directors' report

To the Members

Your Directors have pleasure in presenting the Forty-fourth Annual Report of the Company with the audited Statement of Accounts for the year ended March 31, 1999.

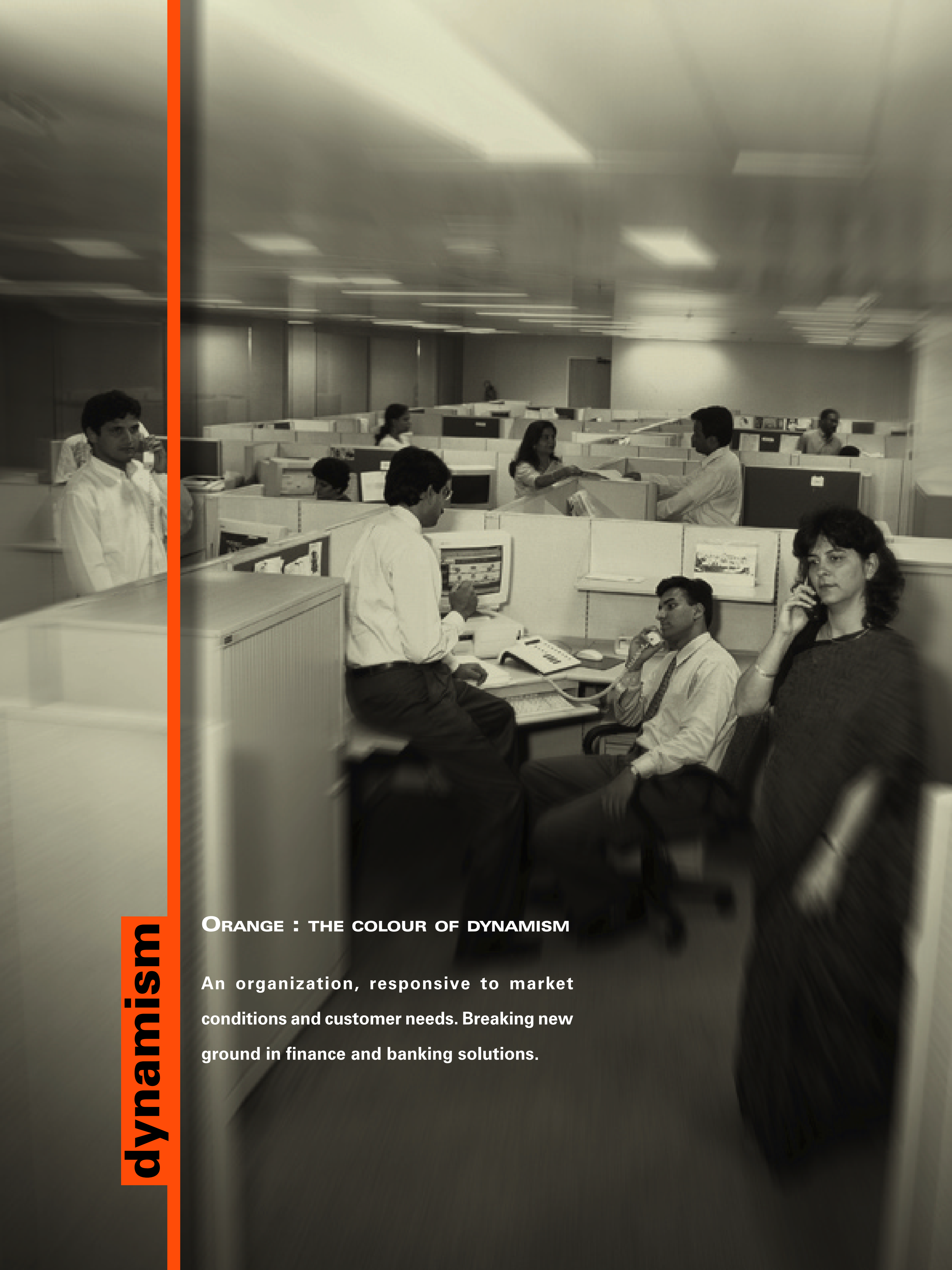
APPROPRIATIONS

The Revenue Account shows a profit before taxation of Rs. 10.96 billion after write-offs and provisions of Rs. 3.64 billion towards bad and doubtful debts and taking into account all expenses including depreciation of Rs. 3.55 billion on assets leased out and depreciation of Rs. 0.28 billion on other assets. The net profit for the year is Rs. 10.01 billion.

The Statement of Accounts for the year also reflects the accounts of Anagram Finance Limited subsequent to its merger with ICICI, effective April 1, 1998.

Taking into account the capitalization of interest on funds of Rs. 0.56 billion (used for constructing new office premises) with retrospective effect, and the balance of Rs. 0.53 billion being brought forward from the previous year and adjustment of taxation for earlier years of Rs. 0.27 billion, the disposable profit is Rs. 11.37 billion. Your Directors have recommended a dividend rate of 55% (Rs. 5.50 per share of Rs. 10 each) for the year ended March 31, 1999 and have appropriated the disposable profit as under.

Rs. billion	**1998-99**	1997-98
To Capital Reserve, making in all Rs. 5.32 billion	**0.44**	1.40
To Capital Redemption Reserve, making in all Rs. 1.11 billion	**0.16**	0.75
To Special Reserve created and maintained in terms of Section 36(1)(viii) of the Income-tax Act, 1961, making in all Rs. 6.00 billion	**3.40**	2.60
To Deferred Tax Credit Reserve, making in all Rs. 5.18 billion	**0.80**	0.55
To General Reserve, making in all Rs. 12.25 billion	**2.25**	2.25
To Contingency Reserve	**—**	0.14
Dividend for the year ended March 31, 1999		
— On preference shares	**0.70**	0.09
— On equity shares at the rate of 55%	**2.93**	2.88
(includes corporate dividend tax)	**0.35**	0.27
Leaving balance to be carried forward to next year	**0.68**	0.53



dynamism

ORANGE : THE COLOUR OF DYNAMISM

An organization, responsive to market conditions and customer needs. Breaking new ground in finance and banking solutions.

OPERATIONAL REVIEW

ICICI's asset base continued to grow as a result of the innovative structured solutions designed by our cross functional teams. ICICI's disbursements grew by 22% from Rs. 158.07 billion in financial year 1997-98 to Rs. 192.25 billion in financial year 1998-99. In the same period, approvals increased by 38% from Rs. 247.17 billion in financial year 1997-98 to Rs. 342.20 billion in financial year 1998-99, indicating a strong pipeline of projects and robust growth in the coming year.

SUBSIDIARY COMPANIES

ICICI's subsidiaries include ICICI Banking Corporation Limited (ICICI Bank), ICICI Securities and Finance Company Limited (ICICI Securities), ICICI Brokerage Services Limited (ICICI Brokerage), ICICI Personal Financial Services Limited (ICICI PFS), ICICI Capital Services Limited (ICICI Capital), ICICI Infotech Services Limited (ICICI Infotech), ICICI Venture Funds Management Company Limited (ICICI Venture), ICICI International Limited (ICICI International), ICICI KINFRA Limited (ICICI Kinfra), ICICI West Bengal Infrastructure Development Corporation Limited (ICICI Winfra), ICICI Properties Limited (ICICI Properties), ICICI Realty Limited (ICICI Realty) and ICICI Real Estate Company Limited (ICICI Estate). The audited statements of account of ICICI's subsidiaries, together with the Report of the Directors and Auditors for the year ended March 31, 1999, as required under Section 212 of the Companies Act, 1956, are attached.

DIRECTORS

G.P. Gupta, who was on the Board since June 1997 tendered his resignation from the Board effective July 23, 1998. The Board accepted with regret the resignation of G. P. Gupta and placed on record its appreciation of the valuable services rendered by him during his tenure.

The Board has appointed G. Krishnamurthy, Chairman, Life Insurance Corporation of India, D. Sengupta, Chairman, General Insurance Corporation of India, N. R. Narayana Murthy, Chairman & Chief Executive Officer, Infosys Technologies Ltd. and Marti G. Subrahmanyam, Professor, Stern School of Business, New York, as additional Directors of ICICI effective August 1, 1998.

K. A. Chaukar, who was appointed Executive Director of ICICI from August 1, 1998 up to June 30, 2003, tendered his resignation as Executive Director and as Director of ICICI effective October 15, 1998. The Board accepted with regret the resignation of

trust

Blue : the colour of trust and depth

Trust brought about by the security of knowing that you are dealing with an organization that brings to you expert knowledge, a high level of commitment, professionalism and ethics.

K.A. Chaukar and placed on record its appreciation of the valuable services rendered by him during his long tenure of over 14 years in the ICICI Group at different levels and for his efforts in setting up ICICI Securities and Finance Company Ltd. His professional competence and his understanding of financial markets greatly helped the Board in its deliberations.

T.R. Prasad who was on the Board since June 1997 tendered his resignation from the Board effective January 29, 1999. The Board accepted with regret the resignation of T.R. Prasad and placed on record its appreciation of the valuable services rendered by him during his tenure.

The Board has appointed Ajit Kumar, Secretary, Department of Industrial Policy & Promotion, Ministry of Industry, Government of India, as Director of ICICI effective January 29, 1999, in the casual vacancy caused by the resignation of T.R. Prasad.

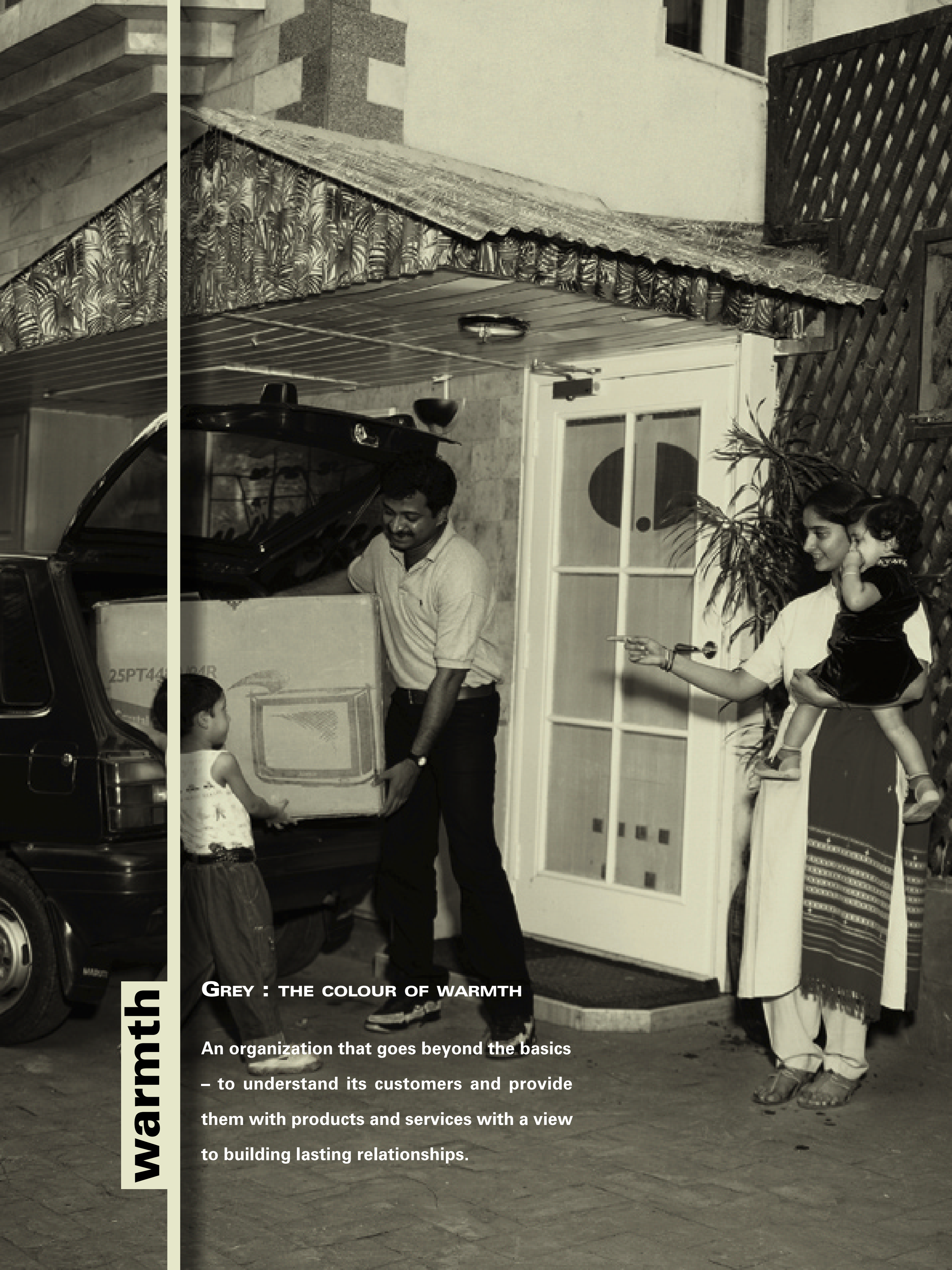
The Board has appointed Lakshmi N. Mittal, Chairman of LNM Group as additional Director of ICICI effective April 1, 1999.

S.K. Kaura, who was on the Board since March 1990 tendered his resignation from the Board effective April 27, 1999. The Board accepted with regret the resignation of S.K. Kaura and placed on record its appreciation of the valuable services rendered by him during his tenure. The Board also acknowledged the contribution made by S.K. Kaura in enriching the deliberations at the Board Meetings with his vast knowledge of industry, his technical expertise and business acumen.

The Board has, effective April 26, 1999, elevated Lalita D. Gupte from the post of Deputy Managing Director to the post of Joint Managing Director & Chief Operating Officer and has also elevated S.H. Bhojani from the post of Executive Director to the post of Deputy Managing Director.

The term of Lalita D. Gupte as Joint Managing Director & Chief Operating Officer expires on June 23, 1999. The Board has re-appointed her as Joint Managing Director and Chief Operating Officer for a period of five years effective June 24, 1999. In terms of the provisions of the Companies Act, 1956, your approval is sought for her re-appointment and for the remuneration payable to her as detailed in the Notice convening the Meeting.

In terms of the provisions of the Articles of Association, B.K. Jhawar, Ashok Ganguly, R. Seshasayee and Rakesh Khurana would retire at the forthcoming Annual General Meeting and, all being eligible, offer themselves for re-appointment.



warmth

Grey : the colour of warmth

An organization that goes beyond the basics – to understand its customers and provide them with products and services with a view to building lasting relationships.

YEAR 2000 (Y2K) READINESS

ICICI's state of readiness for Year 2000

At ICICI, a full fledged Y2K readiness programme was initiated by an exclusive project team. This team reports to a committee, which consists of the heads of information technology and risk management departments. This committee is accountable to the top management of ICICI and keeps it informed on the progress of the Y2K project regularly. Substantial efforts have been invested to make all systems in ICICI Y2K ready.

Expenses required to make ICICI Y2K ready

The total amount being spent on the Y2K project is not expected to exceed Rs. 5 crore.

Risks to ICICI due to Year 2000 bug

ICICI has undertaken a structured approach to address all relevant issues pertaining to Y2K problems. A detailed inventory was drawn up of all Y2K affected components and responsibilities were assigned for each component. A summary of the Y2K readiness, by business area, is given below:

Corporate Lending: All applications in the area of Corporate Lending are Y2K ready.

Treasury: ICICI has replaced/converted old applications in this area with Y2K ready versions.

Administration/Human Resources: All applications in use are Y2K ready.

Systems Software and Hardware: All the systems software and hardware are Y2K ready.

Investor Servicing: The software used by ICICI Infotech Services Limited has been developed recently and is Y2K ready.

ICICI's computer systems are not interconnected with third parties' computer systems.

Contingency Plans

In addition to the above, to ensure smooth functioning and continuity of ICICI's business in the next millennium, a Y2K contingency plan has been prepared. The contingency plan covers all the business areas within ICICI and identifies the prerequisites essential to ICICI's functioning in the event of a Y2K failure.

AUDITORS

The Auditors, M/s. N.M. Raiji & Company and M/s. S.B. Billimoria & Co., Chartered Accountants, Mumbai, will retire at the ensuing Annual General Meeting. The Board at

stability

MAROON : THE COLOUR OF STABILITY

A stability brought about by an outstanding track record over 44 years of banking and finance.

its Meeting held on April 26, 1999 has proposed their appointment as joint Auditors to audit the accounts of ICICI for the financial year ending March 31, 2000. You are requested to consider their appointment.

FOREIGN EXCHANGE EARNINGS AND EXPENDITURE

During 1998-99, expenditure in foreign currencies amounted to Rs. 5.43 billion, on account of interest, financial and other charges. During the same period, the Company earned Rs. 1.39 billion in foreign currencies.

PERSONNEL

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of the employees are set out in the annexure to the Directors' Report.

CORPORATE GOVERNANCE

As business becomes more global and competition for capital increases, greater emphasis is being laid on corporate governance as a mechanism for effective control and enhancement of stakeholder value. ICICI had initiated the process of corporate governance in early 1997 when it was felt that the accountability of the Board to all constituents of the Company necessitated having the Board as the centre of corporate governance. The series of steps taken up at that time included the separation of the Executive Management from the Board's functioning, ensuring that not less than 75% of the total strength of the Board would be non-wholetime Directors, and the setting up of Board committees including an Audit Committee for overseeing the functions of the Executive Management. The Audit Committee consisting entirely of non-wholetime Directors is presided over by R. Seshasayee, Managing Director of Ashok Leyland and a chartered accountant by profession.

At the Board Meeting held on March 26, 1999, it was decided to set up two more committees: the Board Governance Committee combining the functions of the Nomination Committee and the Compensation Committee, and the Credit Committee. Both these committees are presided over by non-wholetime Directors, the former by N.R. Narayana Murthy, Chairman, Infosys Technologies Ltd. and the latter by Ashok Ganguly, Chairman, ICI (India) Ltd. Marti Subrahmanyam, Professor at the Stern School of Business and a reputed authority on Finance presides over the Investments Committee. It was also decided that all important Board Committees would be presided over by

ethics

White : the colour of ethics

An organization which has set for itself high standards of corporate governance – standards which guide its professionals who are committed to the highest levels of integrity and work ethics.

independent professional directors, and will consist mainly of non-wholetime Directors. ICICI believes that this structure will enhance the Board's role in guiding ICICI and will contribute to ICICI's strategic objective of enhancing shareholder value.

As discussed earlier, the Board has delegated all operational powers to the Management Committee, which comprises only wholetime Directors and is presided over by the Managing Director & CEO. In line with this operational structure, the review and analysis of the financial results for the year 1998-99 has been discussed by the Executive Management in the next section.

ACKNOWLEDGEMENTS

ICICI is grateful to the Government of India, the Reserve Bank of India and the Securities and Exchange Board of India for their continued support and advice. We are grateful to the World Bank, KfW, Asian Development Bank, J-Exim Bank and the international banking and investment community for their support in mobilizing foreign currency resources. We also express our gratitude to the Unit Trust of India, the Life Insurance Corporation of India, the General Insurance Corporation of India and its subsidiaries, as well as the domestic banking community, provident funds, trusts and the large body of individual investors that has contributed to our domestic resource mobilization. We would also like to thank Bombay Stock Exchange and National Stock Exchange for their co-operation in the resource raising exercise of ICICI. ICICI would also like to thank its valued clients for their continuous support.

The Directors would like to express their sincere thanks and appreciation to all the staff members for commendable team work, a high degree of professionalism and the enthusiastic efforts displayed by them during the year. Finally, the Directors wish to express their gratitude to the Members for their continued support.

For and on behalf of the Board

Mumbai — N. Vaghul
April 26, 1999 — Chairman

management's discussion & analysis

BUSINESS ENVIRONMENT

Economic Overview

The global capital and forex markets witnessed unusual volatility last year, as world trade decelerated and commodity prices fell sharply. While several Asian economies crumbled due to inherent weaknesses, the Indian economy exhibited greater resilience, posting a moderate level of GDP growth. Nevertheless, the turmoil in the East Asian economies, the continuing recession in Japan, the financial crisis in Russia and the collapse of the markets in Brazil have all had a negative fallout on India in various measures. Commodity sector industries have been particularly affected as falling trade barriers have increased their vulnerability to global trends. The vital need for attaining global competitiveness has resulted in widespread restructuring across corporate India. Increasing consolidation in search of globally scaled capacities, technology upgradation and focus on core competencies are the cornerstones of this restructuring process. The Government too has recognized the significance of corporate restructuring in a competitive environment and accordingly, several fiscal and legal changes are envisaged to facilitate the process of mergers and de-mergers.

Globalization has been a two way process and in this context, globally competitive players have been actively seeking opportunities for wealth creation. The shift from the industrial revolution to the information revolution and now the knowledge revolution has ensured that knowledge intensive industries are poised for tremendous growth. The information technology and pharmaceutical industries are two clear examples. Companies in these sunrise industries have created a sustainable and difficult-to-replicate "intangible" advantage based on their human capital. As Indian industry matures, many of these companies will act as pathbreakers and trendsetters.

Even within the domestic economy, several players were able to enhance profitability by configuring their business systems to capture opportunities in new markets. A prime example was the growing rural market in India. Certain consumer goods, particularly in the FMCG sector, have done exceptionally well in 1998-99. A turnaround in agricultural performance in 1998-99 and normal monsoon the following year would mean higher rural incomes and this is expected to give a boost to consumer demand.

Although the GDP is growing at 5% plus levels, the economy is operating well below potential, thereby calling for a reduction in interest rates so as to boost domestic demand

and sustain growth. However, as the possibility of a strong fiscal correction declines with the prevailing political uncertainty, the large Government borrowing programme is likely to put an upward pressure on interest rates. Further, as the decline in nominal interest rates has not kept pace with the decline in inflation, real interest rates have gone up. In a scenario of declining inflation, a policy aimed at lowering nominal interest rates particularly at the long end of the maturity spectrum is essential to keep real interest rates low and trigger investment activity and growth. While it is well known that financial stability rests on the ability to maintain a stable currency, the cost advantage of East Asian economies following the decline in their currencies has put Indian exports at a major disadvantage. The interest rate and exchange rate therefore need to be maintained at competitive levels, keeping in mind the imperatives of global competition.

Financial Sector Overview

In line with the changes in the corporate sector, the Indian financial sector is also experiencing the effects of increasing deregulation and competition. This is in turn, forcing financial intermediaries to rethink their business models and strategies. The experience of the East Asian countries highlights the vulnerability inherent in financial systems notwithstanding the existence of well developed markets.This throws up several strategic questions for Indian banks and financial institutions to address. In India, banking credit exposures do not pose systemic risks to the country unlike in East Asia since the domestic bank credit to GDP ratio in India is several times lower than that of the East Asian economies. Moreover, interest expenses of domestic banks as a percentage of GDP are also comparatively very low. In addition, Indian banks have no direct exposure to property markets and minimal exposure to the stock market. Notwithstanding these fundamental differences from our regional counterparts, what is pertinent to the Indian economy is that the existing structure of the domestic financial system has to be improved to make it more efficient and resilient.

In order to reap the full benefits of open capital markets while reducing the risk of disruption, the domestic financial and banking institutions should be strong. They should be well capitalized, well supervised and subject to internationally accepted prudential standards. The tightening of asset classification and provisioning norms and the raising of the minimum capital adequacy requirement are welcome measures in this regard. More importantly, measures need to be taken that ensure an adequate capital cushion for risk exposure while optimizing the use of risk capital over the long term. As the Latin American and East Asian experience shows, the resilience of the finance sector is both a deterrent to, as also a crucial ingredient for, a quick recovery from a large macro-economic structural adjustment.

Sound accounting and disclosure practices are essential to ensure the enhanced transparency needed to facilitate effective supervision and market discipline of banks and financial institutions. Accounting treatments generally, and loan accounting treatments specifically, have a significant impact on financial and supervisory reporting. Therefore, it is important for all commercial banks and financial institutions (FIs) in India to meet internationally accepted standards of accounting (e.g. US GAAP, IAS) and disclosure (e.g. Basle Committee recommendations) as early as possible. Regulatory authorities on their part should effect these standards at the earliest.

Several structural changes also need to be effected in the financial sector. As India integrates with the global economy, and users of financial services become more sophisticated and demanding, there will be a shift towards those entities that offer customized products in the most innovative and cost efficient manner. In the light of this emerging scenario as well as based on the international experience, there is a need to progressively eliminate product market restrictions on all financial intermediaries and create a level playing field to move closer to the model of universal banking. This would also provide other significant benefits of reducing the risk of financial instability inherent in any single product concentration and enhancing the efficient deployment of capital.

A precondition to the competitive repositioning of Indian banks and FIs is an active solution for the weak banks. Another key area is the role of technology in the financial markets today. Complete computerization and connectivity can enable financial intermediaries to offer the complete range of products and provide a paradigm shift in delivery of service to the individual. The experience of new banks in other emerging markets has clearly shown that it is possible to penetrate the retail market and gain substantial market share through effective use of technology, while realizing a substantial reduction in intermediation cost. Going forward, as internet access increases, we will witness a revolution in the manner in which retail products and services are delivered to the consumer. As the global financial services business moves into a new phase, web based solutions are emerging as the core of business systems and this trend is expected to be replicated in India soon.

BUSINESS OPERATIONS

ICICI has greatly diversified its operations beyond traditional project finance and now offers the entire gamut of financial products and services for the corporate client as well as the retail consumer. Corporate and retail activities require different strategies, different organization structures and different functional skills. Thus, the business strategy and operational performance of the Corporate Banking activity and those of Personal Financial Services have been discussed separately.

Corporate Banking

ICICI offers a wide array of financial products and services to corporates, which includes project finance, corporate finance, cash flow based financing products, lease financing, equity financing, hybrid financing structures, syndication services, treasury based financial solutions, risk management tools, as well as advisory services. Given the accelerating change in financial services, we have taken a close look at the competitive landscape in order to develop for ourselves a clear positioning strategy in the domestic financial market.

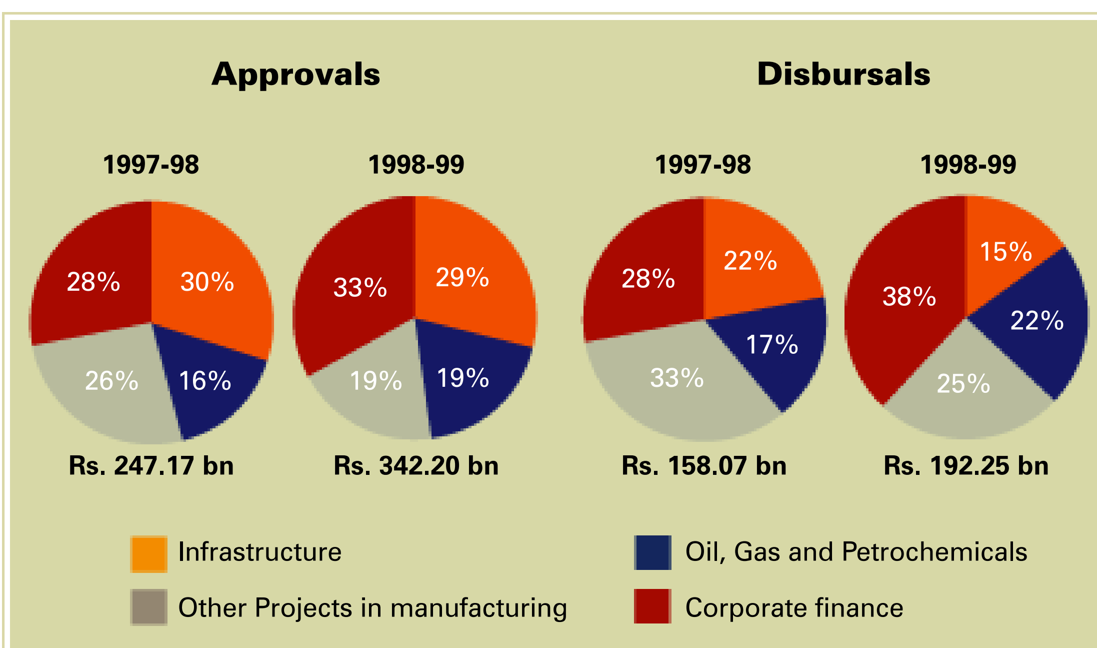
Business Strategy

The financial services sector is moving at a tremendous pace spurred by some powerful structural forces—economic deregulation and continued technological and financial innovation. As the financial sector evolves, the major visible trends that shall impact us are increasing disintermediation and growing competition from domestic and global players. As India integrates with the global economy, the business environment is undergoing a major shift. Financial services companies are seeking to serve customers as trusted advisors and relationship managers while aiming to provide a broader range of product and service capabilities. This presents both a challenge and a unique opportunity for ICICI to increase its market presence and ensure a greater "share of wallet" of the customer. The ICICI Group with its very strong corporate franchise, in-depth knowledge of Indian industry and an extremely talented pool of professionals is uniquely placed to take advantage of this opportunity.

Multiple products and services furnish financial intermediaries with a broad spectrum of strategic choices. FIs in India have traditionally been single product entities, providing long-term project finance to industry. There was a strategic need to mitigate the inherent risks arising from a one-product dominant portfolio and this called for product diversification to include shorter duration corporate finance and other structured finance transactions. ICICI has, in response to this challenge, offered innovative products such as yield curve based pricing, securitization, off-balance-sheet structured financing as also, value added services like syndication, fund arrangement and advisory services to consistently increase our market share. As a part of this strategy, ICICI has laid strong emphasis on the development and marketing of our corporate finance products. In the corporate finance segment, ICICI restricts its exposure primarily to highly rated corporates offering minimal credit risk. Within the project finance segment, ICICI has achieved substantial diversification through increased focus on infrastructure and oil, gas and petrochemicals projects. ICICI shall continue its strategy of diversification of the asset base to ensure diverse revenue streams and increased stability. The impact of ICICI's diversification strategy on its operational performance is detailed below.

Operational Review

ICICI's asset base continued to grow as a result of the innovative structured solutions designed by our cross functional teams. ICICI's disbursals grew by 22% from Rs. 158.07 billion in financial year 1997-98 to Rs. 192.25 billion in financial year 1998-99. In the same period, approvals increased by 38% from Rs. 247.17 billion in financial year 1997-98 to Rs. 342.20 billion in financial year 1998-99, indicating a strong pipeline of business for a robust growth in the coming year. The purpose-wise approvals and disbursals made by ICICI during financial year 1998-99 reflect the trend in diversification.



The total approvals and disbursals by all-India Financial Institutions were Rs. 896.94 billion and Rs. 557.33 billion respectively. Of these, ICICI's share of 38.2% and 34.5% respectively indicates its leadership position.

ICICI's growth has been fuelled by its segmentation of the market on the basis of size, potential and funding requirements and the establishment of exclusive groups to focus on each segment. ICICI's activities in the corporate banking segment can be broadly classified into corporate finance activities and project finance activities.

Corporate Finance

During 1998-99, ICICI's market focus has been on corporate and treasury products and its structuring skills have proved a key differentiator. Combining experience and in-depth understanding of client requirements, ICICI harnessed new technologies and thought processes to introduce numerous products and services that have been of value to its customers. This included products that aid corporates in managing their cash flows, in mitigating risk and in enhancing the credit quality of their debt issuances. During 1998-99, ICICI expanded and diversified its scope of services by offering products for hedging commodity risks and channel financing. ICICI also offered interest rate swaps and rupee-dollar swaps to enable corporates to hedge market related risks.

Over the past year, the securitization initiative was extended to a wider range of asset classes including credit card receivables, export receivables, Department of Telecommunication (DoT) receivables and lease rentals. During the year, ICICI undertook numerous initiatives to create awareness about securitization and develop a customer base for itself. ICICI focused specifically on the application of securitization techniques to credit enhance ICICI's traditional loan products through mitigation of individual risks embedded in such assets. This has resulted in a higher risk-adjusted return on new assets.

New initiatives during the year included efforts to structure innovative financial products for retail customers and the establishment of a technology financing cell. With growing demand for short term and floating rate funds from corporate clients, ICICI now provides a bill discounting facility. Continuing its pioneering efforts in product development, ICICI has conceptualized an option-pricing model for interest rate options and bond options. Options will be introduced by ICICI in accordance with the emerging regulatory framework. The diversification into low risk corporate finance activities was successfully implemented during the year, with 38% of ICICI's disbursals in 1998-99 emanating from this product category as compared with 28% in 1997-98 and 15% in 1996-97.

Project Finance

ICICI has earned its reputation as a project finance house over the last four decades. However, over the last few years, it has become increasingly certain that the future of financial services would not be an extrapolation of the past. Accordingly, with a view to creating specific expertise in structuring complex project finance transactions in the new environment, ICICI had set up specialized industry groups in the areas of infrastructure and oil, gas and petrochemicals sectors. As a result, today, ICICI's experience in structuring project finance, modelling risk allocation, developing enforceable contract models and working out complex issues related to Government regulation have been seen by most project sponsors as critical to the success of their projects.

ICICI's experience in project finance has enabled it to apply its learning to all its activities. Tighter security structures like escrow accounts to capture cash flows are being incorporated in almost all projects. Projects in the infrastructure and oil, gas and petrochemicals sectors are typically long gestation projects designed for limited/non-recourse financing mechanisms and hence need to be structured in a manner that isolates and assigns risks to various counterparties. The risks are varied and need to be mitigated by proper allocation and careful structuring; requiring a skill base that is different from conventional project finance skills. All limited recourse infrastructure projects have been tightly structured with no funds being committed till complete financial closure of the project has been achieved. These projects are based on fixed time and fixed price engineering procurement and commissioning (EPC) contracts with adequate liquidated damages for underperformance and delays.

Infrastructure Financing

Infrastructure projects for the period under review accounted for 29% of the aggregate approvals and 15% of the aggregate disbursals of ICICI. Notable achievements during the year include funding the first two major acquisitions in the power sector, financing the first 'market risk' port facility structured as an independent, limited recourse, special purpose vehicle (SPV) with a take-out facility, and working on a prestigious mandate to assist a Government agency in the project development of an expressway project. In line with its focus of being a project facilitator and "arranger" of funds, ICICI is executing a number of prestigious mandates in these roles and playing a proactive role in developing innovative financing structures for this sector.

Also, given its role and expertise in infrastructure financing, ICICI is being increasingly called upon to provide policy level advice. ICICI played a key role in drafting the new Telecom policy by leading a sub-group of the Government's Group on Telecom. The sub-group covered three broad areas in its new policy: industry framework, convergence of technologies across telecom, information technology and media, and frequency spectrum management. ICICI's experience in this sector and insight into the strengths and weaknesses of the telecom players greatly contributed towards the development of a comprehensive "technology proof" policy which will go a long way in developing India's telecommunications sector. During the year, ICICI also participated as a member of the Railway Expert Group formed by the Ministry of Railways and the Crisis Resolution Group for power projects. It also played an active role in developing the model Road Concession Agreement.

Oil, Gas, Petrochemicals and other related areas

ICICI maintained its leadership status in financing projects in the refining and petrochemicals segment and extended assistance to select oil and fertilizer public sector units (PSUs). During the year, ICICI extended its business to financing projects across the supply chain—from the oil exploration sector to the oil distribution and marketing sector. In the oil exploration and production sector, ICICI has emerged as the dominant player with a significant market share. ICICI financed all the oil fields auctioned by the Government of India to the private sector. Two of these transactions were uniquely structured involving securitization of future receivables from the producing fields. During the period under review, ICICI also syndicated the first ever, 14-year, non-recourse, fixed rate pipeline financing offering in India.

Marine

Despite adverse conditions prevailing in world shipping, ICICI further strengthened its premier position in shipping finance in India by funding over 43% of the total ocean going gross tonnage acquired in the private sector. During the year, for the first time, a structured foreign currency long term shipping lease was executed. While continuing to offer structured and innovative ship financing packages to Indian shipowners, ICICI is aggressively targeting emerging opportunities in liquefied natural gas shipping.

Manufacturing Sector

The sharp decline in commodity prices in global markets has had an adverse impact on the domestic market and created some stress in the traditional manufacturing sector. Indian corporates are coming to terms with the new competitive reality through a process of restructuring and repositioning. ICICI believes in providing assistance only to globally scaled, intrinsically viable projects with strong sponsor support. In view of this, and given the emphasis on improving asset quality, ICICI has restricted its approvals for new projects in the manufacturing sector to about 5% of incremental approvals. All incremental asset growth in this sector is being financed by applying global best practices in respect of project structuring and subsequent monitoring.

Investments

The period under review witnessed depressed capital market conditions for a major part of the year and by November 1998 the Sensex had declined 24% as compared with March 1998 levels. Though it recovered subsequently as FII investments turned positive, in March 1999 the Sensex closed 4% below the previous year's level.

In a subdued primary market for initial public offering and rights issues, disbursals towards acquisition of equity and preference shares were only Rs. 1.10 billion in 1998-99.

During the period under review, ICICI continued with its strategy of active portfolio management for its long term equity investments. ICICI strengthened its strategic focus on unlocking portfolio value by the sale of illiquid investments through negotiated deals. Illiquid investments contributed 61% of the total capital gains (excluding gains booked from sale of debentures) in 1998-99.

As at March 31, 1999, ICICI's investment portfolio comprising investments in equity, preference shares and units showed an unrealized loss of Rs. 5.01 billion as compared to an unrealized loss of Rs.1.60 billion as at March 31, 1998 and an unrealized loss of Rs. 5.08 billion as at March 31, 1997. ICICI's equity investments are primarily in the nature of 'private equity'-long-term investments for project financing. Returns on such investments generally accrue only after implementation of the projects. Hence, given the long term nature of these investments, the diminution in value, if any, is temporary in most cases.

Advisory Services

ICICI provides fee based, value added services to clients to complement its mainline financing business. ICICI was awarded several mandates during the year and is a preferred partner for a number of internationally reputed consultants for execution of assignments. ICICI continued to maintain its position as a leading advisor in the energy sector, particularly in the area of State Electricity Board (SEB) restructuring and reform programmes. Specifically, ICICI has been associated with the Andhra Pradesh SEB restructuring and has been awarded the mandate (as part of a consortium) for the privatization of their distribution system. ICICI has also initiated significant work with various public sector undertakings.

Custodial Services

During the year 1998-99, ICICI consolidated its position as the market leader in the GDR segment as the total value of transactions and assets held in custody on behalf of FII and offshore clients grew substantially. ICICI is registered as a Depository Participant of National Securities Depository Limited and now provides regular electronic depository facilities to retail investors. To enable shareholders to dematerialize their holding and to trade in electronic form, several elements of ICICI's depository services are being offered free of cost to ICICI shareholders.

Personal Financial Services

Historically, ICICI's business activities had little retail exposure. It has, in the recent past, made a conscious attempt to diversify from the strong wholesale focus, both in respect of assets and liabilities to a more retail orientation. The personal financial services market encompasses savings, investments and consumer loans. Over the last few years ICICI has consolidated its position in the growing retail liabilities segment through the introduction of "Safety Bonds" and presently has a retail investor base of over 2 million. The increasing demand for retail loans and the absence of strong mass market players in this segment presented ICICI with an opportunity to build a retail business while simultaneously allowing it to diversify the risk profile of its asset base. The acquisition of Anagram Finance was the first step in this direction. Taking this further, ICICI has set up a Personal Financial Services (PFS) division to provide the entire range of personal loans to individuals. Currently, ICICI is present in automobile financing, home finance and consumer durable finance and will soon enter card-based credit and other retail products.

Business Strategy

Scale and scope are essential to compete in retail services, since consumers demand a wide range of product choices. The first step in building a successful retail business is to understand the customer, which is followed by developing organization structures to achieve an integrated customer focus. ICICI undertakes extensive market research to develop a full understanding of the customer, his needs and motivations, brand preferences and his responses to ICICI's retail products. An important driver in the personal financial services market is the "relationship" with the customer and therefore a strong brand is the key to rapid acceptance of products and services.

The first step in creating a strong brand was to adopt a new brand identity. The name "The Industrial Credit and Investment Corporation of India Limited" was changed to "ICICI Limited" and a new logo was adopted. The new ICICI Group logo depicts a dynamic individual with drive and conviction, or as some see it, the number one, or even "i" for ICICI. The individual in the logo also symbolizes the strong retail identity of the ICICI Group, particularly in reaching out to its shareholders and customers. The new brand name and logo have been used at the centre of all advertising and promotion across every Group company. This has effectively positioned ICICI as a virtual universal bank offering a wide range of products and services. It also ensures that when a new product is launched by any Group entity, it benefits from the basic brand awareness that is already in place. "Brand Track", a market research study, reveals that the ICICI brand awareness has increased significantly after the launch of the new corporate identity. Amongst the important findings that emerged from the study was the significant improvement in the brand image of ICICI relative to its competitors'. This improvement was evident in all the key measures—spontaneous awareness of the ICICI brand, familiarity with the ICICI brand and brand strength on critical parameters like safety, returns, service and innovation, and also in "share of wallet".

In respect of retail assets, the first step taken by ICICI was the acquisition of Anagram Finance for its seasoned retail portfolio. ICICI is leveraging this acquisition to build a robust collection infrastructure. The personal financial services business requires very different skills as compared to those required in corporate finance. Building an exciting and dynamic brand, intensive consumer marketing, customer profiling, market research, understanding retail technology and structuring retail products, all require a retail mindset. Accordingly, ICICI has built its retail team by recruiting experienced professionals from the industry. Its strong brand equity has been a crucial factor in successfully attracting superior talent in its lateral recruitment initiative. The experience base of ICICI has facilitated the development of a comprehensive, well-designed strategy. An important element of this strategy has been the use of pilot launches to build and test delivery infrastructure, thus de-risking any new project. ICICI has utilized global competition to its advantage by using ready infrastructure including availability of experienced vendors and consultants. ICICI also proposes to leverage its corporate relationships to build a growing and profitable retail business.

In keeping with its strategy of being a provider of the entire range of financial services, ICICI also offers complete savings and investment options to the retail segment. ICICI believes that it is imperative to retain a continuous presence in the market and hence has adopted a strategy of small and frequent public issues of bonds. Under the umbrella name "Safety Bonds", ICICI offers a choice of instruments and flexibility within each instrument, supported by excellent service. Extensive research was undertaken to understand the needs of the retail investor and subsequently, a comprehensive marketing and brand building campaign was developed. ICICI's retail initiative has aided in achieving substantial diversification of its resource base by shifting away from primarily wholesale investors.

ICICI aims to become the pre-eminent provider of personal financial services in India, by combining emerging technology with new strategies. ICICI's strategy in this segment revolves around offering a comprehensive range of retail products and services via an efficient delivery system. ICICI is using superior product design and technology intensive delivery mechanisms to differentiate its products in the marketplace. Developing efficient distribution channels is a major challenge in this business. However, with the technologies available today, it is possible to have a network of small branches that perform effectively and efficiently and compete favourably with traditional branch networks. In line with this strategy, ICICI plans to open 300 "Safety Centres" across the country over the next two years, which would offer financial products and services to the retail customer. Complete computerization and connectivity would enable this channel to deliver customer service of a high standard.

The acquisitions of ITC Classic and Anagram Finance have enabled ICICI to build a distribution network in the Eastern and Western parts of the country. To expand its reach in South India, ICICI has entered into a strategic alliance with a Chennai-based financial services company, Integrated Enterprises, for a distribution arrangement for the entire range of ICICI's retail products. This has allowed ICICI instant access to a distribution network comprising 102 branches spread over 52 cities and to a customer base of 0.5 million.

ICICI aims at creating a paradigm shift in the delivery of financial products and services to the individual with a "customer centred" strategy revolving around convenience and value-for-money. The result would be a consistent, reliable and seamless experience for customers across our national network.

Operational Overview

Personal Finance Asset Products

The auto loan product was launched with the booking of Hyundai's "Santro", followed by Daewoo's "Matiz" and Tata's "Indica". Car finance by ICICI is now available in ten cities and ICICI is currently the preferred financier of Hyundai, Daewoo and Honda. ICICI's home loans were recently launched in Pune and Nasik. Home loans from ICICI will be competitively priced and flexibly structured to meet customer requirements. Moreover, value added property related services will be provided in addition to loans. ICICI has also recently begun to offer consumer durables financing at select locations in Mumbai. ICICI proposes to tie up with leading consumer durables companies to provide finance at competitive rates. In addition, plans to launch credit cards are on the anvil.

Personal Finance Savings Products

During the past year, seven retail bond issues were made, mobilizing Rs. 30.64 billion from over one million investors. Amongst the new products introduced was the "Easy Instalment Bond" which allowed the investor to invest small amounts over a period of time while locking into the interest rate at the time of initial investment. To ensure a high level of liquidity for its bonds, ICICI offers a market-making facility and has launched the "Anytime" facility for the purchase and sale of select bonds.

A comprehensive marketing and brand building campaign was developed on the basis of a research exercise undertaken to understand the needs of the retail investors. Many elements of the campaign were launched—including the building of the "Safety Bonds" sub-brand through an association with cricket and the "Safe Hands" award, and an investor education series in major publications across the country.

During 1998-99, special emphasis was laid on strengthening the distribution network and providing efficient customer service. Some of the measures taken include restructuring of the distribution system to ensure channel viability and the creation of city specific call centres to provide retail investors with the opportunity to resolve product and service related queries in a timely and efficient manner.

Relationship Banking

The complexity of the business environment poses numerous challenges to corporates. These include the development and execution of business strategy, the raising and structuring of capital, investment and trading in assets and the management of complex forms of risk. Therefore it is becoming increasingly necessary for financial intermediaries to bring together expertise in diverse product areas and markets to act as a source of superior value to clients and thereby build strong client relationships.

To enhance client focus and align its organization structure with evolving market demands, ICICI undertook an organization recasting exercise in July 1998. A new business group called the Major Clients Group (MCG) was established to exclusively service the financial needs of the top 150 Indian corporates. A team of highly skilled client bankers drawn from across the ICICI Group work in close association with the specialized industry groups, treasury and structured products group to offer an integrated package to clients and ensure that top Indian corporates perceive the ICICI Group as a solution provider for every financial need. The integrated package includes loan products across the maturity spectrum, structured products, treasury products, advisory services, debt syndication, mergers and acquisitions services, and the entire gamut of banking services including retail services. Over the years ICICI has been able not only to deepen its relationship with existing clients by cross selling its Group products but also broaden its client base by adding several "first-time" clients. ICICI's present focus is the servicing of "AAA" rated PSUs and the financing of international operations of Indian corporates.

The second new business group set up during the year is the Growth Clients Group (GCG) created for servicing the mid-cap companies across the country with a regional business focus. This segment of the market is relatively "underbanked" and requires primarily shorter maturity products and non-fund based products. The client bankers in GCG also have been drawn from across the ICICI Group, to effectively meet these needs. For these operations ICICI functions out of its four regional offices at Mumbai, Delhi, Calcutta and Chennai and branch offices at other centres.

Group Synergy in Business Operations

As discussed earlier, in order to compete effectively, it has become imperative for ICICI to offer its clients a complete menu of products and services and structure tailor-made solutions for specific needs. In order to do this, it is important that the different skills and capabilities within the ICICI Group be combined and delivered seamlessly to the client.

The MCG and GCG have created an effective interface with clients for the entire ICICI Group, thereby enabling all Group companies to generate enhanced business with them.

ICICI and ICICI Securities now pool together their specialized skills and experience and jointly bid for different mandates including corporate restructuring, PSU restructuring and PSU disinvestments, while maintaining a clear separation of legal entities and independence of business decisions. Capitalizing on Group synergy, ICICI Bank has also increased the volume of its business particularly in its Cash Management Services (CMS) and "Power Pay" products. The "Power Pay" product of ICICI Bank facilitates convenient and speedy salary disbursements to client's employees. This has resulted in a significant increase in the number of savings bank account holders for ICICI Bank. This new set of customers present ICICI Bank with new earning opportunities related not only to the salary accounts, but also to other retail businesses. These customer concentration corridors have also been ideal locations for ICICI Bank to install work-site ATMs.

The MCG and GCG have also successfully leveraged existing corporate relationships to market retail asset products. This has helped ICICI attain preferred financier status for various cars viz. Hyundai's "Santro", Daewoo's "Matiz" and Honda's "City"; facilitated bulk home loan financing for employees of clients, financing arrangements for consumer durables manufactured by client companies and channel financing. In respect of retail savings products, corporate relationships have been leveraged to aid the raising of retail resources through work-site marketing and innovative promotion schemes like the tying up of bond offerings with the sale of scooters by Bajaj Auto.

The synergy achieved across the ICICI Group has been the key to providing the client with a one stop financial solution. The resulting growth achieved in the various business groups has been remarkable given the environmental constraints. Moreover, this initiative has clearly thrown up a whole new set of opportunities for the ICICI Group, both wholesale and retail.

In addition to synergy in business generation, ICICI is also creating synergy in its technology systems and risk management processes. During the year, significant progress has been made in ensuring that common technology platforms are used across the Group companies. This will ensure easier and cost-effective integration of the various applications in respect of different products and processes across the Group. Risk management is also now clearly defined as a Group-wide process and all risk related parameters are proposed to be monitored on this basis.

RESOURCES AND TREASURY OPERATIONS

The objective of the Resources and Treasury Division at ICICI is to ensure the stability of its funding base, to provide a wide range of sources of finance for funds with varying term structures and to manage liquidity effectively. ICICI mobilizes resources from both domestic and international markets, manages cash surpluses, sets interest rates and hedges its exposure to market risks.

In the past, ICICI, along with other FIs had had access to low cost, long maturity funding. Since the discontinuation of this facility, ICICI has completely redesigned its liability strategy and developed alternative sources of funds, thereby reducing dependence on any single resource base. Today resources are raised from provident funds, port trusts, pension funds, PSUs, corporates, banks, various financial organizations and multilateral institutions. The tenure of resources raised from these investors varies across the full maturity spectrum. ICICI also views the retail customer as a very important source of funding and has therefore made extensive efforts to enhance its retail resource raising capabilities. ICICI has stepped up public offerings of bonds with a strategy aimed at "near" continuous presence in the market.

Rupee Borrowings

During the year 1998-99, ICICI mobilized medium and long term rupee resources aggregating Rs. 149.30 billion, comprising Rs. 118.66 billion from wholesale sources and Rs. 30.64 billion from retail sources. The strategy of investor diversification and increased mobilization from certain investor categories was implemented aggressively during the year. Investor categories covered under this strategy included autonomous bodies, development authorities, educational institutions and religious and charitable trusts. The market making facility extended to institutional investors played an important role in increasing the liquidity of ICICI bonds, thereby attracting new investors. Over the past year, ICICI also strengthened its capital position by issuing preference shares of Rs. 7.14 billion, primarily to wholesale investors.

In response to growing demand for short term and floating rate funding from corporate clients, ICICI has initiated efforts to explore possible avenues for the generation of such funds. A beginning has been made with the launch of floating rate notes that are linked to market related benchmarks, including the Mumbai Inter-Bank Offer Rate (MIBOR) and 91-Day treasury bill rates.

Foreign Currency Resources

The international capital markets witnessed turbulence in 1998-99 due to increased uncertainty regarding global economic prospects. During this period, ICICI was successful in meeting its foreign currency requirements through multilateral and bilateral agencies. ICICI also entered into refinancing agreements for an aggregate amount of US$ 25 million, effecting significant savings in interest costs.

Treasury Operations

Changes in the global marketplace and increasing competition in the Indian financial sector have brought to the forefront the need to improve operational efficiency and enhance client service levels through the adoption of state-of-the-art technology and development of new products. In tune with the changing environment, ICICI has taken a number of initiatives aimed at strengthening its competitive position in treasury operations. ICICI believes that these measures, coupled with its existing systems, will aid in achieving the objective of optimizing the risk profile and profitability of the organization over the long term.

The initiatives taken by Treasury in the area of Asset Liability Management (ALM) and funds pricing have greatly helped in making the ALM function more efficient and in improving the overall risk profile of ICICI. In the area of funds management the streamlining of the flow of data from multiple feed systems has helped provide accurate and timely asset-liability positions and resulted in better management of liquidity and interest rate risk. During 1998-99, ICICI introduced intranet based multi-currency pricing calculators to enhance transparency and to standardize the internal pricing of products. Also, the warehousing of foreign currency funds in floating rates shielded ICICI from the global fall in interest rates.

Fully automated back offices have enabled ICICI to increase the volume of treasury operations and introduce new products apart from facilitating substantial reduction in operational risks. The trading activities of ICICI also would get a further boost with the treasury's shift to its new dealing room at ICICI Towers, which will be equipped with state-of-the-art dealing room facilities.

The highlight of treasury operations during the year was the progress made in the area of research and development of new products and risk management methodologies. Pioneering research initiatives were undertaken in the development, pricing and hedging of new derivative products (including swaps, options and futures) in rupee, foreign currency and equity. The development of these products has required systematic effort in the underlying areas of yield curve pricing, risk management and core systems development. These new products would allow ICICI to leverage its balance sheet to provide value added offerings to its clients in the coming years. During the year under review, ICICI emerged as a significant participant in the Indian forex market by creating a market for long-term Rupee-Dollar swaps with maturities extending upto 10 years. In this process, ICICI provided corporates with an important tool to manage their market-related risks. ICICI will take this initiative further by building its swap book, thereby deepening the market.

FINANCIAL REVIEW

The financial statements for the year ended March 31, 1999 reflect the merger of Anagram Finance Limited ("Anagram Finance") with ICICI Limited, effective from April 1, 1998. Accordingly, all figures pertaining to the year ended March 31, 1999, are the combined figures of the merged entity. Therefore, the financial statements for the year ended March 31, 1999 are, technically, not comparable with those for the year ended March 31, 1998. However, since the scale of operations of former Anagram Finance is much smaller in comparison to that of ICICI, the impact of the merger on the financial performance of ICICI is marginal.

ICICI achieved a profit after tax of Rs. 10,008.4 million in financial year 1998-99, a 6.9% increase from Rs. 9,358.7 million (excluding non-recurring gains) in financial year 1997-98. In financial year 1998-99, general provisions aggregating Rs.1,314.4 million for sub-standard assets were charged directly to the profit and loss account. In the previous year, provisions for sub-standard assets were not charged to the profit and loss account but were appropriated from the Special Reserve. Had the same accounting policy in respect of provisions for sub-standard assets been applied as in the previous year, profit after tax for financial year 1998-99 would have been Rs.11,322.8 million, an increase of 21.0% over financial year 1997-98. The profit before provisions and write-offs and tax increased by 17.7% from Rs. 12,396.3 million in financial year 1997-98 to Rs. 14,593.9 million in financial year 1998-99, due to an 85% growth in income from commissions and fees and a 125% growth in income from securities offset by the low increase of 1% in net interest income.

Operating Results Data

Rs. million	Financial Year 1997-98	**Financial Year 1998-99**	Growth %
Income			
Income from loans and debentures	45,477.9	**57,009.4**	25
Income from leasing	6,632.2	**7,168.0**	8
Capital gains	480.4	**444.2**	(8)
Dividend income	654.3	**611.5**	(7)
Commission and fees	1,677.7	**3,110.2**	85
Income from securities	1,968.4	**4,437.8**	125
Total Income from operations	56,890.9	**72,781.1**	28
Other income	472.4	**450.9**	(5)
Total income	57,363.3	**73,232.0**	28
Expenses			
Interest expense	38,476.3	**50,791.3**	32
Interest tax	845.0	**1,050.0**	24
Depreciation on leased assets	2,856.2	**3,548.3**	24
Depreciation on other assets	181.2	**276.2**	52
Other expense	2,608.3	**2,972.3**	14
Total expense before provisions & write-offs	44,967.0	**58,638.1**	30
Profit before provisions & write-offs and tax	12,396.3	**14,593.9**	18
Provisions and Write-offs			
- Bad debts written off	1,080.3	**1,031.0**	—
- Provision for doubtful debts	1,082.8	**1,290.1**	—
- General provision against sub-standard assets	—	**1,314.4**	—
Total Provisions and Write-offs	2,163.1	**3,635.5**	68
Profit			
Profit before tax	10,233.2	**10,958.4**	7
Provision for tax	820.0	**950.0**	16
Adjustment for change in accounting policy related to the merger	(54.5)	**—**	—
Profit after tax	9,358.7	**10,008.4**	7
Non-recurring Gain	1,450.0	**—**	—
Profit after tax including Non-recurring Gain	10,808.7	**10,008.4**	—

The profit after tax of Rs. 10,808.7 million for financial year 1997-98 included non-recurring gain of Rs. 1,450.0 million (net of tax of Rs. 130.0 million). In August 1997, in accordance with the licensing conditions of the Reserve Bank of India, ICICI divested 25% of its holding in ICICI Bank at an offer price of Rs. 35 for every equity share of par value Rs.10. This resulted in a gain of Rs. 916.0 million ("Bank Capital Gain"). In addition, gain on the sale of certain real estate assets aggregated Rs. 664.0 million ("Real Estate Gain"). Therefore, profit after tax from normal business operations for financial year 1997-98 was Rs. 9,358.7 million.

Interest Income and Interest Expense

Rs. million	Financial Year 1997-98			**Financial Year 1998-99**		
	Average Balance	Interest	Average Rate	**Average Balance**	**Interest**	**Average Rate**
Assets						
Rupee loans & debentures	225,260.6	37,494.0	16.64%	**304,498.9**	**48,423.1**	**15.90%**
Foreign currency loans	84,838.7	7,983.9	9.41%	**93,832.1**	**8,586.3**	**9.15%**
Liabilities						
Rupee borrowings	241,053.1	32,613.6	13.53%	**328,607.2**	**44,707.6**	**13.61%**
Foreign currency borrowings	96,873.2	5,862.7	6.05%	**102,669.6**	**6,083.7**	**5.93%**

Note:

1) Rupee loans & debentures and foreign currency loans are gross of provisions.

2) Interest expense on borrowings does not include interest tax.

Income from loans and debentures increased by 25.4% from Rs. 45,477.9 million in financial year 1997-98 to Rs. 57,009.4 million in financial year 1998-99. This increase is on account of a 29.1% increase in income from rupee loans and debentures offset in part by a lower increase of 7.5% in income from foreign currency loans.

The 29.1% increase in income from rupee loans and debentures is primarily due to a 35.2% increase in the average balance of rupee loans and debentures offset in part by a decline of 74 basis points in the yield on rupee loans and debentures. The primary reason for the decline in yield on rupee loans and debentures without a commensurate decline in the cost of rupee borrowings is the increased focus ICICI brought on developing business with top rated clients, particularly in the corporate finance segment. This strategic focus has resulted in a lower credit spread on new loans in line with the lower credit risk assumed by ICICI. In addition, yield on rupee loans and debentures has been impacted by the placement of an increased amount of past-year loans under the non-accrual category during financial year 1998-99. The 7.5% increase in income from foreign currency loans is primarily on account of a 10.6% increase in the average balance of foreign currency loans offset in part by a decline of 26 basis points in yield on foreign currency loans.

Aggregate interest expense increased by 32.0% from Rs. 38,476.3 million in financial year 1997-98 to Rs. 50,791.3 million in financial year 1998-99. This increase was due to a 37.1% increase in interest expense on rupee borrowings offset in part by a lower increase of 3.8% in interest expense on foreign currency borrowings.

In financial year 1998-99, ICICI maintained its average cost of rupee borrowings at the same levels as in financial year 1997-98, with average cost of rupee borrowings increasing only marginally by 8 basis points. The 37.1% increase in interest on rupee borrowings is primarily due to a 36.3% increase in average balance of rupee borrowings during the financial year 1998-99. The 3.8% increase in interest on foreign currency borrowings is due to a 6.0% increase in the average balance of foreign currency borrowings offset in part by a 12 basis points decline in the average cost of foreign currency borrowings.

Spread Analysis

Rs. million		Financial Year 1997-98	**Financial Year 1998-99**
Average interest earning assets		305,674.2	**390,949.2**
Interest income		45,477.9	**57,009.4**
Average interest bearing liabilities		337,926.3	**431,276.7**
Total interest expense		39,321.3	**51,841.3**
Ratio of average interest earning assets to average interest bearing liabilities	(%)	90.5	**90.6**
Interest expense apportioned to interest earning assets		35,568.4	**46,993.8**
Net interest income		9,909.5	**10,015.6**
Net interest margin	(%)	3.24	**2.56**
Gross yield	(%)	14.88	**14.58**
Average cost of borrowings	(%)	11.64	**12.02**
Yield spread	(%)	3.24	**2.56**

Note:

1) Average interest earning assets include loans, debentures and hire purchase portfolio (net of provisions and write-offs).

2) Interest expense includes interest tax.

The yield spread declined by 68 basis points from 3.24% in financial year 1997-98 to 2.56% in financial year 1998-99. This resulted from a decline of 30 basis points in the gross yield on average interest earning assets together with an increase of 38 basis points in the average cost of borrowings.

Despite only a marginal change in both, the average cost of rupee borrowings and the average cost of foreign currency borrowings, the average cost of borrowings increased by 38 basis points in financial year 1998-99. This is due to the higher proportion of average rupee borrowings during financial year 1998-99 in the total average borrowings. The higher proportion of average rupee borrowings in the total average borrowings results in a higher total average cost as the average cost of rupee borrowings is significantly higher than the average cost of foreign currency borrowings. The proportion of average rupee borrowings in the total average borrowings increased from 71.3% in financial year 1997-98 to 76.2% in financial year 1998-99. The reasons for the decline in gross yield have been discussed earlier in the section on interest income and interest expense. On account of the decline in yield spread, the net interest income has increased by only 1.0% from Rs. 9,909.5 million in financial year 1997-98 to Rs. 10,015.6 million in financial year 1998-99.

Capital Gains

The gross capital gains increased by 25.6% from Rs. 1,214.8 million in financial year 1997-98 to Rs. 1,526.1 million in financial year 1998-99. However the provision and write-off in respect of investments increased by 47.3% from Rs. 734.4 million in financial year 1997-98 to Rs. 1,081.9 million in financial year 1998-99. As a result, net capital gains decreased marginally by 7.5% from Rs. 480.4 million in financial year 1997-98 to Rs. 444.2 million in financial year 1998-99. In financial year 1997-98, ICICI had also recorded a non-recurring gain of Rs. 916.0 million viz. the Bank Capital Gain referred to earlier.

Income from Leasing

Income from leasing increased by 8.1% from Rs. 6,632.2 million in financial year 1997-98 to Rs. 7,168.0 million in financial year 1998-99. However, lease depreciation increased by 24.2% from Rs. 2,856.2 million in financial year 1997-98 to Rs. 3,548.3 million in financial year 1998-99. The disproportionate increase in lease depreciation as compared to that in the income from leasing has been due to the lease assets acquired as a result of the merger with Anagram Finance.

Commission and Fees

ICICI continued its focus on increasing non-fund based income to diversify its income sources. As a result, commission and fees increased by 85.4% from Rs. 1,677.7 million in financial year 1997-98 to Rs. 3,110.2 million in financial year 1998-99. Loan appraisal and processing fees increased significantly from Rs. 331.6 million in financial year 1997-98 to Rs. 1,686.7 million in finanical year 1998-99 driven by the increased emphasis on structuring customized solutions for corporate clients. Income from guarantees increased marginally by 6.1%.

Income from Securities

Income from securities increased by 125.5% from Rs. 1,968.4 million in financial year 1997-98 to Rs. 4,437.8 million in financial year 1998-99. The significant increase in income from securities has been primarily due to the higher cash balances of rupee and foreign currency funds held during the financial year 1998-99. In addition, the turbulence in international foreign currency markets resulted in substantial widening of spreads on debt papers of emerging markets. ICICI utilized this opportunity to book a profit of Rs. 449.1 million through repurchase of foreign currency bonds at significant discounts. Income from securities also includes commitment charges of Rs. 215.0 million received/receivable from the promoters of Anagram Finance as per the scheme of the merger. For financial year 1997-98, income from securities included commitment charges and interest for delayed payments of Rs. 179.7 million and Rs. 111.8 million received/receivable from ITC Limited in terms of the scheme of merger as contribution towards losses of ITC Classic during the half year ended September 30, 1997.

Other Expenses

Rs. million	Financial Year 1997-98	**Financial Year 1998-99**
Employee expenses	548.7	**633.6**
Establishment expenses	1,028.2	**1,347.2**
Discount & expenses on loan funds written off	713.0	**903.1**
Revaluation loss	271.0	**54.5**
Technical service charges	47.4	**33.9**

Other expense increased by 14.0% from Rs. 2,608.3 million in financial year 1997-98 to Rs. 2,972.3 million in financial year 1998-99. The increase in other expense has been due to a 31.0% increase in establishment expenses, 26.7% increase in discount & expenses on loan written off and 15.5% increase in employee expenses. The increase in establishment expenses is primarily due to the additional cost subsequent to the merger of Anagram Finance with ICICI. In addition there is an 87.5% increase in communication and computer expenses to Rs. 238.0 million in financial year 1998-99. The increased communication and computer expenses have been a direct outcome of ICICI's strategy to enhance its competitive edge by leveraging state-of-the-art information and technology systems. The revaluation loss is on account of a foreign currency loan of the erstwhile SCICI Ltd. As this loan was repaid in July 1998, the revaluation loss has been limited in the financial year 1998-99.

Provisions and write-offs

Total provisions & write-offs increased by 68.1% from Rs. 2,163.1 million in financial year 1997-98 to Rs. 3,635.5 million in financial year 1998-99 (net of write-back of Rs. 823.6 million in financial year 1998-99 as compared to Rs. 298.9 million write-back in financial year 1997-98). Therefore, the gross provisions and write-offs increased by 81.1% from Rs. 2,462.0 million in financial year 1997-98 to Rs. 4,459.1 million in financial year 1998-99. Commencing financial year 1998-99, provisions against sub-standard assets have been charged to the Profit and Loss account as against appropriation from Special Reserve as was the case in financial year 1997-98. This has resulted in higher provisions of Rs. 1,314.4 million during financial year 1998-99.

In addition, as a matter of prudence, an additional general provision of Rs. 1,100.0 million has been made. The provision being over and above that required by RBI guidelines, this amount has been appropriated from the Special Reserve created in terms of Section 36(1)(viii) of the Income tax Act, 1961.

Ratio Analysis

	Financial Year 1997-98	**Financial Year 1998-99**
Earnings per Share[1] (Rs.)	18.2	**18.2**
Return on average Net Worth (%)	21.0	**20.3**
Return on average Assets (%)	2.4	**2.1**
Capital Adequacy Ratio	13.0	**12.5**
Of which Tier-1	8.8	**8.3**

[1]Diluted for domestic convertible

In financial year 1998-99, ICICI achieved a return on assets of 2.1% and a return on net worth of 20.3%. Earnings per share for financial year 1998-99 (diluted for the domestic convertible debt) was Rs. 18.2. The increased profit after tax (excluding non-recurring gains) has not resulted in a commensurate increase in earnings per share on account of the higher dividend payout to the preference shareholders—Rs. 703.2 million in financial year 1998-99 as compared to Rs. 92.9 million in financial year 1997-98. Notwithstanding the growth in business operations, ICICI maintained a healthy capital adequacy of 12.5% with Tier-I capital at 8.3%. As at March 31, 1999, Tier I capital includes the “grant element” of Rs. 3,034.9 million out of the face value of Rs. 3,500.0 million of non-cumulative preference shares issued to ITC group companies as a part of the scheme of merger of ITC Classic Finance Limited with ICICI Limited. RBI vide its letter dated April 21, 1999 has permitted inclusion of such preference shares in Tier I capital subject to the creation of a corpus to be invested in Government of India securities of equivalent maturity. Accordingly, ICICI has created a corpus of Rs. 465.1 million on May 3, 1999 and invested the amount in Government of India securities. If this “grant element” were to be included in Tier I capital as at March 31, 1998, ICICI’s Tier I cpaital ratio would have been 9.4% with total capital adequacy ratio at 12.9%.

Financial Condition

Rs. million	March 31, 1998	**March 31, 1999**	Growth %
Assets			
Net loans and debentures	338,017.5	**420,095.9**	24
– Rupee loans and debentures	252,182.2	**340,091.7**	35
– Foreign currency loans	92,054.2	**88,557.6**	(4)
– Less: Provisions	6,218.9	**8,553.4**	38
Other investments	24,366.1	**25,979.4**	7
Current assets	62,643.1	**99,030.0**	58
Leased assets	26,755.5	**31,075.5**	16
Other fixed assets	4,363.8	**6,092.4**	40
Miscellaneous expenditure	3,055.5	**3,193.9**	5
Total	459,201.5	**585,467.1**	27
Liabilities			
Borrowings	374,485.5	**476,585.5**	27
– Rupee borrowings	272,534.9	**376,373.8**	38
– Foreign currency borrowings	101,950.6	**100,211.7**	(2)
Current liabilities	31,661.6	**43,703.2**	38
Total	406,147.1	**520,288.7**	27
Shareholders' funds			
Equity capital	4,781.5	**4,800.9**	—
Preference capital	6,351.2	**13,826.6**	—
Reserves and surplus	41,921.7	**46,550.9**	11
Total	53,054.4	**65,178.4**	23

In a period marked by environmental constraints primarily on account of the impact of depressed global markets, ICICI was able to register a healthy growth by developing quality business. During financial year 1998-99, ICICI's total assets recorded a growth of 27.5%, increasing to Rs. 585,467.1 million (US$ 13,798 million).

Rupee loans and debentures increased by 34.9% aided primarily by a healthy growth in corporate finance disbursements. In view of the economic scenario, ICICI took a very cautious approach towards appraising and monitoring its business growth and maintained focus on the top rated clients only (see "Business Operations – Corporate Banking, Business Strategy"). Foreign currency loans declined by 3.8% as demand for foreign currency funds from the corporates dipped significantly in view of the volatility in the global forex markets. Other investments, primarily equity and preference shares, registered a nominal growth of 6.6% reflecting the depressed capital market scenario. Current assets increased significantly as ICICI maintained higher cash balances and liquid investments during the year. This was also reflected in the marked growth in income from securities. Outstanding Rupee borrowings increased significantly by 38.1% to Rs. 376,373.8 million as at March 31, 1999. ICICI's foreign currency borrowings declined by 1.7%, largely due to the repurchare of foreign currency bonds.

The increase in equity capital was due to the 1.66 million shares, which were as at March 31, 1999, to be allotted to the shareholders of former Anagram Finance subsequent to the merger. During the year, ICICI increased its focus on raising funds through preference shares. This has resulted in a substantial increase of Rs. 7,475.4 million in preference capital.

ICICI has capitalized, with retrospective effect from the date of commencement of project payments, interest on funds used for constructing new office premises. The interest capitalized assumes that the entire cost is met out of borrowed funds and, determined at the average annual interest rate of Rupee borrowing, aggregates Rs. 790.5 million up to March 31, 1999. Of this interest, Rs. 558.6 million (net of depreciation and Income tax of Rs. 0.1 million and Rs. 56.9 million respectively) pertains to the period upto March 31, 1998. As a result of this change, profit for financial year 1998-99 is higher by Rs. 155.8 million and the surplus carried to Balance Sheet is higher by Rs. 714.4 million (Rs. 558.6 million plus Rs. 155.8 million).

ENHANCED TRANSPARENCY AND DISCLOSURES

Transparency is a key element of an effectively supervised, safe and robust financial system. The complementary interaction of prudential supervision and market discipline promotes the stability of both individual institutions and financial systems. It may be mentioned that the absence of prudential supervision and market discipline is cited as one of the primary reasons for the systemic crisis in the East Asian financial systems.

Market discipline can work only if participants have access to timely and reliable information that enables them to make an accurate assessment about a player's business activities, performance, financial condition and risk profile. Improved public disclosures encourage safe and sound banking practices by strengthening the incentives to banks to behave in a prudent and efficient manner. Public disclosures also help limit the systemic effects of market disruptions by increasing the ability of the market, in times of stress, to distinguish between banks that are vulnerable and those that are not.

Various international bodies including the Basle Committee on Banking Supervision have recommended progress in accounting and disclosure practices for banks. In this respect, the Basle Committee has issued a report ("Enhancing Bank Transparency" – September 1998) that discusses the role of transparency and disclosure of information in effective market discipline and effective market supervision. It has called for efforts by all banking supervisors to improve the standards of transparency and disclosures in the financial system while recognizing that the goal of achieving transparency has become increasingly challenging in recent years as financial systems have become more complex and dynamic.

In keeping with its objective of being a globally competitive domestic player, ICICI has always pioneered the introduction of international standards in the Indian financial markets. ICICI has made continuous efforts to set itself higher and higher standards for dissemination of information with the objective of achieving full transparency for its stakeholders. Financial reporting is an area where ICICI believes it is imperative to use global benchmarks.

Accounting treatments can significantly alter the results of financial and supervisory reporting and related capital calculations. Comparability of financial information across countries is difficult to achieve, given that accounting and disclosure practices may differ considerably not only for technical reasons but also because of the interdependence of accounting, legal and fiscal considerations. Even when standards are similar, there may be considerable scope for interpretation and judgement when applying the principles. This may, of course, also lead to problems of comparability within a country. This problem can be effectively mitigated, if not resolved, by the restatement of accounts presented as per the Indian Generally Accepted Accounting Principles (GAAP) in terms of benchmark accounting standards like US GAAP. In keeping with this, ICICI has decided to present its annual accounts as per the US GAAP in addition to the Indian GAAP.

US GAAP Financials

During the year, ICICI appointed the international accounting firm KPMG to review its financial statements as per US GAAP. There are significant differences between Indian GAAP and US GAAP in the areas of consolidation of subsidiaries, accounting for affiliates, allowances for credit losses, accounting for loan origination fees, valuation of investments, business combinations, deferred income taxes, and redeemable preference shares. The key differences of the two accounting practices as applicable to ICICI are outlined below:

- US GAAP requires the preparation of consolidated financial statements. Accordingly, net income as per US GAAP includes the earnings of subsidiaries, determined in accordance with US GAAP.
- Under US GAAP, equity accounting is applied to reflect ownership interest in associate companies wherever applicable.
- RBI requires Indian financial institutions to determine and report Non-Performing Assets (NPAs) at book value net of all write-offs and provisions, in accordance with its prescribed guidelines. US GAAP requires management to determine the NPAs based on an evaluation of the willingness and ability of the borrower to repay, and estimate the realizable part thereof. This is based on an analysis of the underlying collateral and/or the underlying cash flows of the borrower. Having determined the realizable portion, US GAAP then requires that the unrealizable portion be fully provided for or written off thus leaving only the estimated realizable portion on the books, on a present value basis. The present value is determined on the basis of the estimated period for recovery. In the Indian context these periods are typically far longer (6-8 years due to delays inherent in the Indian legal system) than those prevailing in developed markets like the US (0-2 years). As a consequence of this "present value' concept, additional provisions are required under US GAAP through the Profit and Loss account.
- Under US GAAP, front end fees (including commitment fees) net of loan origination costs, are recognized as an adjustment to yield over the life of the loan. Under Indian GAAP, front-end fees and costs are taken to the income statement in the year accrued/ incurred. As a consequence, non-fund based income would be reduced to the extent of deferment.

- RBI requires Indian financial institutions to charge the permanent diminution in the value of their long-term investments (classified as "available for sale" under US GAAP) to the Profit and Loss account. This is identical to the treatment accorded to permanent diminution under US GAAP. However, US GAAP in addition requires that the temporary diminution or gain in the value of "available for sale" investments be adjusted directly against shareholders' equity. As a consequence of this, the net worth will be reduced to the extent of temporary diminution.
- In accordance with US GAAP requirements, ICICI's mergers have been accounted as per the purchase method. Under this method the fair value of the net amounts acquired is compared to the fair value of the consideration paid. If shares have been issued as consideration, the market value of the shares around the date of the merger announcement is deemed to be the fair value. The excess of the consideration over the value of net assets acquired represents goodwill. Similarly, the excess of the value of net assets acquired over the consideration represents negative goodwill. Goodwill is amortized over the expected periods of future benefits (not exceeding 40 years). Negative goodwill is initially adjusted against the value assigned to non-current and non-monetary assets, and the unadjusted balance is accrued to income over the expected periods of future benefits (not exceeding 40 years). In contrast, these mergers have been accounted for under the pooling method in Indian GAAP.
- US GAAP requires that income taxes be provided for against current period income as reflected in the financial statements, even though all or some of such income will not be reported for tax purposes in the current period and taxes will not be payable currently. Therefore, even though certain amounts of current period accounting income are not currently taxable, income tax based on Indian tax laws must be provided for in the financial statements against both income on which taxes are currently payable and income on which the tax liability is deferred. Accordingly deferred taxes have been provided for under US GAAP with corresponding adjustments in deferred tax assets or liabilities as the case may be.
- Under Indian GAAP, redeemable preference shares are considered a component of shareholders' funds and dividend thereon is appropriated from the profits. However, under US GAAP, redeemable preference shares are not considered a component of shareholders' equity and dividend thereon is charged to the profits. Accordingly, an adjustment is required under US GAAP to exclude redeemable preference shares from shareholders' equity and charge the dividend to the income statement.

Reconciliation of profits as per the Indian GAAP and US GAAP

Rs. billion Indian GAAP	FY 1997-98	**FY 1998-99**
Net income	9.36	**10.01**
Add: Non-recurring Gains	1.45	**—**
Change in accounting policy in respect of merger	0.05	**—**
Net income including non-recurring gain & accounting policy change in respect of merger	10.86	**10.01**

Rs. billion US GAAP	FY 1997-98	**FY 1998-99**
Net income as per US GAAP	9.26	**7.45**
Total adjustments	(1.60)	**(2.56)**
Allowance for credit losses (provisions)	(1.96)	**(1.49)**
Amortization of front end fees	(0.05)	**(0.18)**
Adjustment for income taxes	—	**0.27**
Business combinations in respect of mergers	0.53	**(0.54)**
Deferred tax adjustments	(0.40)	**(0.48)**
Deferred revenue expenditure written off	—	**(0.23)**
Interest capitalization	0.27	**0.05**
Preference dividend payout	(0.09)	**(0.70)**
Premium on redemption of convertible bonds	(0.14)	**—**
Unrealized gains/(losses) on trading portfolio	—	**0.13**
Net income of consolidated subsidiaries	0.38	**0.63**
Equity in affiliates	0.01	**(0.02)**
Inter-company elimination	(0.15)	**—**

Income by way of sale of ICICI Bank shares and certain real estate assets aggregating Rs. 1.45 billion in financial year 1997-98, and the restructuring cost of the merger with Anagram at Rs. 0.67 billion in financial year 1998-99 are non-recurring in nature. Upon adjustment for these items, net income for financial year 1997-98 under US GAAP would decrease from Rs. 9.26 billion to Rs. 7.81 billion, while the net income for financial year 1998-99 under US GAAP would increase from Rs. 7.45 billion to Rs. 8.12 billion.

Reconciliation of shareholders' equity as per the Indian GAAP and US GAAP

Rs. billion Indian GAAP	Mar 31, 1998	**Mar 31, 1999**
Shareholders' equity capital & reserves	46.70	**51.35**
Add: Preference Capital	6.35	**13.83**
Shareholders' funds	53.05	**65.18**

Rs. billion US GAAP	Mar 31, 1998	**Mar 31, 1999**
Shareholders' equity	33.00	**36.51**
Total adjustments	(20.05)	**(28.67)**
Allowance for credit losses (provisions)	(7.83)	**(8.09)**
Amortization of front end fees	(1.46)	**(1.63)**
Adjustment for income taxes	—	**0.27**
Business combinations in respect of Mergers	0.87	**1.48**
Deferred tax adjustments	(1.15)	**(1.89)**
Deferred revenue expenditure	—	**(0.23)**
Interest capitalization	0.65	**0.09**
Premium on redemption of convertible bonds	(0.47)	**—**
Reclassification of redeemable preference shares	(6.35)	**(13.83)**
Unrealized gains/(losses) on securities available for sale (net of tax)	(4.72)	**(6.01)**
Unrealized gains/(losses) on trading portfolio	0.03	**0.15**
Retained earnings of consolidated subsidiaries	0.52	**1.18**
Equity in affiliates	0.01	**(0.01)**
Inter-company elimination	(0.15)	**(0.15)**

ANALYSIS OF THE LOAN PORTFOLIO

ICICI manages its exposure to borrowers, borrower groups and industry sectors on an aggregate basis with continuous monitoring and measurement against clearly established limits to minimize portfolio risks. ICICI's portfolio continues to be well diversified in terms of products, clients and industry sectors.

With the increasing focus on corporate finance business and non-traditional project financing, ICICI's portfolio has become increasingly diversified. The purpose-wise distribution of the outstanding portfolio of ICICI as at March 31, 1999 is given below.

Purpose	% to Total Portfolio
Infrastructure	16
Oil & Gas	16
Other Manufacturing Projects	49
Corporate Finance	19
Total	100

As at March 31, 1999, the industry sectors that constituted a significant portion of the portfolio were metal and metal products (13.6%), crude petroleum and refining (9.7%), chemical and chemical products (8.7%), power (8.2%) and services (8.0%). The largest outstanding assistance to any single borrower company formed 19.0% of ICICI's net owned funds, as against the RBI's stipulated norm of 25%. The largest outstanding assistance to any business group formed 45.4% of ICICI's net owned funds, as against the RBI's stipulated norm of 60%. The outstanding assistance to the 20 largest borrower companies formed 25.5% of the total portfolio, while the outstanding assistance to the 20 largest business groups formed 33.7% of the total portfolio.

MANAGEMENT OF NON-PERFORMING ASSETS ("NPAs")

As the Indian economy continues to feel the impact of trends in the global marketplace particularly in the commodities markets, its operating environment has undergone a significant shift. Indian industry has been subjected to very focused domestic and international competition and corporates are coming to terms with the new competitive reality through a process of restructuring and repositioning. This restructuring process is taking place in several industries, primarily in sectors where uneconomic fragmented capacities were set up in the erstwhile licensing period. While this phase of restructuring may show some signs of stress in certain industries, it is a process that corporate India has to pass through.

ICICI is dealing with this situation in various ways. These include facilitating the integration of fragmented capacities, catalyzing the merger of weak and unviable units with strong and viable ones, encouraging modernization of existing plants through technology upgradation, enabling financial restructuring and taking early steps for legal action where necessary. ICICI believes that all these measures will enable the industry and the economy to emerge stronger once the restructuring process is complete.

ICICI's NPAs

The widespread restructuring in industry has also resulted in a deterioration in asset quality in the financial system. Against this backdrop, the net outstanding NPAs of ICICI increased from Rs. 28.11 billion as at March 31, 1998 to Rs. 36.23 billion as at March 31, 1999. The net NPA ratio has increased from a level of 7.6% as at March 31, 1998 to 7.8% as at March 31, 1999. ICICI is following an aggressive approach towards tackling the NPA problem including focused recovery efforts and a higher level of provisioning.

ICICI made substantial provisions and write-offs (including write-down of equity investments) of Rs. 4.72 billion during financial year 1998-99, representing an increase of 63% as compared to Rs.2.89 billion for financial year 1997-98. ICICI believes that any deterioration in individual credit facilities should be recognized to the greatest extent possible through the establishment of specific allowances. As a matter of prudence, an additional general provision of Rs. 1.10 billion has been made. The provision being over and above that required by RBI guidelines, this amount has been appropriated from the Special Reserve.

The following table sets forth data regarding NPAs of ICICI as at the dates indicated.

Non-Performing Assets

As at	Mar 31, 1995	Mar 31, 1996[1]	Mar 31, 1997	Mar 31, 1998	**Mar 31, 1999**
Number of Cases	718	786	909	1,211	**1,343**
Gross Principal Outstanding (Rs. bn)	15.63	19.09	28.21	42.12	**54.89**
Net Outstanding (Rs. bn)[2]	10.47	11.99	19.54	28.11	**36.23[3]**
Total Loan Assets (Rs. bn)[4]	151.44	178.03	285.93	370.01	**463.18**
% of Net NPA to Total Loan Assets	6.9	6.7	6.8	7.6	**7.8**
% of Net NPA (net of collateral) to Total Loan Assets[5]	0.31	0.04	0.11	0.08	**0.03**

Note:

1) If the RBI's guidelines applicable as at March 31, 1997 had been in effect as at March 31,1996, the ratio of net NPA to total loan assets as at March 31, 1996 would have been 7.3%.

2) Represents gross principal less cumulative provisions and write-offs.

3) Net of general provision of Rs. 1.10 billion.

4) Total loan assets consist of Rupee loans, foreign currency loans, lease exposure and debentures net of cumulative provisions, write-offs and interest not taken credit for. For March 31, 1998, it also includes bills and hire purchase, and for March 31, 1999, it also includes commercial paper and public sector bonds.

5) The value assigned to collateral is either the depreciated value reflected in the borrower's books or that determined by independent valuers to be realizable.

The following table sets forth NPAs and performing assets broken down by RBI asset classification and expressed both in absolute terms and as a percentage of total loan assets.

Asset Classification

As at	Mar 31, 1995		Mar 31, 1996		Mar 31, 1997		Mar 31, 1998		**Mar 31, 1999**	
	Rs. bn	%	Rs. bn	%	Rs. bn	%	Rs. bn	%	**Rs. bn**	**%**
NPAs										
Loss[(1)]	—	—	—	—	—	—	—	—	—	—
Doubtful	6.62	4.4	6.72	3.8	8.51	3.0	10.21	2.8	**14.49**	**3.1**
Sub-standard	3.85	2.5	5.27	2.9	11.03	3.8	17.90	4.8	**21.74[(2)]**	**4.7**
Total NPAs	10.47	6.9	11.99	6.7	19.54	6.8	28.11	7.6	**36.23**	**7.8**
Performing Assets										
Doubtful[(3)]	0.37	0.2	0.72	0.4	—	—	—	—	—	—
Sub-standard[(3)]	11.17	7.4	7.97	4.5	2.88	1.0	0.23	0.1	—	—
Standard	129.43	85.5	157.35	88.4	263.51	92.2	341.67	92.3	**426.95**	**92.2**
Total Performing Assets	140.97	93.1	166.04	93.3	266.39	93.2	341.90	92.4	**426.95**	**92.2**
Total Loan Assets	151.44	100.0	178.02	100.0	285.93	100.0	370.01	100.0	**463.18**	**100.0**

Note:

1) All loss assets have been written off or provided for.

2) Net of general provision of Rs. 1.10 billion.

3) Performing doubtful and sub-standard loan assets include assets so classified due to the two-year prohibition (revised to one year from March 31,1997) on the upgrade of renegotiated and rescheduled loans; classifications required because of non-performance at other Indian institutions and, to a lesser extent, due to missed principal payments.

The following table sets forth classification of NPAs by industry sector.

Classification of NPAs by Industry

As at March 31,	1995		1996		1997		1998		**1999**	
	Rs. bn	%	Rs. bn	%	Rs. bn	%	Rs. bn	%	**Rs. bn**	**%**
Sugar	0.20	1.9	0.30	2.5	0.57	2.9	0.57	2.0	**0.33**	**0.9**
Food Products	0.51	4.9	0.71	5.9	1.07	5.5	1.38	4.9	**2.00**	**5.4**
Textiles	0.61	5.8	0.83	6.9	1.23	6.3	3.08	10.9	**3.58**	**9.6**
Paper	0.23	2.2	0.23	1.9	0.29	1.5	0.38	1.4	**0.68**	**1.8**
Fertilizers & Pesticides	0.41	3.9	0.26	2.2	0.24	1.3	0.23	0.8	**0.22**	**0.6**
Chemicals	0.95	9.1	1.02	8.5	1.44	7.4	1.33	4.7	**2.91**	**7.8**
Manmade Fibres	0.23	2.2	0.69	5.8	3.14	16.0	4.83	17.2	**4.73**	**12.7**
Other Chemicals	0.84	8.1	0.88	7.3	1.11	5.7	1.81	6.5	**5.38**	**14.4**
Cement	0.82	7.9	0.73	6.1	1.04	5.3	1.44	5.1	**1.31**	**3.5**
Iron & Steel	0.82	7.8	1.25	10.4	1.03	5.3	1.54	5.5	**3.88**	**10.4**
Non-Ferrous Metals	0.02	0.2	0.02	0.2	0.10	0.5	0.11	0.4	**0.50**	**1.3**
Metal Products	0.86	8.2	0.85	7.1	1.45	7.4	2.08	7.4	**2.28**	**6.1**
Machinery	0.28	2.7	0.24	2.0	0.55	2.8	0.82	2.9	**0.88**	**2.3**
Electrical Equipment	0.26	2.4	0.22	1.8	0.45	2.3	0.67	2.4	**0.86**	**2.3**
Electronics	1.44	13.8	1.33	11.1	1.24	6.4	1.96	7.0	**2.26**	**6.1**
Transport Equipment	0.30	2.8	0.22	1.8	0.76	3.9	1.22	4.3	**0.59**	**1.6**
Services	0.46	4.4	0.87	7.3	0.97	4.9	1.17	4.2	**0.96**	**2.6**
Other Industries(1)	1.23	11.7	1.34	11.2	2.86	14.6	3.49	12.4	**3.98**	**10.6**
Total	10.47	100.0	11.99	100.0	19.54	100.0	28.11	100.0	**36.23(2)**	**100.0**

Note:

1) Includes mainly leather products, glass and clay products, printing and construction material.

2) Net of general provision of Rs. 1.10 billion.

As at 31st March, 1999, the net outstanding amount of the 20 largest NPA cases where ICICI has decided to recall loans and enforce its security interest against the borrowers (Recovery Cases) was Rs. 4.86 billion with no individual borrower accounting for more than Rs. 0.76 billion. As at the same date, the net outstanding amount of the 20 largest NPAs other than Recovery Cases aggregated Rs. 12.56 billion, with no individual borrower accounting for more than Rs. 1.99 billion.

NPA Strategy

During the period under review, ICICI set in place a process involving a detailed and periodic analysis of its performing assets portfolio, to determine on an on-going basis, the health of every borrower account in the loan portfolio. ICICI used the interest cover approach to determine stress levels in the performing assets portfolio as it believes that this approach is the most effective in gauging the real quality of the asset portfolio. Conceptually this approach involves assessing the underlying cash flows of the borrower and then determining adequacy of interest cover after allowing for all expenses required to maintain the corporate as a going concern. For projections, typically a worst case scenario is used for product and input prices and capacity utilization levels. This analysis provided a much deeper understanding of potential stress in the asset portfolio thereby enabling ICICI to initiate more stringent monitoring and control mechanisms and to develop a proactive strategy for early stage solutions.

ICICI has placed great emphasis on recovery and settlements in respect of bad assets and this focus has been institutionalized across the organization. This has resulted in a significant mindset shift towards tackling NPAs. Asset quality targets are today a key parameter for employee performance evaluation. As mentioned earlier, the effort in this direction has been based on a proactive approach towards identification of stress cases and early stage solutions to incipient problems. An aggressive approach has been adopted towards defaulters with a focus on early stage recall and the use of collateral to enforce settlements. A clear exit strategy is being followed in the case of intrinsically unviable and historical NPAs with emphasis on the time value of recovery and a pragmatic approach towards settlements.

ICICI's experience shows that it has been recovering almost 100% of principal on a cash basis and about 70% on a present value basis whenever it has negotiated a settlement.

This experience has been sustained over the last two financial years. During 1997-98, the aggregate dues settled by ICICI were Rs. 3.02 billion. This performance has been maintained in financial year 1998-99 with settlement of dues aggregating Rs. 3.80 billion. The strong collateral against ICICI's loan assets has been the critical factor towards the success of recovery efforts. In respect of the existing net NPAs of Rs. 36.23 billion, ICICI has a collateral of Rs. 36.08 billion. It is relevant there fore to view ICICI's present NPA portfolio with this perspective.

ICICI is also following an approach of ring-fencing the NPA problem by localizing the asset quality problems and tackling them in a concentrated manner. It has taken measures to enhance the security structures in accounts that may be under stress. This has been done through the pledge of promoters' shareholding, the right to convert debt into equity at par so as to transfer control to ICICI and escrow mechanisms to capture cash flows. A Special Asset Management Group also has been created to focus exclusively on large NPAs and stress cases. The Special Asset Management Group is working closely with other banks and financial institutions to drive the process of early settlements.

RBI Guidelines on NPAs as implemented by ICICI

The Reserve Bank of India first issued guidelines in 1994 on income recognition, asset classification, provisioning and valuation of investments applicable to financial institutions. These guidelines were subsequently revised by the RBI, through circulars issued in January 1996, June 1996, February 1997 and June 1997. The principal features of the revised RBI guidelines, as implemented by ICICI with respect to its loans, debentures, lease assets, hire purchases and bills are set forth below.

Non-Performing Assets ("NPAs'')

An asset in respect of which any amount of interest has remained past due for more than two quarters or any amount of principal has remained past due for more than four quarters is defined as an NPA. Past due is defined as any amount that is outstanding for one month beyond the due date. Interest in respect of NPAs is neither recognized nor credited to the income account unless collected.

Asset Classification

Standard Assets	Assets that do not disclose any problems or which do not carry more than normal risk attached to the business are classified as standard assets.
Sub-standard Assets	Assets (i) that are NPAs for a period not exceeding two years, or (ii) that have been renegotiated or rescheduled after the project to which they relate has commenced production are classified as sub-standard assets.
Doubtful Assets	Assets (i) that are NPAs for more than two years, or (ii) where there are potential threats to recoveries on account of erosion in the value of security and other factors such as fraud are classified as doubtful assets.
Loss Assets	Assets (i) the losses on which are identified, or (ii) that are considered uncollectible are classified as loss assets.

Payments on renegotiated or rescheduled loans should have no past due amounts for one year after renegotiation or rescheduling, as the case may be, in order for the loan to be upgraded.

Provisioning and Write-Offs

Standard Assets	No provision required.
Sub-standard Assets	A general provision of 10%.
Doubtful Assets	A 100% write-off is made for the unsecured portion of the doubtful asset and charged against income. The value assigned to the collateral securing a loan is that reflected on the borrower's books or that determined by third party appraisers to be realizable. In cases where there is a secured portion of the asset, provision of 20% to 50% is made depending upon the period for which the asset remains doubtful. Provisions on such secured assets are made as follows: Up to 1 year – 20%, 1 to 3 years – 30% and more than 3 years – 50%.
Loss Assets	The entire asset is written off/provided for.

ICICI's policy for write-offs and provisions in respect of NPAs is in accordance with RBI guidelines as stated above. The write-off is charged against income and such a loan is carried on the balance sheet net of the amount written off. Amounts subsequently recovered in excess of the written down value of the loan are credited against write-offs in such subsequent period. In addition, any accrued interest payments recognized as income but not collected are written off once an asset has been classified as an NPA.

A write-off does not affect ICICI's rights against the borrower. Specific provisions against the assets are taken through the revenue account, and are shown separately in the balance sheet. ICICI's experience has been that ultimate recovery generally exceeds the remaining amount of written down loans.

Best Practices advocated by the Basle Committee on Banking Supervision in respect of Loan Accounting and Credit Risk Disclosure

The Basle Committee on Banking Supervision, functioning in the Bank of International Settlements, issued a Consultative Paper in October 1998 to provide guidance to banking supervisors on recognition and measurement of loans, establishment of loan loss provisions, credit risk disclosures and related matters. The publication of this paper is a component of the Committee's long standing work to promote effective banking supervision and safe and sound banking systems. It sets out banking supervisors' views on sound loan accounting and disclosure practices for banks and financial institutions and aims to promote convergence of policies and practices across banks and countries. The Basle Committee encourages all supervisors to review their current rules or recommendations against the guidance provided in this paper and amend their rules, as appropriate, in ways that are best suited to their national systems. The prescribed standards have been implemented and/or are being implemented in several countries. Therefore, it is essential for all commercial banks and financial institutions in India to meet these standards as early as possible. ICICI could consider altering its guidelines to be in line with the best practices advocated by the Basle Committee on Banking Supervision.

In keeping with its philosophy of enhaning transparency, ICICI provides comprehensive data on its NPAs profile. ICICI is now taking this process forward by providing certain additional disclosures as per the credit risk disclosure recommendations made by the Basle Committee in its two reports: "Enhancing Bank Transparency" issued in September 1998 and "Sound Practices for Loan Accounting, Credit Risk Disclosure and Related Matters" issued in October 1998.

Ageing analysis of Gross NPAs outstanding

As at March 31,		1997	1998	**1999**
Upto 1 year	(%)	33	31	**25**
1 year to 3 years	(%)	27	34	**42**
3 years to 5 years	(%)	16	12	**14**
Over 5 years	(%)	24	23	**19**
Total (Rs. billion)		28.21	42.12	**54.89**

RISK MANAGEMENT

Risk is an inherent part of the business of a financial organization and effective risk management is critical for achieving financial soundness and profitability. ICICI has identified risk management as one of the core competencies for the next millennium and is taking effective steps to consolidate these competencies. The Risk Management Group (RMG) at ICICI identifies, assesses, measures, monitors and manages the principal risks—credit risk, market risk and operational risk—in accordance with well defined policies and procedures. ICICI benchmarks itself to international best practices so as to optimize capital utilization and maximize shareholder value. Risk management is a corporate function headed by a Senior General Manager reporting directly to the Managing Director and CEO and the Audit Committee of the Board of Directors. Risk Management Group is organized in the form of three departments—Credit Risk Management Department, Market Risk Management Department and the Audit Department. An analytics unit also has been formed to develop quantitative techniques and models for risk measurement.

Credit Risk is the key risk faced by ICICI. This risk is evaluated at the transaction level as well as at the portfolio level. ICICI evaluates the performance of borrowers using an established credit rating methodology. The industry analysts monitor all the major sectors of the economy. The prospects and outlook for various sectors and individual borrowers are analysed and discussed extensively by the Credit Risk Committee. This committee serves as the forum for evolving the sectoral outlook, which is an important input to the portfolio planning process. ICICI believes that sound methodologies and a comprehensive database are the cornerstones of effective risk management. In this context, ICICI has done detailed studies on default patterns of loans and prediction of defaults in the Indian context.

ICICI has a system of setting firm-wide risk policies and operational guidelines for the functioning of its strategic business units. During the year, a reorientation of the credit processes was undertaken including the delegation of powers and creation of suitable control points in the credit delivery process. Also, to facilitate regular interaction of the risk departments with the strategic business units, and to provide real time information on credit risk, ICICI has implemented a sophisticated Credit Risk Information System.

The experience of global financial intermediaries has shown that technology can play an effective role in improving risk identification, evaluation and monitoring mechanisms. In view of this, ICICI, along with a leading business consulting firm, has undertaken a project to develop and implement a revised Information Technology strategy for the entire ICICI Group. The focus of the project is on solution enabling management and covers aggregation of credit risk and market risk across the ICICI Group, portfolio risk analytics, dynamic capital allocation, groupwide ALM, multiple transfer pricing and performance measurement of business units. The project aims to achieve a complete upgradation of existing lending and treasury systems to make them capable of delivering ICICI's new business strategy initiatives through the use of state-of-the-art technology. A significant part of the project has been completed and implementation of the new system is expected to commence shortly.

During 1998-99, advanced risk management methodologies were implemented in the area of trading operations for better monitoring and reporting. These would allow the trading groups to take more active positions under tightly controlled limits.

Also, an on-line reporting system developed during the year has facilitated more effective risk monitoring. In order to ensure a clear demarcation between the control and settlement functions, the back office operations have been reorganized under two heads with independent reporting authorities: the mid-office functions and settlement functions.

The Audit Department is an integral part of the Risk Management Group of ICICI, and focuses on the operational risks within the organization. During the year, ICICI conceptualized and put into operation a Risk Based Audit plan, which allocates audit resources in accordance with the risk constituents of ICICI's business. There was also a shift in the focus of the audit function from the auditing transactions to the audit of control systems. The Audit Department played an active role in new initiatives by participating in the design stage of new processes and software systems. Considering the increasing importance of information technology in ICICI's day-to-day operations, The Audit Department was, in addition, involved in the successful Y2K initiative at ICICI. During the year, an Information Systems audit has also been made part of the audit programme. A repository of statutory reports was created on the ICICI Intranet to facilitate complete transparency in respect of compliance with statutory requirements.

HUMAN CAPITAL DEVELOPMENT

The globalization of markets, the consolidation of industries and the increased pressure from demanding stakeholders have led to considerable competitive pressures. Companies need to continually reinvent themselves to gain and retain competitive advantage. To compete successfully in a constantly changing environment requires enormous flexibility and the vision to recognize opportunities inherent in change. To be a leader in this environment requires something more than traditional management skills—it requires the excitement to challenge conventional wisdom and the ability to consistently create value through innovation. ICICI believes that its competitive advantage is derived from its people who have been continually delivering at the frontier of performance. ICICI's human capital is both the repository of knowledge and the source of innovative solutions that makes ICICI competitive in the market. Thus, recruitment is defined as a senior management activity with considerable time invested in it by senior management led by the Managing Director & CEO. ICICI has built a reputation of being a learning organization and this has enabled it to retain its position of "preferred employer" at the country's leading management institutes. Despite the increasing competition from global players in search of superior talent, ICICI continued to attract the best graduates from the premier business schools and other professional institutes. ICICI recruited 57 business management graduates, 18 chartered accountants and 7 lawyers in 1998-99. During the last year ICICI was also very successful in recruiting laterally from industry to serve its new business initiatives.

ICICI has successfully created a new relationship with its employees—a relationship based on "people power". Empowerment of people by granting them decision-making authority, a non-hierarchical operating structure and free flow of communication and ideas, all enable ICICI to bring out the best in its people. Compensation structures are based on clear performance criteria and are designed to drive commitment to results and productivity. Career paths are based on performance and ability. Movement across functions is encouraged as this enables employees to develop a holistic view of the corporation. A collaborative work environment encourages people to develop skills beyond the scope of their job definition and has facilitated the development of a work ethos that is unique to ICICI.

ICICI has designed specific programs to meet the changing skill requirements of its employees. This commitment to employee development originates at the highest level in the corporation and is embodied in every activity and decision. ICICI's Training Institute at Pune regularly offers such courses conducted by a cross-section of faculty drawn from industry, academia and ICICI itself. Substantial investments have been made in the Training Institute to ensure state-of-the-art infrastructure and support facilities. Training programmes are conducted for developing functional as well as managerial skills. In a recent study conducted by Fortune magazine on the 100 best companies to work for in the US, training and development was perceived to be a key differentiator. The study indicated that on an average, the 100 best companies offered 43 hours of training to each employee in 1998. ICICI derives modest pride from the fact that, during the year 1998-99, an average training of 62 hours of training was offered to each of 730 of its professionals.

Continuous training and development and effective use of technology have resulted in sustained productivity gains by ICICI. ICICI's productivity parameters are the best in the Indian financial sector.

RESPONSIBILITIES AS A CORPORATE CITIZEN

ICICI's development initiatives as a corporate citizen aim at improving the opportunities for underprivileged communities by investing capital and human resources. During the past year, ICICI has undertaken numerous initiatives that enabled it to strengthen its bonds with society and play a role in rehabilitating several families. ICICI has a strong commitment to social development and will continue to provide support and assistance to aid in the progress of the relatively underprivileged sections of our society. The focus areas for ICICI are education and healthcare.

Primary education is the foundation stone for the development of India's communities. ICICI supports "Pratham" in its education initiative aimed at building social capital for a new India. Pratham was set-up by UNICEF and the Municipal Corporation of Greater Mumbai in 1994 to build a societal mission to ensure that every child in the three to ten year age group is in school by the year 2000. ICICI has played the role of sponsor and catalyst in providing proactive leadership to this program. As a result, Mumbai is poised to be the first city in South Asia to achieve the goal of Universal Primary Education. Today "Pratham" has 5000 volunteers who are involved in daily educational activity in the slums. During the year 1998-99, Pratham increased its coverage by expanding its activities to include remedial classes for poorly performing children and bridge courses to facilitate the transition of out-of-school children to the formal education process. In the younger age group, Pratham expanded its reach by encouraging parents to enrol children in pre-school centres, thus laying the foundation for further learning. Pratham is also working with municipal primary schools to localize authority and responsibility and tackle problems at a local level.

In the current year, Pratham will be in daily contact with about 140,000 children, and in partial contact with about 400,000 children in Mumbai. As Pratham's strategy of working closely with the system pays dividends, it is being closely observed as a role model for other cities and other countries.

ICICI provided assistance to the George Foundation, which provides comprehensive assistance for skill development to underprivileged children. ICICI also consolidated its relationship with the Bharatiya Vidya Bhavan by providing additional assistance for its Mahatma Gandhi Institute of Computer Education, which has emerged as a well known institution for providing free computer education to underprivileged youth. ICICI's support would enable the institution to expand the activities to a national scale and establish 50 centres for training 50,000 persons annually. This activity would help in spreading computer literacy among the underprivileged and in providing employment opportunities for them.

In view of the need to offer specialized medical care at affordable rates to people from weaker sections of society, ICICI has assisted in establishing a pediatric heart care centre at Manipal Heart Foundation, Bangalore. The Foundation would emerge as a state-of-the-art centre for treatment of congenital heart diseases, besides serving as a training facility for doctors and nurses in the field. ICICI has also supported healthcare initiatives undertaken by voluntary organizations to serve villages in Arunachal Pradesh, Danapur

(Bihar), Aurangabad (Maharashtra) and Haridwar (Uttar Pradesh). These initiatives are at the grass root level for the benefit of the needy and assist the voluntary organizations earn recognition from the communities for their developmental activities. ICICI is also in the process of forming an "Advertising Council", a non-profit, self-sustaining organization for the mobilization and co-ordination of contributions from the private sector for the development and implementation of socially relevant child and reproductive health media campaigns.

ICICI continued to actively manage the PACT-Child and Reproductive Health (PACT-CRH) programme with the assistance of USAID. The main objective of PACT-CRH programme is to improve the availability of quality products and services through the involvement of the private sector in the areas of child health, reproductive health and AIDS prevention. In addition to providing financial and technical assistance, the programme also aims at creating awareness about child and reproductive health, supporting generic promotion campaigns to improve consumer awareness, introducing new products and technologies and improving the quality of the products and services. PACT-CRH has already initiated work for the generic promotional campaign for oral contraceptives in the northern states and is finalizing a similar campaign for other states. The project is also pursuing commercial marketing and distribution of other high priority CRH products such as Hepatitis-B vaccine, STD and HIV diagnostics, vaccine vial monitors and uniject technology.

During the year, ICICI continued its support to the empowerment of women and enhancement of their living conditions by assisting voluntary organizations in Himachal Pradesh and Maharashtra. These organizations aim at integrating basic non-formal education programmes with healthcare awareness activities. ICICI has extended assistance to setting up facilities for senior citizens at Sringeri (Karnataka) and Kota (Rajasthan). Senior citizens at these centres would be involved in education and vocational training for children/youth and assisting them in contributing to their own development.

Indian School of Business

With the objective of establishing a world class business school in India, ICICI has joined a team of leading Indian corporates and international firms in the promotion of the Indian School of Business (ISB) at Hyderabad. ISB is being jointly promoted by a strong group of Indian business houses and reputed global firms led by international management consultants, McKinsey & Co Inc. The school would be affiliated to Wharton School at the University of Pennsylvania, USA and Kellogg Graduate School of Management at Northwestern University, USA. The school will function under the guidance of an International Advisory Board comprising CEO's and senior management representatives of leading international business houses. Given the strong background of the sponsors and the support being provided by experienced and talented professionals, ISB should compare favourably with the best institutes in the world.

ICICI Knowledge Park

As economies evolved, the industrial revolution gave way to the information revolution and now we are witnessing the dawn of the knowledge revolution. We are flooded with information of all kinds; the key lies in selection and interpretation of the relevant information and applying the information to create and sustain a competitive advantage. One route to knowledge creation is collaborative research. To provide a platform for knowledge based development, ICICI, in association with the Government of Andhra Pradesh, is building the ICICI Knowledge Park, a world class centre for leading edge research in India.

The ICICI Knowledge Park, located in Hyderabad, would offer the complete infrastructure and support facilities for research in the fields of biotechnology for agriculture, drug development, energy and environment protection technology, health care and medical science technology and communication technology. The Park will also develop strong linkages with other leading research centres and educational institutions. The first phase of ICICI Knowledge Park will be operational by the third quarter of 1999.

Reflecting ICICI's commitment to the fostering of learning and development, the Park will be a 100% subsidiary of ICICI. Apart from providing financial assistance by way of equity subscription and interest free loans, ICICI is also helping in the conceptualization and implementation of the activities of Knowledge Park. The Park is expected to strengthen India's position in the field of research by enhancing the knowledge base of industry.

approvals, disbursals and outstandings

industry-wise

Industry	1998-99				Cumulative up to March 31, 1999				As at March 31, 1999	
	Approvals (Rs. billion)	% to Total	Disbursals (Rs. billion)	% to Total	Approvals (Rs. billion)	% to Total	Disbursals (Rs. billion)	% to Total	Outstanding* (Rs. billion)	% to Total
Power	48.70	14	9.97	5	159.04	11	53.96	6	38.74	8
Telecom	23.35	7	2.26	1	55.48	4	12.72	1	9.87	2
Road/Port/Railways	8.35	3	7.62	4	29.42	2	18.11	2	17.99	4
Mining	14.55	4	9.00	5	19.26	1	13.15	1	7.92	2
Other Infrastructure Projects	3.15	1	—	—	3.15	—	—	—	—	—
Crude Petroleum & Petroleum Refining	54.96	16	34.62	18	118.66	8	67.14	8	45.88	10
Chemicals & Chemical Products	16.09	5	12.79	6	139.41	10	90.45	10	40.83	9
Manmade Fibres	2.98	1	0.48	—	41.91	3	27.87	3	12.31	3
Fertilisers & Pesticides	15.49	5	6.43	3	55.49	4	31.32	4	18.32	4
Sugar	1.32	1	1.56	1	19.18	1	13.77	1	8.02	2
Other Food Products	2.23	1	1.22	1	18.59	1	14.40	2	6.41	1
Textiles	12.42	3	13.75	7	100.81	7	78.35	9	35.70	7
Paper & Paper Products	5.37	1	3.42	2	24.95	2	17.99	2	13.26	3
Rubber & Rubber Products	3.71	1	1.59	1	18.55	1	7.92	1	3.51	1
Cement	3.99	1	4.09	2	43.24	3	35.35	4	17.28	4
Metal and Metal Products	17.79	5	15.79	8	151.15	10	97.84	11	64.13	13
Machinery	11.03	3	5.86	3	56.57	4	42.18	5	16.54	3
Electrical Equipment	10.72	3	7.75	4	60.76	4	38.85	4	13.33	3
Electronics	6.42	2	4.16	2	38.10	3	25.62	3	11.62	2
Transport Equipment	16.29	5	9.61	5	63.48	4	41.42	5	18.32	4
Services	47.93	14	28.17	15	144.35	10	87.36	10	37.75	8
Shipping	5.55	1	4.77	3	41.19	3	25.11	3	13.43	3
Other Industries	9.81	3	7.34	4	64.18	4	39.88	5	19.73	4
Total	**342.20**	**100**	**192.25**	**100**	**1466.92**	**100**	**880.76**	**100**	**470.89**	**100**

* Figures are principal amounts.

approvals, disbursals and outstandings

state-wise

State	1998-99				Cumulative up to March 31, 1999				As at March 31, 1999	
	Approvals (Rs. billion)	% to Total	Disbursals (Rs. billion)	% to Total	Approvals (Rs. billion)	% to Total	Disbursals (Rs. billion)	% to Total	Outstanding* (Rs. billion)	% to Total
Andhra Pradesh	19.45	6	6.44	3	90.77	6	55.73	6	34.77	7
Bihar	2.92	1	4.61	2	19.46	1	15.99	2	6.19	1
Delhi	22.51	7	10.65	6	52.36	4	25.64	3	19.63	4
Gujarat	47.06	14	31.12	16	266.03	18	158.14	18	91.80	20
Haryana	7.81	2	4.95	3	30.82	2	18.96	2	9.63	2
Karnataka	14.23	4	11.03	6	92.77	6	57.06	6	30.82	7
Kerala	1.89	-	1.19	-	14.05	1	7.78	1	3.41	1
Madhya Pradesh	11.43	3	5.50	3	64.70	4	33.94	4	17.31	4
Maharashtra	126.13	37	73.07	38	434.95	30	275.17	31	127.71	27
Orissa	6.16	2	3.86	2	21.41	2	9.60	1	6.71	2
Punjab	8.17	2	1.96	1	18.93	1	10.15	1	4.79	1
Rajasthan	1.50	-	2.27	1	44.16	3	30.69	4	15.83	3
Tamil Nadu	40.63	12	14.70	8	148.07	10	77.46	9	39.51	8
Uttar Pradesh	8.86	3	4.46	2	64.48	4	44.28	5	29.59	6
West Bengal	21.41	6	14.63	8	70.20	5	41.04	5	23.85	5
Other States & Union Territories	2.04	1	1.81	1	33.76	3	19.13	2	9.34	2
Total	**342.20**	**100**	**192.25**	**100**	**1466.92**	**100**	**880.76**	**100**	**470.89**	**100**

* Figures are principal amounts.

shareholders' information

SHARE OWNERSHIP

As at March 31, 1999, ICICI had over half a million shareholders holding a total of 478 million shares. In addition to this, ICICI would issue an additional 1.7 million equity shares to the shareholders of Anagram Finance Ltd. subsequent to the merger of Anagram Finance with ICICI at a swap ratio of one equity share of ICICI for every fifteen equity shares of Anagram Finance. After the issuance of these shares, the equity capital of ICICI would stand at Rs. 4.8 billion.

Shareholding pattern of the company as at March 31, 1999

Shareholder Category	% holding
Insurance companies	23.4
Individuals	21.9
Bankers Trust Company (As Depository for GDR holders)	20.0
FIIs and NRIs	14.8
Bodies Corporate	7.2
Unit Trust of India	5.7
Banks and Financial Institutions	5.6
Mutual Funds	1.4
Total	**100.0**

Shareholders with more than one per cent holding

Shareholders	% holding
Bankers Trust Company (As Depository for GDR holders)	20.0
Life Insurance Corporation of India	12.2
Unit Trust of India	5.7
New India Assurance Company Limited	4.4
Bajaj Auto Limited	3.0
Templeton Investment Counsel Inc.	2.7
General Insurance Corporation of India	2.7
State Bank of India	2.6
National Insurance Company Limited	2.1
Industrial Development Bank of India	1.4
Templeton Developing Markets Trust	1.4
Rowe Price Fleming International Inc.	1.3
Oriental Insurance Company Limited	1.0

Distribution of shareholding

Number of shares	Number of shareholders	% shareholders	Total number of shares	% holding
1 to 500	659,166	98.02	64,842,172	13.55
501 to 1000	8,846	1.31	6,457,235	1.35
1001 to 5000	3,961	0.59	7,830,042	1.64
5001 to 10000	256	0.04	1,798,901	0.38
10001 to 50000	155	0.02	3,134,059	0.65
50001 to 100000	33	0.01	2,245,373	0.47
100001 and above	42	0.01	392,138,070	81.96

SHARE PRICE PERFORMANCE

The market value of the ICICI share was Rs. 49 on March 31, 1999.

ICICI's shares are listed on the National Stock Exchange and also on the stock exchanges of Mumbai, Calcutta, New Delhi, Chennai, Vadodara, Bangalore and Mangalore.

ICICI's NSE price movements during 1998-99

Month	High (Rs.)	Low (Rs.)	Number of Shares traded on NSE
April 1998	127.00	92.00	41,649,900
May 1998	115.80	96.10	38,293,800
June 1998	103.90	62.25	29,625,900
July 1998	83.25	73.00	9,864,700
August 1998	85.50	68.05	9,127,900
September 1998	74.90	52.10	14,853,700
October 1998	53.00	38.65	27,741,600
November 1998	53.90	39.30	30,024,400
December 1998	51.50	42.00	15,123,700
January 1999	56.50	48.55	16,102,600
February 1999	49.00	40.60	8,604,300
March 1999	50.00	49.80	11,564,700

ICICI's GDR price movements during 1998-99

Month	High ($)	Low ($)
April 1998	17.55	16.00
May 1998	16.50	12.75
June 1998	13.57	8.47
July 1998	11.45	9.85
August 1998	11.10	8.57
September 1998	12.10	8.07
October 1998	7.90	5.38
November 1998	7.60	5.85
December 1998	7.00	5.95
January 1999	7.50	6.03
February 1999	7.20	6.40
March 1999	6.88	6.05

OTHER INFORMATION

Dematerialization of ICICI shares

Effective January 4, 1999, the equity shares of ICICI are being compulsorily transacted in the electronic mode as per the guidelines issued by SEBI. Therefore, a large number of certificates are being received for dematerialization. As at March 31, 1999, 51.66% of ICICI's equity (excluding GDR capital of 20%) comprising 24,71,64,689 shares had been dematerialized. Amongst companies of comparable size, the percentage of dematerialization effected is one of the highest.

Investor Services

ICICI Infotech Services Limited (erstwhile ICICI Investors' Services Limited) provides value-added services to ICICI's investors through state-of-the-art technology and systems. During 1998-99, the company undertook a number of customer service and technology initiatives that have resulted in speedier and more reliable service to our valued investors. All investor correspondence is responded to within 1.5 days as against 5 days in the previous year. This has been made possible by a document imaging and workflow system wherein all correspondence is scanned and moves within the system in the electronic mode.

Share Transfer System

Share transfers are typically registered and returned within a period of 7 days from the date of receipt, if documents are correct and valid in all respects. The number of shares transferred during the last three years were as follows:

	1998-99*	1997-98	1996-97
Number of transfer deeds	**316239**	760183	436438
Number of shares	**15875339**	49841420	38765789

As at March 31, 1999, there were only 5068 unprocessed transfers pending.

* The number of transfers have decreased considerably in view of compulsory dematerialization and trading of shares in the electronic mode.

Correspondence Pending (as at March 31, 1999)

Only 306 letters (including complaints) were pending as at March 31, 1999. Most of the letters relate to routine matters such as change of address, dividend-related matters, sub-division of ICICI's share certificates etc.

Establishing Contact with ICICI Infotech

ICICI Infotech has made the following facilities operational during the year, for the convenience of the investors being serviced:

- Telephone call centres: Investors may contact ICICI Infotech at any of the 20 numbers 3006701 to 3006720 for all queries and/or complaints. All these lines are manned by trained staff.
- 24 hours message log-in facility: Investors may register their queries and complaints even during non-working hours by leaving a message on the answering facility at 3006717.
- Dedicated e-mail facility (investor@icici.com): All responses to these queries would be sent by electronic mail itself.

Investor Services related queries may be addressed to:

M. B. Battliwala
ICICI Infotech Services Limited
Maratha Mandir Annexe
Dr. A. R. Nair Road
Mumbai Central, Mumbai 400 008
Tel: 91-22-3006701-20
Fax: 91-22-3006727
e-mail: investor@icici.com

Investor Relations

ICICI believes that all stakeholders must have access to complete information regarding the company's position and all data that is required to assess its future potential. Hence, ICICI has further strengthened its website to provide comprehensive information on ICICI's strategy, business segments, operational performance, share price movements and latest press releases. Also, to enable investors to assess ICICI's performance and position using global benchmarks, ICICI has restated its financials for 1998-99 in accordance with US GAAP. ICICI has a dedicated Investor Relations department that plays a proactive role in disseminating information to both analysts and investors.

Queries may be addressed to:

A. P. Singh
ICICI Limited
ICICI Towers
Bandra-Kurla Complex
Mumbai - 400 051
Tel: 91-22-6536262
Fax: 91-22-6531226
e-mail: singhap@icici.com

Other Information

- *Dates of Book Closure:*
  June 15, 1999 to July 6, 1999

- *Date, Time and Venue of Annual General Meeting*
  Friday, July 30, 1999 at 3.30 p.m.

  Sri Shanmukhananda Fine Arts & Sangeetha Sabha,
  Plot No. 292, Comrade Harbanslal Marg, Sion (East), Mumbai 400 022

- *Registered Office*
  ICICI Limited
  ICICI Towers
  Bandra-Kurla Complex
  Mumbai - 400 051
  Tel: 91-22-6531414