ICICI Bank

ICICI BANK CANADA

1ST ANNUAL REPORT AND ACCOUNTS 2004

Directors
K. V. Kamath, Chairman
Lalita D. Gupte
Bhargav Dasgupta
Madan Bhayana
Robert G. Long
John Thompson
David P. Smith
Hari Panday, President & CEO

Auditors
Ernst & Young LLP

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Exchange Tower
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Ontario M5X 1B1
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management's report

to the members

The management of ICICI Bank Canada (the "Subsidiary") have pleasure in presenting their first annual report, together with the financial statements and auditors' report, for the year ended December 31, 2004.

Principal Activities

Pursuant to the Bank Act of Canada, the Office of the Superintendent of Financial Institutions, which is the regulatory authority for all banks in Canada, granted Letters Patent of Incorporation to the Subsidiary, on September 12, 2003, and an Order to Commence and Carry On Business, on November 25, 2003. In addition, on September 24, 2003, the Canada Deposit Insurance Corporation admitted the Subsidiary to its membership, giving it the ability to mobilize retail deposits across Canada. As a wholly-owned subsidiary of ICICI Bank Limited (the "Parent"), it will initially operate five full-service branches in Canada; four of these branches will be located in the Greater Toronto Area and one of them is expected to be in the Greater Vancouver Area. The Subsidiary launched its branch operations in downtown Toronto on December 19, 2003, in Brampton on April 16, 2004 and in Scarborough on February 7, 2005.

Based in Toronto, Ontario, the Subsidiary provides a full range of personal and commercial financial services, including NRI services, to retail and commercial customers through its branch network, ATMs and the internet. Further, capitalizing on the Parent's leadership, the Subsidiary offers a suite of remittance and trade finance products, and other innovative products, using the Parent's network in India and around the world, along with world class service to its domestic and overseas customers.

Directors and Corporate Secretary

The names of the Directors and Corporate Secretary of the Subsidiary are as follows:
K. V. Kamath, Chairman
Lalita D. Gupte
Bhargav Dasgupta
Madan Bhayana
Robert G. Long
John Thompson
David P. Smith
Hari Panday, President & CEO
Atul Chandra, Corporate Secretary

Directors' Interest

None of the Directors of the Subsidiary has any interest in its share capital.

Share Capital

The Subsidiary is authorized to issue an unlimited number of common shares without par value and an unlimited number of non-voting preferred shares without par value.

The Subsidiary has issued 22 million common shares and 10 million series A preferred shares to its Parent, and these shares have been fully subscribed. These preferred shares are not redeemable at the option of the Subsidiary, prior to 10 years since their issuance, and bear a fixed non-cumulative cash dividend of 1% per annum. No cash dividend has been paid on these preferred shares.

ATUL CHANDRA
Corporate Secretary

auditors' report

To the Shareholder of ICICI Bank Canada

We have audited the balance sheet of ICICI Bank Canada [the "Bank"] as at December 31, 2004 and the statements of operations, changes in shareholder's equity and cash flows for the period from September 12, 2003 to December 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2004 and the results of its operations and its cash flows for the period from September 12, 2003 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada, March 10, 2005 — *Chartered Accountants*

balance sheet

ICICI Bank

as at December 31, 2004

	December 31, 2004 (Rs. in '000s)
Assets	
Cash *[note 2]*	15,985
Deposits with regulated financial institutions	
Interest bearing	285,954
Non-interest bearing	110,953
	412,892
Securities	
Investment account *[note 3]*	2,189,522
Loans, net of allowance for credit losses *[note 4]*	
Commercial loans and commercial mortgages	1,506,408
Residential mortgages	140,469
Personal	44,274
	1,691,151
Other	
Fixed assets, net *[note 5]*	79,887
Other assets *[note 6]*	141,407
	221,294
	4,514,859
LIABILITIES AND SHAREHOLDER'S EQUITY	
Liabilities	
Deposits *[note 7]*	
Personal	1,371,063
Commercial	201,124
	1,572,187
Other	
Borrowings *[note 9]*	2,168,558
Accounts payable and accrued liabilities	77,072
	2,245,630
Shareholder's equity	
Share capital *[note 8]*	
Preferred shares	360,825
Common shares	541,238
Deficit	(205,021)
Total shareholder's equity	697,042
	4,514,859

For Ernst & Young LLP
Chartered Accountants
Toronto, Canada, March 10, 2005

For and on behalf of the Board
R. G. Long, *Director*
Hari Pandey, *Director*

statement of operations

Period from September 12, 2003 to December 31, 2004

	December 31, 2004 (Rs. in '000s)
Interest income	
Deposits with regulated financial institutions	7,902
Securities	24,067
Loans	15,588
	47,557
Interest expenses	
Deposits	7,361
Short-term borrowings	10,067
Net interest income	30,129
Non-interest income *[note 10]*	17,031
	47,160
Provision for credit losses *[note 4]*	10,428
	36,732
Non-interest expenses	
Salaries and benefits	143,103
Marketing and business development	36,083
Data processing fees	28,433
General and administrative	26,015
Professional fees	21,541
Depreciation	19,701
Occupancy costs	17,680
Call center and outsourcing	11,258
Travel, moving & entertainment	7,902
Communication	6,964
Provincial capital tax	5,665
	324,345
Loss before income taxes	(287,613)
Recovery of (provision for) income taxes *(note 11)*	
Current	(1,624)
Future	84,216
	82,592
Net loss for the period	(205,021)

For Ernst & Young LLP
Chartered Accountants
Toronto, Canada, March 10, 2005

For and on behalf of the Board
R. G. Long, *Director*
Hari Pandey, *Director*

statement of changes in shareholder's equity

Period from September 12, 2003 to December 31, 2004

Common Shares *[note 8]*	
Issued during the period	541,238
Balance, end of period	541,238
Preferred Shares *[note 8]*	
Issued during the period	360,825
Balance, end of period	360,825
Deficit	
Net loss for the period	(205,021)
Balance, end of period	(205,021)

statement of cash flows

Period from September 12, 2003 to December 31, 2004

Operating Activities	
Net loss for the period	(205,201)
Adjustments for	
Provision for credit losses	10,428
Depreciation	19,701
Future income taxes	(84,216)
Other items, net	19,881
Cash used in operating activities	(239,227)
Financing Activities	
Deposits	1,572,187
Borrowings	2,168,558
Proceeds from issuance of preferred shares	360,825
Proceeds from issuance of common shares	541,238
Cash provided by financing activities	4,642,808
Investing Activities	
Purchase of interest-bearing deposits	(285,954)
Purchase of investment securities	(2,189,522)
Loans, net	(1,701,579)
Purchase of fixed assets	(99,588)
Cash used in investing activities	(4,276,643)
Net increase in cash and cash equivalents during the period	
Cash and cash equivalents, beginning of period	126,938
Cash and cash equivalents, end of period	—
Total	126,938
Represented by	
Cash	15,985
Non-interest bearing deposits with regulated financial institutions	110,953
Supplemental cash flow information	
Interest paid	4,691
Income taxes paid	7,253

1. NATURE OF OPERATIONS

Pursuant to the Bank Act, the financial statements of ICICI Bank Canada [the "Bank"] have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"] except as otherwise specified by the Superintendent of Financial Institutions, Canada ["OSFI"]. To facilitate a better understanding of the financial statements, the significant accounting policies, all of which are in accordance with Canadian GAAP (including the accounting requirements of OSFI), have been included below with the notes related to their financial statement captions. Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Bank is a wholly-owned subsidiary of ICICI Bank Limited [the "Parent"]. OSFI granted the Bank its Letters Patent of Incorporation on September 12, 2003, and an Order to Commence and Carry on Business on November 25, 2003. The Bank launched its operations on December 19, 2003.

2. CASH AND CASH EQUIVALENTS

The Bank considers cash and cash equivalents to represent cash balances on hand and non-interest bearing deposits with regulated financial institutions due on demand.

3. SECURITIES

Securities are classified, based on management's intentions, as either investment account securities or trading account securities.

Investment account securities comprise debt and equity securities, originally purchased with the intention of holding to maturity or for a pre-determined period of time, which may be sold in response to changes in investment objectives arising from changing market conditions or to meet liquidity requirements. Debt securities are carried at amortized cost and equity securities are carried at cost. The straight-line method is used for the amortization of premiums and discounts on debt securities. Interest income is recorded on anaccrual basis.The composition and maturity profile of investment account securities is as follows:

	December 31, 2004			
	Under 1 year	1 to 5 years	Over 5 years	Total securities
	Rs.	Rs.	Rs.	Rs.
Government guaranteed	—	1,145,908	—	1,145,908
Commercial paper	1,043,614	—	—	1,043,614
	1,043,614	1,145,908	—	2,189,522

The fair values of securities are based on quoted market prices where available; otherwise, fair values are estimated using quoted market values for similar securities or other third party evidence, as available. The fair market value of the above securities is tabled below:

	December 31, 2004		
	Book value	Market value	Gross unrealized gain
	Rs.	Rs.	Rs.
Government guaranteed	1,145,908	1,160,052	14,144
Commercial paper	1,043,614	1,045,635	2,021
	2,189,522	2,205,687	16,165

Trading account securities, purchased for resale in the near term, are reported at estimated fair value. No trading account securities were held at the balance sheet date.

4. LOANS

Loans are stated net of an allowance for credit losses. Interest income is accounted for on an accrual basis and included in other assets.

Loan fees received from the commercial clients for term loans, demand loans, mortgages, and operating lines of credit are deferred and recognized over the term of a loan. Upon approval of the credit facility, fee income is amortized over the term of the loan, except for demand loans which are amortized over a 12-month period. Non-refundable loan fees received from commercial clients are booked directly to other income if the credit facility is not approved. The unamortized portion of loan fees is shown as other liabilities including those fees received from those commercial clients for whom credit facility application is still in process. At December 31, 2004, unamortized loan fees were Rs.10,139.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. An allowance for credit losses is maintained at a level that management considers adequate to absorb identified credit related losses as well as losses that have been incurred but not yet identifiable. This allowance relates primarily to loans, but also to other credit instruments such as letters of credit, and is either specific or general. During the period ended December 31, 2004, there were no write-offs of loan balances. The following loans were impaired at the balance sheet date and specific provisions were created against these loans. There is no further interest accrued on these loans.

	December 31, 2004	
	Gross Loans	Specific Provisions
	Rs.	Rs.
Personal loans	1,227	(1,227)
Lines of credit	1,263	(1,263)
	2,490	(2,490)

For loans not yet covered by a specific provision, management has recorded a general allowance based on estimated loss factors to recognize probable credit losses to be incurred on its portfolio.

	December 31, 2004			
	Estimated loss factor	Gross amount	Allowance for credit losses	Net amount
	%	Rs.	Rs.	Rs.
Commercial loans and commercial mortgages	0.40	1,512,470	(6,062)	1,506,408
Residential mortgages	0.25	140,830	(361)	140,469
Personal	0.25	44,418	(144)	44,274
		1,697,718	(6,567)	1,691,151
Commercial (unfunded commitments)	1.00	131,124	(1,335)	129,789
Personal (unfunded commitments)	0.25	15,551	(36)	15,515
Total commitments for credit related arrangements		146,675	(1,371)	145,304

Commitments for credit related arrangements include an unused portion of commercial and personal lines of credit, letters of credit facility to commercial clients, imports bills for collection, and standby letters of guarantee.

5. FIXED ASSETS

Fixed assets are carried at cost less accumulated depreciation, which is calculated by using the straight-line method over the estimated useful lives of the assets.

	Useful life	Cost Rs.	Accumulated depreciation Rs.	Net book value Rs.
Computer hardware and software	3 years	57,011	(13,567)	43,444
Furniture, fixtures and equipment	5 years	22,876	(3,031)	19,845
Leasehold improvements	Lease term	19,701	(3,103)	16,598
		99,588	(19,701)	79,887

6. OTHER ASSETS

Other assets are comprised of future income tax asset of Rs. 84,217 *[note 11]*, unamortized prepaid expenses and deposits of Rs. 11,546, accrued interest on loans and investments of Rs. 22,696 and derivatives of Rs. 22,948.

7. DEPOSITS

Deposit balances for current, savings, and term deposits are tabled below:

	2004				
	Payable on demand				
	Non-Interest bearing Rs.	Payable interest bearing Rs.	Payable after notice Rs.	on fixed date Rs.	Total deposits Rs.
Personal	55,712	—	1,061,258	254,093	1,371,063
Commercial	93,165	—	15,732	79,887	188,784
Parent *[note 9]*	—	12,340	—	—	12,340
	148,877	12,340	1,076,990	333,980	1,572,187

The maturity profile of fixed term deposits is as follows:

	Under 1 year Rs.	1 to 5 years Rs.	Over 5 years Rs.	Total Rs.
Payable on fixed date	199,969	128,598	5,413	333,980

8. SHARE CAPITAL

The Bank is authorized to issue an unlimited number of common shares without par value and an unlimited number of non-voting preferred shares without par value.

The Bank issued 15 million common shares and 10 million series A preferred shares for cash consideration to its Parent, and these shares have been fully subscribed. The preferred shares are not redeemable at the option of the Bank, prior to 10 years since their issuance, and bear a fixed non-cumulative cash dividend of 1% per annum. No cash dividends have been declared to date.

OSFI must approve any plan to redeem any of the Bank's preferred shares for cash. The Bank is prohibited from declaring dividends on its preferred or common shares when it would be, as a result of paying such a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act.

9. RELATED PARTY TRANSACTIONS

The Parent held a non-interest bearing deposit of Rs. 12,340 *[note 7]* with the Bank. In addition, the Bank holds borrowings of Rs. 2,168,558 (US$50,000) payable to the Parent within one year. The borrowings from the Parent bear interest at 2.4% to 3.0% per annum. The Bank incurred interest expense of Rs. 10,067 related to the borrowings through December 31, 2004.

In addition to the deposit and borrowing activities, the Bank also transacts with the Parent for various services including legal, call center, information technology systems, system development, internet banking development and internal audit services. Through December 31, 2004, the Bank has incurred costs of Rs. 32,763 related to these services of which Rs. 10,392 remain payable at December 31, 2004. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

From the period of incorporation through November 25, 2004, costs of Rs. 43,299,000 related to organizational expenses were borne directly by the Parent and are not required to be reimbursed by the Bank.

10. NON-INTEREST INCOME

Non-interest income includes loan fees, personal and commercial service charges, safety deposit box rentals, trade finance fees, gains on foreign exchange transactions, and gains on sale of securities. Income is accounted for on an accrual basis.

	Period from September 12, 2003 to December 31, 2004 Rs.
Loan fees, safety deposit box services, and service charges	2,165
Trade finance fees	3,789
Foreign exchange gains	5,484
Gains on sale of securities	5,593
	17,031

11. INCOME TAXES

The Bank uses the asset and liability method of accounting for income taxes whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for book purposes compared with their carrying amounts for tax purposes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income or expense are expected to be realized. Net future income taxes accumulated as a result of these temporary differences are included in other assets or other liabilities.

A valuation allowance is established to reduce future income tax assets to an amount that is more likely than not to be realized. A future income tax asset of Rs. 84,217 has been recorded, net of a valuation allowance of Rs. 18,835, using the enacted tax rate of 36.12%.

The Bank's provision for (recovery of) income taxes for the period ended December 31, 2004 compared to the combined Canadian federal and provincial statutory rate is summarized as follows:

	Period from September 12, 2003 to December 31, 2004 Rs.
Current income taxes	1,624
Future income taxes	(84,217)
	(82,593)

Significant components of the Bank's future income tax assets are as follows:

	2004 Rs.
Fixed assets	7,036
Loan origination deferred fees	3,681
Non-capital losses carried forward	89,376
Allowance for credit losses	2,959
Future income tax asset	103,052
Less valuation allowance	(18,835)
Net future income tax asset	84,217

The following table reconciles income taxes at the combined Canadian federal and provincial statutory rate with the recovery of income taxes in the financial statements:

	2004 Rs.
Income taxes at statutory tax rate	(103,882)
Permanent differences	830
Large corporations tax	1,624
Valuation allowance	18,835
Recovery of income taxes	(82,593)

At December 31, 2004, the Bank has non-capital loss carryforwards of Rs. 247,490 for tax purposes. If not utilized, these losses will expire as follows:

	Rs.
2010	902
2014	246,588

The benefits associated with these loss carryforwards have been substantially recognized to date within the financial statements.

12. FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the Bank of Canada exchange rates at the balance sheet date. Revenue and expense amounts denominated in foreign currencies are translated using an average monthly exchange rate. Realized and unrealized gains and losses resulting from translation are included in the statement of operations.

13. GUARANTEE FACILITY

The Parent has provided a guarantee of Rs. 360,825 to Royal Bank of Canada, securing the credit facilities that it may extend to the Bank.

14. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of securities are disclosed in Note 3 and the fair values of derivatives are disclosed in Note 15. The estimated fair values of all variable rate loans, deposits and borrowings approximate their book values. The book values and fair values for fixed rate loans and deposits at December 31, 2004 are as follows:

	Book value Rs.	Fair value Rs.	Fair Value over book value Rs.
Fixed rate loans	1,364,496	1,347,717	(16,779)
Fixed rate deposits	333,980	337,840	3,861

15. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank uses derivative financial instruments, primarily over-the counter forward contracts and cross currency swaps to manage its exposure to currency fluctuations, as part of the Bank's asset liability management program.

The Bank economically hedges exposures on foreign currency denominated assets and liabilities by entering into offsetting foreign currency forward or swaps contracts. At the balance sheet date, other assets and other liabilities of Rs. 22,948 and Rs. 8,985, respectively, representing market valuations of foreign currency swaps and forward contracts, were recognized. These derivatives are not designated for hedge accounting and are carried at fair value with changes in fair value being recorded in non-interest income.

Notional amounts of forward and swap contracts serve as reference for calculating payments and are a common measure of business volume. The following is a summary of the notional amounts, by remaining term to maturity, of the Bank's derivative positions at the balance sheet date:

	Under 1 year Rs.
Forward contracts	285,376
Cross currency swaps	2,082,429
	2,367,805

The following is a summary of the fair value of the Bank's derivative portfolio at the balance sheet date, classified by positive and negative fair value:

	Positive fair value Rs.	Negative fair value Rs.	Net fair value Rs.
Forward contracts	11,258	1,155	10,103
Cross currency swaps	11,691	7,830	3,861
	22,949	8,985	13,964

Current replacement cost is the positive fair value of outstanding derivative financial instruments, which represents the Bank's derivative credit exposure.

Credit equivalent amount is the current replacement cost for favourable contracts plus an amount for future credit exposure associated with the potential for future changes in currency rates for the contracts. Future credit exposure is calculated using a formula prescribed by OSFI.

Risk-weighted amount represents the credit equivalent amount weighted according to the credit worthiness of the counterparty, using factors prescribed by OSFI.

Substantially all of the Bank's counterparties to derivative instruments represent large Canadian financial institutions. The following is a summary of the Bank's derivative positions and related credit exposures at the balance sheet date:

	Current replacement cost Rs.	Credit equivalent amount Rs.	Risk-weighted amount Rs.
Forward contracts	11,258	14,397	7,180
Cross currency swaps	11,691	32,871	16,454
	22,949	47,268	23,634

16. CONTRACTUAL REPRICING AND MATURITY SCHEDULE

The table below details the Bank's exposure to interest rate risk. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed-rate instruments and current market rates for floating-rate instruments.

ICICI Bank

Carrying amount [earlier of contractual repricing or maturity date]

	Floating rate Rs.	Under 3 months Rs.	3 to 6 months Rs.	Over 6 to 12 months Rs.	Over 1 to 5 years Rs.	Over 5 years Rs.	Non-interest sensitive Rs.	Total Rs.
ASSETS								
Cash and deposits		285,954					126,938	412,892
Interest rate		2.38%						
Securities		1,043,614			1,145,908			2,189,522
Interest rate		2.59%			4.07%			
Loans, net	340,655	118,603			578,042	653,851		1,691,151
Interest rate	4.84%	4.20%			5.01%	5.16%		
Fixed assets, net							79,887	79,887
Other assets							141,407	141,407
Total assets	340,655	1,448,171			1,723,950	653,851	348,232	4,514,859
LIABILITIES AND SHAREHOLDER'S EQUITY								
Deposits	1,225,867	20,567	27,170	152,232	128,598	5,412	12,340	1,572,187
Interest rate	2.75%	2.91%	3.36%	3.15%	3.07%	2.99%		
Borrowings			1,517,991	650,567				2,168,558
Interest rate			2.68%	3.04%				
Accounts payable and accrued liabilities							77,072	77,072
Shareholder's equity							697,042	697,042
Total liabilities and shareholder's equity	1,225,867	20,567	1,545,161	802,799	128,598	5,412	786,454	4,514,859
Total gap	(885,212)	1,427,604	(1,545,161)	(802,799)	1,595,352	648,439	(438,222)	—

17. LEASE COMMITMENTS

Future minimum annual rental commitments for premises and equipment under long-term non-cancellable operating leases for the next five years and thereafter are shown below:

	Rs.
2005	26,773
2006	29,840
2007	29,624
2008	29,443
2009	26,088
2010 and thereafter	57,335

18. SUBSEQUENT EVENT

On February 4, 2005, the Bank issued 7 million common shares for cash consideration to its Parent resulting in an increase to share capital of Rs. 252,577,500.

Note : The financials have been converted into Indian Rupees for the sole purpose of holding Company at the rate of 1 CAD = Rs. 36.0825.