ICICI BANK CANADA

2ND ANNUAL REPORT AND ACCOUNTS 2005

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

Registered Office
Exchange Tower
130 King Street West
Suite 2130
Toronto
Ontario M5X 1B1
Canada

management's report

to the members

The management of ICICI Bank Canada (the "Subsidiary") have pleasure in presenting their second annual report, together with the financial statements and auditors' report, for the year ended December 31, 2005.

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 currently operates five full-service branches in Canada; four of these branches are located in the Greater Toronto Area and one is in Vancouver. The Subsidiary launched branch operations in downtown Toronto on December 19, 2003, in Brampton on April 16, 2004, in Scarborough on February 7, 2005, on Gerrard Street in Toronto on August 2, 2005, and in downtown Vancouver on October 5, 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, 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 63.5 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, 2005 and the statements of operations, changes in shareholder's equity and cash flows for the year then ended. 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG LLP
Chartered Accountants

Toronto, Canada, February 13, 2006.

balance sheet

as at December 31, 2005

(Rs. in '000s)

	2005	2004
ASSETS		
Cash [note 2]	**40,204**	*16,265*
Deposits with regulated financial institutions		
Interest bearing	**215,192**	*290,974*
Non-interest bearing	**349,168**	*112,901*
	604,564	*420,140*
Securities		
Investment account [note 3]	**7,225,028**	*2,227,958*
Loans, net of allowance for credit losses [note 4]		
Commercial loans, commercial mortgages and corporate loans	**10,203,312**	*1,522,535*
Residential mortgages	**7,866,125**	*142,935*
Personal	**94,176**	*45,050*
	18,163,613	*1,710,520*
Other		
Fixed assets, net [note 5]	**144,073**	*81,289*
Other assets [note 6]	**572,217**	*143,890*
	716,290	*225,179*
	26,709,495	*4,583,797*
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Deposits [note 7]		
Personal	**18,255,990**	*1,395,131*
Commercial	**5,675,360**	*192,098*
Interbank deposits	**113,525**	*12,556*
	24,044,875	*1,599,785*
Other		
Borrowings [note 9]	**-**	*2,206,626*
Accounts payable and accrued liabilities	**503,889**	*68,108*
	503,889	*2,274,734*
Shareholder's equity		
Share capital [note 8]		
Preferred shares	**367,159**	*367,159*
Common shares	**2,331,460**	*550,739*
Deficit	**(537,888)**	*(208,620)*
	2,160,731	*709,278*
	26,709,495	*4,583,797*

See accompanying notes

For Ernst & Young LLP
Chartered Accountants

Toronto, Canada, February 13, 2006

For and on behalf of the Board

Director *Director*

statement of changes in shareholder's equity

(Rs. in '000s)

	Year ended December 31, 2005	*Period from September 12, 2003*
Common shares [note 8]		
Balance, beginning of period	**550,739**	-
Issued during the period	**1,780,721**	*550,739*
Balance, end of period	**2,331,460**	*550,739*
Preferred shares [note 8]		
Balance, beginning of period	**367,159**	-
Issued during the period	**-**	*367,159*
Balance, end of period	**367,159**	*367,159*
Deficit		
Balance, beginning of period	**(208,620)**	-
Net loss for the period	**(329,268)**	*(208,620)*
Balance, end of period	**(537,888)**	*(208,620)*

See accompanying notes

statement of operations

(Rs. in '000s)

	Year ended December 31, 2005	*Period from September 12, 2003*
Interest income		
Loans	**340,687**	*15,861*
Securities	**197,752**	*24,490*
Deposits with regulated financial institutions	**14,246**	*8,041*
	552,685	*48,392*
Interest expenses		
Deposits	**340,063**	*7,490*
Short-term borrowings [note 9]	**40,718**	*10,244*
	380,781	*17,734*
Net interest income	**171,904**	*30,658*
Non-interest income [note 10]	**100,014**	*17,330*
	271,918	*47,988*
Provision for credit losses [note 4]	**46,996**	*10,611*
	224,922	*37,377*
Non-interest expenses		
Salaries and benefits	**273,276**	*145,615*
Marketing and business development	**131,737**	*36,716*
General and administrative	**51,109**	*26,472*
Call center and outsourcing	**41,746**	*11,455*
Occupancy costs	**43,692**	*17,991*
Depreciation	**38,258**	*20,047*
Data processing fees	**34,917**	*28,932*
Professional fees	**21,846**	*21,919*
Amortization of deposit broker commissions	**20,561**	-
Travel, moving and entertainment	**17,403**	*8,041*
Communication	**10,023**	*7,086*
Provincial capital tax	**9,693**	*5,764*
	694,261	*330,039*
Loss before income taxes	**(469,339)**	*(292,662)*
Provision for (recovery of) income taxes [note 11]		
Current	**257**	*1,652*
Future	**(140,328)**	*(85,695)*
	(140,071)	*(84,043)*
Net loss for the period	**(329,268)**	*(208,620)*

See accompanying notes

For Ernst & Young LLP
Chartered Accountants

Toronto, Canada, February 13, 2006

For and on behalf of the Board

Director *Director*

statement of cash flows

(Rs. in '000s)

	Year ended December 31, 2005	*Period from September 12, 2003*
OPERATING ACTIVITIES		
Net loss for the period	**(329,268)**	*(208,620)*
Adjustments for		
Provision for credit losses	**46,996**	*10,611*
Depreciation	**38,258**	*20,047*
Future income taxes	**(140,328)**	*(85,695)*
Gain on sale of securities and commodities	**(19,533)**	*(5,691)*
Amortization of deposit broker commissions	**20,561**	-
Other items, net	**16,926**	*25,922*
Cash used in operating activities	**(366,388)**	*(243,426)*
FINANCING ACTIVITIES		
Deposits	**22,445,091**	*1,599,784*
Payment of deposit broker commissions	**82,831**	-
Borrowings	**(2,206,626)**	*2,206,626*
Proceeds from issuance of preferred shares		*367,159*
Proceeds from issuance of common shares	**1,780,721**	*550,739*
Cash provided by financing activities	**22,102,017**	*4,724,308*
INVESTING ACTIVITIES		
Net redemption (purchase) of interest-bearing deposits	**75,782**	*(290,975)*
Purchase of investment securities	**(11,517,778)**	*(3,739,771)*
Proceeds from sale of securities and commodities	**6,520,707**	*1,511,814*
Loans, net	**(16,453,092)**	*(1,731,448)*
Purchase of fixed assets	**(101,042)**	*(101,336)*
Cash used in investing activities	**(21,475,423)**	*(4,351,716)*
Net increase in cash and cash equivalents during the period	**260,206**	*129,166*
Cash and cash equivalents, beginning of period	**129,166**	-
Cash and cash equivalents, end of period	**389,372**	*129,166*
Represented by		
Cash	**40,204**	*16,265*
Non-interest bearing deposits with regulated financial institutions	**349,168**	*112,901*
Supplemental cash flow information		
Interest paid	**218,900**	*4,773*
Income taxes paid	**9,106**	*7,380*

See accompanying notes

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.

Certain amounts within the comparative 2004 financial statement captions have been reclassified to conform with the 2005 financial statement classifications.

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 an accrual basis. The composition and maturity profile of investment account securities are as follows:

	2005			
	Under 1 year Rs.	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Total securities Rs.**
Government guaranteed	**1,049,047**	**—**	**—**	**1,049,047**
Commercial paper	**1,199,435**	**—**	**—**	**1,199,435**
Corporate bonds	**—**	**969,593**	**1,103,313**	**2,072,906**
Credit linked notes	**—**	**2,903,640**	**—**	**2,903,640**
	2,248,482	**3,873,233**	**1,103,313**	**7,225,028**

	2004			
	Under 1 year Rs.	*1 to 5 years Rs.*	*Over 5 years Rs.*	*Total securities Rs.*
Government guaranteed	*—*	*1,166,024*	*—*	*1,166,024*
Commercial paper	*1,061,934*	*—*	*—*	*1,061,934*
	1,061,934	*1,166,024*	*—*	*2,227,958*

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. When a security's book value exceeds market value, a write-down in book value will occur when it has been determined that there has been an other-than-temporary impairment. The fair market value of the above securities is tabled below:

	2005			
	Book value Rs.	**Market value Rs.**	**Gross unrealized gain Rs.**	**Gross unrealized loss Rs.**
Government guaranteed	**1,049,047**	**1,045,559**	**—**	**-3,488**
Commercial paper	**1,199,435**	**1,199,251**	**—**	**-184**
Corporate bonds	**2,072,906**	**2,042,285**	**—**	**-30,621**
Credit linked notes	**2,903,640**	**2,904,338**	**698**	**—**
	7,225,028	**7,191,433**	**698**	**-34,293**

	2004			
	Book value Rs.	*Market value Rs.*	*Gross unrealized gain Rs.*	*Gross unrealized loss Rs.*
Government guaranteed	*1,166,024*	*1,180,416*	*14,393*	*—*
Commercial paper	*1,061,934*	*1,063,990*	*2,056*	*—*
	2,227,958	*2,244,406*	*16,449*	*—*

At December 31, 2005 securities held included corporate bonds and credit linked notes of Rs.379,385 and Rs.2,903,640 respectively, denominated in U.S. dollars (U.S.$8,885 and U.S.$68,000, respectively).

Gains realized from securities sold during 2005 included corporate bonds and government guaranteed securities of Rs.17,844 and Rs.514, respectively. Losses from the sale of commercial paper of Rs.110 were realized during 2005.

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 in 2005 or 2004.

4. **LOANS**

Loans are stated net of an allowance for credit losses. Interest income is accounted for on an accrual basis and interest receivable is 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.

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 are 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, 2005 and 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.

	2005		*2004*	
	Gross loans Rs.	**Specific provisions Rs.**	*Gross loans Rs.*	*Specific provisions Rs.*
Personal loans	**1,579**	**(1,579)**	*1,248*	*(1,248)*
Personal lines of credit	**1,358**	**(1,358)**	*1,285*	*(1,285)*
Commercial lines of credit	**4,296**	**(4,296)**	*—*	*—*
	7,233	**(7,233)**	*2,533*	*(2,533)*

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.

	2005					
	Estimated loss factor %	Gross amount Rs.	General allowance Rs.	Specific allowance Rs.	Deferred loan fees Rs.	Net amount Rs.
Commercial loans and commercial mortgages	**0.40%**	**4,527,474**	**(18,064)**	**(4,296)**	**(8,812)**	**4,496,302**
Corporate loans	**0.50%**	**5,786,830**	**(28,932)**	**—**	**(50,888)**	**5,707,010**
Conventional residential mortgages	**0.25%**	**622,224**	**(1,542)**	**—**	**—**	**620,682**
Insured residential mortgages	**0%**	**7,245,442**	**—**	**—**	**—**	**7,245,442**
Personal	**0.25%**	**97,334**	**(220)**	**(2,937)**	**—**	**94,177**
		18,279,305	**(48,759)**	**(7,233)**	**(59,700)**	**18,163,613**
Commercial (unfunded commitments)	**1.00%**	**143,339**	**(1,469)**	**—**	**—**	**141,870**
Personal (unfunded commitments)	**0.25%**	**33,448**	**(110)**	**—**	**—**	**33,338**
Total commitments for credit related arrangements		**176,787**	**(1,579)**	**—**	**—**	**175,208**

	2004					
	Estimated loss factor %	*Gross amount Rs.*	*General allowance Rs.*	*Specific allowance Rs.*	*Deferred loan fees Rs.*	*Net amount Rs.*
Commercial loans and commercial mortgages	*0.40%*	*1,539,020*	*(6,168)*	*—*	*(10,317)*	*1,522,535*
Conventional residential mortgages	*0.25%*	*143,302*	*(367)*	*—*	*—*	*142,935*
Personal	*0.25%*	*47,730*	*(147)*	*(2,533)*	*—*	*45,050*
		1,730,052	*(6,682)*	*(2,533)*	*(10,317)*	*1,710,520*
Commercial (unfunded commitments)	*1.00%*	*133,426*	*(1,358)*	*—*	*—*	*132,068*
Personal (unfunded commitments)	*0.25%*	*15,825*	*(37)*	*—*	*—*	*15,788*
Total commitments for credit related arrangements		*149,251*	*(1,395)*	*—*	*—*	*147,856*

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.

As at December 31, 2005 the Bank held loans, net of allowances, denominated in U.S. dollars, British pounds and Japanese yen of Rs.4,023,695 (U.S.$94,231), Rs.788,658 (£10,746) and Rs.1,038,436 (¥2,869,285), respectively.

Following is a summary of the changes in the allowance for credit losses during the year ended December 31:

	2005 Rs.	*2004 Rs.*
Balance, beginning of year	**9,216**	*—*
Provision for credit losses	**46,813**	*9,216*
Recoveries	**(37)**	*—*
Balance, end of year	**55,992**	*9,216*

The provision for credit losses within the statement of operations includes provisions for funded loans reflected in this table and also includes provisions for unfunded commitments of Rs.183 and Rs.1,395 for the years ended December 31, 2005 and 2004, respectively.

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.

	2005				*2004*
	Useful life	Cost Rs.	Accumulated depreciation Rs.	Net book value Rs.	*Net book value Rs.*
Computer hardware and software	**3 years**	**75,525**	**(36,202)**	**39,323**	*44,206*
Furniture, fixtures and Equipment	**5 years**	**47,547**	**(10,097)**	**37,450**	*20,194*
Leasehold improvements	**Lease term**	**79,306**	**(12,006)**	**67,300**	*16,889*
		202,378	**(58,305)**	**144,073**	*81,289*

6. OTHER ASSETS

Other assets are comprised of the following:

	2005 Rs.	*2004 Rs.*
Future income tax asset [note 11]	**225,986**	*85,695*
Accrued interest on loans	**140,402**	*23,095*
Prepaid expenses and deposits	**116,279**	*11,749*
Derivatives [note 15]	**89,550**	*23,351*
	572,217	*143,890*

7. DEPOSITS

Interest expense is accounted for on an accrual basis. Deposit balances for current, savings, and term deposits are tabled below:

	2005				
	Payable on demand				
	Interest bearing Rs.	Non-interest bearing Rs.	Payable after notice Rs.	Payable on fixed date Rs.	Total deposits Rs.
Personal	**48,722**	**—**	**10,247,371**	**7,959,897**	**18,225,990**
Commercial	**125,274**	**—**	**216,624**	**742,910**	**1,084,808**
Commercial – broker	**—**	**—**	**—**	**4,590,552**	**4,590,552**
Interbank	**—**	**107,981**	**—**	**—**	**107,981**
Interbank - Parent [note 9]	**—**	**5,544**	**—**	**—**	**5,544**
	173,996	**113,525**	**10,463,995**	**13,293,359**	**24,044,875**

	2004				
	Payable on demand				
	Interest bearing Rs.	*Non-interest bearing Rs.*	*Payable after notice Rs.*	*Payable on fixed date Rs.*	*Total deposits Rs.*
Personal	*56,689*	*—*	*1,079,888*	*258,553*	*1,395,130*
Commercial	*94,801*	*—*	*16,008*	*81,289*	*192,098*
Parent [note 9]		*12,557*	*—*	*—*	*12,557*
	151,490	*12,557*	*1,095,896*	*339,842*	*1,599,785*

The maturity profile of fixed term deposits is as follows:

	2005			
	Under 1 year Rs.	1 to 5 years Rs.	Over 5 years Rs.	Total Rs.
Payable on fixed date	**6,098,768**	**7,084,443**	**—**	**13,183,211**

The Bank sources certain deposit balances through the use of brokers. Upon the placement of a deposit with the Bank, a broker will earn a commission. As the broker commission on deposits represents a cost of funding, the Bank amortizes such commissions over the life of the related deposit. At December 31, 2005, the Bank had unamortized broker commissions on deposits of Rs.77,471 [2004 - nil] classified within other assets in the balance sheet.

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.

At December 31, 2005 the Bank has issued 63.5 million common shares (2004 – 15 million) and 10 million series A preferred shares (2004 – 10 million) 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.5,544 (2004 - Rs.12,556) *[note 7]* with the Bank. In addition, at December 31, 2004 the Bank had borrowings of Rs.2,206,626 (U.S. Rs.50,000) payable to the Parent within one year, which were repaid during 2005. The borrowings from the Parent bore interest at rates ranging from 2.4% to 3.0% per annum. The Bank incurred interest expense of Rs.40,718 (2004 - Rs.10,244) related to the borrowings during the year ended December 31, 2005.

In addition to the deposit and borrowing activities, the Bank also transacts with the Parent for various services including legal, call center, information technology system development and maintenance, treasury middle office, internet banking development and internal audit services. Through December 31, 2005, the Bank has incurred costs of Rs.43,141 (2004 - Rs.33,338) related to these services of which Rs.19,129 (2004 - Rs.10,574) remain payable at December 31, 2005. These transactions are in the normal course of operations and are measured at fair value, as agreed to by the related parties.

From the period of incorporation through November 25, 2004, costs of Rs. 44.06 million 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 is recorded on an accrual basis and includes the following:

	2005 Rs.	*2004 Rs.*
Gain on sale of mortgages	**45,711**	*—*
Gain on sale of securities and commodities	**19,533**	*5,691*
Loan fees, safety deposit box services and service charges	**12,630**	*2,203*
Trade finance and remittance fees	**11,529**	*3,855*
Foreign exchange gains, net	**10,611**	*5,581*
	100,014	*17,330*

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 the future income tax asset to an amount that is more likely than not to be realized. A future income tax asset of Rs. 225,986 (2004 - Rs.85,695) has been recorded, net of a valuation allowance of Rs. 47,878 (2004 - Rs.19,166), using the enacted tax rate of 36.12%.

The Bank's provision for (recovery of) income taxes for the period ended December 31, 2005 compared to the combined Canadian federal and provincial statutory rate is summarized as follows:

	2005 Rs.	*2004 Rs.*
Current income taxes	**271**	*1,743*
Future income taxes	**(148,018)**	*(90,390)*
	(147,747)	*(88,647)*
Significant components of the Bank's future income tax asset are as follows:		
Fixed assets	**21,075**	*7,160*
Loan origination deferred fees	**1,652**	*3,745*
Deferred broker fees	**(27,978)**	*—*
Non-capital losses carried forward	**261,234**	*90,945*
Allowance for credit losses	**17,881**	*3,011*
Future income tax asset	**273,864**	*104,861*
Less: valuation allowance	**47,878**	*19,166*
Net future income tax asset	**225,986**	*85,695*
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:		
Income taxes at statutory tax rate	**(169,517)**	*(105,705)*
Permanent differences	**477**	*844*
Large corporations tax	**257**	*1,652*
Valuation allowance	**28,712**	*19,166*
Recovery of income taxes	**(140,071)**	*(84,043)*
At December 31, 2005, the Bank has non-capital loss carryforwards of Rs.762,932 (2004 - Rs.265,632) for tax purposes. If not utilized, these losses will expire as follows:		
2010	**918**	*918*
2014	**250,916**	*250,916*
2015	**471,469**	*—*
	723,303	*251,834*

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 Indian Rupees 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.367,159 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, 2005 are as follows:

	2005		
	Book value Rs.	**Fair value Rs.**	**Fair value over book value Rs.**
Fixed rate loans	**11,443,391**	**11,263,667**	**(179,724)**
Fixed rate deposits	**13,293,359**	**13,320,492**	**27,133**

	2004		
	Book value Rs.	*Fair value Rs.*	*Fair value over book value Rs.*
Fixed rate loans	*1,388,448*	*1,371,375*	*(17,073)*
Fixed rate deposits	*339,842*	*343,771*	*3,929*

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 enters into commodity purchase and commodity sale transactions on behalf of clients and earns fees for these transactions. The Bank does not have any net exposure resulting from these commodity transactions as at December 31, 2005.

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.89,550 (2004 - Rs.23,351) and Rs.28,455 (2004 - Rs.9,142), respectively, representing market valuations of foreign currency swaps, forward contracts and commodity 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, swap and commodity 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:

	2005				*2004*
	Under 1 year	**1 to 5 years**	**Over 5 years**	**Total**	*Total*
Notional amounts	**Rs.**	**Rs.**	**Rs.**	**Rs.**	*Rs.*
Forward contracts	**164,634**	—	—	**164,634**	*290,386*
Cross currency swaps	**8,597,726**	—	—	**8,597,726**	*2,118,985*
Commodities	**9,535,083**	—	—	**9,535,083**	—
	18,297,442	—	—	**18,297,442**	*2,409,371*

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:

	2005		
	Positive fair value Rs.	**Negative fair value Rs.**	**Net fair value Rs.**
Forward contracts	**1,212**	**(477)**	**734**
Cross currency swaps	**87,457**	**(27,096)**	**60,361**
Commodities	**881**	**(881)**	**—**
	89,550	**(28,455)**	**61,095**

	2004		
	Positive fair value Rs.	*Negative fair value Rs.*	*Net fair value Rs.*
Forward contracts	*11,455*	*1,175*	*10,280*
Cross currency swaps	*11,896*	*7,967*	*3,929*
	23,351	*9,142*	*14,209*

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:

	2005		
	Current replacement cost Rs.	**Credit equivalent amount Rs.**	**Risk-weighted amount Rs.**
Forward contracts	**1,212**	**2,864**	**1,432**
Cross currency swaps	**87,457**	**138,199**	**69,099**
Commodities	**881**	**28,895**	**14,429**
	89,550	**169,958**	**84,960**

	2004		
	Current replacement cost Rs.	*Credit equivalent amount Rs.*	*Risk-weighted amount Rs.*
Forward contracts	*11,455*	*14,650*	*7,306*
Cross currency swaps	*11,896*	*33,448*	*16,742*
	23,351	*48,098*	*24,048*

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.

Carrying amount [earlier of contractual repricing or maturity date]

	December 31, 2005							
	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	**—**	**215,192**	**—**	**—**	**—**	**—**	**389,372**	**604,564**
Interest rate	**—**	**3.52%**	**—**	**—**	**—**	**—**	**—**	**—**
Securities	**—**	**1,451,820**	**435,230**	**361,468**	**4,282,653**	**693,857**	**—**	**7,225,028**
Interest rate	**—**	**3.24%**	**2.73%**	**2.97%**	**5.90%**	**4.18%**	**—**	**—**
Loans, net	**6,737,111**	**1,095,492**	**91,863**	**3,818**	**9,090,930**	**1,144,398—**	**18,163,613**	
Interest rate	**5.77%**	**0.65%**	**4.89%**	**3.65%**	**4.75%**	**5.37% —**	**—**	
Fixed assets, net	**—**	**—**	**—**	**—**	**—**	**—**	**144,073**	**144,073**
Other assets	**—**	**—**	**—**	**—**	**—**	**—**	**572,217**	**572,217**
Total assets	**6,737,111**	**2,762,504**	**527,093**	**365,286**	**13,373,583**	**1,838,255**	**1,105,664**	**26,709,495**
LIABILITIES AND SHAREHOLDER'S EQUITY								
Deposits	**10,637,991**	**357,136**	**89,513**	**5,652,119**	**7,194,591**	**—**	**113,526**	**24,044,876**
Interest rate	**2.91%**	**2.94%**	**3.04%**	**3.30%**	**3.89%**			
Accounts payable and accrued liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**503,890**	**503,890**
Shareholder's equity	**—**	**—**	**—**	**—**	**—**	**—**	**2,160,731**	**2,160,731**
Total liabilities and shareholder's equity	**10,637,991**	**357,136**	**89,513**	**5,652,119**	**7,194,591**	**—**	**2,778,146**	**26,709,495**
Total gap	**-3,900,881**	**2,405,369**	**437,580**	**-5,286,833**	**6,178,992**	**1,838,255**	**-1,672,483**	**—**

	December 31, 2004							
	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	*—*	*290,974*	*—*	*—*	*—*	*—*	*129,167*	*420,140*
Interest rate	*—*	*2.38%*	*—*	*—*	*—*	*—*	*—*	*—*
Securities	*—*	*1,061,934*	*—*	*—*	*1,166,023*	*—*	*—*	*2,227,958*
Interest rate	*—*	*2.59%*	*—*	*—*	*4.07%*	*—*	*—*	*—*
Loans, net	*342,412*	*120,648*	*—*	*—*	*584,591*	*662,869*	*—*	*1,710,520*
Interest rate	*4.84%*	*4.20%*	*—*	*—*	*5.01%*	*5.16%*	*—*	*—*
Fixed assets, net	*—*	*—*	*—*	*—*	*—*	*—*	*81,289*	*81,289*
Other assets	*—*	*—*	*—*	*—*	*—*	*—*	*143,890*	*143,890*
Total assets	*342,412*	*1,473,556*	*—*	*—*	*1,750,614*	*662,869*	*354,346*	*4,583,797*
LIABILITIES AND SHAREHOLDER'S EQUITY								
Deposits	*1,247,386*	*20,928*	*27,647*	*154,904*	*130,855*	*5,507*	*12,557*	*1,599,786*
Interest rate	*2.75%*	*2.91%*	*3.36%*	*3.15%*	*3.07%*	*2.99%*	*—*	*—*
Borrowings	*—*	*—*	*1,544,638*	*661,988*	*—*	*—*	*—*	*2,206,626*
Interest rate	*—*	*—*	*2.68%*	*3.04%*	*—*	*—*	*—*	*—*
Accounts payable and accrued liabilities	*—*	*—*	*—*	*—*	*—*	*—*	*68,107*	*68,107*
Shareholder's equity	*—*	*—*	*—*	*—*	*—*	*—*	*709,278*	*709,278*
Total liabilities and shareholder's equity	*1,247,386*	*20,928*	*1,572,285*	*816,892*	*130,855*	*5,507*	*789,942*	*4,583,797*
Total gap	*-904,974*	*1,452,628*	*-1,572,285*	*-816,892*	*1,619,759*	*657,361*	*-435,595*	*—*

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.
2006	38,552
2007	35,357
2008	33,889
2009	29,850
2010	29,520
2011 and thereafter	48,135

18. EMPLOYEE FUTURE BENEFITS

Effective December 29, 2005 the Bank implemented a defined contribution group retirement savings plan for its employees. Under the plan, Bank employees are allowed to contribute a portion of their annual salary to the plan and the Bank matches such contributions up to 5% of the employee's salary on an annual basis. The amount of the benefit expense for 2005 was Rs.4,186.