ICICI

ICICI LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2000, 2001 AND

FOR THE YEARS ENDED MARCH 31, 1999, 2000 AND 2001

PREPARED IN ACCORDANCE WITH

UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)

contents

independent auditors' report

To the Board of Directors and Stockholders of ICICI Limited

We have audited the accompanying consolidated balance sheets of ICICI Limited and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and other comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2001. 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 subsidiaries as of March 31, 2001 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, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 12 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 consolidated financial statements solely for the convenience of the readers and have been translated to United States dollars on the basis described in Note 1 to the consolidated financial statements.

KPMG

Mumbai, India
May 3, 2001

consolidated balance sheets

(in millions, except share data)

as of March 31,	2000	2001	2001
			Convenience translation into US$ (unaudited)
Assets			
Cash and cash equivalents	*Rs. 71,131*	**Rs. 30,987**	**US$ 661**
Trading account assets	*57,396*	**18,878**	**403**
Securities			
Available for sale (amortized cost Rs. 14,798 million and Rs. 13,252 million as of March 31, 2000 and 2001, respectively)	*11,148*	**7,617**	**163**
Held to maturity (fair value Rs. 699 million and Rs. 1,563 million as of March 31, 2000 and 2001, respectively)	*645*	**1,506**	**32**
Non-readily marketable equity securities	*6,542*	**7,074**	**151**
Venture capital investments	*536*	**3,918**	**84**
Investments in affiliates	*264*	**7,899**	**169**
Loans, net of allowance for loan losses, security deposits and unearned income	*561,448*	**602,023**	**12,850**
Customers' liability on acceptances	*12,333*	**2,715**	**58**
Property and equipment, net	*11,775*	**12,039**	**257**
Assets held for sale	*—*	**841**	**18**
Intangible assets, net	*560*	**1,827**	**39**
Deferred tax assets	*37*	**3,770**	**80**
Interest and fees receivable	*14,896*	**13,878**	**296**
Other assets	*25,568*	**24,656**	**526**
Total assets	*Rs. 774,279*	**Rs.739,628**	**US$ 15,787**
Liabilities			
Deposits			
Interest-bearing	*Rs. 82,827*	**Rs. 6,072**	**US$ 130**
Non-interest-bearing	*13,855*	**—**	**—**
Trading account liabilities	*19,263*	**12,483**	**266**
Short-term borrowings	*68,495*	**87,512**	**1,868**
Bank acceptances outstanding	*12,333*	**2,715**	**58**
Long-term debt	*436,320*	**505,025**	**10,780**
Other liabilities	*40,985*	**36,908**	**788**
Deferred credit, net	*1,563*	**1,310**	**28**
Taxes and dividends payable	*12,750*	**10,498**	**224**
Deferred tax liabilities	*475*	**806**	**17**
Redeemable preferred stock	*10,207*	**698**	**15**
Total liabilities	*699,073*	**664,027**	**14,173**
Commitments and contingencies (Note 31)			
Minority interest.	*4,298*	**496**	**11**
Stockholders' equity			
Common stock at Rs. 10 par value: 1,600,000,000 shares authorized as of March 31, 2000 and 2001; Issued and outstanding 785,311,548 and 785,344,048 shares as of March 31, 2000 and 2001, respectively	*7,832*	**7,848**	**168**
Additional paid-in capital	*37,347*	**38,110**	**813**
Retained earnings	*28,338*	**33,379**	**712**
Deferred compensation	*(70)*	**(33)**	**(1)**
Accumulated other comprehensive income	*(2,539)*	**(4,199)**	**(90)**
Total stockholders' equity	*70,908*	**75,105**	**1,603**
Total liabilities and stockholders' equity	*Rs. 774,279*	**Rs.739,628**	**US$ 15,787**

See accompanying notes to the consolidated financial statements.

consolidated statements of income

ICICI

(in millions, except share data)

for the year ended March 31,	1999	2000	2001	2001 Convenience translation into US$ (unaudited)
Interest income				
Interest and fees on loans	Rs. 63,087	Rs. 69,339	Rs. 76,595	US$ 1,635
Interest and dividends on securities	921	1,922	560	12
Interest and dividends on trading account assets	4,315	7,426	2,836	61
Interest on balances and deposits with banks	2,151	1,759	910	19
Other interest income	495	352	585	12
Total interest income	70,969	80,798	81,486	1,739
Interest expense				
Interest on deposits	4,362	6,104	490	10
Interest on long-term debt	48,355	52,893	57,242	1,222
Interest on short-term borrowings	4,607	6,867	8,780	187
Interest on trading account liabilities	644	1,538	1,445	31
Other interest expense	75	90	4	—
Total interest expense	58,043	67,492	67,961	1,451
Net interest income	12,926	13,306	13,525	289
Provision for loan losses	6,067	6,363	9,892	211
Net interest income after provision for loan losses	6,859	6,943	3,633	78
Non-interest income				
Fees, commission and brokerage	3,642	4,258	5,317	113
Trading account revenue	481	2,157	847	18
Securities transactions	273	2,363	(1,709)	(36)
Gain on sale of stock of subsidiaries/affiliates	—	—	2,507	54
Foreign exchange income/(loss)	829	428	(657)	(14)
Software development and services	—	5	701	15
Gain/(loss) on sale of property and equipment	—	212	(31)	(1)
Rent	17	22	413	9
Other non-interest income	318	370	646	14
Total non-interest income	5,560	9,815	8,034	171
Non-interest expense				
Salaries and employee benefits	943	1,618	1,940	41
General and administrative expenses.	2,665	3,497	3,609	77
Amortization of intangible assets	187	187	259	6
Total non-interest expense	3,795	5,302	5,808	124
Equity in earning/(loss) of affiliates	(34)	20	856	18
Minority interest	(170)	(361)	34	1
Income before income taxes	8,420	11,115	6,749	144
Income tax expense	1,194	2,033	936	20
Income before extraordinary items and cumulative effect of accounting change	7,226	9,082	5,813	124
Extraordinary gain, net of tax	292	—	—	—
Cumulative effect of accounting change, net of tax	—	249	—	—
Net income	Rs. 7,518	Rs. 9,331	Rs. 5,813	US$ 124
Earnings per equity share (Rs.)				
Basic	Rs. 15.66	Rs. 14.45	Rs. 7.40	US$ 0.16
Diluted	13.52	13.77	7.37	0.16
Weighted average number of equity shares used in computing earnings per equity share (millions)				
Basic	480	646	785	
Diluted	577	687	785	

See accompanying notes to the consolidated financial statements.

consolidated statements of stockholders' equity

and other comprehensive income

(in millions, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income, Net of Tax	Total Stockholders' Equity
	No. of shares	Amount					
Balance as of March 31, 1998	**478,445,852**	**Rs. 4,781**	**Rs. 14,646**	**Rs. 17,601**	**Rs. —**	**Rs. (4,152)**	**Rs. 32,876**
Common stock issued	1,657,061	20	126	—	—	—	146
Comprehensive income							
Net income	—	—	—	7,518	—	—	7,518
Unrealized losses on securities, net	—	—	—	—	—	(1,099)	(1,099)
Comprehensive income							6,419
Cash dividends declared (Rs. 5.5 per common share)	—	—	—	(2,930)	—	—	(2,930)
Balance as of March 31, 1999	**480,102,913**	**4,801**	**14,772**	**22,189**	**—**	**(5,251)**	**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	—	—	—	—	27	—	27
Increase in carrying value on direct issuance of stock by subsidiary	—	—	4,114	—	—	—	4,114
Comprehensive income							
Net income	—	—	—	9,331	—	—	9,331
Unrealized gains on securities, net	—	—	—	—	—	2,712	2,712
Comprehensive income							12,043
Cash dividends declared (Rs. 4.5 per common share)	—	—	—	(3,182)	—	—	(3,182)
Balance as of March 31, 2000.	**785,311,548**	**7,832**	**37,347**	**28,338**	**(70)**	**(2,539)**	**70,908**
Common stock issued on exercise of stock options	32,500	—	3	—	—	—	3
Amortization of compensation	—	—	—	—	37	—	37
Increase in carrying value on direct issuance of stock by subsidiary	—	—	1,242	—	—	—	1,242
Tax effect of increase in carrying value on direct issuance of stock by subsidiary	—	—	(605)	—	—	—	(605)
Comprehensive income							
Net income	—	—	—	5,813	—	—	5,813
Unrealized losses on securities, net.	—	—	—	—	—	(1,674)	(1,674)
Translation adjustments	—	—	—	—	—	14	14
Comprehensive income							4,153
Cash dividends declared (Rs. 1 per common share)	—	—	—	(772)	—	—	(772)
Other	—	16	123	—	—	—	139
Balance as of March 31, 2001	**785,344,048**	**Rs. 7,848**	**Rs. 38,110**	**Rs. 33,379**	**Rs. (33)**	**Rs. (4,199)**	**Rs. 75,105**
Balance as of March 31, 2001 (US$) (unaudited)		**168**	**813**	**712**	**(1)**	**(90)**	**1,603**

See accompanying notes to the consolidated financial statements.

consolidated statements of cash flows

ICICI **for the year ended march 31,** *(in millions, except share data)*

for the year ended March 31,	1999	2000	2001	2001 Convenience translation into US$ (unaudited)
Operating activities				
Net income	Rs. 7,518	Rs. 9,331	**Rs. 5,813**	**US$ 124**
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:				
Provision for loan losses	6,067	6,363	**9,892**	**211**
Depreciation	490	431	**663**	**14**
Amortization	187	187	**259**	**6**
Deferral of discount and expenses on borrowings	820	838	**1,213**	**26**
Deferred income tax	69	(103)	**(3,522)**	**(75)**
Revaluation loss on foreign currency balances	54	22	**—**	**—**
Other than temporary decline in value of securities available for sale	1,231	1,444	**1,835**	**39**
Unrealized loss on trading account securities	132	24	**136**	**3**
Undistributed equity in earning/(loss) of affiliates	34	(20)	**(856)**	**(18)**
Minority interest	170	361	**(34)**	**(1)**
(Gain)/loss on sale of property and equipment, net	—	(212)	**31**	**1**
(Gain)/loss on sale of securities available for sale	(1,504)	(3,807)	**(126)**	**(3)**
Gain on sale of subsidiary's stock	—	—	**(2,507)**	**(54)**
Cumulative effect of accounting change, net of tax	—	(249)	**—**	**—**
Change in assets and liabilities				
Trading account assets	(24,334)	(21,494)	**10,153**	**217**
Other assets	(4,901)	(1,371)	**(2,402)**	**(51)**
Interest and fees receivable	(1,998)	(1,946)	**(131)**	**(3)**
Trading account liabilities	5,954	5,892	**(4,857)**	**(104)**
Other liabilities	11,536	10,294	**1,260**	**27**
Taxes payable	(2,194)	1,773	**(1,302)**	**(28)**
Net cash (used in)/provided by operating activities	(669)	7,758	**15,518**	**331**
Investing activities				
Purchase of held to maturity securities	—	(644)	**(861)**	**(18)**
Purchase of available for sale securities	(4,234)	(16,563)	**(6,649)**	**(142)**
Proceeds from sale of available for sale securities	4,831	20,862	**1,756**	**37**
Purchase of venture capital investments	—	(387)	**(3,444)**	**(74)**
Purchase of non-readily marketable equity securities	—	(2,020)	**(315)**	**(7)**
Proceeds from sale of non-readily marketable equity securities	923	—	**—**	**—**
Proceeds from sale of subsidiary's stock	—	—	**4,075**	**87**
Origination of loans, net	(105,235)	(92,431)	**(97,561)**	**(2,082)**
Purchase of property and equipment	(3,600)	(4,320)	**(3,927)**	**(84)**
Proceeds from sale of property and equipment	115	276	**145**	**3**
Investments in affiliates	—	—	**(33)**	**(1)**
Purchase of minority interest in subsidiary, net of cash acquired	(844)	—	**—**	**—**
Payment for business acquisition, net of cash acquired	—	—	**(1,950)**	**(42)**
Net cash used in investing activities	(108,044)	(95,227)	**(108,764)**	**(2,322)**
Financing activities				
Increase in deposits, net	Rs. 31,310	Rs. 36,077	**Rs. 8,050**	**US$ 172**
Proceeds from short-term borrowings, net	12,325	30,514	**21,204**	**453**
Proceeds from issuances of long-term debt	144,654	53,524	**182,015**	**3,885**
Repayment of long-term debt	(58,533)	(47,909)	**(112,047)**	**(2,392)**
Proceeds from issuance of redeemable preferred stock	7,690	—	—	—
Redemption of redeemable preferred stock	(160)	(750)	**(9,577)**	**(204)**
Proceeds from issuance of common stock	146	20,865	**142**	**3**
Proceeds from issuance of common stock by subsidiary	—	7,338	**465**	**10**
Cash dividends paid	(3,171)	(3,182)	**(775)**	**(17)**
Net cash provided by financing activities	134,261	96,477	**89,477**	**1,910**
Effect of de-consolidation of subsidiary on cash and cash equivalents	—	—	**(36,361)**	**(776)**
Effect of exchange rate on cash and cash equivalents	—	—	**(14)**	**—**
Net increase/(decrease) in cash and cash equivalents	25,548	9,008	**(40,144)**	**(857)**
Cash and cash equivalents at the beginning of the year	36,575	62,123	**71,131**	**1,518**
Cash and cash equivalents at the end of the year	Rs. 62,123	Rs. 71,131	**Rs. 30,987**	**US$ 661**
Supplementary information:				
Cash paid for:				
Interest	Rs. 47,912	Rs. 59,411	**Rs. 57,144**	**US$ 1,220**
Taxes	4,607	2,759	**2,919**	**62**
Non-cash items:				
Foreclosed assets	—	—	**2,024**	**43**
Change in unrealized gain/(loss) on securities available for sale, net	(1,099)	2,712	**(1,674)**	**(36)**

Conversion of convertible instruments to equity shares

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.

Effect of de-consolidation of subsidiary

For non-cash impact of de-consolidation of ICICI Bank Limited during the year ended March 31, 2001, refer Note 9.

See accompanying notes to the consolidated financial statements.

1. Significant accounting policies

Overview

ICICI Limited together with its subsidiaries (collectively, ICICI or the Company) is a diversified financial services group providing a variety of banking and financial services including project finance, working capital finance, investment banking, treasury products and services, retail banking and broking. Further, the Company has recently entered the software development and services and insurance businesses. ICICI is headquartered in Mumbai, India.

Principles of consolidation

The consolidated financial statements include the accounts of ICICI Limited (parent company) and all of its subsidiaries, which are more than 50% owned and controlled. All significant intercompany accounts and transactions are eliminated on consolidation. The Company accounts for investments in common stock of affiliates by the equity method where its investments in the voting stock gives it the ability to exercise significant influence over the investee.

As discussed in Note 2, the financial statements of ICICI Bank Limited were consolidated in the year ended March 31, 1999 and 2000 and are accounted for by the equity method in the year ended March 31, 2001.

Basis of preparation

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

The preparation of consolidated financial statements in conformity with US GAAP requires that management makes estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent 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.

Foreign currencies

The consolidated financial statements are reported in Indian rupees (Rs.), the national currency of India. The functional currency of each entity within ICICI is its respective local currency.

The assets and liabilities of ICICI's foreign operations are translated into Indian rupees at current exchange rates, and revenues and expenses are translated at average exchange rates for the year. Resulting translation adjustments are reflected as a component of other comprehensive income.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which operate as a hedge of an identifiable foreign currency commitment or as a hedge of a foreign currency investment position, are included in the results of operations as incurred.

Solely for the convenience of the readers, the financial statements as of and for the year ended March 31, 2001, have been translated into United States dollars at the noon buying rate in New York City on March 30, 2001, for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve of New York of US$ 1 = Rs. 46.85. 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, 2001, or at any other certain date.

Revenue recognition

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.

Fees from activities such as investment banking, 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.

Revenues from software development and services comprise income from time-and-material and fixed-price contracts. Revenue with respect to time-and-material contracts is recognized as related services are performed. Revenue with respect to fixed-price contracts is recognized in accordance with the percentage of completion method of accounting. Provisions for estimated losses on contracts-in-progress are recorded in the period in which such losses become probable based on the current contract estimates.

Cash equivalents

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.

Securities and trading account activities

ICICI classifies investments in debt and readily marketable equity securities, other than venture capital investments, into three categories based upon management's intention at the time of purchase: securities held to maturity, trading account securities and securities available for sale. Realized gains and losses on the sale of securities are recorded at the time of sale.

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

Trading account securities, primarily debt securities and foreign exchange products, are recorded at fair value with realized and unrealized gains and losses included in non-interest income. Interest on trading account securities is recorded in interest income. The fair value of trading account assets is based upon quoted market prices or, if quoted market prices are not available, estimates using similar securities or pricing models.

All securities not classified as held to maturity or trading account securities are classified as available for sale. These include securities used as part of the ICICI's asset liability management strategy, which may be sold in response to changes in interest rates, prepayment risk, liquidity needs and similar factors. Securities available for sale are recorded at fair value with unrealized gains and losses recorded net of tax as a component of other comprehensive income. Equity securities, which are traded on a securities exchange within six months of the balance sheet are considered as publicly traded. The last quoted price of such securities is taken as their fair value.

Non-readily marketable equity securities for which there is no readily determinable fair value are recorded at cost.

Securities on which there is an unrealized loss that is deemed to be other than temporary are written down to fair value with the loss recorded in non-interest income as a loss on securities transactions. Other than temporary diminution is identified based on management's evaluation.

Securities acquired through conversion of loans in a troubled debt restructuring are recorded at the fair value on the date of conversion and subsequently accounted for as if acquired for cash.

ICICI's venture capital subsidiaries carry their investments at fair value, with changes in fair value recognized in other non-interest income. The fair values of publicly traded venture capital investments are generally based upon quoted market prices. In certain situations, including thinly-traded securities, large-block holdings, restricted shares or other special situations, the quoted market price is adjusted to produce an estimate of the attainable fair value for the securities. For securities that are not publicly traded, fair value is determined in good faith pursuant to procedures established by the Board of Directors. In determining the fair value of these securities, consideration is given to the financial condition and operating results of the underlying companies, prospect and any other factors deemed relevant. Generally, these investments are carried at cost during the first year, unless a significant event occurs that effects the long-term value of the investment. Because of the inherent uncertainty of the valuations, those estimated values may differ significantly from the values that would have been used had a ready market for the investment existed. Substantially all venture capital investments were acquired during the year ended March 31, 2001.

Trading account liabilities represent borrowings from banks in the inter-bank call money market, borrowings from bank and corporates in the course of trading operations and balances arising from repurchase transactions.

Loans

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.

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.

ICICI identifies a commercial loan as impaired and places it on non-accrual status when it is probable that ICICI will be unable to collect the scheduled payments of principal and interest due under the contractual terms of the loan agreement. A commercial loan is also considered to be impaired and placed on a non-accural basis, if interest is greater than 180 days overdue or principal is greater than 360 days overdue. Delays or shortfalls in loan payments are evaluated along with other factors to determine if a loan should be classified as impaired. The decision to classify a loan as impaired is also based on an evaluation of the borrower's financial condition, collateral, liquidation value and other factors that affect the borrower's ability to pay.

ICICI classifies a loan as a troubled debt restructuring where it has made concessionary modifications, that it would not otherwise consider, to the contractual terms of the loan to a borrower experiencing financial difficulties. Restructured loans, which are considered troubled debts, are placed on non-accrual status when doubt as to timely collection of principal or interest per the rescheduled terms exists.

When a loan is placed on non-accrual status, interest accrued and uncollected on the loan, is reversed from income and interest is thereafter included in income only to the extent actually received in cash. When borrowers demonstrate over an extended period, the ability to repay a loan in accordance with the contractual terms of the loan, the loan classified as non-accrual, is returned to accrual status. With respect to restructured loans, performance prior to the restructuring or significant events that coincide with the restructuring are evaluated in assessing whether the borrower can meet the rescheduled terms and may result in the loan being returned to accrual status at the time of restructuring or after a performance period.

Consumer loans are generally identified as impaired not later than a predetermined number of days overdue on a contractual basis. The number of days is set at an appropriate level by loan product. The policy for suspending accruals of interest and impairment on consumer loans varies depending on the terms, security and loan loss experience characteristics of each product.

Allowance for loan losses

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 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 loan losses is increased by amounts charged to the provision for credit losses, net of releases of provisions as a result of cash collection. Smaller balance, homogeneous loans including installment and consumer mortgage, revolving credit are collectively evaluated for impairment. The allowance for loan losses attributable to these loans is based upon the aging of the portfolio and historical loss experience, adjusted for changes in trends and conditions. Based on these analyzes, the allowance of loan losses is maintained at levels considered adequate by management to provide for credit losses inherent in these portfolios.

Property and equipment

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 off are reported as assets held for sale at the lower of carrying amount or fair value, less cost to sell.

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

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

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

Capitalized costs of computer software obtained for internal use represent costs incurred to purchase computer software from third parties and direct costs of materials and services incurred on internally developed software. The capitalized costs are amortized on a straight-line basis over the estimated useful life of the software.

Intangible assets

Intangible assets include goodwill and identified intangible assets such as employee workforce and customer relationships, which arise or have been acquired in business combinations. Values have been assigned to the identified intangible assets based on available evidence and are amortized on a straight-line basis over the estimated useful life.

Deferred credit

Deferred credit represents the unallocated excess of fair value of assets acquired over the cost of acquisition. The Deferred credit is amortized to income over the periods estimated to be benefited.

Issue of shares by subsidiary/affiliate

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.

Income taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. SFAS 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to be recovered or settled. 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 a valuation allowance based upon management's judgement as to whether realization is considered more likely than not.

Employee benefit plans

ICICI provides a variety of benefit plans to eligible employees. Contributions to defined contribution plans are charged to income in the period in which they accrue. 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.

Stock-based compensation

ICICI uses the intrinsic value based method of Accounting Principle Board (APB) Opinion No.25, Accounting for Stock Issued to Employees, to account for its employee stock-based compensation plans. Compensation cost for fixed and variable stock based awards is measured by the excess, if any, of the fair market price of the underlying stock over the exercise price. Compensation cost for fixed awards is measured at the grant date, while compensation cost for variable awards is estimated until the number of shares an individual is entitled to receive and the exercise price or purchase price are known (measurement date).

Risk management instruments

ICICI enters into certain interest rate instruments, including interest rate swaps to manage exposure to interest rate risk by altering the interest rate risk characteristics of assets or liabilities or hedging exposure to certain risks. For those interest rate instruments that alter the repricing characteristics of assets or liabilities, the net differential to be paid or received on the instruments is treated as an adjustment to the yield on the underlying assets or liabilities (the accrual method). To qualify for accrual accounting, the interest rate instruments must be designated to specific assets or liabilities or pools of similar assets or liabilities and must effectively alter the interest rate characteristics of the related assets or liabilities. For instruments that are designated to floating-rate assets or liabilities, to be effective, there must be high correlation between the floating interest rate index on the underlying assets or liability and the offsetting rate on the derivative. If correlation were to cease for any interest rate instrument hedging net interest income, it would then be accounted for as a trading instrument. If an interest rate instrument hedging net interest income is terminated, the gain or loss is deferred and amortized over the shorter of the remaining contractual life of the terminated risk management instrument or the maturity of the designated asset or liability. If the designated asset or liability matures, is sold, is settled or its balance falls below the notional amount of the hedging instrument, the hedge is usually terminated; if not, accrual accounting is discontinued to the extent that the notional amount exceeds the balance, and accounting for trading instruments is applied to the excess amount.

The Company also enters into foreign exchange contracts to hedge a portion of its own foreign exchange exposure, including foreign currency positions. Such contracts are designated as traded contracts and have been accounted for at their fair value with revaluation gain/loss recognized in the statement of income.

Extinguishment of debt

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.

Dividends

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

Earnings per share

Basic earning per share is computed by dividing net income by the weighted average number of common stock outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted.

Reclassifications

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.

2. Dilution of interest in ICICI Bank Limited

In March 2000, ICICI Bank Limited (ICICI Bank), a consolidated subsidiary, providing commercial banking services, issued 15.9 million ADS to third parties representing 31.8 million common shares at an offer price of US dollar 11 per ADS. The proceeds from the offering, after deducting underwriting discounts and other direct issue costs were Rs. 7,338 million. As a result of the issuance, the proportionate ownership interest of the Company in ICICI Bank reduced from 74.2% to 62.2%.

The offering price per share exceeded ICICI's carrying amount per share in ICICI Bank, resulting in an increase in the carrying value of ICICI's investment in ICICI Bank by Rs. 4,114 million. This change in the carrying value has been recognized in the statement of stockholders' equity as a capital transaction.

In accordance with Reserve Bank of India (RBI) guidelines prevalent at the time of incorporation of ICICI Bank, the Company was required to reduce its ownership interest in ICICI Bank to 40% at some point in the future. Based on certain regulatory developments subsequent to the incorporation of ICICI Bank, the Company has been in discussions with the RBI to determine whether and to what extent it was still required to reduce its ownership in ICICI Bank. In February 2001, the RBI communicated its final views on the matter requiring the Company to take steps to reduce its interest to 40% immediately.

In March 2001, ICICI Bank acquired Bank of Madura Limited, a banking company, through issuance of stock. The acquisition was recorded by the purchase method. As a result of the issuance, the ownership interest of the Company in ICICI Bank was reduced from 62.2% to 55.6%. The issuance price exceeded ICICI's carrying amount per share in ICICI Bank resulting in an increase in the carrying value of ICICI's investment in ICICI Bank by Rs. 1,242 million. This change in the carrying value, net of the related tax effect of Rs. 140 million, has been recognized in the statement of stockholders' equity as a capital transaction.

Further, during March 2001, the Company sold a 9.2% interest in ICICI Bank to institutional investors for a consideration of Rs. 3,499 million. The gain on sale of Rs. 1,996 million, is included in the statement of income. This reduced the Company's interest in ICICI Bank to 46.4%. The Company is currently in the process of taking adequate steps to ensure compliance with the requirement of the RBI on further dilution of ownership interest.

In view of the Company's ownership interest in ICICI Bank having been reduced to below majority level, the Company has determined that consolidation of ICICI Bank is no longer appropriate and has accounted for its ownership interest under the equity method beginning April 1, 2000, the beginning of the fiscal year in which the majority ownership interest was deemed to be temporary. ICICI Bank continues to be reported on a consolidated basis for the years ended March 31, 1999 and 2000.

3. Sale of stock of ICICI Infotech Services Limited

During the year ended March 31, 2001, ICICI diluted its interest in ICICI Infotech Services Limited (ICICI Infotech) to 92% through sale of an 8% interest to a strategic investor for a consideration of Rs. 576 million. The gain on sale of Rs. 511 million is included in the statement of income.

4. Acquisitions

During the year ended March 31, 2001, ICICI acquired the following software development and services companies based in the United States: Ivory International Inc., Objects Xperts Inc., Command Systems Inc., and Ajax Software Solutions Limited, a software development company based in India. These companies were acquired for an aggregate purchase price of approximately Rs. 2,524 million and were accounted for under the purchase method of accounting. The acquisitions resulted in goodwill of Rs. 1,391 million, which is amortized over a period of 5 years. The revenues and total assets of the acquired companies are immaterial to the consolidated results of operations and financial position of ICICI.

5. Cash and cash equivalents

Cash and cash equivalents as of March 31, 2001, include interest-bearing deposits with banks aggregating Rs. 21,693 million (2000: Rs. 47,340 million).

6. Trading account assets

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

(in millions)

	As of March 31, 2000	2001
Government of India securities	*Rs. 46,281*	**Rs. 8,889**
Corporate debt securities	*9,239*	**7,289**
Equity securities	*1,567*	**2,677**
Revaluation gain on derivative and foreign exchange contracts	*309*	**23**
Total	*Rs. 57,396*	**Rs. 18,878**

As of March 31, 2001, trading account assets include certain Government of India (GOI) securities amounting to Rs. 4,821 million (2000: Rs. 10,842 million), which are pledged with the RBI for the purpose of collateralizing short-term borrowings.

7. Securities

The portfolio of securities is set out below:

(in millions)

	As of March 31, 2000				**As of March 31, 2001**			
	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. 2,558*	*Rs. 34*	*Rs. —*	*Rs. 2,592*	**Rs. 485**	**Rs. 4**	**Rs. —**	**Rs. 489**
GOI securities	*914*	*89*	*—*	*1,003*	**975**	**35**	**—**	**1,010**
Total debt securities	*3,472*	*123*	*—*	*3,595*	**1,460**	**39**	**—**	**1,499**
Equity securities	*11,326*	*1,203*	*(4,976)*	*7,553*	**11,792**	**482**	**(6,156)**	**6,118**
Total securities available for sale	*Rs. 14,798*	*Rs.1,326*	*Rs. (4,976)*	*Rs. 11,148*	**Rs.13,252**	**Rs.521**	**Rs. (6,156)**	**Rs.7,617**
Held to maturity								
Corporate debt securities	*Rs. 84*	*Rs. —*	*Rs. —*	*Rs. 84*	**Rs. 418**	**Rs. —**	**Rs. (1)**	**Rs. 417**
GOI securities	*560*	*54*	*—*	*614*	**1,088**	**58**	**—**	**1,146**
Other debt securities	*1*	*—*	*—*	*1*	**—**	**—**	**—**	**—**
Total securities held to maturity	*Rs. 645*	*Rs. 54*	*Rs. —*	*Rs. 699*	**Rs. 1,506**	**Rs. 58**	**Rs. (1)**	**Rs.1,563**
Non-readily marketable equity securities[(1)]	*Rs. 6,542*				**Rs. 7,074**			

(1) Represents securities acquired as a part of project financing activities or conversion of loans in debt restructurings.

During the year ended March 31, 2001, as part of its ongoing evaluation of its securities portfolio, the Company recorded an impairment charge of Rs. 1,835 million (2000: Rs. 1,444 million, 1999: Rs. 1,231 million) for other than temporary decline in value of available for sale and non-readily marketable equity securities.

Income from securities available for sale

A listing of income from securities available for sale is set out below:

(in millions)

	Year ended March 31,		
	1999	*2000*	**2001**
Interest	*Rs. 245*	*Rs. 388*	**Rs. 128**
Dividends	*676*	*1,502*	**406**
Total	*Rs. 921*	*Rs. 1,890*	**Rs. 534**
Gross realized gain	*Rs. 1,538*	*Rs. 5,851*	**Rs. 474**
Gross realized loss	*(34)*	*(2,044)*	**(348)**
Total	*Rs. 1,504*	*Rs. 3,807*	**Rs. 126**

Maturity profile of debt securities

A listing of each category of available for sale and held to maturity debt securities as of March 31, 2001, by 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. 35	Rs. 35	Rs. 418	Rs. 417
One to five years	309	310	—	—
Five to ten years	109	111	—	—
Greater than ten years	32	33	—	—
	485	**489**	**418**	**417**
GOI securities				
Less than one year	96	97	—	—
One to five years	619	638	—	—
Five to ten years	260	275	—	—
Greater than ten years	—	—	1,088	1,146
	975	**1,010**	**1,088**	**1,146**
Total debt securities	**Rs. 1,460**	**Rs. 1,499**	**Rs. 1,506**	**Rs. 1,563**

8. Repurchase transactions

ICICI has undertaken repurchase and reverse repurchase transactions in GOI securities. The average level of repurchase transactions outstanding during the year ended March 31, 2001, was Rs. 420 million (2000: Rs. 652 million). The average level of reverse repurchase transactions outstanding during the year ended March 31, 2001, was Rs. 309 million (2000: Rs. 662 million). As of March 31, 2001, outstanding repurchase and reverse repurchase transactions were Rs. Nil (2000: Rs. 2,664 million) and Rs. Nil (2000: Rs. 565 million) respectively.

9. Investments in affiliates

ICICI Bank

As discussed in Note 2, the Company has accounted for its 46.4% interest in ICICI Bank by the equity method for the year ended March 31, 2001. The carrying value of the investment in ICICI Bank as of March 31, 2001, was Rs. 7,562 million. The Company's equity in the income of ICICI Bank for the year ended March 31, 2001, was Rs. 814 million. The market value of the investment in ICICI Bank based on the quoted market price as of March 31, 2001, was Rs. 16,903 million. ICICI Bank was accounted for as a consolidated subsidiary during the year ended March 31, 1999 and 2000.

The summarized balance sheet of ICICI Bank as of March 31, 2001, and summarized statement of income for the year ended March 31, 2001, is set out below:

(in millions)

Balance sheet	**As of March 31, 2001**
Cash and cash equivalents	Rs. 47,306
Trading account assets	18,725
Securities	35,731
Loans	93,030
Other assets	25,216
Total assets	**Rs. 220,008**
Deposits	Rs. 164,254
Trading account liabilities	4,700
Other liabilities	34,747
Stockholders' equity	16,307
Total liabilities and stockholders' equity	**Rs. 220,008**

(in millions)

Statement of income	**Year ended March 31, 2001**
Interest income	Rs. 12,406
Interest expense	(8,408)
Net interest income	3,998
Provision for loan losses	(1,082)
Non-interest income	1,754
Non-interest expense	(3,104)
Income taxes	(258)
Net income	**Rs. 1,308**

ICICI's share of reported earnings in ICICI Bank will be reduced to 46.0% in the event that contingent issuances of equity shares arising from stock options granted by ICICI Bank are exercised in the future. The aggregate impact of these issuances is not material based on the share of earnings for the year ended March 31, 2001.

Prudential ICICI Asset Management Company Limited (Pru-ICICI)

The Company has accounted for its 45% interest in Pru-ICICI using the equity method. The carrying value of the investment in Pru-ICICI as of March 31, 2001, was Rs. 304 million (2000: Rs. 264 million). The Company's equity in the income of Pru-ICICI for the year ended March 31, 2001, was Rs. 42 million (2000: Rs. 20 million, 1999: loss of Rs. 34 million).

Prudential ICICI Trust Limited (Pru-Trust)

The Company has accounted for its 45% interest in Pru-Trust using the equity method. The carrying value of the investment in Pru-Trust as of March 31, 2001, was Rs. 2 million (2000: Rs. Nil). The Company's equity in the income of Pru-Trust for the year ended March 31, 2001, was Rs. 2 million (2000: Rs. Nil, 1999: Rs. Nil).

Tricolor Infotech International Inc. (Tricolor)

The Company has accounted for its 50% interest in Tricolor using the equity method. The carrying value of the investment in Tricolor as of March 31, 2001, was Rs. 17 million (2000: Rs. Nil). The Company's equity in the loss of Tricolor for the year ended March 31, 2001, was Rs. 2 million (2000: Rs. Nil, 1999: Rs. Nil).

TCW/ICICI Investment Partners LLC (TCW)

The Company has accounted for its 50% interest in TCW using the equity method. The carrying value of the investment in TCW as of March 31, 2001, was Rs. 14 million (2000: Rs. Nil). The Company's equity in the income of TCW for the year ended March 31, 2001, was Rs. Nil (2000: Rs. Nil, 1999: Rs. Nil).

10. Loans

A listing of loans by category is set out below:

(in millions)

	As of March 31,	
	2000	**2001**
Project finance	*Rs. 463,718*	**Rs. 515,971**
Working capital finance	*75,606*	**44,442**
Lease financing	*53,555*	**61,822**
Consumer loans and credit card receivables	*6,679*	**27,106**
Other	*18,156*	**12,457**
Gross loans	*617,714*	**661,798**
Unearned income	*(18,968)*	**(23,365)**
Security deposits	*(3,213)*	**(3,375)**
Loans, net of unearned income and security deposits	*595,533*	**635,058**
Allowances for loan losses	*(34,085)*	**(33,035)**
Loans, net	*Rs. 561,448*	**Rs. 602,023**

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, pledge of financial assets like marketable securities and corporate/personal guarantees.

As of March 31, 2001, gross loans include debit balances in demand deposit accounts of Rs. Nil (2000: Rs. 2,794 million) and loans given to individuals outside India of Rs. Nil (2000: Rs. 265 million).

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 predetermined consideration. Additionally, the corporate has a call option to repurchase the transferred securities at a predetermined 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 and 2001, other loans include Rs. 994 million representing such a lending.

Lease financing

Contractual maturities of ICICI's investment in lease financing and its components, which are included in loans are set out below:

(in millions)

	As of March 31, 2001
Gross finance receivables for the year ending March 31,	
2002	Rs. 11,690
2003	8,633
2004	9,006
2005	8,571
2006	6,455
Thereafter	17,467
	61,822
Unearned income	(18,706)
Security deposits	(3,375)
Investment in lease financing	**Rs. 39,741**

Maturity profile of loans

A maturity of loans, other than investment in lease financing is set out below:

(in millions)

	As of March 31,	
	2000	**2001**
Less than one year	*Rs. 156,820*	**Rs. 176,230**
One to five years	*279,126*	**271,349**
Greater than five years	*128,213*	**152,397**
Total	*Rs. 564,159*	**Rs. 599,976**

Restructured loans

The Company classifies a debt restructuring as a troubled debt restructuring (restructured loan) when it grants a concession, that it would not otherwise consider, to a borrower in financial difficulties. As of March 31, 2001, the Company had committed to lend Rs. 750 million (2000: Rs. Nil) to a borrower who is a party to a troubled debt restructuring.

Impaired loans, including restructured loans

A listing of restructured loans is set out below:

(in millions)

	As of March 31,	
	2000	**2001**
Project finance	*Rs. 17,963*	**Rs. 36,517**
Working capital finance	*583*	**2,027**
Other	*—*	**5,137**
Restructured loans	*18,546*	**43,681**
Allowance for loan losses	*(7,751)*	**(11,372)**
Restructured loans, net	*Rs. 10,795*	**Rs. 32,309**
Restructured loans:		
With a valuation allowance	*Rs. 18,546*	**Rs. 40,196**
Without a valuation allowance	*—*	**3,485**
Restructured loans	*Rs. 18,546*	**Rs. 43,681**

A listing of other impaired loans is set out below:

(in millions)

	As of March 31, 2000	2001
Project finance	*Rs. 46,354*	**Rs. 38,297**
Working capital finance	*867*	**2,367**
Lease financing	*2,780*	**899**
Consumer loans and credit card receivables	*24*	**32**
Other	*549*	**149**
Other impaired loans	*50,574*	**41,744**
Allowance for loan losses	*(26,334)*	**(21,663)**
Other impaired loans, net	*Rs. 24,240*	**Rs. 20,081**
Other impaired loans:		
With a valuation allowance	*Rs. 50,574*	**Rs. 41,744**
Without a valuation allowance	—	**—**
Other impaired loans	*Rs. 50,574*	**Rs. 41,744**

During the year ended March 31, 2001, interest income of Rs. 1,989 million (2000: Rs. 1,035 million, 1999: Rs. 402 million) was recognized on impaired loan on a cash basis. Gross impaired loans averaged Rs. 76,642 million during the year ended March 31, 2001 (2000: Rs. 63,804 million).

Concentration of credit risk

Concentration of credit risk exists 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.

11. Allowance for loan losses

Changes in the allowance for loan losses

Movements in the allowance for loan losses are set out below:

(in millions)

	Year ended March 31, 1999	2000	2001
Allowance for loan losses at the beginning of the year	*Rs. 22,457*	*Rs. 28,524*	**Rs. 34,085**
Effect of de-consolidation of subsidiary on allowance for loan losses	—	—	**(747)**
Provisions for loan losses, net of releases of provisions as a result of cash collections	*6,067*	*6,363*	**9,892**
	28,524	*34,887*	**43,230**
Loans charged-off	—	*(802)*	**(10,195)**
Allowance for loan losses at the end of the year	*Rs. 28,524*	*Rs. 34,085*	**Rs. 33,035**

Until the year ended March 31, 2000, the parent company followed a policy whereby loan balances were not charged-off against the allowance for loan losses. This policy was in response to the regulatory environment governing debt recovery proceedings in India. During the year ended March 31, 2001, changes in the tax laws necessitated that balances deemed unrecoverable be charged-off against the allowance for loan losses. Accordingly, the parent company charged-off significant loan balances deemed unrecoverable during the year ended March 31, 2001.

12. Property and equipment

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

(in millions)

		As of March 31,
	2000	**2001**
Land	*Rs. 1,454*	**Rs. 2,410**
Buildings	*5,570*	**4,775**
Equipment and furniture	*4,238*	**4,330**
Capital work-in-progress	*1,867*	**1,351**
Others	*163*	**631**
Gross value of property and equipment	*13,292*	**13,497**
Accumulated depreciation	*(1,517)*	**(1,458)**
Property and equipment, net	*Rs. 11,775*	**Rs. 12,039**

Depreciation charge for the year ended March 31, 2001, is Rs. 663 million (2000: Rs. 431 million, 1999: Rs. 490 million). Interest capitalized for the year ended March 31, 2001, is Rs. Nil (2000: Rs. 19 million, 1999: Rs. 231 million).

Land and buildings include certain assets of Rs. 541 million which have not yet been registered in the Company's name pending regulatory transfer approvals.

Property and equipment include certain assets of Rs. 1,196 million acquired through foreclosure of loans, which are intended to be used by the Company in its normal business operations.

Effective April 1, 1999, the parent company changed the method of accounting for depreciation of property and equipment from the written-down value method to the straight-line method. Under the written-down value method, depreciation is charged over the reducing balance of the fixed asset over its estimated useful life whereas under the straight-line method, the depreciation is charged at a fixed rate on the original cost of the fixed asset over its estimated useful life. 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 prospectively with a cumulative adjustment for all prior periods.

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.

The previously reported amounts for the year ended March 31, 1999 and pro forma amounts assuming the new depreciation method is applied retroactively are set out below:

	Actual	Pro forma
Income before extraordinary items	**Rs. 7,226**	**Rs. 7,347**
Earnings per share (Rs.)		
Basic	15.05	15.31
Diluted	13.01	13.21
Net income	**Rs. 7,518**	**Rs. 7,639**
Earnings per share (Rs.)		
Basic	15.66	15.91
Diluted	13.52	13.72

13. Assets held for sale

The Company owns property and equipment, which are to be disposed of through a sale, as the Company has shifted operations to a central location. The carrying amount of such assets as of March 31, 2001 was Rs. 13 million (2000: Rs. Nil), which is lower than its fair value.

As of March 31, 2001, assets held for sale include certain assets of Rs. 828 million (2000: Rs. Nil) acquired through foreclosure of loans.

14. Intangible assets, net

A listing of intangible assets by category is set out below:

(in millions)

	Economic useful life (in years)	As of March 31, 2000	2001
Goodwill	5	*Rs. 934*	**Rs. 2,325**
Accumulated amortization		*(374)*	**(613)**
Goodwill, net		*560*	**1,712**
Employee workforce and customer relationships	5	—	**135**
Accumulated amortization		—	**(20)**
Other intangible assets, net		—	**115**
Intangible assets, net		*Rs. 560*	**Rs. 1,827**

15. Other assets

Other assets consist of the following:

(in millions)

	As of March 31, 2000	2001
Debtors	*Rs. 856*	**Rs. 1,911**
Staff advances	*660*	**741**
Advance taxes	*15,000*	**14,585**
Security deposits	*1,215*	**937**
Advance for purchases of securities	*1,394*	**2,766**
Prepaid expenses	*74*	**198**
Other	*6,369*	**3,518**
Total	*Rs. 25,568*	**Rs. 24,656**

16. Deposits

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, 2000	2001
Interest-bearing		
Savings deposits .	*Rs. 5,332*	**Rs. —**
Time deposits.	*77,495*	**6,072**
	82,827	**6,072**
Non-interest-bearing		
Demand deposits.	*13,855*	**—**
Total	*Rs. 96,682*	**Rs. 6,072**

Contractual maturities of deposits as of March 31, 2001, are set out below:

(in millions)

Deposits maturing during the year ending March 31,	
2002	Rs. 3,613
2003	450
2004	1,335
2005	3
2006	671
Thereafter	—
Total deposits	**Rs. 6,072**

As of March 31, 2001, aggregate of deposits with individual balances greater than Rs. 5 million were Rs. 3,306 million (2000: Rs. 70,176 million).

17. Short-term borrowings

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

18. Long-term debt and redeemable preferred stock

Long-term debt

Long-term debt represents debt with an original maturity of greater than one year. Maturity distribution is based on contractual maturities or earlier dates at which debt is callable at the option of the holder. A significant portion of the long-term debt bears a fixed rate of interest. Interest rates on floating-rate debt are generally linked to the London Inter-bank Offer Rate or similar money market rates. The segregation between fixed-rate and floating-rate obligations is based on the contractual terms.

A listing of long-term debt as of March 31, 2001, by maturity and interest rate profile is set out below:

(in millions)

	Various fixed-rate obligations	Various floating -rate obligations	Total
Long-term debt maturing during the year ending March 31,			
2002	Rs. 97,416	Rs. 22,481	Rs. 119,897
2003	103,090	15,100	118,190
2004	86,067	12,800	98,867
2005	37,652	6,946	44,598
2006	46,965	6,247	53,212
Thereafter	56,569	16,077	72,646
Total	**427,759**	**79,651**	**507,410**
Less: Unamortized debt issue cost			(2,385)
Total			**Rs. 505,025**

All long-term debt is unsecured. Debt aggregating Rs. 42,376 million (2000: Rs. 44,419 million) is guaranteed by the GOI.

Long-term debt is denominated in various currencies. As of March 31, 2001, long-term debt comprises Indian rupee debt of Rs. 404,017 million (2000: Rs. 342,816 million) and foreign currency debt of Rs. 101,008 million (2000: Rs. 93,504 million).

Indian rupee debt

A listing of major category of Indian rupee debt is set out below:

(in millions)

Category	2000 Amount	2000 Weighted average interest rate	2001 Amount	2001 Weighted average interest rate	2001 Range	2001 Average residual maturity
Bonds issued to institutional / individual investors	*Rs.310,175*	*13.7%*	**Rs. 374,629**	**12.9%**	**8.1-16.8%**	**2.9 years**
Bonds eligible for statutory reserve requirements[(1)]	*24,072*	*10.8%*	**21,653**	**11.1%**	**7.5-12.0%**	**6.6 years**
Borrowings from GOI[(2)]	*8,569*	*12.3%*	**7,735**	**12.4%**	**11.0-16.0%**	**5.3 years**
Total	*Rs.342,816*	*13.5%*	**Rs. 404,017**	**12.8%**		**3.1 years**

(1) Banks in India are required to mandatorily maintain a specified percentage of certain liabilities as cash or in approved securities. These bonds issued by ICICI are approved securities under the rules.

(2) Includes interest-free borrowings from the GOI aggregating Rs. 220 million (2000: Rs. 190 million). The borrowing was initially recorded at its fair value of Rs. 100 million based on the prevailing interest rate of 16% for borrowings of a similar term and risk. Interest is being imputed for each reporting period using this rate.

Foreign currency debt

A listing of major category of foreign currency debt is set out below:

(in millions)

Category	2000 Amount	2000 Weighted average interest rate	2001 Amount	2001 Weighted average interest rate	2001 Range	2001 Average residual maturity
Borrowings from international development agencies[(1)(2)]	*Rs.21,244*	*5.4%*	**Rs.21,473**	**5.6%**	**0-8.5%**	**17.6 years**
Other borrowings from international markets	*72,260*	*6.3%*	**79,535**	**6.5%**	**0-9.1%**	**2.2 years**
Total	*Rs.93,504*	*6.1%*	**Rs.101,008**	**6.3%**		**5.5 years**

(1) These borrowings have been raised under specific lines of credit from international development agencies. The borrowings have lender-imposed restrictions that limit the use of the funds for specified purposes, which include lending to specified sectors.

(2) As of March 31, 2001, under these lines of credit, the Company has an unutilized option to borrow Rs. 9,468 million as per an agreed schedule over a period of 5 years at various interest rates.

Convertible debt

Included in long term debt were the following convertible issues:

12.5% convertible debentures

The 12.5% convertible debentures were convertible into common stock by July 18, 1999, either at par or at a premium not exceeding Rs. 5 per common share, 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 common shares at a premium of Rs. 5 per share aggregating Rs. 518 million. These shares will rank pari passu in all respects with existing common shares of the Company except they participated in dividend in respect of the year ended March 31, 2000, on a pro rata basis.

2.5% US dollar convertible bonds

The 2.5% 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. During the year ended March 31, 2001, ICICI redeemed these bonds at par aggregating US$200 million.

3.5% US dollar convertible bonds

The 3.5% 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. 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, aggregating US$ 98.2 million.

Redeemable preferred stock

During the year ended March 31, 2001, the Company redeemed preferred stock with a face value of Rs. 9,577 million. The stock was issued in 1998 to take advantage of the regulatory developments related is the withdrawal of distribution tax, and the redemption in the currenty year, as per the terms of issue, was in response to the reinstatement of such tax.

ICICI issued preferred stock with a face value of Rs. 3,500 million during the year ended March 31, 1998 under the scheme of business combination with ITC Classic Finance Limited. This preferred stock bears a dividend yield of 0.001% and is redeemable at face value after 20 years. The preferred stock was initially recorded at its fair value of Rs. 466 million. Subsequently, interest is being imputed for each reporting period. The imputed interest rate of 10.6% was determined based on the then prevailing interest rate for GOI securities of similar maturity. The carrying amount of this redeemable preferred stock as of March 31, 2001, is Rs. 698 million (2000: Rs. 630 million).

19. Other liabilities

Interest accrued

Other liabilities as of March 31, 2001, include Rs. 21,775 million (2000: Rs. 20,778 million) of interest accrued but not due on borrowings.

Borrowings from Kreditanstalt fur Wiederaufbau

The Company has borrowings from Kreditanstalt fur Wiederaufbau (KfW), an international development agency, under specific lines of credit. The terms of the borrowings provide for limitations on usage, whereby funds can be used only for specified purposes. The borrowings are guaranteed by the GOI.

With respect to certain borrowings, the terms of the borrowing agreement provide that a portion of the interest payable on the borrowing shall be paid to the GOI instead of the lender. KfW and the GOI have entered into an agreement whereby the interest paid to the GOI is repaid to the Company either in the form of a grant or a loan. While the loan is repayable as per a specified schedule, the grants do not have a repayment schedule. The interest amounts received from the GOI bear limitations on usage and are required to be advanced as loans/contributions for specified purposes. Similarly, with respect to certain other borrowings from KfW, the terms of the borrowing agreement provide that a portion of the interest payable on the borrowings shall be retained by ICICI and used to be advanced as loans/contributions for specified purposes.

The Company periodically advances loans/contributions for specified purposes out of these funds and reports such utilizations to the GOI/KfW. However, no time schedule has been specified for the usage of the funds. In the event that the funds are not utilized for specified purposes, the GOI/KfW have the right to require repayment of the grant/retained interest. Additionally, KfW can modify the scope of the specified purposes. The Company retains the income derived from the loans made out of the funds. Similarly, it bears the risks of default on the loans.

The interest repaid by the GOI in the form of grants and the interest retained under the agreement with KfW do not represent contributions as they specify donor-imposed conditions, the breach of which, would enable the donor to demand repayment of the grants/retained interest. Accordingly, the grants/retained interest have been reported as liabilities.

Other liabilities as of March 31, 2001, include grants of Rs. 1,649 million (2000: Rs. 1,761 million) and retained interest of Rs. 361 million (2000: Rs. 295 million).

20. Common stock

ICICI presently has only one class of common stock. 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 common stock held by shareholders.

During the year ended March 31, 2000, ICICI issued 32 million American Depositary Shares (ADS) representing 161 million common shares. The common stock represented by the ADS are similar to other common stock, except for voting rights. While every holder of common stock, 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 depositary agreement, the depositary of the ADS will vote as directed by the Board of Directors of ICICI Limited.

Additionally, during the year ended March 31, 2000, ICICI issued 68 million common shares to institutional investors in India through a private placement and 41 million common shares through a public offering in India.

21. Retained earnings and dividends

Retained earnings as of March 31, 2001, include profits aggregating Rs. 11,875 million and Rs. Nil (2000: Rs. 1,110 million and Rs. 1,039 million), which are not distributable as dividends under Indian Company and Banking law respectively. These relate to profits on redemption of preferred stock and requirements regarding earmarking a part of profits under banking laws.

Retained earnings as of March 31, 2001, include reserves of Rs. 9,208 million (2000: Rs. 9,200 million) earmarked under Indian tax laws to avail tax benefits and which are not distributable as dividends. Any transfer of balances from such earmarked reserves would result in withdrawal of the tax exemption on the transferred amounts.

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 dividend taxes applicable at the time of the declaration.

22. Earnings per share

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

(in millions, except earnings per share data)

	Year ended March 31					
	1999		2000		**2001**	
	Basic	Fully diluted	Basic	Fully diluted	**Basic**	**Fully diluted**
Earnings						
Net income before extraordinary items and cumulative effect of accounting change (before dilutive impact)	*Rs. 7,226*	*Rs. 7,226*	*Rs. 9,082*	*Rs. 9,082*	**Rs. 5,813**	**Rs. 5,813**
Interest on convertible debt instruments	—	*276*	—	*132*	**—**	**—**
Contingent issuances of subsidiaries/affiliates	—	—	—	—	**—**	**(25)**
Net income before extraordinary items and cumulative effect of accounting change (adjusted for full dilution)	*7,226*	*7,502*	*9,082*	*9,214*	**5,813**	**5,788**
Extraordinary items, net of tax	*292*	*292*	—	—	**—**	**—**
Cumulative effect of accounting change, net of tax	—	—	*249*	*249*	**—**	**—**
Net income (adjusted for full dilution)	*7,518*	*7,794*	*9,331*	*9,463*	**5,813**	**5,788**
Common stock						
Weighted-average common stock outstanding	*480*	*480*	*646*	*646*	**785**	**785**
Dilutive effect of convertible debt instruments	—	*97*	—	*41*	**—**	**—**
Dilutive effect of employee stock options	—	—	—	—	**—**	**—**
Total	*480*	*577*	*646*	*687*	**785**	**785**
Earnings per share						
Net income before extraordinary items and cumulative effect of accounting change	*15.05*	*13.01*	*14.06*	*13.41*	**7.40**	**7.37**
Extraordinary items	*0.61*	*0.51*	—	—	**—**	**—**
Cumulative effect of accounting change	—	—	*0.39*	*0.36*	**—**	**—**
Net income	*Rs. 15.66*	*Rs. 13.52*	*Rs. 14.45*	*Rs. 13.77*	**Rs. 7.40**	**Rs. 7.37**

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

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.

Options to purchase 2,323,750 equity shares and 2,922,500 equity shares granted to employees at a weighted average exercise price of Rs. 85.5 and Rs. 133.4 were outstanding during the year ended March 31, 2000 and 2001, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the equity shares during the period.

23. Regulatory capital

Under Indian regulations, the parent company, ICICI Bank and ICICI Securities (a consolidated subsidiary) are required to maintain a minimum total capital adequacy ratio of 9%, 9% and 15% respectively. Further, the parent company and ICICI Bank are required to maintain a minimum Tier I capital adequacy ratio of 4.5%.

The capital adequacy ratio is required to be calculated in line with the guidelines issued by the RBI. The capital adequacy ratio of these entities is set out below:

	ICICI Limited		ICICI Bank
	As of March 31,		As of March 31,
	2000	**2001**	*2000*
Tier I capital adequacy ratio	*11.5%*	**9.8%**	*17.4%*
Tier II capital adequacy ratio	*5.7%*	**5.1%**	*2.2%*
Total capital adequacy ratio	*17.2%*	**14.9%**	*19.6%*

ICICI Securities had a total capital adequacy ratio of 30.7% and 27.8% as of March 31, 2000 and 2001 respectively.

24. Regulated investments

Under Indian regulations, ICICI Bank is required to maintain a specified percentage of its net demand and time liabilities as cash balances or in the form of investments in approved securities. The amount required to be maintained as of March 31, 2000, was Rs. 20,570 million. As of March 31, 2000, ICICI Bank was in compliance with such regulated investment requirements.

Additionally, ICICI Bank is required under Indian regulations to maintain specified cash balances with the RBI that are subject to withdrawal and usage restrictions. As of March 31, 2000, cash and cash equivalents include Rs. 6,904 million maintained as cash balances with the RBI under these regulations.

25. Segmental disclosures and related information

Segmental disclosures

SFAS 131, Disclosure about Segments of an Enterprise and Related Information, establishes standards for the reporting of information about operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The varied financial services 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 project financing, other activities such as commercial banking, investment banking, retail distribution, broking and venture capital financing are conducted by subsidiaries/ affiliates. Each subsidiary/affiliate focuses on specific activities and represents an operating segment.

The project 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) 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) 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.

As discussed in Note 2, the results of ICICI Bank, which represents the commercial banking segment, are reported by equity method with effect from April 1, 2000. However, for management reporting, the entire results of ICICI Bank continue to be reported as if the business were a consolidated entity. The segment information presented is consistent with the management reporting.

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

(in millions)

	Project financing			Commercial banking			Investment banking		
	Year ended March 31,			Year ended March 31,			Year ended March 31,		
	1999	*2000*	**2001**	*1999*	*2000*	**2001**	*1999*	*2000*	**2001**
Income from external customers									
Interest income	*Rs. 63,885*	*Rs. 70,603*	**Rs.77,438**	*Rs. 5,471*	*Rs. 8,434*	**Rs. 12,206**	*Rs. 1,384*	*Rs. 2,176*	**Rs. 1,888**
Other income	*3,987*	*6,264*	**6,207**	*844*	*1,718*	**1,682**	*338*	*722*	**943**
Income from other operating segments									
Interest income	*410*	*498*	**832**	—	—	**200**	*123*	*181*	**142**
Other income	*144*	*118*	**550**	*11*	*41*	**72**	*26*	*36*	**11**
Total income	*68,426*	*77,483*	**85,027**	*6,326*	*10,193*	**14,160**	*1,871*	*3,115*	**2,984**
Interest expense	*52,800*	*59,840*	**65,424**	*4,255*	*6,656*	**8,408**	*1,103*	*1,467*	**1,633**
Depreciation	*276*	*330*	**469**	*175*	*201*	**352**	*24*	*18*	**15**
Provision for loan losses	*5,497*	*5,847*	**9,840**	*465*	*427*	**1,082**	*106*	*76*	**13**
Other expenses	*2,423*	*3,710*	**2,886**	*625*	*1,128*	**2,752**	*343*	*383*	**447**
Income before taxes	*7,430*	*7,756*	**6,408**	*806*	*1,781*	**1,566**	*295*	*1,171*	876
Income tax expense	*834*	*890*	**297**	*201*	*379*	**258**	*97*	*401*	**370**
Gains on extinguishment of debt, net of tax	*292*	—	**—**	—	—	**—**	—	—	**—**
Cumulative effect of accounting change, net of tax	—	*249*	**—**	—	—	**—**	—	—	**—**
Net income	*Rs. 6,888*	*Rs. 7,115*	**Rs. 6,111**	*Rs. 605*	*Rs. 1,402*	**Rs. 1,308**	*Rs. 198*	*Rs. 770*	**Rs. 506**

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

(in millions)

	Project financing		Commercial banking		Investment banking	
As of March 31,	*2000*	**2001**	*2000*	**2001**	*2000*	**2001**
Property and equipment	*Rs. 8,986*	**Rs.9,649**	*Rs. 2,097*	**Rs. 4,059**	*Rs. 130*	**Rs. 123**
Investments in affiliates	*264*	**7,868**	—	**—**	—	**—**

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

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

(in millions)

	Total income			Income before taxes			Net income		
	Year ended March 31,			Year ended March 31,			Year ended March 31,		
	1999	*2000*	**2001**	*1999*	*2000*	**2001**	*1999*	*2000*	**2001**
Project financing	*Rs.68,426*	*Rs. 77,483*	**Rs. 85,027**	*Rs. 7,430*	*Rs. 7,756*	**Rs. 6,408**	*Rs. 6,888*	*Rs.7,115*	**Rs. 6,111**
Commercial banking	*6,326*	*10,193*	**14,160**	*806*	*1,781*	**1,566**	*605*	*1,402*	**1,308**
Investment banking	*1,871*	*3,115*	**2,984**	*295*	*1,171*	**876**	*198*	*770*	**506**
Other operating segments	*748*	*1,538*	**5,458**	*207*	*783*	**90**	*145*	*420*	**—**
Elimination of commercial banking	—	—	**(14,160)**	—	—	**(1,566)**	—	—	**(1,308)**
Other eliminations	*(936)*	*(1,795)*	**(3,062)**	*(318)*	*(376)*	**(625)**	*(318)*	*(376)*	**(804)**
Consolidated total	*Rs. 76,435*	*Rs. 90,534*	**Rs. 90,407**	*Rs. 8,420*	*Rs.11,115*	**Rs. 6,749**	*Rs. 7,518*	*Rs.9,331*	**Rs. 5,813**

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

(in millions)

	As of March 31, 2000	**2001**
Project financing	*Rs. 629,826*	**Rs. 699,727**
Commercial banking	*131,371*	**220,008**
Investment banking	*23,255*	**17,619**
Other operating segments[1]	*8,498*	**41,584**
Elimination of commercial banking	—	**(220,008)**
Other eliminations	*(18,671)*	**(19,302)**
Consolidated total	*Rs. 774,279*	**Rs. 739,628**

(1) Includes assets of Rs. 27,106 million as of March 31, 2001 (2000: Rs. 4,537 million) of the personal financial services business that are reported separately to the chief operating decision maker.

Geographic distribution

The business operations of ICICI are largely concentrated in India. Activities outside India are restricted to resource mobilization in the international markets and operations of certain software development and services subsidiaries in the United States. The income, assets and net income attributable to foreign operations are immaterial.

Major customers

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

26. Employee benefits

Gratuity

In accordance with Indian regulations, 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 provided by ICICI to its employees is equal to or greater than the statutory minimum.

In respect of the parent company, 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. The plan is fully funded.

In respect of the remaining entities within the group, the gratuity benefit is provided through annual contributions to a fund administered and managed by the Life Insurance Corporation of India (LIC). Under this scheme, the settlement obligation remains with ICICI, although the LIC administers the scheme and determines the contribution premium required to be paid by ICICI.

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

(in millions)

	As of March 31, 2000	**2001**
Change in benefit obligations		
Projected benefit obligations at beginning of the year	*Rs. 178*	**Rs. 146**
Divestitures	—	**(12)**
Service cost	*17*	**12**
Interest cost	*19*	**16**
Expected benefits payments	*(4)*	**(6)**
Actuarial (gain)/loss on obligations	*(64)*	**51**
Projected benefit obligations at the end of the year	*146*	**207**
Change in plan assets		
Fair value of plan assets at beginning of the year	*189*	**160**
Divestitures	—	**(17)**
Expected return on plan assets	*23*	**16**
Employer contributions	*16*	**59**
Actual benefits paid	*(68)*	**(16)**
Actuarial (gain)/loss	—	**11**
Plan assets at the end of the year	*160*	**213**
Funded status	*14*	**6**
Unrecognized actuarial loss	*16*	**66**
Unrecognized transitional obligation	*(23)*	**(21)**
Unrecognized prior service cost	*11*	**10**
Net prepaid gratuity cost	*Rs. 18*	**Rs. 61**

The components of the net gratuity cost are set out below:

(in millions)

	Year ended March 31, 1999	2000	**2001**
Service cost	*Rs. 10*	*Rs. 17*	**Rs. 12**
Interest cost	*16*	*19*	**16**
Expected return on assets	*(19)*	*(23)*	**(16)**
Amortization of transition asset/liability	*(1)*	*(1)*	**(1)**
Amortization of prior service cost	—	—	**1**
Actuarial (gain)/loss	—	*(1)*	**—**
Net gratuity cost	*Rs. 6*	*Rs. 11*	**Rs. 12**

The actuarial assumptions used in accounting for the gratuity plan are given below:

	As of March 31, 2000	**2001**
Discount rate	*12%*	**11%**
Rate of increase in the compensation levels	*8-10%*	**10%**
Rate of return on plan assets	*11-12%*	**10.5%**

As of March 31, 2001, of the total plan assets, Rs. 8 million (2000: Rs. 13 million) has been invested in debt securities of the parent company.

Superannuation

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 fund manager, LIC, which undertakes to pay the lumpsum and annuity benefit payments pursuant to the scheme. ICICI contributed Rs. 51 million to the superannuation plan for the year ended March 31, 2001 (2000: Rs. 62 million, 1999: Rs. 46 million).

Provident fund

In accordance with Indian regulations, all employees of ICICI are entitled to receive benefits under the provident fund plan 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 11% (current guaranteed rate of return to the employees), such difference is contributed by ICICI and charged to the statement of income. ICICI contributed Rs. 55 million to the provident fund plan for the year ended March 31, 2001 (2000: Rs. 52 million, 1999: Rs. 45 million).

27. Voluntary retirement scheme

During the year ended March 31, 2000, ICICI 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 ICICI. Costs of employee termination under the Scheme aggregating Rs. 232 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 ended March 31, 2000, while the balance amounts were payable per an agreed schedule.

In July 2000, ICICI extinguished its unpaid liability of Rs. 141 million by purchasing an annuity policy from the LIC for a consideration of Rs. 157 million. Through the annuity policy, ICICI legally released from being the primary obligor under the liability. The difference between the carrying amount of the liability and the amount paid to LIC is recognized through the statement of income.

28. Extraordinary gain

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.

29. Employee Stock Option Plan

ICICI Limited

In August 1999, ICICI Limited approved an Employee Stock Option Plan (ICICI Plan). Under the ICICI Plan, ICICI is authorized to issue upto 39.27 million equity shares to eligible employees. Eligible employees are granted an option to purchase shares subject to vesting and performance conditions. The options vest in a graded manner over 3 years with 20%, 30% and 50% of the options 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 options vesting during that year would be forfeited. The options can be exercised within 10 years from the date of the grant.

Due to the performance condition, the ICICI Plan was initially accounted as a variable plan. During the year ended March 31, 2000, ICICI Limited recorded compensation cost of Rs. 97 million based on the excess of the quoted market price as of March 31, 2000, over the exercise price. The compensation is amortized over the vesting period.

In April 2000, the ICICI Plan was modified to eliminate the performance condition. The date of modification qualified as the measurement date to record compensation cost. As the quoted market price on the measurement date closely approximated the price as of March 31, 2000, the previously recorded compensation was not adjusted.

Subsequent awards, during the year ended March 31, 2001, qualify as fixed awards and ICICI has not recorded any compensation cost on these awards as the exercise price was equal to the quoted market price of underlying equity shares on the grant date.

Compensation expense under the ICICI Plan for the year ended March 31, 2001 is Rs. 38 million (2000: Rs.27 million, 1999: Rs. Nil).

ICICI Bank

In February 2000, ICICI Bank approved an Employee Stock Option Plan (Bank Plan). Under the Bank Plan, ICICI Bank is authorized to issue up to 9.84 million equity shares 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 options vesting at the end of each year. The options can be exercised within 10 years from the date of the grant.

During the year ended March 31, 2000, ICICI has not recorded any compensation cost as the exercise price was equal to the quoted market price of the underlying equity shares on the grant date.

ICICI Infotech

In April 2000, ICICI Infotech approved an Employee Stock Option Plan (Infotech Plan). Under the Infotech Plan, ICICI Infotech is authorized to issue up to 12 million equity shares 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 options vesting at the end of each year. The options can be exercised within 10 years from the date of the grant.

During the year ended March 31, 2001, ICICI has not recorded any compensation cost as the exercise price was equal to the fair value of the underlying equity shares on the grant date. As shares of ICICI Infotech are not quoted on exchanges, the fair value represents management's best estimates considering all available factors.

ICICI Venture

In July 2000, ICICI Venture, a consolidated subsidiary, approved an Employee Stock Option Plan (Venture Plan). Under the Venture Plan, ICICI Venture is authorized to issue up to 0.125 million equity shares to its employees and employees of the parent company and other consolidated subsidiaries within the group. Eligible employees are granted an option to purchase shares subject to vesting conditions. The options vest over a period of 3 years. The options can be exercised within 10 years from the date of the grant.

During the year ended March 31, 2001, ICICI has not recorded any compensation cost as the exercise price was equal to the fair value of the underlying equity shares on the grant date. As shares of ICICI Venture are not quoted on exchanges, the fair value represents management's best estimates considering all available factors.

Stock option activity

Stock option activity under the above stock option plans is set out below:

	Year ended March 31, 2000			
	ICICI Limited		ICICI Bank	
	Option shares outstanding	Exercise price grant date fair value	Option shares outstanding	Exercise price grant date fair value
Outstanding at the beginning of the year	—	Rs. —	—	Rs. —
Granted during the year	2,323,750	85.5	1,788,000	171.9
Forfeited during the year	—	—	(75,000)	171.9
Exercised during the year	—	—	—	—
Outstanding at the end of the year	**2,323,750**		**1,713,000**	
Exercisable at the end of the year	—		—	

	ICICI Limited		ICICI Infotech		ICICI Venture	
					Year ended March 31, 2001	
	Option shares outstanding	Exercise price and grant date fair value	Option shares outstanding	Exercise price and grant date fair value	Option shares outstanding	Exercise price and grant date fair value
Outstanding at the beginning of the year	2,323,750	Rs. 85.5	—	Rs. —	—	Rs. —
Granted during the year	2,922,500	133.4	2,344,800	37.5	81,400	835
Forfeited during the year	(120,400)	85.5	(103,400)	37.5	(2,500)	835
Exercised during the year	(32,500)	85.5	—	—	—	—
Outstanding at the end of the year	**5,093,350**		**2,241,400**		**78,900**	
Exercisable at the end of the year	462,350	85.5	—	—	—	—

Pro forma disclosure

The Company has adopted the pro forma disclosure provisions of SFAS 123. Had compensation cost been determined in a manner consistent with the fair value approach described in SFAS 123, the Company's net income and earnings per share as reported would have changed to the amounts indicated below:

	Year ended March 31,	
	2000	**2001**
Net income (in millions)		
As reported	*Rs. 9,331*	**5,813**
Adjusted	*9,335*	**5,722**
Earnings per share: Basic (in Rs.)		
As reported	*14.45*	**7.40**
Adjusted	*14.46*	**7.29**
Earnings per share: Diluted (in Rs.)		
As reported	*13.77*	**7.37**
Adjusted	*13.77*	**7.25**

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

	ICICI Limited	ICICI Bank	ICICI Infotech	ICICI Venture
Dividend yield	5.9%	0.7%	6.4%	2.4%
Expected life	10 years	3 years	10 years	10 years
Risk free interest rate	10.4%	11%	10.6%	11.4%
Volatility	30%	30%	0%	0%

30. Income taxes

Components of deferred tax balances

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

The components of the deferred tax balances are set out below:

(in millions)

	As of March 31, 2000	As of March 31, 2001
Deferred tax assets		
Provision for loan losses	*Rs. 5,169*	**Rs. 10,420**
Unrealized losses on securities available for sale	*795*	**1,282**
Investments in trading securities	—	**36**
Unearned income	*615*	**1,050**
Other than temporary diminution in the value of securities available for sale	*401*	**549**
Capital loss carryforward	*57*	**53**
Business loss carryforward	—	**105**
Minimum alternate tax credit carryforward	*940*	**207**
Other	*26*	**470**
Total deferred tax asset	*8,003*	**14,172**
Deferred tax liabilities		
Property and equipment	*(8,190)*	**(10,334)**
Unrealized gains on securities available for sale	*(9)*	**(15)**
Investments in trading securities	*(27)*	**—**
Increase in carrying value on direct issuance of stock by subsidiary	—	**(505)**
Undistributed earnings of subsidiary and affiliates	—	**(227)**
Other	*(215)*	**(127)**
Total deferred tax liability.	*(8,441)*	**(11,208)**
Net deferred tax asset/(liability)	*Rs. (438)*	**Rs. 2,964**
Current	*Rs. 314*	**493**
Non-current	*(752)*	**2,471**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax asset is dependent on the generation of future taxable income during the periods in which the temporary differences become deductible. Management considers the scheduled reversal of the projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable incomes over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that the Company will realize the benefits of those deductible differences. The amount of deferred tax assets considered realizable, however could be reduced in the near term if estimates of future taxable income are reduced.

As of March 31, 2001, ICICI has a deferred tax asset for capital loss carryforward, of which Rs. 27 million and Rs. 26 million will expire on March 31, 2005 and 2006 respectively. Further, ICICI has a deferred tax asset for minimum alternate tax credit amounting to Rs. 207 million which will expire on March 31, 2005.

The Indian operations of ICICI Infotech are exempt from Indian income taxes, being profits attributable to export operations and profits from undertakings situated in Software Technology and Hardware Technology Parks. Under the tax holiday, the taxpayer can utilize an exemption from income taxes for a period of ten consecutive years. During the year ended March 31, 2001, ICICI Infotech incurred a tax loss of Rs. 19 million (2000: Rs. Nil).

Reconciliation of tax rates

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

(in millions)

			Year ended March 31,
	1999	2000	**2001**
Income before income taxes	Rs. 8,420	Rs. 11,115	**Rs. 6,749**
Statutory tax rate	35%	38.5%	**39.55%**
Income tax expense at the statutory tax rate	2,947	4,279	**2,669**
Increases/(reductions) in taxes on account of:			
Special tax deductions available to financial institutions	(1,184)	(1,218)	**(542)**
Exempt interest and dividend income	(706)	(1,625)	**(525)**
Income charged at rates other than statutory tax rate	28	(239)	**(797)**
Changes in the statutory tax rate	—	16	**(192)**
Expenses disallowed for tax purposes	405	419	**179**
Tax on undistributed earnings of subsidiary and affiliates	—	—	**227**
Other	(296)	401	**(83)**
Income tax expense reported	Rs. 1,194	Rs. 2,033	**Rs. 936**

Components of income tax expense from continuing operations

The components of income tax expense/(benefit) from continuing operations are set out below:

(in millions)

			Year ended March 31,
	1999	2000	**2001**
Current	Rs. 1,125	Rs. 2,136	**Rs. 4,458**
Deferred	69	(103)	**(3,522)**
Income tax expense reported	Rs. 1,194	Rs. 2,033	**Rs. 936**

Allocation of income taxes

The total income tax expense/(benefit) was recorded as follows:

(in millions)

			Year ended March 31,
	1999	2000	**2001**
Income from continuing operations	Rs. 1,194	Rs. 2,033	**Rs. 936**
Extraordinary gain	157	—	**—**
Cumulative effect of accounting change	—	156	**—**
Unrealized gain/(loss) on securities available for sale	(297)	721	**(481)**
Increase in carrying value on direct issuance of stock by subsidiary	—	—	**605**
Income tax expense/(benefit) recorded	Rs. 1,054	Rs. 2,910	**Rs. 1,060**

31. Commitments and contingencies

Loan commitments

ICICI has outstanding undrawn commitments to provide loans and financing to customers. These loan commitments aggregated Rs. 70,981 million as of March 31, 2001 (2000: Rs. 78,440 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 borrower's ability to maintain specific credit standards.

Guarantees

As a part of its project 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 fulfill 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.

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.

Details of guarantees outstanding are set out below:

(in millions)

	Year ended March 31,	
	2000	**2001**
Financial guarantees	*Rs. 46,253*	**Rs. 53,167**
Performance guarantees	*11,811*	**6,083**
Total	*Rs. 58,064*	**Rs. 59,250**

Capital commitments

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. 681 million as of March 31, 2001 (2000: Rs. 808 million).

Tax contingencies

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

Litigation

In January 2001, certain international banks filed a claim against ICICI before the English Courts at London challenging certain transactions between ICICI and a borrower to whom both ICICI and the plaintiffs are lenders. These transactions relate to certain lease, brand-financing and investment agreements between ICICI and the borrower. Such transactions aggregate approximately Rs. 5,700 million. The plaintiffs allege that such specified transactions breach the Security Agent and Trust Agreement between ICICI and the plaintiffs, whereby ICICI was appointed as a trustee for the plaintiffs.

The plaintiffs have sought:

- A declaration that the specified transactions are void;
- Damages and/or compensation equal to the sum of money sufficient to compensate each of the plaintiffs for loss of security;
- Interest in equity computed in quarterly rests and/or pursuant to Section 35A of the UK Supreme Court Act of 1981; and
- Costs of litigation.

The litigation is in its early stages and as the claims are unparticularized, no estimate of the interest, damages and costs claimed can be quantified currently. ICICI has denied all claims of the plaintiffs and is contesting the jurisdiction of the English courts to hear the matter.

Given the preliminary stage of the proceedings, management is unable to make a reasonable assessment of the final outcome of the litigation and accordingly has not recorded any liability associated with this contingency.

In addition to the litigation noted above, ICICI is from time to time subject to routine litigation incidental to its business.

Management believes, based on consultation with counsel, that the ultimate resolution of the above litigations will not have a material adverse effect on the Company's results of operations, financial condition, or liquidity. However, the final outcome of the litigations cannot be predicted with certainty, and accordingly, no assurance can be given that the ultimate resolution of the litigations will not have a material impact on the Company's results of operations, financial condition or liquidity.

Operating lease commitments

ICICI has commitments under long-term operating leases principally for premises and automated teller machines. The following is a summary of future minimum lease rental commitments as of March 31, 2001, for non-cancelable leases:

(in millions)

Lease rental commitments for the year ending March 31,	
2002	Rs. 136
2003	128
2004	65
2005	56
2006	33
Thereafter	48
Total minimum lease commitments	**Rs. 466**

32. Related party transactions

ICICI has transactions with its affiliates and directors/employees. The following represent the significant transactions between ICICI and such related parties:

Banking services

ICICI Bank provided banking services to ICICI on terms that equate those offered to other customers. Non-interest income earned during the year ended March 31, 2001, amounted to Rs. 72 million.

Derivative transactions

ICICI Bank entered into interest rate swaps and cross currency swaps with ICICI. Contracts aggregating Rs. 2,900 million and Rs. 4,352 million were outstanding as of March 31, 2001, for interest rate swaps and currency swaps respectively. Net interest in respect of these swaps amounted to Rs. 189 million during the year ended March 31, 2001.

Similarly, ICICI Bank entered into forward foreign exchange contracts with ICICI. Contracts aggregating Rs. 2,262 million were outstanding as of March 31, 2001.

Software development services

ICICI provided software development services to Tricolor and Pru-ICICI and earned fees of Rs. 8 million during the year ended March 31, 2001.

ICICI developed software and provided software and hardware support services to ICICI Bank, and earned fees of Rs. 73 million during the year ended March 31, 2001.

Back-office support services

ICICI set up a common technology infrastructure platform for the group, and ICICI Bank was charged Rs. 94 million during the year ended March 31, 2001, towards communication expenses, backbone infrastructure expenses and data centre costs.

ICICI provided telephone banking call-centre services and transaction processing services for the credit card operations of ICICI Bank, and earned fees of Rs. 99 million during the year ended March 31, 2001.

Indian rupee debt

Certain members of management hold bonds issued by ICICI Limited amounting to Rs. 8 million (2000: Rs. 7 million).

Asset management services

ICICI provided asset management services to TCW and earned fees of Rs. 31 million during the year ended March 31, 2001 (2000: Rs. 27 million, 1999: Rs. 27 million).

Brokerage services

ICICI provided brokerage services to ICICI Bank and earned fees of Rs. 1 million during the year ended March 31, 2001.

Deposits and borrowings

During the year ended March 31, 2001, ICICI Bank paid interest on deposits/call borrowings of Rs. 202 million to ICICI.

Lease of premises and facilities

During the year ended March 31, 2001, ICICI Bank paid rentals of Rs. 193 million to ICICI for lease of premises, facilities and other equipment.

Purchase of assets

During the year ended March 31, 2001, ICICI Bank purchased certain assets for Rs. 99 million from ICICI.

Expenses for seconded employees

ICICI Bank paid Rs. 4 million during the year ended March 31, 2001, to ICICI for seconded employees. Similarly, ICICI Bank received Rs. 5 million during the year ended March 31, 2001, from ICICI for employees seconded to ICICI.

Share transfer services

ICICI provided share transfer services to ICICI Bank and earned fees of Rs. 8 million during the year ended March 31, 2001.

Other transactions

ICICI undertook a corporate brand advertising campaign for the group, out of which an amount of Rs. 15 million has been recovered from ICICI Bank during the year ended March 31, 2001.

ICICI set-up Automated Teller Machines for ICICI Bank, and earned fees of Rs. 8 million during the year ended March 31, 2001.

ICICI marketed retail products for ICICI Bank, and earned fees of Rs. 8 million during the year ended March 31, 2001.

Related party balances

The following balances payable to/receivable from related parties are included in the balance sheet:

(in millions)

	As of March 31,	
	2000	**2001**
Cash and cash equivalents	*Rs. —*	**Rs. 4,882**
Loans	—	**192**
Other assets	—	**147**
Deposits	*14*	**—**
Other liabilities	—	**55**

Employee loans

ICICI has advanced housing, vehicle and general purpose loans to employees, bearing interest ranging from 2.5% to 3.5%. The tenure of these loans range from 5 years to 25 years. The loans are generally secured by the assets acquired by the employees. Employee loan balances outstanding as of March 31, 2001, of Rs. 762 million (2000: Rs. 773 million) are included in other assets.

33. Off-balance sheet financial instruments

Foreign exchange and derivative contracts

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.

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.

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 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.

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:

(in millions)

Particulars	Notional principal amounts (Note 1)		Balance sheet credit exposure (Note 2)	
As of March 31,	*2000*	**2001**	*2000*	**2001**
Interest rate products				
Swap agreements (hedge contracts)	*Rs. 40,201*	**Rs. 48,860**	*Rs. —*	**Rs. —**
Swap agreements (traded contracts)	*—*	**1,570**	*—*	**(5)**
Total	*Rs. 40,201*	**Rs. 50,430**	*Rs. —*	**Rs. (5)**
Foreign exchange products				
Forward contracts (hedge contracts)	*Rs. 48,355*	**Rs. —**	*Rs. —*	**Rs. —**
Forward contracts (traded contracts)	*56,159*	**630**	*309*	**22**
Swap agreements (hedge contracts)	*30,552*	**23,429**	*—*	**—**
Total	*Rs. 135,066*	**Rs. 24,059**	*Rs. 309*	**Rs. 22**

(1) Notional amounts are key elements of derivative financial instrument agreements. However, notional amounts do not represent the amounts exchanged by the counterparties and do not measure the Company's exposure to credit or market risks. The amounts exchanged are based on the notional amounts and other terms of the underlying derivative agreements.

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

34. Estimated fair value of financial instruments

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.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could be realized in an immediate sale of the instruments.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Disclosure of fair values is not required for certain items such as investment accounted for under the equity method of accounting, obligations for pension and other post-retirement benefits, income tax assets and liabilities, property and equipment, prepaid expenses, core deposit intangibles and the value of customer relationships associated with certain types of consumer loans, particularly the credit card portfolio, and other intangible assets. Accordingly, the aggregate fair value amount presented do not purport to represent, and should not be considered representative of, the underlying market or franchise value of the Company. In addition, because of differences in methodologies and assumptions used to estimate fair values, the Company's fair values should not be compared to those of other financial institutions.

The following describes the methods and assumptions used by the Company in estimating the fair values of financial instruments.

Cash and cash equivalents

The carrying amounts reported in the balance sheet approximate fair values because maturities are less than three months.

Trading account assets and liabilities

Trading account assets and liabilities are carried at fair value in the balance sheet. Values for trading securities are generally based on quoted, or other independent, market prices. Values for interest rate and foreign exchange products are based on quoted, or other independent, market prices, or are estimated using pricing models or discounted cash flows.

Securities

Fair values are based primarily on quoted, or other independent, market prices. For certain debt and equity investments that do not trade on established exchanges, and for which markets do not exist, estimates of fair value are based upon management's review of the investee's financial results, condition and prospects.

Loans

The fair values of certain commercial and consumer loans are estimated by discounting the contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The carrying value of certain other loans approximates fair value due to the short-term and/or repricing characteristics of these loans. For impaired loans, the impairment is considered while arriving at the fair value.

Deposits

The carrying amount of deposits with no stated maturity or maturities of less than three months is considered to be equal to their fair value. Fair value of fixed-rate time deposits is estimated by discounting contractual cash flows using interest rates currently offered on the deposit products. Fair value for variable-rate time deposits approximates their carrying value. Fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of alternative forms of funding (core deposit intangibles).

Long-term debt, short-term borrowings and redeemable preferred stock

The fair value of the Company's debt, including short-term borrowings, is estimated based on quoted market prices for the issues for which there is a market, or by discounting cash flows based on current rate available to the Company for similar types of borrowing arrangements.

Off-balance sheet instruments

Fair values for off-balance sheet instruments are estimated based on quoted market prices or dealer quotes, and represent what the Company would receive or pay to execute a new agreement with similar terms considering current interest rates. The fair values of interest rate and foreign exchange contracts used to manage interest rate, currency and market risk are estimated based on market information and other relevant characteristics using pricing models.

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

(in millions)

	As of March 31, 2000		**As of March 31, 2001**	
	Carrying value	*Estimated fair value*	**Carrying value**	**Estimated fair value**
Financial assets				
Trading account assets	*Rs. 57,396*	*Rs. 57,396*	**Rs. 18,878**	**Rs. 18,878**
Securities (Note 1)	*18,871*	*18,925*	**20,115**	**20,172**
Loans (Note 2)	*561,448*	*571,453*	**602,023**	**603,810**
Other financial assets (Note 3)	*83,464*	*83,464*	**33,702**	**33,702**
Total	*Rs. 721,179*	*Rs. 731,238*	**Rs. 674,718**	**Rs. 676,562**

Continued

(in millions)

	As of March 31, 2000 Carrying value	As of March 31, 2000 Estimated fair value	**As of March 31, 2001 Carrying value**	**As of March 31, 2001 Estimated fair value**
Financial liabilities				
Interest-bearing deposits	Rs. 82,827	Rs. 83,217	**Rs. 6,072**	**Rs. 6,100**
Non-interest-bearing deposits	13,855	13,855	**—**	**—**
Trading account liabilities	19,263	19,263	**12,483**	**12,483**
Short-term borrowings	68,495	68,495	**87,512**	**88,025**
Long-term debt	436,320	455,604	**505,025**	**520,188**
Redeemable preferred stock	10,207	10,314	**698**	**709**
Other financial liabilities (Note 4)	12,333	12,333	**2,715**	**2,715**
Total	Rs. 643,300	Rs. 663,081	**Rs. 614,505**	**Rs. 630,220**
Derivatives (Note 5)				
Interest rate swaps		63		**280**
Currency swaps		(342)		**426**

Note 1: Includes non-readily marketable equity securities of Rs. 7,074 million (2000: Rs. 6,542 million) for which there are no readily determinable fair values.

Note 2: The carrying value of loans is net of the allowance for loan losses, security deposits and unearned income.

Note 3: Includes cash and cash equivalents and customers acceptance liability for which the carrying value is a reasonable estimate of fair value.

Note 4: Represents acceptances outstanding, for which the carrying value is a reasonable estimate of fair value.

Note 5: Represents the gains/losses on fair valuation of the end-user derivative products.

35. Future impact of new accounting standards

Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, is effective for ICICI from April 1, 2001. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities measured at fair value. The accounting for changes in the fair value of a derivative depends on the use of the derivative. Derivatives that are not designated as part of a hedging relationship must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, the effective portion of the hedge's change in fair value is either (1) offset against the change in fair value of the hedged asset, liability or firm commitment through income or (2) held in equity until the hedged item is recognized in income. The ineffective portion of a hedge's change in fair value is immediately recognized in income. A number of the derivatives entered into by the Company will not qualify as hedges under SFAS 133 and accordingly will be recorded at fair value with the changes accounted for in earnings. The initial transition adjustments required to adopt SFAS 133 will result in no income statement impact but will result in the adjustment in the carrying values of assets and liabilities to the extent of Rs. 706 million.

In September 2000, the FASB issued SFAS 140, Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No 125. Provisions of SFAS 140 primarily relating to transfer of financial assets and securitization that differ from provisions of SFAS 125 are effective for transfers taking place after March 31, 2001. SFAS 140 also provides revised guidance for an entity to be considered a qualifying special purpose entity (QSPE). The future impact of SFAS 140 on the consolidated financial statements of ICICI is not estimated to be material.

For and on behalf of the Board

N. VAGHUL
Chairman

K.V. KAMATH
Managing Director & CEO

LALITA D. GUPTE
Joint Managing Director & COO

KALPANA MORPARIA
Executive Director

S. MUKHERJI
Executive Director

SHALINI S. SHAH
General Manager

JYOTIN MEHTA
General Manager & Company Secretary

Mumbai, May 3, 2001