by trusts formed by its affiliate ICICI Limited. The repayment of principal amount of certificates and periodical interests at predetermined rates are from the underlying securities held by the trusts transferred to it by ICICI Limited. The total investments in PTCs outstanding at March 31, 2002 was Rs. 9,112 million (March 31, 2001 Rs. Nil)

21.8 ***Repurchase transactions***

The Bank entered into repurchase transactions with ICICI Limited during the year. The amount of such transactions outstanding as at March 31, 2002 was Rs. 21,399 million (March 31, 2001: Rs. Nil)

21.9 ***Expenses for services rendered***

21.9.1 ICICI Bank paid Rs. 12 million for the year ended March 31, 2002 (March 31, 2001 : Rs. 4 million) to ICICI Limited for secondment of its employees.

21.9.2 ICICI Bank paid Rs. 47 million for the year ended March 31, 2002 (March 31, 2001 : Rs. Nil) to ICICI Personal Financial Services Limited for secondment of its employees.

21.10 ***Receipts for services rendered***

ICICI Bank received Rs. 10 million for the year ended March 31, 2002 (March 31, 2001: Rs. 5 million) from ICICI Limited and ICICI Personal Financial Services Limited for employees seconded to them.

21.11 ***Share transfer activities***

ICICI Bank has paid Rs. 1 million for the year ended March 31, 2002 (March 31, 2001: Rs. 3 million) to ICICI Infotech Services Limited for share transfer services provided by them. The Bank incurred Rs. 2 million for the year ended March 31, 2002 for DEMAT services provided by the above affiliate (March 31, 2001 Rs. 5 million).

21.12 ***Dividend payments***

ICICI Bank declared and paid Rs. 407 million as dividend to its affiliates for the year ended March 31, 2002 (March 31, 2001: Rs. 184 million)

21.13 ***Other transactions with related parties***

21.13.1 ICICI Bank has advanced concessional loans to employees, bearing interest ranging from 3.5% to 6%. These are housing, vehicle and general purpose loans. The tenure of these loans ranges from five to twenty years. The balance outstanding on account of all the staff loans at March 31, 2002 was Rs. 865 million (March 31, 2001 Rs. 494 million).

21.13.2 ICICI Bank has entered into an agreement with ICICI Personal Financial Services Limited for telephone banking call centre services and transaction processing services for the credit card related activities. The amount incurred for the year ended March 31, 2002 for these services was Rs. 149 million (March 31, 2001: Rs. 99 million).

21.13.3 ICICI Limited had undertaken a corporate brand building advertising campaign of which ICICI Bank's share amounted to Rs. 29 million for the year ended March 31, 2002 (March 31, 2001: Rs. 15 million).

21.13.4 ICICI Limited has set up common technology infrastructure set up for utilization by the ICICI Group. The amount incurred by ICICI Bank as its share amounted to Rs. 37 million (March 31, 2001: Rs. 34 million) and Rs. 18 million (March 31, 2001: Rs. 11 million) towards shares of communication expenses and share of backbone infrastructure expense for the year ended March 31, 2002. Similarly, it incurred Rs. 124 million for the year ended March 31, 2002 (March 31, 2001: Rs. 74 million), as expenses towards development of software and providing support services for the software and hardware by ICICI Infotech Services Limited.

21.13.5 ICICI Bank has incurred an amount of Rs. 110 million for the year ended March 31, 2002 (March 31, 2001: Rs. 49 million) towards its share of the operating costs of the common data centre set up by ICICI Limited.

21.13.6 ICICI Bank hired the services of ICICI Capital Services Limited for setting up of ATMs at various places for which Rs. 7 million (March 31, 2001: Rs. 8 million) were incurred during the year ended March 31, 2002. The Bank has paid Rs. 9 million during the year ended March 31, 2002 (March 31, 2001: Rs. 6 million) to ICICI e-Payments Limited towards the payment gateway services rendered to internet merchants acquired by the Bank. The Bank also paid Rs. 10 million (March 31, 2001: Rs. 2 million) to ICICI Web Trade Limited for compilation of data on new accounts acquired by the Bank during the year ended March 31, 2002.

21.13.7 The balances pertaining to receivables from and payable to related parties are as follows:

(in Rs. millions)

	ICICI Limited	Other Affiliates[1]
At March 31, 2001		
Accounts receivable	38	17
Accounts payable	5,209	2,847
At March 31, 2002		
Accounts receivable	24	1
Accounts payable	4,680	893

Note: 1) Comprises ICICI Securities and Finance Company Limited, Prudential ICICI Asset Management Company Limited, Prudential ICICI Trust Limited, ICICI Infotech Services Limited, ICICI Brokerage Services Limited, ICICI Personal Financial Services Limited, ICICI Capital Services Limited, ICICI Venture Funds Management Company Limited, ICICI Properties Private Limited, ICICI Home Finance Company Limited, ICICI Real Estate Company Private Limited, Traveljini.com Private Limited, ICICI Knowledge Park, ICICI Realty Private Limited, ICICI Web Trade Limited, ICICI West Bengal Infrastructure Development Corporation Limited, ICICI ePayments Limited, ICICI Prudential Life Insurance Company Limited, ICICI Lombard General Insurance Company Limited, Bill Junction Limited, ICICI Trusteeship Services Limited and ICICI Investment Management Company Limited.

22. Estimated fair value of financial instruments

22.1 ICICI Bank's financial instruments include financial assets and liabilities recorded on the balance sheet.

22.2 Fair values vary from period to period based on changes in a wide range of factors, including interest rates, credit quality, and market perception of value and as existing assets and liabilities run off and new items are generated. Fair value estimates are generally subjective in nature and are made as of a specific point in time based on the characteristic of the financial instruments and relevant market information.

22.3 The data reported below represents management's best estimates based on a range of methodologies and assumptions. Where available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future estimated loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Further, the fair values are estimated based on the existing financial instruments without attempting to estimate the value of anticipated future business.

22.4 Disclosure of fair values is not required for certain items such as premise and equipment, prepaid expenses, credit card receivables, obligations for pension and other postretirement benefits and other intangible assets. Accordingly, the aggregate fair value of amounts do not purport to represent the underlying "market" or franchise value of the Bank. Further, because of the differences in assumptions used and methodologies the fair values reported below may not be strictly comparable with those of other Banks.

22.5 A listing of the fair values by category of financial assets and financial liabilities is set out below:

(in Rs. millions)

	At March 31, 2001		**At March 31, 2002**	
Particulars	*Carrying value*	*Estimated fair value*	**Carrying value**	**Estimated fair value**
Financial assets				
Securities, available for sale	*24,787*	*24,787*	**155,758**	**155,758**
Securities, held to maturity	*10,944*	*11,524*	**24,294**	**28,768**
Trading assets (including derivatives).	*18,725*	*18,725*	**26,075**	**26,075**
Loans (Note 1)	*93,030*	*93,128*	**72,474**	**72,681**
Other financial assets (Note 2)	*62,704*	*62,704*	**112,049**	**112,049**
Total	*210,190*	*210,868*	**390,650**	**395,331**
Financial liabilities				
Interest-bearing deposits	*137,883*	*138,846*	**295,647**	**296,385**
Non-interest-bearing deposits	*26,371*	*26,371*	**29,574**	**29,574**
Short term borrowings	*3,012*	*3,012*	**1,409**	**1,409**
Trading liabilities (including derivatives)	*5,958*	*5,958*	**1,237**	**1,237**
Long-term debt	*2,421*	*2,594*	**5,740**	**5,906**
Other financial liabilities (Note 3)	*18,236*	*18,236*	**42,272**	**42,272**
Total	*193,881*	*195,017*	**375,879**	**376,783**

Note 1: The carrying value of loans is net of allowance for loan losses and unearned income.

Note 2: Includes cash, dues from banks, deposits at interest with banks, reverse repurchase transactions, short-term highly liquid securities, and customers acceptance liability for which the carrying value is a reasonable estimate of fair value.

Note 3: Represents acceptances and other liabilities outstanding, for which the carrying value is a reasonable estimate of the fair value.

22.6 The carrying value of cash and cash equivalents as reported in the balance sheet approximates the fair values since maturities are less than 90 days. Trading account assets and liabilities are carried at fair values in the balance sheet. Fair values of securities in all categories are based on quoted or independent market prices. The fair values of certain long-term loans are estimated by discounting the contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying value of certain other loans approximates fair value due to the short-term and/or frequent repricing characteristics of these loans. For impaired loans where the credit quality of the borrower has deteriorated, fair values are estimated by discounting expected cash flows at a rate commensurate with the associated risk.

22.7 For liabilities, market borrowing rates of interest of similar instruments are used to discount contractual cash flows. The estimated fair value interest-bearing deposits and long term debt reflects changes in market rates since the time these were sourced.

23. Future impact of new accounting standards

23.1 ***Business combination, goodwill and other intangible assets***

23.1.1 In June 2001, the Financial Accounting Standards Board ('FASB') issued SFAS 141, *Business Combinations* and SFAS 142, *Goodwill and Other Intangible Assets.* SFAS 141 require that all business combinations be accounted for under a single method-the purchase method. Use of the pooling-of-interest method is no longer permitted and is effective for business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment and is effective for fiscal years beginning after December 15, 2001, with earlier application permitted in certain instances.

23.1.2 The proposed merger of ICICI Limited with ICICI Bank will be accounted for under SFAS 141 and goodwill and other intangibles will be accounted for in accordance with SFAS 142.

23.1.3 In August 2001, the FASB, issued SFAS 143, *Accounting for Asset Retirement Obligations.* SFAS 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged.

23.1.4 In August 2001, the FASB also issued SFAS 144, *Accounting for the Impairment of Disposal of Long-Lived Assets.* SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Under this standard, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Early application is encouraged.

23.1.5 Adoption of SFAS 143 and 144, is not estimated to have a significant impact on the financial statements of the Bank.

23.1.6 The provisions of the new standard are generally to be applied prospectively.

G. VENKATAKRISHNAN
General Manager

BALAJI SWAMINATHAN
Chief Financial Officer

KALPANA MORPARIA
Executive Director