



CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 1999, 2000 AND

FOR THE THREE YEARS ENDED MARCH 31, 2000

PREPARED IN ACCORDANCE WITH

UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)



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independent auditors' report

To the Board of Directors and Stockholders of ICICI Limited

We have audited the accompanying consolidated balance sheets of ICICI Limited and its subsidiaries as of March 31, 1999 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended March 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ICICI Limited and its subsidiaries as of March 31, 1999 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 13 to the consolidated financial statements, effective April 1, 1999, the Company changed its method of accounting for depreciation of property and equipment.

The United States dollar amounts are presented in the accompanying financial statements solely for the convenience of the readers and are arithmetically correct on the basis described in Note 1.5.

Mumbai, India
April 28, 2000

KPMG

consolidated balance sheets



(in millions)

as of March 31,

1999

2000

2000

Assets

Cash and cash equivalents	Rs. 62,123	Rs. 71,097	US\$ 1,629
Trading account assets	35,926	57,396	1,315
Securities:			
- Available for sale	15,040	18,226	418
- Held to maturity	1	645	15
Investment in affiliate	244	264	6
Loans, net	476,352	562,420	12,885
Acceptances	8,773	12,333	283
Property and equipment	7,950	11,775	270
Other assets	46,936	46,528	1,066
Total assets	<u>Rs.653,345</u>	<u>Rs.780,684</u>	<u>US\$17,885</u>

Liabilities

Interest bearing deposits	Rs. 56,418	Rs. 82,827	US\$ 1,898
Non-interest bearing deposits	4,187	13,855	317
Total deposits	60,605	96,682	2,215
Trading account liabilities	14,791	20,684	474
Short-term borrowings	35,794	66,308	1,519
Acceptances	8,773	12,333	283
Long-term debt	438,440	439,162	10,061
Other liabilities	36,795	48,471	1,110
Taxes and dividends payable	9,966	11,631	266
Redeemable preferred stock	10,897	10,207	234
Total liabilities	<u>616,061</u>	<u>705,478</u>	<u>16,162</u>

Minority interest

	773	4,298	98
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Stockholders' equity

Common stock	4,801	7,832	179
Additional paid-in capital	14,772	37,347	856
Deferred stock compensation	—	(70)	(2)
Retained earnings	22,189	28,338	649
Accumulated other comprehensive income	(5,251)	(2,539)	(58)
Total stockholders' equity	<u>36,511</u>	<u>70,908</u>	<u>1,624</u>
Total liabilities and stockholders' equity	<u>Rs.653,345</u>	<u>Rs.780,684</u>	<u>US\$17,885</u>

See accompanying notes to the consolidated financial statements.

consolidated statements of income

(in millions, except share data)

for the year ended March 31,

1998

1999

2000

2000

Interest revenue

Loans, including fees	Rs. 50,813	Rs. 63,315	Rs. 69,831	US\$ 1,600
Securities, including dividends	735	921	1,890	43
Trading account assets, including dividends	1,779	4,862	7,540	173
Other	1,613	1,992	1,566	36

Total interest revenue

	54,940	71,090	80,827	1,852
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Interest expense

Long-term debt	38,181	48,975	53,531	1,226
Deposits	1,508	3,682	5,665	130
Short-term borrowings	2,365	4,607	6,763	155
Trading account liabilities	341	644	1,418	33
Other	36	75	16	—

Total interest expense

	42,431	57,983	67,393	1,544
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Net interest revenue

	12,509	13,107	13,434	308
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Provision for credit losses

	4,768	6,067	6,363	146
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Net interest revenue after provision for credit losses

	7,741	7,040	7,071	162
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Non-interest revenue, net

Fees, commission and brokerage	2,156	3,464	4,263	98
Trading account revenue	673	476	2,029	46
Securities transactions	(69)	275	2,363	54
Gain on sale of subsidiary's stock	920	—	—	—
Foreign exchange transactions	265	829	428	10
Gain on sale of property and equipment	532	—	212	5
Other	848	335	392	9

Net revenue

	13,066	12,419	16,758	384
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Non-interest expense

Employee costs	828	943	1,618	37
General and administrative expenses	1,858	2,665	3,497	80
Amortization of goodwill	—	187	187	4

Total non-interest expense

	2,686	3,795	5,302	121
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Income before share of equity in earnings of affiliate and minority interest

	10,380	8,624	11,456	262
Equity in earnings of affiliate	(9)	(34)	20	—
Minority interest	(135)	(170)	(361)	(8)

Income before taxes

	10,236	8,420	11,115	255
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Income tax expense

	1,446	1,194	2,033	47
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Net income before extraordinary items and effect of change in accounting principle

	8,790	7,226	9,082	208
Extraordinary gain, net of tax	—	292	—	—
Cumulative effect of change in accounting principle, net of tax	—	—	249	6

Net income

	Rs. 8,790	Rs. 7,518	Rs. 9,331	US\$ 214
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Earnings per share:

-Basic	Rs. 18.39	Rs. 15.66	Rs. 14.45	US\$ 0.33
-Diluted	15.74	13.52	13.77	0.32

See accompanying notes to the consolidated financial statements.

consolidated statements of changes in stockholders' equity



(in millions, except share data)

	Equity Shares		Additional Paid-In Capital	Deferred Stock Compensation	Comprehen- sive Income	Accumulated Other Comprehen- sive Income	Retained Earnings	Total Stockholders' Equity
	Number of shares	Amount						
Balance as of March 31, 1997	475,987,246	Rs.4,755	Rs.14,509	Rs.	—	Rs.(4,218)	Rs.11,741	Rs.26,787
Common stock issued	2,458,606	26	137	—	—	—	—	163
Comprehensive income								
Net income	—	—	—	—	Rs. 8,790	—	8,790	8,790
Unrealized gain/(loss) on securities, net	—	—	—	—	66	66	—	66
Comprehensive income	—	—	—	—	<u>Rs. 8,856</u>	—	—	—
Dividend declared on common stock	—	—	—	—	—	—	(2,930)	(2,930)
Balance as of March 31, 1998	478,445,852	4,781	14,646	—	—	(4,152)	17,601	32,876
Common stock issued	1,657,861	20	126	—	—	—	—	146
Comprehensive income								
Net income	—	—	—	—	Rs. 7,518	—	7,518	7,518
Unrealized gain/(loss) on securities, net	—	—	—	—	(1,099)	(1,099)	—	(1,099)
Comprehensive income	—	—	—	—	<u>Rs. 6,419</u>	—	—	—
Dividend declared on common stock	—	—	—	—	—	—	(2,930)	(2,930)
Balance as of March 31, 1999	480,103,713	4,801	14,772	—	—	(5,251)	22,189	36,511
Common stock issued	305,208,635	3,031	18,364	—	—	—	—	21,395
Compensation related to employee stock option plan	—	—	97	(97)	—	—	—	—
Amortization of compensation related to employee stock option plan	—	—	—	27	—	—	—	27
Increase in carrying value on direct issue of stock by subsidiary	—	—	4,114	—	—	—	—	4,114
Comprehensive income								
Net income	—	—	—	—	Rs. 9,331	—	9,331	9,331
Unrealized gain/(loss) on securities, net	—	—	—	—	2,712	2,712	—	2,712
Comprehensive income	—	—	—	—	<u>Rs.12,043</u>	—	—	—
Dividend declared on common stock	—	—	—	—	—	—	(3,182)	(3,182)
Balance as of March 31, 2000	785,312,348	7,832	37,347	(70)	—	(2,539)	28,338	70,908
Balance as of March 31, 2000 (US\$)		179	856	(2)	—	(58)	649	1,624

See accompanying notes to the consolidated financial statements.

consolidated statements of cash flows

(in millions)

for the year ended March 31,	1998	1999	2000	2000
Cash flows from operating activities				
Net income	Rs. 8,790	Rs. 7,518	Rs. 9,331	US\$ 214
<i>Adjustments to reconcile net income to net cash from operating activities:</i>				
Non-cash items				
Provision for credit losses	4,768	6,067	6,363	146
Depreciation and amortization	43	186	616	14
Deferral of discount and expenses on loan fund	628	820	838	19
Deferred tax charge/(benefit)	162	69	(103)	(2)
Revaluation loss on foreign currency balances	271	54	22	1
'Other than temporary' diminution in the value of securities available for sale	1,324	1,231	1,444	33
Undistributed equity in earnings of affiliate	9	34	(20)	—
Minority interest	135	170	361	8
Net gain on sale of property and equipment	(532)	—	(212)	(5)
Net gain on sale of securities available for sale	(1,255)	(1,676)	(2,371)	(54)
Gain on sale of subsidiary's stock	(920)	—	—	—
Change in accounting principle	—	—	(249)	(6)
Change in assets and liabilities				
Other assets	(2,905)	(6,408)	(3,317)	(76)
Other liabilities	2,982	11,536	10,262	235
Taxes payable	479	(2,194)	1,773	41
Trading account assets	(7,075)	(24,202)	(21,470)	(492)
Trading account liabilities	273	5,954	5,892	135
Net cash provided by/(used in) operating activities	<u>7,177</u>	<u>(841)</u>	<u>9,160</u>	<u>210</u>
Cash flows from investing activities				
Securities—Available for sale				
<i>Purchases</i>	(2,722)	(3,139)	(20,406)	(467)
<i>Proceeds from sales</i>	3,421	4,831	20,862	478
Securities—Held to maturity				
<i>Purchases</i>	—	—	(644)	(15)
<i>Maturities</i>	19	—	—	—
Proceeds from sale of subsidiary's stock	1,676	—	—	—
Net increase in loans	(90,611)	(105,235)	(92,431)	(2,118)
Capital expenditure on property and equipment	(2,666)	(3,600)	(4,320)	(99)
Proceeds from sale of property and equipment	1,091	115	276	6
Net cash used in investing activities	<u>(89,792)</u>	<u>(107,028)</u>	<u>(96,663)</u>	<u>(2,215)</u>
Cash flows from financing activities				
Net increase in deposits	Rs. 18,555	Rs. 31,310	Rs. 36,077	US\$ 827
Proceeds from short-term borrowings, net	3,210	12,325	30,514	699
Proceeds from issuance of long-term debt	111,841	144,654	53,524	1,226
Maturity and redemption of long-term debt	(37,900)	(58,533)	(47,909)	(1,098)
Proceeds from issuance of redeemable preferred stock	2,616	7,690	—	—
Redemption of redeemable preferred stock	—	(160)	(750)	(17)
Proceeds from issuance of common stock	163	146	20,865	478
Proceeds from issuance of common stock by subsidiary	—	—	7,338	168
Purchase of minority interest in subsidiary	—	(844)	—	—
Payment of dividend	(2,248)	(3,171)	(3,182)	(73)
Net cash provided by financing activities	<u>96,237</u>	<u>133,417</u>	<u>96,477</u>	<u>2,210</u>
Net increase in cash and cash equivalents	13,622	25,548	8,974	206
Cash and cash equivalents at the beginning of the year	22,953	36,575	62,123	1,423
Cash and cash equivalents at the end of the year	<u>Rs. 36,575</u>	<u>Rs. 62,123</u>	<u>Rs. 71,097</u>	<u>US\$ 1,629</u>

Supplementary schedule of non-cash investing and financing activities

Business combinations

ICICI Limited purchased the entire capital stock of Anagram Finance Limited (Anagram) for Rs.167 million with effect from April 1, 1998. Similarly ICICI Limited purchased the entire capital stock of ITC Classic Finance Limited (ITC) for Rs.167 million with effect from April 1, 1997. In conjunction with these acquisitions, liabilities were assumed as set out below:

	ITC	Anagram
	1998	Year ended March 31, 1999
Fair value of assets acquired	Rs. 14,044	Rs. 9,631
Fair value of liabilities assumed	13,867	(10,398)
Excess/(deficit) of fair value of assets over fair value of liabilities	177	(767)
Common stock issued as consideration	167	167
Goodwill/(Negative goodwill)	Rs. (10)	Rs. 934

The goodwill is being amortized over a period of five years. The negative goodwill has been adjusted against the values assigned to non-current, non-monetary assets on a proportionate basis.

Conversion of convertible instruments to common stock

During the year ended March 31, 2000, convertible debt instruments aggregating Rs. 530 million were converted to 34.6 million equity shares in accordance with the original terms of the instruments.

See accompanying notes to the consolidated financial statements.

notes to the consolidated financial statements



for the years ended March 31, 2000 and March 31, 1999

1 SIGNIFICANT ACCOUNTING POLICIES

1.1 Overview

1.1.1 ICICI Limited incorporated in Mumbai, India is a financial institution that along with its subsidiaries (collectively ICICI or the Company), provides a variety of banking and financial services including project finance, corporate finance, investment banking and retail lending.

1.2 Principles of consolidation

1.2.1 The consolidated financial statements include the accounts of ICICI Limited and all of its subsidiaries, which are more than 50% owned and controlled. All material inter-company accounts and transactions are eliminated on consolidation. 20% to 50% owned affiliates are accounted for under the equity method and the pro rata share of their income/loss is included in the statement of income, except where ICICI is unable to exercise significant influence over the operating and financial policies of the investee.

1.3 Basis of preparation

1.3.1 The accounting and reporting policies of ICICI used in the preparation of these consolidated financial statements reflect industry practices and conform to generally accepted accounting principles in the United States.

1.4 Use of estimates

1.4.1 The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles requires that management makes estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the financial statements and the reported income and expense for the reporting period. Management believes that the estimates used in the preparation of the consolidated financial statements are prudent and reasonable. The actual results could differ from these estimates.

1.5 Functional currency and convenience translation

1.5.1 The accompanying financial statements have been prepared in Indian Rupees (Rs.), the national currency of India. Solely for the convenience of the readers, the financial statements as of and for the year ended March 31, 2000, have been translated into United States Dollars at the noon buying rate in New York City on March 31, 2000, for cable transfers in Indian Rupees, as certified for customs purposes by the Federal Reserve of New York of US\$ 1 = Rs.43.65. No representation is made that the Indian Rupee amounts have been, could have been or could be converted into United States Dollars at such a rate or any other certain rate on March 31, 2000, or at any other certain date.

1.6 Revenue recognition

1.6.1 Interest income is accounted on an accrual basis except in respect of impaired loans, where it is recognized on a cash basis. Income from leasing and hire-purchase operations is accrued in a manner to provide a fixed rate of return on outstanding investments.

1.6.2 Fees from non-fund based activities such as issue management, loan syndication and financial advisory services are accrued based on the stage of completion of the underlying transactions. Fees for guarantees and letters of credit are amortized over the contracted period of the commitment.

1.7 Cash and cash equivalents

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

notes to the consolidated financial statements

for the years ended March 31, 2000 and March 31, 1999

Continued

1.8 Securities and trading account activities

- 1.8.1 In accordance with Statement of Accounting Standards (SFAS) No.115, Accounting for Certain Investments in Debt and Equity Securities, the Company classifies its debt and equity securities in one of the three categories: trading, held to maturity or available for sale, at the time of purchase and re-evaluates such classifications as of each balance sheet date. Debt securities that are expected to be held to maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts. Marketable equity securities and debt securities available for sale are carried at fair value, with unrealized gains and losses reported as a separate component of stockholders' equity, net of applicable income taxes. Equity securities, which are traded on a securities exchange within six months of the balance sheet date are considered as publicly traded. The last quoted price of such securities is taken as their fair value. Unquoted equity securities are valued at cost, less provision for 'other than temporary' diminution.
- 1.8.2 Any 'other than temporary' diminution in the value of securities that are expected to be held to maturity or that are available for sale is charged to the statement of income. 'Other than temporary' diminution is identified based on management's evaluation.
- 1.8.3 Realized gains and losses on sale of securities are included in earnings on a weighted average cost basis.
- 1.8.4 Securities acquired through conversion of loans in a troubled debt restructuring are initially recorded at the fair value on the date of conversion.
- 1.8.5 Trading account assets include securities held for the purpose of sale in the short term. These securities are valued at fair value, with the unrealized gain/loss being taken to trading account revenue. Trading account activities also include foreign exchange products. Foreign exchange trading positions are valued at prevailing market rates and the resulting gains/losses are included in foreign exchange revenue.

1.9 Loans

- 1.9.1 Loans are reported at the principal amount outstanding, inclusive of interest accrued and due per the contractual terms. Loan origination fees (net of loan origination costs) are deferred and recognized as an adjustment to yield over the life of the loan. Interest is accrued on the unpaid principal balance and is included in interest income.
- 1.9.2 Loans are identified as impaired and placed on a non-accrual basis, when it is determined that payment of interest or principal is doubtful of collection or that interest or principal is past-due beyond two payment periods (each payment period being 90 days). Such loans are classified as non-performing. Any interest accrued and not received on impaired loans is reversed and charged against current earnings, and interest is thereafter included in earnings only to the extent actually received in cash. Non-performing loans are returned to an accrual status when all contractual principal and interest amounts are reasonably assured of repayment and there is a sustained period of repayment performance in accordance with the contractual terms.
- 1.9.3 Non-performing loans are reported after considering the impact of non-performance. The non-performance is measured by comparing the carrying amount of the loan with the present value of the expected future cash flows/fair value of the collateral, discounted at the effective rate of the loan.
- 1.9.4 Loans include aggregate rentals on lease financing transactions and residual values, net of related unearned income. Lease financing transactions substantially represent direct financing leases. Loans also include the aggregate value of purchased securitized receivables, net of unearned income. Loans further include credit substitutes, such as privately placed debt instruments, which are not readily marketable.

1.10 Aggregate allowance for credit losses

- 1.10.1 ICICI evaluates its entire credit portfolio on a periodic basis and grades its accounts considering both qualitative and quantitative criteria. This evaluation includes an account by account analysis of the loan portfolio, and an allowance is made for any probable loss on each account. In evaluating its credit losses, management has estimated recovery of such loans at various stages of time to recovery and discounted these using the effective

notes to the consolidated financial statements



for the years ended March 31, 2000 and March 31, 1999

Continued

interest rate of the loans. In estimating recovery, ICICI considers its past credit loss experience and such other factors, which in its judgement, deserve current recognition in estimating probable credit losses. It is possible that actual recoveries may differ from those estimated and consequently actual loss could differ from the estimate. The aggregate allowance for credit losses is increased by amounts charged to the provision for credit losses, net of releases of provisions as a result of cash collections.

1.11 Property and equipment

1.11.1 Property and equipment are stated at cost, less accumulated depreciation. The cost of additions, capital improvements and interest during the construction period are capitalized, while maintenance and repairs are charged to expenses when incurred. Property and equipment to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell.

1.11.2 Depreciation is provided over the estimated useful lives of the assets.

1.11.3 The cost and accumulated depreciation for property and equipment sold, retired or otherwise disposed of are relieved from the accounts, and the resulting gains/losses are reflected in the statement of income.

1.11.4 Property under construction and advances paid towards acquisition of property and equipment are disclosed as construction in progress.

1.12 Interest capitalization

1.12.1 The interest costs incurred for funding an asset during its construction period are capitalized based on the average outstanding investment in the asset and the average cost of funds. The capitalized interest cost is included in the cost of the relevant asset and is depreciated over the estimated useful life of the asset.

1.13 Issue of shares by subsidiary/affiliate

1.13.1 An issuance of shares by a subsidiary/affiliate to third parties reduces the proportionate ownership interest of the Company in the investee. A change in the carrying value of the investment in a subsidiary/affiliate due to such direct sale of unissued shares by the investee is accounted for as a capital transaction, and is recognized in stockholders' equity when the transaction occurs.

1.14 Income taxes

1.14.1 Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income in the period of change. Deferred tax assets are recognized subject to management's judgement that realization is more likely than not.

1.15 Retirement benefits

1.15.1 Contributions to defined contribution plans are charged to income in the period in which they accrue.

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

1.16 Foreign currency transactions

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

notes to the consolidated financial statements

for the years ended March 31, 2000 and March 31, 1999

Continued

- 1.16.2 Speculative forward exchange contracts are revalued at year-end based on forward exchange rates for residual maturities and the contractual rates, and the revaluation gain/loss is recognized in the statement of income. Forward exchange contracts that are accounted for as hedges of foreign currency exposures, are revalued based on year-end spot rates and the spot rates at the inception of the contract. The revaluation gain/loss is recognized in the statement of income. Premium or discount on such forward exchange contracts is recognized over the life of the contract.

1.17 Derivative instruments

- 1.17.1 ICICI enters into derivative contracts such as interest rate swaps and currency swaps, for hedging its on-balance sheet asset and liability balances. Through derivative instruments, ICICI hedges its interest rate risk and the foreign exchange risk.
- 1.17.2 The swap contracts entered into are structured such that they bear an opposite and off-setting impact with the on-balance sheet items they hedge. No fair value accounting of the swap contracts has been carried out as the balance sheet exposure of such contracts (representing the change in the market value of the contracts over the carrying value) exactly offsets the change in the fair value of the on-balance sheet item. The swap differentials have been accounted for on an accrual basis pursuant to the principles of hedge accounting.
- 1.17.3 Additionally, ICICI enters into interest rate swaps and currency swaps for trading purposes. Such contracts are designated as 'traded contracts' and have been accounted at their fair value.

1.18 Extinguishment of debt

- 1.18.1 ICICI accounts for reacquisition of its outstanding debt securities as an extinguishment of debt when it pays the creditors and is relieved of its obligations for the liability. The difference between the reacquisition price and the net carrying amount of the extinguished debt is recognized in the statement of income in the period of extinguishment. Such gains and losses from extinguishment of debt are aggregated and, if material, classified as an extraordinary item, net of the related income tax effect.

1.19 Dividends

- 1.19.1 Dividends on common stock and the related dividend tax are recognized on approval by the Board of Directors.

1.20 Direct costs on issue of common stock

- 1.20.1 Direct costs on issuance of common stock are charged against the gross proceeds from the issue.

1.21 Stock-based compensation

- 1.21.1 The Company uses the intrinsic value based method of Accounting Principle Board (APB) Opinion No. 25 to account for its employee stock-based compensation plans. The Company has therefore adopted the pro forma disclosure provision of SFAS No.123, Accounting for Stock-Based Compensation.
- 1.21.2 A consolidated subsidiary has a stock option plan, which includes grant of options to employees of the parent company. Such options granted to employees of the parent company are accounted for in accordance with SFAS No.123. These stock options are valued based upon an option-pricing model with the compensation cost being expensed over the vesting period of the options.

1.22 Earnings per share

- 1.22.1 In accordance with SFAS No.128, Earnings Per Share, basic earning per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, using the treasury stock method for options, except where the results would be antidilutive.

1.23 Reclassifications

- 1.23.1 Certain reclassifications have been made in the financial statements of prior years to conform to classifications used in the current year. These changes had no impact on previously reported results of operations or stockholders' equity.

notes to the consolidated financial statements



for the years ended March 31, 2000 and March 31, 1999

2 FINANCIAL INSTRUMENTS

2.1.1 ICICI provides a wide variety of financial instruments as products to its customers, and it also uses these instruments in connection with its own activities. The following notes are explanatory notes regarding financial assets and liabilities, off-balance sheet financial instruments, concentration of credit risk and the estimated fair value of financial instruments.

2.1.2 Collateral requirements are made on a case-by-case evaluation of each customer and product, and may include cash, securities, receivables, property, plant and machinery and other assets.

2.2 Financial assets and liabilities

Cash and cash equivalents

2.2.1 Cash and cash equivalents as of March 31, 2000, include a balance of Rs.6,904 million (1999: Rs.4,400 million) maintained with the Reserve Bank of India being the minimum daily stipulated amount to be maintained under statutory requirements. This balance is subject to withdrawal or usage restrictions.

2.2.2 Cash and cash equivalents as of March 31, 2000 also include, interest-bearing deposits with banks aggregating Rs.47,340 million (1999: Rs.44,110 million).

2.2.3 ICICI has certain borrowings, which have been raised under specific lines of credit from multilateral agencies at concessional rates of interest. These borrowings have restrictions on lending and usage and can be disbursed only for specified purposes. Pending disbursement, the funds are placed with banks in India. Cash and cash equivalents as of March 31, 2000, include Rs.1,076 million (1999: Rs.1,149 million) of such undisbursed funds.

Trading account assets

2.2.4 A listing of the trading account assets is set out below:

	(in millions)	
	1999	As of March 31, 2000
Government of India securities	Rs. 30,025	Rs. 46,281
Corporate debt securities	5,470	9,239
Equity securities	6	1,567
Revaluation gains on derivative and foreign exchange contracts	425	309
Total	<u>Rs. 35,926</u>	<u>Rs. 57,396</u>

2.2.5 In accordance with the Banking Regulation Act, 1949, ICICI Bank Limited, a consolidated subsidiary, is required to maintain a specified percentage of its net demand and time liabilities by way of assets such as cash and approved securities. The amount required to be maintained as of March 31, 2000, was Rs. 20,570 million (1999: Rs.12,875 million). Government of India securities qualify as approved securities under the regulations.

2.2.6 As of March 31, 2000, trading account assets include certain Government of India securities amounting to Rs.10,842 million (1999: Rs.5,460 million), which are pledged in favour of the Reserve Bank of India for the purpose of collateralizing short-term borrowings.

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Trading account revenue

2.2.7 A listing of trading account revenue is set out below:

	(in millions)		
	1998	1999	Year ended March 31, 2000
Gain on sale of trading securities, net	Rs. 1,024	Rs. 574	Rs. 2,397
Revaluation loss on trading securities, net	(351)	(98)	(368)
Total	<u>Rs. 673</u>	<u>Rs. 476</u>	<u>Rs. 2,029</u>

Securities

2.2.8 The portfolio of securities is set out below:

	As of March 31, 1999				As of March 31, 2000			
	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair value
Available for sale								
Corporate debt securities	Rs. 3,851	Rs. 12	Rs. —	Rs. 3,863	Rs. 3,308	Rs. 34	Rs. —	Rs. 3,342
Government of India securities	—	—	—	—	914	89	—	1,003
Total debt securities	<u>3,851</u>	<u>12</u>	<u>—</u>	<u>3,863</u>	<u>4,222</u>	<u>123</u>	<u>—</u>	<u>4,345</u>
Equity securities (Note 1)	19,226	1,178	(9,227)	11,177	17,654	1,203	(4,976)	13,881
Total available for sale	<u>Rs.23,077</u>	<u>Rs.1,190</u>	<u>Rs.(9,227)</u>	<u>Rs.15,040</u>	<u>Rs.21,876</u>	<u>Rs. 1,326</u>	<u>Rs.(4,976)</u>	<u>Rs.18,226</u>
Held to maturity								
Corporate debt securities	Rs. —	Rs. —	Rs. —	Rs. —	Rs. 84	Rs. —	Rs. —	Rs. 84
Government of India securities	—	—	—	—	560	54	—	614
Other debt securities	1	—	—	1	1	—	—	1
Total held to maturity	<u>Rs. 1</u>	<u>Rs. —</u>	<u>Rs. —</u>	<u>Rs. 1</u>	<u>Rs. 645</u>	<u>Rs. 54</u>	<u>Rs. —</u>	<u>Rs. 699</u>

Note 1: Includes non-marketable equity securities that are carried at cost, less any provision for 'other than temporary' diminution. The fair value of these securities cannot be ascertained. As of March 31, 2000, the carrying amount of these securities was Rs. 8,479 million (1999: Rs. 4,877 million), which is reported in both the amortized cost and fair value columns.

Income from available for sale securities

2.2.9 A listing of interest and dividends on available for sale securities is set out below:

	(in millions)		
	1998	1999	Year ended March 31, 2000
Interest	Rs. 182	Rs. 245	Rs. 388
Dividends	553	676	1,502
Total	<u>Rs. 735</u>	<u>Rs. 921</u>	<u>Rs.1,890</u>

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Maturity profile of debt securities

2.2.10 A listing of each category of available for sale and held to maturity debt securities as of March 31, 2000, by original contractual maturity is set out below:

(in millions)

	Available for sale		Held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Corporate debt securities				
Less than one year	Rs. 399	Rs. 403	Rs. 84	Rs. 84
One to five years	1,566	1,581	—	—
Five to 10 years	1,343	1,358	—	—
	<u>3,308</u>	<u>3,342</u>	<u>84</u>	<u>84</u>
Government of India securities				
Less than one year	—	—	—	—
One to five years	914	1,003	—	—
Five to 10 years	—	—	—	—
Greater than 10 years	—	—	560	614
	<u>914</u>	<u>1,003</u>	<u>560</u>	<u>614</u>
Other debt securities				
Less than one year	—	—	—	—
One to five years	—	—	—	—
Five to 10 years	—	—	1	1
	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>
Total debt securities	<u>Rs. 4,222</u>	<u>Rs. 4,345</u>	<u>Rs. 645</u>	<u>Rs. 699</u>

Investment in affiliate

2.2.11 The Company has accounted for its 45% interest in Prudential ICICI Asset Management Company Limited (Pru-ICICI) by the equity method. The carrying value of the investment in Pru-ICICI as of March 31, 2000, was Rs.264 million (1999: Rs.244 million). The Company's equity in the income of Pru-ICICI for the year ended March 31, 2000, was Rs.20 million (1999: loss of Rs.34 million, 1998: loss of Rs.9 million).

Loans

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

(in millions)

	As of March 31,	
	1999	2000
Project finance	Rs. 424,846	Rs. 505,453
Working capital finance	22,696	31,576
Leasing and related activities	51,704	46,766
Others	5,630	12,710
Gross loans	<u>504,876</u>	596,505
Aggregate allowance for credit losses	(28,524)	(34,085)
Net loans	<u>Rs. 476,352</u>	<u>Rs. 562,420</u>

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- 2.2.13 Project finance loans are generally secured by property, plant and equipment and other tangible assets. Normally, the working capital loans are secured by a first lien on current assets, principally comprising inventory and receivables. Additionally, in certain cases ICICI may obtain additional security for working capital loans through a first or second lien on property and equipment, a pledge of financial assets like marketable securities and corporate/personal guarantees.
- 2.2.14 During the year ended March 31, 2000, ICICI purchased certain unquoted equity securities from a corporate with a 'put' and 'call' option. Under the terms of the transfer, ICICI has a put option to sell the securities to the corporate at a pre-determined consideration. Additionally, the corporate has a call option to repurchase the transferred securities at a pre-determined consideration. ICICI cannot transfer the securities to a third party within the period of the option. The call and the put option can be exercised between 13 months to 18 months. As ICICI has not obtained control over the transferred assets, it has recorded the transfer as a secured loan with pledge of collateral. As of March 31, 2000, 'Others' include Rs.994 million representing such a lending.

Net investment in leasing and related activities

- 2.2.15 Contractual maturities of ICICI's net investment in receivables from leasing and related activities and its components, which are included in loans, are set out below:

	(in millions)	
	As of March 31,	
	1999	2000
Gross finance receivables for the year ended or ending March 31,		
2000	Rs.19,807	Rs.17,173
2001	11,889	11,548
2002	11,240	9,051
2003	9,114	8,918
2004 and beyond	29,383	20,799
	<u>81,433</u>	<u>67,489</u>
Less: Unearned income	(26,513)	(17,403)
Security deposits	(3,216)	(3,320)
	<u>51,704</u>	<u>46,766</u>
Investment in leasing and related activities	51,704	46,766
Less: Aggregate allowance for credit losses	(1,630)	(1,448)
	<u>Rs.50,074</u>	<u>Rs.45,318</u>
Net investment in leasing and related activities	<u>Rs.50,074</u>	<u>Rs.45,318</u>

Maturity profile of loans

- 2.2.16 A maturity of loans, other than net investment in receivables from leasing and related activities, is set out below:

	(in millions)	
	As of March 31,	
	1999	2000
Less than one year	Rs.130,346	Rs. 149,023
One to five years	234,687	273,606
Greater than five years	88,139	127,110
Total	<u>Rs.453,172</u>	<u>Rs.549,739</u>

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Interest and fees on loans

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

	(in millions)		
	1998	Year ended March 31,	
		1999	2000
Project finance	Rs. 44,418	Rs. 54,486	Rs. 60,154
Working capital finance	1,370	2,567	2,666
Leasing and related activities	4,392	5,670	5,950
Others	633	592	1,061
Total	<u>Rs. 50,813</u>	<u>Rs. 63,315</u>	<u>Rs. 69,831</u>

Non-performing loans

2.2.18 A listing of non-performing loans is set out below:

	(in millions)	
	As of March 31,	
	1999	2000
Project finance	Rs. 54,782	Rs. 64,456
Working capital finance	1,158	1,127
Leasing and related activities	2,360	2,965
Others	187	572
Gross non-performing loans	<u>58,487</u>	<u>69,120</u>
Aggregate allowances for credit losses	(28,524)	(34,085)
Non-performing loans, net	<u>Rs. 29,963</u>	<u>Rs. 35,035</u>
Non-performing loans with a valuation allowance	Rs. 58,021	Rs. 68,957
Non-performing loans without a valuation allowance	466	163
Gross non-performing loans	<u>Rs. 58,487</u>	<u>Rs. 69,120</u>
Interest recognized on non-performing loans on a cash basis	Rs. 803	Rs. 1,035
Average non-performing loans	51,805	63,804

Changes in the allowance for credit losses

2.2.19 A listing of the changes in the allowance for credit losses is set out below:

	(in millions)	
	Year ended March 31,	
	1999	2000
Aggregate allowance for credit losses at the beginning of the year	Rs. 22,457	Rs. 28,524
Additions		
Provisions for credit losses, net of releases of provisions as a result of cash collections	6,067	6,363
Write-offs	28,524	34,887
	—	(802)
Aggregate allowance for credit losses at the end of the year	<u>Rs. 28,524</u>	<u>Rs. 34,085</u>

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Troubled debt restructuring

- 2.2.20 Loans as of March 31, 2000, include loans aggregating Rs.10,795 million (1999: Rs.6,749 million), which are currently under a scheme of debt restructuring and which have been identified as non-performing loans. The gross recorded investment in these loans is Rs.18,546 million (1999: Rs.13,171 million) against which an allowance for credit losses aggregating Rs.7,751 million (1999: Rs.6,422 million) has been established. Income on restructured loans would have been Rs. 2,501 million (1999: Rs. 1,771 million, 1998: Rs. 1,112 million) based on original terms. Income of Rs. 485 million has been recognized on such loans for the year ended March 31, 2000 (1999: Rs. 402 million, 1998: Rs. 229 million) on a cash basis.
- 2.2.21 There are no commitments to lend incremental funds to any borrower who is party to a troubled debt restructuring

Concentration of credit risk

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

Unearned income

- 2.2.23 A listing of unearned income is set out below:

	(in millions)	
	As of March 31,	
	1999	2000
Unearned income on receivables from leasing and related activities	Rs. 26,513	Rs. 17,403
Unamortized loan origination fees	1,632	1,595
Unamortized discount on acquired loans	503	267
Unearned fees on guarantees and letters of credit	209	228

Deposits

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

	(in millions)	
	As of March 31,	
	1999	2000
Interest bearing		
Savings deposits	Rs. 2,271	Rs. 5,332
Time deposits	54,147	77,495
	<u>56,418</u>	<u>82,827</u>
Non-interest bearing		
Demand deposits	4,187	13,855
Total	<u>Rs. 60,605</u>	<u>Rs. 96,682</u>

- 2.2.25 As of March 31, 2000, time deposits of Rs.71,319 million (1999: Rs.48,720 million) have a residual maturity of less than one year. The balance time deposits have a residual maturity ranging between one to seven years.

Trading account liabilities

- 2.2.26 Trading account liabilities represent borrowings from banks in the inter-bank call money market and borrowings from banks and corporates in the course of trading operations.

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Short-term trading borrowings

2.2.27 Short-term borrowings represent non-trading borrowings with an original maturity of less than one year

Repurchase transactions

2.2.28 ICICI has undertaken repurchase and reverse repurchase transactions in Government of India securities. The average level of repurchase outstandings during the year ended March 31, 2000, was Rs.652 million (1999: Rs.307 million). The average level of reverse repurchase transactions outstanding during the year ended March 31, 2000, was Rs.662 million (1999: Rs.401 million). As of March 31, 2000, outstanding repurchase and reverse repurchase transactions were Rs.2,664 million (1999: Rs.Nil) and Rs.565 million (1999: Rs.Nil) respectively

Long-term debt

2.2.29 A listing of long-term debt as of March 31, 2000, by maturity is set out below:

				(in millions)	
	Various fixed- rate obligations	Various floating- rate obligations	Total	(%)	
Residual maturity					
Less than one year	Rs. 42,555	Rs.12,421	Rs. 54,976		13
One year to five years	235,015	51,230	286,245		65
Five years to 10 years	61,284	8,400	69,684		16
Greater than 10 years	24,545	3,712	28,257		6
Total	Rs.363,399	Rs.75,763	Rs.439,162		100

2.2.30 Long-term debt represents debt with an original maturity of greater than one year. The segregation between fixed rate and floating rate obligations is based on the contractual terms. Long-term debt is primarily denominated in Indian Rupees and US Dollars. A significant portion of the debt bears a fixed rate of interest. Interest rates on floating rate debt are generally linked to the London Interbank Offer Rate or similar money market rates. An analysis of interest rates on long-term debt is set out below:

	As of March 31,	
	1999 (%)	2000 (%)
Range		
Foreign currency debt	5.25 to 8.00	5.21 to 8.00
Rupee debt	6.50 to 16.00	7.25 to 16.00
Weighted average		
Foreign currency debt	5.93	5.55
Rupee debt	13.61	13.38

2.2.31 Long-term debt as of March 31, 2000, includes interest-free borrowings from the Government of India aggregating Rs.927 million (1999: Rs.927 million). This long term debt is recorded at its fair value based on the then prevailing interest rate of 16% for borrowings of a similar term and risk. This interest rate is being used to impute interest for each reporting period.

2.2.32 All long-term debt is unsecured, except for debt aggregating Rs.44,419 million (1999: Rs.47,300 million) guaranteed by the Government of India.

2.2.33 Long-term debt includes convertible debt instruments issued by ICICI as given below:

12.5% convertible debentures

2.2.34 The debentures were convertible into common stock by July 18, 1999, either at par or at a premium not exceeding Rs.5 per common stock, to be decided by the Board of Directors of ICICI. During the year ended March 31, 2000, the debentures were converted into 34.5 million equity shares at a premium of Rs.5 per share aggregating Rs.518 million. These shares will rank pari passu in all respects with existing equity shares of the Company except that they will be entitled to participate in dividend in respect of the year ended March 31, 2000, on a pro rata basis.

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2.5% US Dollar convertible bonds

2.2.35 The US Dollar convertible bonds were convertible to common stock at the option of the bondholders before March 3, 2000. The conversion was at a fixed price of Rs.220 per share. No bondholder exercised the option to convert the bonds. Subsequent to March 31, 2000, ICICI has redeemed these bonds at par

3.5% US Dollar convertible bonds

2.2.36 The US Dollar convertible bonds were convertible to common stock at the option of the bondholder on or before April 1, 1999. The conversion was at a fixed price of Rs.193 per share. If the bonds were not converted by the bondholders, the bondholders had the right to seek redemption at a predetermined price on April 1, 1999. Alternatively, ICICI can seek redemption at par from April 1, 1999 to April 1, 2004.

2.2.37 During the year ended March 31, 2000, 63,398 shares were issued to bondholders at Rs.193 per share. The remaining bonds were redeemed at the predetermined price.

Redeemable preferred stock

2.2.38 Preferred stock issued by companies incorporated in India carry a preferential right to be repaid on liquidation over common stock. In line with the existing regulatory requirements in India, preferred stock issued by ICICI must be compulsorily redeemed within specified time periods. Accordingly, all series of preferred stock issued by ICICI are redeemable in accordance with the terms of the issue. Authorized preferred stock was 5,000 million shares as of March 31, 2000 (1999: 1,000 million shares). As of March 31, 2000, 958 million shares (1999: 999 million shares) of redeemable preferred stock were issued and outstanding, amounting to Rs.9,577 million (1999: Rs.9,989 million). Further, redeemable preferred stock as of March 31, 2000, includes an amount of Rs.Nil (1999: Rs.338 million) representing application money pending allotment. These instruments bear dividends ranging from 9.30% to 13.25%.

2.2.39 A listing of redeemable preferred stock as of March 31, 2000, by maturity is set out below:

	(in millions)
Residual maturity	
2001	Rs. 1,038
2002	1,772
2003	832
2004	3,303
2005 and beyond	2,632
Total	<u>Rs. 9,577</u>

2.2.40 Additionally, ICICI issued preferred stock of the face value of Rs.3,500 million in the year ended March 31, 1998 under the scheme of business combination with ITC. This preferred stock bears a dividend yield of 0.001% and is redeemable at face value after 20 years. This preferred stock was initially recorded at its fair value of Rs.466 million. Subsequently, interest has been, and is being imputed for each reporting period. The imputed interest rate of 10.6% was determined based on the then prevailing interest rate for Government of India securities of similar maturity. The carrying amount of this redeemable preferred stock as of March 31, 2000, is Rs.630 million (1999: Rs.570 million).

2.3 Off-balance sheet financial instruments

Foreign exchange and derivative contracts

2.3.1 ICICI enters into foreign exchange forwards, options, swaps and other derivative products with inter-bank participants and customers, which enable customers to transfer, modify or reduce their foreign exchange and interest rate risks. In addition, ICICI uses foreign exchange contracts and other instruments as a part of its own balance sheet and risk management. These instruments are used to manage foreign exchange and interest rate risk relating to specific groups of on-balance-sheet assets and liabilities.

2.3.2 Forward exchange contracts are commitments to buy or sell at a future date, a currency at a contracted price. Swap contracts are commitments to settle in cash at a future date or dates, based on differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the purchaser for a fee, the right, but not the obligation, to buy or sell within a limited time, a financial instrument or currency at a contracted price that may also be settled in cash, based on differentials between specified indices.

2.3.3 The market and credit risks associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Market risk is the exposure created by potential fluctuations in interest rates, foreign exchange rates and other values, and is a function of the type of product, the volume of transactions, the tenor and terms of the agreement and the underlying volatility. Credit risk is the exposure to loss

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in the event of non-performance by the other party to the transaction. The extent of loss on account of a counterparty default will depend on the replacement value of the contract at the current market rates. The recognition in earnings of unrealized gains on these transactions is subject to management's assessment of collectibility.

- 2.3.4 The following table presents the aggregate notional principal amounts of ICICI's outstanding foreign exchange and derivative contracts together with the related balance sheet credit exposure:

Particulars	Notional principal amounts		Balance sheet credit exposure: (Note 1)	
	As of March 31,		As of March 31,	
	1999	2000	1999	2000
Interest rate products				
Swap agreements (hedge contracts)	<i>Rs.28,731</i>	Rs. 40,201	<i>Rs. —</i>	Rs. —
Total	<u><i>Rs.28,731</i></u>	<u>Rs. 40,201</u>	<u><i>Rs. —</i></u>	<u>Rs. —</u>
Foreign exchange products				
Forward contracts (hedge contracts)	<i>Rs. 5,232</i>	Rs. 48,355	<i>Rs. —</i>	Rs. —
Forward contracts (traded contracts)	<i>35,175</i>	56,159	<i>425</i>	309
Swap agreements (hedge contracts)	<i>17,494</i>	30,552	<i>—</i>	—
Total	<u><i>Rs.57,901</i></u>	<u>Rs.135,066</u>	<u><i>Rs. 425</i></u>	<u>Rs. 309</u>

Note1: Balance sheet credit exposure denotes the mark-to-market impact of the derivative and foreign exchange products on the reporting date.

Loan commitments

- 2.3.5 ICICI has outstanding undrawn commitments to provide loans and financing to customers. These loan commitments aggregated Rs.80,280 million as of March 31, 2000, (1999: Rs.80,072 million). The interest rate on these commitments is dependent on the lending rates on the date of the loan disbursement. Further, the commitments have fixed expiration dates and are contingent upon the borrowers' ability to maintain specific credit standards.
- 2.3.6 Loan commitment fees are deferred and amortized over the period of the loan.

Guarantees

- 2.3.7 As a part of its industrial financing and commercial banking activities, ICICI has issued guarantees to enhance the credit standing of its customers. These generally represent irrevocable assurances that ICICI will make payments in the event that the customer fails to fulfil its financial or performance obligations. Financial guarantees are obligations to pay a third party beneficiary where a customer fails to make payment towards a specified financial obligation. Performance guarantees are obligations to pay a third party beneficiary where a customer fails to perform a non-financial contractual obligation. The guarantees are generally for a period not exceeding 10 years.
- 2.3.8 The credit risk associated with these products, as well as the operating risks, are similar to those relating to other types of financial instruments. Fees are recognized over the term of the facility.
- 2.3.9 Details of guarantees outstanding are set out below:

	As of March 31,	
	1999	2000
Financial guarantees	<i>Rs. 39,455</i>	Rs. 46,253
Performance guarantees	<i>9,059</i>	11,811
Total	<u><i>Rs. 48,514</i></u>	<u>Rs. 58,064</u>

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2.4 Estimated fair value of financial instruments

2.4.1 ICICI's financial instruments include financial assets and liabilities recorded on the balance sheet, as well as off-balance sheet instruments such as foreign exchange and derivative contracts. A listing of the fair value of these financial instruments is set out below:

(in millions)

Particulars	As of March 31, 1999			As of March 31, 2000		
	Carrying value	Estimated fair value	Estimated fair value in excess of/(less than) carrying value	Carrying value	Estimated fair value	Estimated fair value in excess of/(less than) carrying value
Financial assets	Rs. 598,215	Rs. 597,245	Rs. (970)	Rs. 722,117	Rs. 731,204	Rs. 9,087
Financial liabilities	569,300	566,615	(2,685)	645,376	662,315	16,939

2.4.2 Fair values vary from period to period based on changes in a wide range of factors, including interest rates, credit quality and market perception of value and as existing assets and liabilities run-off and new items are generated.

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

(in millions)

Particulars	As of March 31, 1999			As of March 31, 2000		
	Carrying value	Estimated fair value	Estimated fair value in excess of/(less than) carrying value	Carrying value	Estimated fair value	Estimated fair value in excess of/(less than) carrying value
Financial assets						
Securities	Rs. 15,041	Rs. 15,041	Rs. —	Rs. 18,871	Rs. 18,925	Rs. 54
Trading assets	35,926	35,926	—	57,396	57,396	—
Loans (Note 1)	476,352	475,382	(970)	562,420	571,453	9,033
Other financial assets (Note 2)	70,896	70,896	—	83,430	83,430	—
Total	<u>Rs. 598,215</u>	<u>Rs. 597,245</u>	<u>Rs. (970)</u>	<u>Rs. 722,117</u>	<u>Rs. 731,204</u>	<u>Rs. 9,087</u>
Financial liabilities						
Interest-bearing deposits	Rs. 56,418	Rs. 57,590	Rs. 1,172	Rs. 82,827	Rs. 83,217	Rs. 390
Non-interest-bearing deposits	4,187	4,187	—	13,855	13,855	—
Trading account liabilities	14,791	14,791	—	20,684	20,684	—
Short-term borrowings	35,794	35,794	—	66,308	66,308	—
Long-term debt	438,440	434,575	(3,865)	439,162	455,604	16,442
Redeemable preferred stock	10,897	10,905	8	10,207	10,314	107
Other financial liabilities (Note 3)	8,773	8,773	—	12,333	12,333	—
Total	<u>Rs. 569,300</u>	<u>Rs. 566,615</u>	<u>Rs. (2,685)</u>	<u>Rs. 645,376</u>	<u>Rs. 662,315</u>	<u>Rs. 16,939</u>
Derivatives (Note 4)						
Interest rate swaps	—	—	Rs. 740	—	—	Rs. 63
Currency swaps	—	—	188	—	—	(342)

Note 1: The carrying value of loans is net of the allowance for credit losses.

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

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

Note 4: Represents the gains/losses on fair valuation of the end-user derivative products.

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- 2.4.4 The above data represents the management's best estimates based on a range of methodologies and assumptions. Quoted market prices are used for most securities. For performing loans, contractual cash flows are discounted at current market origination rates for loans with similar terms and risk characteristics. For impaired loans, the impairment is considered while arriving at the fair value. For liabilities, market borrowing rates of interest of similar instruments are used to discount contractual cash flows.
- 2.4.5 The estimated fair value of securities, loans, interest-bearing deposits, long-term debt and redeemable preferred stock largely reflect changes in market rates since the securities were purchased loans were given, deposits were taken or debt or preferred stock were issued.

3 PROPERTY AND EQUIPMENT

- 3.1.1 Property and equipment are stated at cost less accumulated depreciation. Generally, depreciation is computed over the estimated useful life of the asset.
- 3.1.2 A listing of property and equipment by asset category is set out below:

	(in millions)	
	1999	As of March 31, 2000
Land	Rs. 1,246	Rs. 1,454
Buildings	5,831	5,570
Equipment and furniture	1,540	4,238
Construction-in-progress	531	1,867
Others	208	163
Gross value of property and equipment	<u>9,356</u>	<u>13,292</u>
Accumulated depreciation	<u>(1,406)</u>	<u>(1,517)</u>
Net value of property and equipment	<u><u>Rs. 7,950</u></u>	<u><u>Rs. 11,775</u></u>

- 3.1.3 Interest capitalized for the year ended March 31, 2000, is Rs.19 million (1999: Rs.231 million).

4 OTHER LIABILITIES

- 4.1.1 Other liabilities as of March 31, 2000, include Rs.20,778 million (1999: Rs.18,074 million) of interest accrued but not due on borrowed funds.
- 4.1.2 Other liabilities as of March 31, 2000, also include Rs.1,519 million (1999: Rs.1,772 million) of unamortized negative goodwill arising on the business combination with SCICI Limited effective April 1, 1996. The negative goodwill is being amortized over a period of 10 years.

5 BUSINESS COMBINATION

5.1 Anagram Finance Limited

- 5.1.1 Effective April 1, 1998, the business of Anagram Finance Limited (Anagram) has been combined with the business of ICICI. Anagram was a financial intermediary providing financial services such as leasing, automobile financing and bill discounting.
- 5.1.2 Under the terms of the combination, all assets and liabilities of Anagram have been transferred to ICICI. The combination has been accounted for by the purchase method.
- 5.1.3 The combination has been affected through the issue of 1.67 million common shares of ICICI to the shareholders of Anagram, in the ratio of 1:15 (one common share of ICICI for fifteen shares of Anagram). The amount assigned to these shares issued as consideration was Rs.167 million, being the value derived from the market price of these shares on the date of announcement of the scheme of business combination. As of the date of the business combination, the fair value of the liabilities of Anagram exceeded the fair value of assets by Rs.767 million. Accordingly, the business combination resulted in a goodwill of Rs.934 million. The goodwill is being amortized, at a constant rate over a period of five years.
- 5.1.4 Goodwill amortization for the current period is Rs.187 million (1999: Rs.187 million), resulting in an unamortized balance as of March 31, 2000, of Rs. 560 million (1999: Rs.747 million).

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6 COMMON STOCK

- 6.1.1 As of March 31, 2000, the authorized common stock was 1,600 million shares (1999: 600 million shares) with a par value of Rs. 10 per share.
- 6.1.2 The Company presently has only one class of common stock in the form of equity shares. During the year ended March 31, 2000, the Company issued 32 million American Depositary Shares (ADS) representing 161 million equity shares. The equity shares represented by the ADS are similar to other equity shares, except for voting rights. While every holder of equity shares, as reflected in the records of the Company, has one vote in respect of each share held, the ADS have no voting rights due to a condition contained in the approval of the offering from the Ministry of Finance of India. Under the deposit agreement, the depository of the ADS will vote the equity shares deposited with it as directed by the Board of Directors of ICICI Limited.
- 6.1.3 In the event of liquidation of the affairs of the Company, all preferential amounts, if any, shall be discharged by the Company. The remaining assets of the Company, after such discharge shall be distributed to the holders of common stock in proportion to the number of shares of common stock held by shareholders.

7 RETAINED EARNINGS AND DIVIDENDS

- 7.1.1 Retained earnings as of March 31, 2000, include profits aggregating Rs.2,149 million (1999: Rs.1,695 million) which are not distributable as dividends under Indian company and banking law. These relate to profits on redemption of preferred stock and requirements regarding earmarking a part of profits under banking laws.
- 7.1.2 Indian statutes mandate that dividends be declared out of distributable profits only after the transfer of a specified percentage of net income, computed in accordance with current regulations, to reserves. Should the Company declare and pay dividends, such dividends will be paid in Indian Rupees to each holder of common stock in proportion to the number of shares held to the total common stock outstanding as on that date. Issuances of common stock during a period would be entitled to dividend on a pro-rata basis based on the date of issuance. Additionally, the remittance of dividends outside India is governed by Indian statutes on foreign exchange transactions. Dividend payments are also subject to withholding taxes applicable at the time of the payment.
- 7.1.3 ICICI approved dividends of Rs. 3,182 million during the year ended March 31, 2000 (1999 and 1998: Rs. 2,930 million). The dividend per share was Rs. 4.50 for the year ended March 31, 2000 (1999 and 1998: Rs. 5.50).

8 ISSUE OF SHARES BY ICICI BANK LIMITED

- 8.1.1 In March 2000, ICICI Bank Limited, a consolidated subsidiary providing commercial banking services, issued 15.9 million ADS representing 31.8 million equity shares at an offering price of US Dollar 11 per ADS to third parties. The proceeds from the offering, after deducting underwriting discounts and other direct issue costs, were Rs.7,338 million.
- 8.1.2 As a result of the issuance, the proportionate ownership interest of ICICI Limited in ICICI Bank Limited reduced from 74.25% to 62.25%.
- 8.1.3 The offering price per share exceeded ICICI's carrying amount per share in ICICI Bank Limited, resulting in an increase in the carrying value of ICICI's investment in ICICI Bank Limited by Rs.4,114 million. This change in the carrying value has been recognized in the statement of stockholders' equity as a capital transaction.

9 INCOME TAXES

9.1 Components of deferred tax balances

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

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

	1999	As of March 31, 2000
(in millions)		
Deferred tax asset		
Provision for loan losses	Rs.3,599	Rs.5,168
Unrealized losses on securities available for sale .	1,507	1,135
Unearned income	571	603
Capital loss carry-forward	65	53
Minimum Alternate Tax Credit	—	940
Others	123	175
Total deferred tax assets	<u>Rs.5,865</u>	<u>Rs.8,074</u>
Deferred tax liabilities		
Property and equipment	(5,649)	(8,424)
Others	(54)	(9)
Total deferred tax liability	<u>(5,703)</u>	<u>(8,433)</u>
Net deferred tax assets	<u>Rs. 162</u>	<u>Rs. (359)</u>
Current	Rs. 260	Rs. 849
Non-current	(98)	(1,208)

9.1.3 Management is of the opinion that the realization of the recognized deferred tax asset is more likely than not, based on expectation as to future estimated taxable income.

9.1.4 As of March 31, 2000, ICICI has a deferred tax asset for capital loss carry-forward, of which Rs. 29 million and Rs. 24 million will expire on March 31, 2005 and 2006 respectively. Further, ICICI has a deferred tax asset for minimum alternate tax credit, which will expire on March 31, 2005.

9.2 Reconciliation of tax rates

9.2.1 The following is the reconciliation of estimated income taxes at Indian statutory income tax rate to income tax expense as reported:

	1998	1999	Year ended March 31, 2000
Income before taxes	Rs.10,236	Rs.8,420	Rs.11,115
Statutory tax rate	35%	35%	38.5%
Income tax expense at the statutory tax rate	3,583	2,947	4,279
<i>Increases/(reductions) in taxes on account of:</i>			
Accelerated/specific tax deductions	(1,657)	(1,184)	(1,218)
Income exempt from income taxes	(377)	(706)	(1,625)
Income charged at rates other than statutory tax rate	(332)	28	(239)
Changes in the statutory tax rate	(178)	—	16
Expenses disallowed for tax purposes	57	405	419
Others	350	(296)	401
Income tax expense reported	<u>Rs. 1,446</u>	<u>Rs.1,194</u>	<u>Rs. 2,033</u>

notes to the consolidated financial statements

for the years ended March 31, 2000 and March 31, 1999

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9.3 Components of income tax expense

9.3.1 The components of income tax expense are set out below:

	(in millions)		
	1998	Year ended March 31, 1999	2000
Current	Rs. 1,284	Rs. 1,125	Rs. 2,136
Deferred	162	69	(103)
Income tax expense reported	<u>Rs. 1,446</u>	<u>Rs. 1,194</u>	<u>Rs. 2,033</u>

10 RETIREMENT BENEFITS

Gratuity

- 10.1.1 In accordance with Indian statute, ICICI provides for gratuity, a defined benefit retirement plan covering all employees. The plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee's salary and the years of employment with ICICI. The gratuity benefit conferred by ICICI on its employees is equal to or greater than the statutory minimum.
- 10.1.2 In respect of ICICI Limited, the gratuity benefit is provided to the employees through a fund set up by ICICI. ICICI is responsible for settling the gratuity obligation through contributions to the fund. Such contributions are actuarially determined after considering appropriate discount rates, expected long term return on plan assets and increases in compensation levels. Contributions to the plan amounted to Rs.4 million for the year ended March 31, 2000 (1999: Rs.17 million, 1998:Rs.27 million). The plan is fully funded and out of the total plan assets of Rs.134 million as of March 31, 2000, Rs.14 million has been invested in securities of ICICI Limited.
- 10.1.3 In respect of the remaining entities, the gratuity benefit is provided by ICICI through annual contributions to a fund administered and managed by the Life Insurance Corporation of India. Under this scheme, the settlement obligation remains with ICICI, although the Life Insurance Corporation of India administers the scheme and determines the contribution premium required to be paid by ICICI. ICICI contributed and expensed Rs.14 million for the year ended March 31, 2000 (1999: Rs.5 million, 1998: Rs.3 million).
- 10.1.4 The impact of this scheme is not material or expected to become material to the financial condition or operations of ICICI.

Superannuation

- 10.1.5 The permanent employees of ICICI are entitled to receive retirement benefits under the superannuation scheme operated by ICICI. Superannuation is a defined contribution plan under which ICICI contributes annually a sum equivalent to 15% of the employee's eligible annual salary to the manager of the Fund, the Life Insurance Corporation of India who undertakes to pay the lump sum and annuity payments pursuant to the scheme. ICICI contributed Rs. 62 million to the superannuation plan for the year ended March 31, 2000 (1999: Rs.46 million, 1998: Rs.42 million).

Provident fund

- 10.1.6 In accordance with Indian statute, all employees of ICICI are entitled to receive benefits under the provident fund through a defined contribution plan in which both the employee and ICICI contribute monthly at a determined rate. These contributions are made to a fund set up by ICICI and administered by a Board of Trustees. Further, in the event the return on the fund is lower than 12% (current guaranteed rate of return to the employees) such difference will be contributed by ICICI and charged to the statement of income. ICICI contributed Rs.52 million to the Provident Fund Plan in the year ended March 31, 2000 (1999: Rs.45 million, 1998: Rs.38 million).

notes to the consolidated financial statements



for the years ended March 31, 2000 and March 31, 1999

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11 VOLUNTARY RETIREMENT SCHEME

11.1.1 During the year ended March 31, 2000, the Company terminated the employment of 223 employees through a Voluntary Retirement Scheme (Scheme). The Scheme covered several levels of employees, who met specific conditions relating to age and period of employment with the Company. Costs of employee termination under the Scheme aggregating Rs.299 million have been expensed as Employee costs in the statement of income for the year ended March 31, 2000. Costs aggregating Rs.81 million have been paid during the year. The unpaid amounts will be paid in accordance with the terms of the Scheme.

12 EXTRAORDINARY GAINS

12.1.1 During the year ended March 31, 1999, ICICI extinguished debt by repurchasing foreign currency bonds from the international markets. The bonds were repurchased at discounts to their face values resulting in a gain of Rs.449 million. This gain, net of the related income tax effect of Rs.157 million is disclosed as an extraordinary gain.

13 CHANGE IN ACCOUNTING PRINCIPLE

13.1.1 Effective April 1, 1999, ICICI Limited changed the method of providing depreciation on property and equipment from the written-down value method to the straight-line method. The new method of depreciation was adopted to provide an improved measure of the Company's capital investment and is consistent with industry practices. The new method has been applied retroactively for all prior periods.

13.1.2 The effect of the change on the net income for the year ended March 31, 2000, was Rs.226 million. The cumulative effect of the change aggregating Rs.405 million, net of the related income tax effect of Rs.156 million, to apply retroactively the new method has been included in the statement of income for the year ended March 31, 2000.

13.1.3 The previously reported amounts and proforma amounts, assuming the new depreciation method is applied retroactively, are set out below:

	(in millions)			
	1998		Year ended March 31, 1999	
	Actual	Pro forma	Actual	Pro forma
Income before extraordinary items	Rs.8,790	Rs.8,851	Rs.7,226	Rs.7,347
Earnings per share - Basic (in Rs.)	18.39	18.52	15.05	15.31
- Diluted (in Rs.)	15.74	15.85	13.01	13.21
Net income	Rs.8,790	Rs.8,851	Rs.7,518	Rs.7,639
Earnings per share - Basic (in Rs.)	18.39	18.52	15.66	15.91
- Diluted (in Rs.)	15.74	15.85	13.52	13.72

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14 EARNINGS PER SHARE

14.1.1 A computation of the earnings per share is set out below:

(in millions, except earnings per share data)

	Year ended March 31,					
	1998		1999		2000	
	Basic	Fully diluted	Basic	Fully diluted	Basic	Fully diluted
Earnings						
Net income before extraordinary items and effect of change in accounting principle (before dilutive impact)	<i>Rs. 8,790</i>	<i>Rs. 8,790</i>	<i>Rs. 7,226</i>	<i>Rs. 7,226</i>	Rs. 9,082	Rs. 9,082
Interest on convertible debt instruments	—	260	—	276	—	132
Net income before extraordinary items and effect of change in accounting principle (adjusted for full dilution)	<u>8,790</u>	<u>9,050</u>	<u>7,226</u>	<u>7,502</u>	9,082	9,214
Extraordinary items, net of tax	—	—	292	292	—	—
Cumulative effect of change in accounting principle, net of tax	—	—	—	—	249	249
Net income (adjusted for full dilution)	<u><u>Rs. 8,790</u></u>	<u><u>Rs. 9,050</u></u>	<u><u>Rs. 7,518</u></u>	<u><u>Rs. 7,794</u></u>	<u><u>Rs. 9,331</u></u>	<u><u>Rs. 9,463</u></u>
Shares						
Weighted-average common shares outstanding	<i>Rs. 478</i>	<i>Rs. 478</i>	<i>Rs. 480</i>	<i>Rs. 480</i>	Rs. 646	Rs. 646
Dilutive effect of convertible debt instruments	—	97	—	97	—	41
Total	<u><u>Rs. 478</u></u>	<u><u>Rs. 575</u></u>	<u><u>Rs. 480</u></u>	<u><u>Rs. 577</u></u>	<u><u>Rs. 646</u></u>	<u><u>Rs. 687</u></u>
Earnings per share						
Net income before extraordinary items and effect of change in accounting principle	<i>Rs. 18.39</i>	<i>Rs. 15.74</i>	<i>Rs. 15.05</i>	<i>Rs. 13.01</i>	Rs. 14.06	Rs. 13.41
Extraordinary items	—	—	0.61	0.51	—	—
Effect of change in accounting principle	—	—	—	—	0.39	0.36
Net income	<u><u>Rs. 18.39</u></u>	<u><u>Rs. 15.74</u></u>	<u><u>Rs. 15.66</u></u>	<u><u>Rs. 13.52</u></u>	<u><u>Rs. 14.45</u></u>	<u><u>Rs. 13.77</u></u>

14.1.2 For the purpose of calculating diluted earnings per share, the net income is adjusted for interest (after tax) on convertible instruments.

14.1.3 For the purpose of determining the impact of dilution, it is assumed that convertible instruments are converted to common stock at the beginning of the year, at prices which are most advantageous to the holders of the instruments. Shares assumed to be issued have been weighted for the period the convertible instruments are outstanding. All series of convertible instruments are dilutive.

14.1.4 Options issued to employees pursuant to the Employee Stock Options Plan are antidilutive and have not been included in the computation of diluted earnings per share.

14.1.5 A consolidated subsidiary has issued stock options. These issuances have no impact on the earnings per share of the Company.

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15 EMPLOYEE STOCK OPTION PLAN

ICICI Limited

15.1.1 In August 1999, ICICI Limited approved an Employee Stock Option Plan (ESOP). Under the ESOP, ICICI is authorized to issue up to 7.85 million shares of common stock to eligible employees. Employees are granted an option to purchase shares subject to vesting and performance conditions. The option vests in a graded manner over 3 years with 20%, 30% and 50% of the grants vesting at the end of each year. In the event that an employee does not meet the performance condition specified for an individual year, the grant vesting during that year would be forfeited. The options can be exercised within 10 years from the date of the grant.

15.1.2 ICICI Limited has elected to use the intrinsic value-based method of APB Opinion No.25 to account for the ESOP. Due to the performance condition, the ESOP has been accounted for as a variable plan. During the year ended March 31, 2000, ICICI Limited has recorded deferred compensation cost of Rs.97 million based on the quoted market price of the stock as of March 31, 2000. The deferred compensation is amortized over the vesting period. Compensation expense for the year ended March 31, 2000, was Rs.27 million.

ICICI Bank (the Bank)

15.1.3 In February 2000, ICICI Bank, a consolidated subsidiary approved an ESOP. Under the ESOP, the Bank is authorized to issue up to 9.84 million shares of its common stock to its employees and employees of the parent company. Eligible employees are granted an option to purchase shares subject to vesting conditions. The options vest in a graded manner over 3 years with 20%, 30% and 50% of the grants vesting at the end of each year. The options can be exercised within 10 years from the date of the grant.

15.1.4 In the consolidated financial statements of ICICI, the options granted by ICICI Bank have been accounted for using the intrinsic value based method of APB Opinion No.25. During the year ended March 31, 2000, ICICI has not accounted any deferred compensation on these grants as the exercise price was equal to the quoted market price of the underlying common stock on the grant date.

Stock option activity

15.1.5 Stock option activity under the ESOP of ICICI Limited and ICICI Bank is set out below:

	ICICI Limited		ICICI Bank	
	Shares arising out of options	Exercise price and grant date fair value	Shares arising out of options	Exercise price and grant date fair value
Outstanding at the beginning of the year	—	Rs. —	—	Rs. —
Granted during the year	2,323,750	85.50	1,788,000	171.90
Forfeited during the year	—	—	75,000	171.90
Outstanding at the end of the year	<u>2,323,750</u>	<u>Rs.85.50</u>	<u>1,713,000</u>	<u>Rs.171.90</u>
Exercisable at the end of the year	—	—	—	—

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Proforma disclosure

- 15.1.6 The Company has adopted the proforma disclosure provisions of SFAS No.123. Had compensation cost been determined in a manner consistent with the fair value approach described in SFAS No.123, the Company's net income and basic earnings per share as reported would have changed to the proforma amounts indicated below:

(in millions)

	Year ended March 31, 2000
Net income	
As reported	Rs. 9,331
Adjusted pro forma	9,335
Earnings per share: Basic (in Rs.)	
As reported	14.45
Adjusted pro forma	14.46
Earnings per share: Diluted (in Rs.)	
As reported	13.77
Adjusted pro forma	13.77

- 15.1.7 The fair value of the options was estimated on the date of the grant using the Black Scholes options pricing model, with the following assumptions:

	ICICI Limited	ICICI Bank
Dividend yield	6.5%	0.7%
Expected life	10 years	10 years
Risk-free interest rate	10.3%	10.3%
Volatility	30.0%	30.0%

16 SEGMENTAL DISCLOSURES AND RELATED INFORMATION

Segmental disclosures

- 16.1.1 The varied banking and finance activities of ICICI are carried out by a number of legal entities. Thus, while the parent company focuses primarily on medium-term and long-term industrial financing, other activities such as commercial banking, investment banking, retail distribution, broking and venture capital activities are conducted by fully or majority owned subsidiaries. Each subsidiary focuses on specific activities.
- 16.1.2 Accordingly, management has identified each of these legal entities as operating segments. Based on business volumes, revenues, income and asset size, management considers industrial financing, commercial banking and investment banking as reportable segments.
- 16.1.3 The industrial financing segment (ICICI Limited) provides medium-term and long-term project and infrastructure financing, securitization and factoring and lease financing. The commercial banking segment (ICICI Bank Limited) provides working capital finance and foreign exchange services to clients. Further, it provides deposit and loan products to retail customers. The investment banking segment (ICICI Securities and Finance Company Limited) deals in the debt, equity and money markets and provides corporate advisory products such as mergers and acquisition advice, loan syndication advice and issue management services.

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16.1.4 The profit and loss of the reportable segments is set out below:

(in millions)

Year ended March 31,	Industrial financing			Commercial banking			Investment banking		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Revenues from external customers									
Interest revenue	Rs.51,234	Rs.63,885	Rs.70,603	Rs.2,621	Rs.5,471	Rs.8,434	Rs.1,001	Rs.1,384	Rs.2,176
Other revenue	4,033	3,987	6,264	635	844	1,718	514	338	722
Revenues from other operating segments									
Interest revenue	223	410	498	—	—	—	36	123	181
Other revenue	210	144	118	24	11	41	27	26	36
Total revenue	55,700	68,426	77,483	3,280	6,326	10,193	1,578	1,871	3,115
Interest expense	39,991	52,800	59,840	1,757	4,255	6,656	698	1,103	1,467
Depreciation	181	276	330	145	175	201	24	24	18
Provision for credit losses	4,302	5,497	5,847	294	465	427	162	106	76
Other expenses	1,752	2,423	3,710	501	625	1,128	457	343	383
Income before taxes	9,474	7,430	7,756	583	806	1,781	237	295	1,171
Income tax expense	1,194	834	890	171	201	379	60	97	401
Gains on extinguishment of debt, net of tax	—	292	—	—	—	—	—	—	—
Effect of change in an accounting principle	—	—	249	—	—	—	—	—	—
Net income	Rs. 8,280	Rs. 6,888	Rs. 7,115	Rs. 412	Rs. 605	Rs. 1,402	Rs. 177	Rs. 198	Rs. 770

16.1.5 A listing of certain assets of reportable segments is set out below:

(in millions)

As of March 31,	Industrial financing		Commercial banking		Investment banking	
	1999	2000	1999	2000	1999	2000
Property and equipment	Rs.6,186	Rs.8,986	Rs.1,629	Rs.2,097	Rs.152	Rs.130
Investment in affiliate	244	264	—	—	—	—

16.1.6 Transactions between reporting segments are at arms-length and are accounted for similar to transactions with external parties.

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16.1.7 A reconciliation between the segment revenues and consolidated totals of ICICI is set out below:

Year ended March 31,	(in millions)								
	Total revenue			Income before taxes			Net income		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Industrial financing	Rs.55,700	Rs.68,426	Rs.77,483	Rs. 9,474	Rs. 7,430	Rs. 7,756	Rs.8,280	Rs.6,888	Rs.7,115
Commercial banking	3,280	6,326	10,193	583	806	1,781	412	605	1,402
Investment banking	1,578	1,871	3,115	237	295	1,171	177	198	770
Other operating segments	375	748	1,538	97	207	783	76	145	420
Eliminations	(677)	(936)	(1,795)	(155)	(318)	(376)	(155)	(318)	(376)
Total	<u>Rs.60,256</u>	<u>Rs.76,435</u>	<u>Rs.90,534</u>	<u>Rs.10,236</u>	<u>Rs. 8,420</u>	<u>Rs.11,115</u>	<u>Rs.8,790</u>	<u>Rs.7,518</u>	<u>Rs.9,331</u>

16.1.8 A reconciliation between the segment assets and consolidated totals of ICICI is set out below:

	(in millions)	
	1999	As of March 31, 2000
Industrial financing	Rs.571,579	Rs.641,994
Commercial banking	74,293	130,416
Investment banking	15,109	23,254
Other operating segments	3,402	3,907
Eliminations	(11,038)	(18,887)
Total	<u>Rs. 653,345</u>	<u>Rs.780,684</u>

Geographic distribution

16.1.9 The business operations of ICICI are largely concentrated in India. Activities outside India are restricted to resource mobilization in the international markets. Accordingly, the entire revenue, assets and net income are attributed to Indian operations.

Major customers

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

17 RELATED PARTIES

17.1.1 ICICI has advanced housing, vehicle and general purpose loans to employees, bearing interest ranging from 3.5% to 6%. The tenures of these loans range from 5 years to 25 years. The loans are generally secured by the assets acquired by the employees. Further, a subsidiary has advanced loans at 16% to its employees for purchase of its equity shares. Employee loan balances outstanding as of March 31, 2000, of Rs.773 million (1999: Rs.781 million) are included in other assets.

17.1.2 The estimated fair value of such loans as of March 31, 2000, amounts to Rs.339 million (1999: Rs.343 million). These amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgement is required to develop the estimates of fair value. Thus, the estimates provided herein are not necessarily indicative of the amounts that the Company could realize in the market.

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18 COMMITMENTS AND CONTINGENT LIABILITIES

- 18.1.1 ICICI is obligated under a number of capital contracts. Capital contracts are job orders of a capital nature which have been committed. As of the balance sheet date, work had not been completed to this extent. Estimated amounts of contracts remaining to be executed on capital account, aggregated Rs.808 million at March 31, 2000 (1999: Rs.295 million).
- 18.1.2 Various tax-related legal proceedings are pending against ICICI. Potential liabilities, if any, have been adequately provided for, and management does not estimate any incremental liability in respect of legal proceedings.
- 18.1.3 ICICI has commitments under long-term operating leases principally for premises and automated teller machines. Lease term for premises generally covers a period of nine years. The following is a summary of future minimum lease rental commitments as of March 31, 2000, for non-cancelable leases:

(in millions)

Lease rental commitments for the year ending March 31,	
2001	Rs. 90
2002	100
2003	108
2004	115
2005	125
Thereafter	271
Total minimum lease commitments	Rs.809

19 FUTURE IMPACT OF NEW ACCOUNTING STANDARDS

- 19.1.1 In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards (SFAS) No.133, Accounting for Derivative Instruments and Hedging Activities. In June 1999, the FASB issued SFAS No.137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No.133, which delayed the effective date of SFAS No.133 to fiscal periods beginning after June 15, 2000. The future impact of SFAS No.133 on the financial statements of ICICI is not estimated to be material.

20 YEAR 2000

- 20.1.1 To date, the Company has not encountered any material Year 2000 issues concerning its respective computer programs. The Company's plan for the Year 2000 included replacing or updating existing systems (which were not Year 2000 compliant), assessing the Year 2000 preparedness of customers and counterparties and formulating a contingency plan to ensure business continuity in the event of unforeseen circumstances. All costs associated with carrying out the Company's plan for the Year 2000 problem have been expensed as incurred.

For and on behalf of the Board

N. VAGHUL

Chairman

K.V. KAMATH

Managing Director & CEO

LALITA D. GUPTA

Joint Managing Director & COO

S.H. BHOJANI

Deputy Managing Director

JYOTIN MEHTA
*Joint General Manager
& Company Secretary*

SHALINI S. SHAH
General Manager

Mumbai, April 28, 2000