ICICI Bank

ICICI BANK CANADA

3RD ANNUAL REPORT AND ACCOUNTS 2006

Directors
K. V. Kamath, *Chairman*
Chanda D. Kochhar
Sonjoy Chatterjee
Madan Bhayana
Robert G. Long
John Thompson
David P. Smith
Hari Panday, *President & CEO*

Auditors
KPMG LLP

Atul Chandra
Corporate Secretary

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 third annual report and accounts 2006, together with the financial statements and auditors' report, for the year ended December 31, 2006.

Principal Activities

Pursuant to the Bank Act of Canada, ICICI Bank Canada began operating on December 19, 2003. The Canada Deposit Insurance Corporation admitted the Subsidiary to its membership in 2003, giving it the ability to mobilize retail deposits across Canada. As a wholly-owned subsidiary of ICICI Bank Limited (the "Parent"), it currently operates six full-service branches in Canada; four of these branches are located in the Greater Toronto Area and two of them are located in the Greater Vancourver Area. 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, in downtown Vancouver on October 5, 2005, and in Surrey, on Septermber 20, 2006.

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.

Directors and Corporate Secretary

The names of the Directors and Corporate Secretary of the Subsidiary are as follows:
K. V. Kamath, *Chairman*
Chanda D. Kochhar
Sonjoy Chatterjee
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 112 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 as at December 31, 2006 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for the year ended December 31, 2005 were reported on by another firm of Chartered Accountants.

For KPMG, LLP
Chartered Accountants

Toronto, Canada, April 3, 2007.

balance sheet

ICICI Bank

as at December 31, 2006

	2006	(Rs. in 000's) 2005
ASSETS		
Cash [note 1]	**4,348**	*40,204*
Deposits with regulated financial institutions		
Interest bearing	**—**	*215,192*
Non-interest bearing	**333,703**	*349,168*
	333,703	*564,360*
Securities [note 2]		
Investment account	**23,435,151**	*7,225,028*
Trading account	**1,406,816**	*—*
	24,841,967	*7,225,028*
Loans, net of allowance for credit losses [note 3]		
Commercial loans, commercial mortgages and corporate loans	**18,605,722**	*10,203,312*
Residential mortgages	**22,359,101**	*7,866,125*
Personal	**169,331**	*94,176*
	41,134,154	*18,163,613*
Other		
Fixed assets, net [note 4]	**109,645**	*144,073*
Other assets [note 5]	**790,781**	*572,217*
	900,426	*716,290*
	67,214,598	*26,709,495*
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Deposits [note 6]		
Personal	**58,369,253**	*18,255,990*
Commercial	**2,249,769**	*5,675,360*
Interbank deposits	**271,196**	*113,525*
	60,890,218	*24,044,875*
Other		
Accounts payable and accrued liabilities	**2,243,477**	*503,889*
	63,133,695	*24,548,764*
Shareholder's equity		
Share capital [note 7]		
Preferred shares	**381,375**	*367,159*
Common shares	**4,271,400**	*2,331,460*
Deficit	**(571,872)**	*(537,888)*
	4,080,903	*2,160,731*
	67,214,598	*26,709,495*

See accompanying notes

For KPMG, LLP
Chartered Accountants

For and on behalf of the Board

Toronto, Canada, April 3, 2007

Director *Director*

statement of changes in shareholder's equity

	2006	(Rs. in 000's) 2005
Common shares (note 7)		
Balance, beginning of the period	**2,459,196**	*541,238*
Issued during the period	**1,941,078**	*1,773,636*
Adjustments for exchange rate difference	**(128,874)**	*144,322*
Balance, end of the period	**4,271,400**	*2,459,196*
Preferred shares (note 7)		
Balance, beginning of the period	**387,275**	*360,825*
Issued during the period		
Adjustments for exchange rate difference	**(5,900)**	*26,450*
Balance, end of the period	**381,375**	*387,275*
Deficit		
Balance, beginning of period	**(537,888)**	*(208,620)*
Net loss for the period	**(33,984)**	*(329,268)*
Balance, end of period	**(571,872)**	*(537,888)*

See accompanying notes

statement of operations

	2006	(Rs. in 000's) 2005
Interest income		
Loans	**1,822,552**	*340,687*
Securities	**724,528**	*197,752*
Deposits with regulated financial institutions	**12,628**	*14,246*
	2,559,708	*552,685*
Interest expenses		
Deposits	**1,832,589**	*360,624*
Short-term borrowings [note 8]	**9,917**	*40,718*
	1,842,506	*401,342*
Net interest income	**717,202**	*151,343*
Non-interest income [note 9]	**206,095**	*100,014*
	923,297	*251,357*
Provision for credit losses [note 3]	**191,524**	*46,996*
	731,773	*204,361*
Non-interest expenses		
Salaries and benefits	**297,728**	*273,276*
Marketing and business development	**57,271**	*131,737*
General and administrative	**74,675**	*51,109*
Call center and outsourcing	**65,002**	*41,746*
Occupancy costs	**59,942**	*43,692*
Depreciation	**50,228**	*38,258*
Data processing fees	**40,879**	*34,917*
Professional fees	**33,675**	*21,846*
Travel, moving and entertainment	**25,256**	*17,403*
Communication	**18,374**	*10,023*
Provincial capital tax	**22,949**	*9,693*
	745,979	*673,700*
Loss before income taxes	**(14,206)**	*(469,339)*
Provision for recovery of income taxes [note 10]		
Current	**—**	*257*
Future	**(243)**	*(140,328)*
	(243)	*(140,071)*
Net loss for the period	**(13,963)**	*(329,268)*

See accompanying notes

For KPMG, LLP
Chartered Accountants

For and on behalf of the Board

Toronto, Canada, April 3, 2007

Director *Director*

statement of cash flows

	2006	(Rs. in 000's) 2005
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net loss for the period	**(13,964)**	*(329,268)*
Items not involving cash		
Provision for credit losses	**191,524**	*46,996*
Depreciation	**50,228**	*38,258*
Future income taxes	**(243)**	*(140,328)*
Gain on sale of securities	**(2,441)**	*(19,533)*
Amortization of deposit broker commissions	**81,515**	*20,561*
Other items, net	**1,369,979**	*16,926*
Cash used in operating activities	**(1,676,598)**	*(366,388)*
FINANCING ACTIVITIES		
Deposits	**38,114,809**	*22,445,091*
Borrowings	**—**	*(2,123,795)*
Proceeds from issuance of common shares	**1,962,997**	*1,780,721*
Cash provided by financing activities	**40,077,806**	*22,102,017*
INVESTING ACTIVITIES		
Net redemption of interest-bearing deposits	**237,219**	*75,782*
Purchase of investment securities	**(42,431,420)**	*(11,517,778)*
Proceeds from sale of securities	**24,031,984**	*6,520,707*
Loans, net	**(23,631,573)**	*(16,453,092)*
Purchase of share in ICICI Bank UK	**(4,614)**	*—*
Purchase of fixed assets	**(7,322)**	*(101,042)*
Cash used in investing activities	**(41,805,726)**	*(21,475,423)*
Net (decrease) increase in cash and cash equivalents	**(51,321)**	*260,206*
Cash and cash equivalents, beginning of period	**389,372**	*129,166*
Cash and cash equivalents, end of period	**338,051**	*389,372*
Represented by		
Cash	**4,348**	*40,204*
Non-interest bearing deposits with regulated financial institutions	**333,703**	*349,168*
Supplemental cash flow information		
Interest paid	**927,182**	*218,900*
Capitaltaxes paid	**22,949**	*9,106*
See accompanying notes		

ICICI Bank Canada (the "Bank") is a wholly-owned subsidiary of ICICI Bank Limited (the "Parent"). The Superintendent of Financial Institutions ("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.

These financial statements have been prepared in accordance with Section 308(4) of the Bank Act (Canada), which states that, except as otherwise specified by OSFI, the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to Canadian GAAP, and have been included below with the notes related to their financial statement captions.

The preparation of financial statements 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 year. Actual results could differ from those estimates.

1. 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, which are due on demand.

2. 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:

	2006			
	Under 1 year Rs.	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Total securities Rs.**
Government guaranteed	**6,803,044**	**566,837**	**—**	**7,369,881**
Corporate bonds	**133,977**	**2,913,324**	**—**	**3,047,301**
Credit linked notes	**—**	**8,042,703**	**666,682**	**8,709,385**
Asset backed securities	**—**	**417,339**	**691,166**	**1,108,505**
Collateralized debt obligations	**—**	**888,909**	**2,311,170**	**3,200,079**
	6,937,021	**12,829,112**	**3,669,018**	**23,435,151**

	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*

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:

	2006			
	Book value Rs.	**Market value Rs.**	**Gross unrealized gain Rs.**	**Gross unrealized loss Rs.**
Government guaranteed	**7,369,881**	**7,368,279**	**—**	**1,602**
Corporate bonds	**3,047,301**	**3,064,768**	**26,124**	**8,657**
Credit linked notes	**8,709,385**	**8,715,563**	**6,178**	**—**
Asset backed securities	**1,108,505**	**1,088,635**	**—**	**19,870**
Collateralized debt obligations	**3,200,079**	**3,238,560**	**39,663**	**1,182**
	23,435,151	**23,475,805**	**71,965**	**31,311**

	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)*

As at December 31, 2006, securities held included securities denominated in U.S. dollars. These securities comprised corporate bonds, credit linked notes and collateralized debt obligations of Rs 396,172, Rs 8,709,385 and Rs. 3,200,079 respectively (US$ 8,914, US$ 195,956 and US$ 72,000 respectively).

Gains realized from securities sold during 2006 included corporate bonds and government guaranteed securities of Rs 26,124 and $0, respectively. Losses from the sale of commercial paper of Rs 121 were realized during 2006.

Trading account securities, comprised of money market instruments purchased for resale in the near term, are reported at estimated fair value and any changes in value are reported in the statement of operations. Interest income is recorded on an accrual basis. The composition and maturity profile of trading account securities is as follows:

	2006			
	Under 1 year Rs.	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Total securities Rs.**
Commerical paper	1,406,816	—	—	**1,406,816**

3. 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 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, for which fee income is 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, 2006 and 2005, 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.

	2006 Gross loans Rs.	2006 Specific provisions Rs.	*2005 Gross loans Rs.*	*2005 Specific provisions Rs.*
Personal loans	**1,640**	**(1,640)**	*1,579*	*(1,579)*
Personal lines of credit	**1,411**	**(1,411)**	*1,358*	*(1,358)*
Commercial loans	**187,751**	**(160,178)**	*—*	*—*
Commercial lines of credit	**4,462**	**(4,462)**	*4,296*	*(4,296)*
	195,264	**(167,691)**	*7,233*	*(7,233)*

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. These estimates are based on an assessment of risk on each loan based on a thorough review of a variety of factors including the credit rating.

2006

	Gross amount Rs.	General allowance Rs.	Specific allowance Rs.	Deferred loan fees Rs.	Net amount Rs.
Commercial loans and commercial mortgages	**9,227,673**	**(35,811)**	**(164,640)**	**(41,303)**	**8,985,919**
Corporate loans	**9,720,677**	**(24,332)**	**—**	**(76,542)**	**9,619,803**
Conventional residential mortgages	**707,069**	**(2,021)**	**—**	**—**	**705,048**
Insured residential mortgages	**21,654,053**	**—**	**—**	**—**	**21,654,053**
Personal	**172,839**	**(458)**	**(3,051)**	**—**	**169,330**
	41,482,311	**(62,622)**	**(167,691)**	**(117,845)**	**41,134,153**
Commercial (unfunded commitments)	**220,473**	**(9,992)**	**—**	**—**	**210,481**
Personal (unfunded commitments)	**62,812**	**(153)**	**—**	**—**	**62,659**
Total unfunded commitments for credit related arrangements	**283,285**	**(10,145)**	**—**	**—**	**273,140**

2005

	Gross amount Rs.	*General allowance Rs.*	*Specific allowance Rs.*	*Deferred loan fees Rs.*	*Net amount Rs.*
Commercial loans and commercial mortgages	*4,527,474*	*(18,064)*	*(4,296)*	*(8,812)*	*4,496,302*
Corporate loans	*5,786,830*	*(28,932)*	*—*	*(50,888)*	*5,707,010*
Conventional residential mortgages	*622,224*	*(1,542)*	*—*	*—*	*620,682*
Insured residential mortgages	*7,245,442*	*—*	*—*	*—*	*7,245,442*
Personal	*97,334*	*(220)*	*(2,937)*	*—*	*94,177*
	18,279,304	*(48,758)*	*(7,233)*	*(59,700)*	*18,163,613*
Commercial (unfunded commitments)	*143,339*	*(1,469)*	*—*	*—*	*141,870*
Personal (unfunded commitments)	*33,448*	*(110)*	*—*	*—*	*33,338*
Total unfunded commitments for credit related arrangements	*176,787*	*(1,579)*	*—*	*—*	*175,208*

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, 2006 the Bank held loans, net of allowances, denominated in U.S. dollars, British pounds and Euros of Rs. 8,874,329 (US$ 210,258), Rs. 1,929,529 (£24,419) and Rs. 13,272 (€226), respectively.

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

	2006 General Rs.	2006 Specific Rs.	2006 Total Rs.	*2005 Total Rs.*
Balance, beginning of year	**48,759**	**7,233**	**55,992**	*9,216*
Provision for credit losses	**12,090**	**160,177**	**172,267**	*46,813*
Recoveries	**—**	**(114)**	**(114)**	*(37)*
Balance, end of year	**60,849**	**167,296**	**228,145**	*55,992*

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.8,702 and Rs.202 for the years ended December 31, 2006 and 2005, respectively.

4. 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.

	2006 Useful life	2006 Cost Rs.	2006 Accumulated depreciation Rs.	2006 Net book value Rs.	*2005 Net book value Rs.*
Computer hardware and software	**3 years**	**83,559**	**(63,842)**	**19,717**	*39,323*
Furniture, fixtures and Equipment	**5 years**	**50,227**	**(20,442)**	**29,785**	*37,450*
Leasehold improvements	**Lease term**	**83,483**	**(23,340)**	**60,143**	*67,300*
		217,269	**(107,624)**	**109,645**	*144,073*

5. OTHER ASSETS

Other assets are comprised of the following:

	2006 Rs.	*2005 Rs.*
Future income tax asset [note 10]	**234,965**	*225,986*
Accrued interest on loans	**415,432**	*140,402*
Prepaid expenses and deposits	**58,770**	*116,279*
Other	**81,614**	*89,550*
	790,781	*572,217*

6. DEPOSITS

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

2006

	Payable on demand: Interest bearing Rs.	Payable on demand: Non-interest bearing Rs.	Payable after notice Rs.	Payable on fixed date Rs.	Total deposits Rs.
Personal	**134,511**	**—**	**7,988,586**	**7,953,575**	**16,076,672**
Commercial	**187,865**	**—**	**187,522**	**184,852**	**560,239**
Broker–personal	**—**	**—**	**385,570**	**41,907,011**	**42,292,581**
Broker–commercial	**—**	**—**	**52,897**	**1,636,633**	**1,689,530**
Interbank	**—**	**73,148**	**—**	**—**	**73,148**
Interbank - Parent [note 8]	**—**	**198,048**	**—**	**—**	**198,048**
	322,376	**271,196**	**8,614,575**	**51,682,071**	**60,890,218**

	2005				
	Payable on demand				
	Interest bearing	*Non-interest bearing*	*Payable after notice*	*Payable on fixed date*	*Total deposits*
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*
Personal	*48,722*	—	*10,247,371*	*7,959,897*	*18,255,990*
Commercial	*125,274*	—	*216,624*	*742,910*	*1,084,808*
Broker–personal	—	—	—	*2,615,716*	*2,615,716*
Broker–commercial	—	—	—	*1,974,836*	*1,974,836*
Interbank	—	*107,981*	—	—	*107,981*
Interbank - Parent [note 8]	—	*5,544*	—	—	*5,544*
	173,996	*113,525*	*10,463,995*	*13,293,359*	*24,044,875*

The maturity profile of fixed term deposits is as follows:

	2006				*2005*
	Under 1 year Rs.	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Total Rs.**	*Total Rs.*
Payable on fixed date	**24,378,062**	**27,304,009**	**—**	**51,682,071**	*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, 2006, the Bank had unamortized broker commissions on deposits of Rs. 245,719 [2005 - Rs. 77,471].

7. 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, 2006 the Bank has issued 112 million common shares (2005 – 63.5 million) and 10 million series A preferred shares (2005 – 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. 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.

8. RELATED PARTY TRANSACTIONS

The Parent held a non-interest bearing deposit of Rs 198,048 (2005 – Rs. 5,544) *[note 6]* with the Bank. The borrowings from the Parent bear interest at rates which approximate market rates. The Bank incurred interest expense of Rs 9,916 (2005 – Rs 40,718) related to borrowings from the Parent during the year ended December 31, 2006.

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 operation, internet banking development and maintenance and internal audit services. Through December 31, 2006, the Bank has incurred costs of Rs 71,032 (2005 – Rs 43,141) related to these services of which Rs 19,185 (2005 – Rs 19,129) remain payable at December 31, 2006. During the past year the Bank began providing services to customers concerning non-resident Indian products and services of the Parent. During the year ended December 31, 2006, the Bank earned revenue of Rs 17,363 of which Rs 3,076 remains receivable at December 31, 2006. These transactions are in the normal course of operations and are measured at fair value, as agreed to by the related parties.

9. NON-INTEREST INCOME

Non-interest income is recorded on an accrual basis and includes the following:

	2006 Rs.	*2005 Rs.*
Gain on sale of mortgages	**61,197**	*45,711*
Gain on sale of securities	**2,590**	*19,533*
Loan fees, safety deposit box services and service charges	**80,665**	*12,630*
Trade finance and remittance fees	**22,301**	*11,529*
Foreign exchange gains, net	**39,341**	*10,611*
	206,094	*100,014*

10. 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. 234,965 (2005 – Rs 225,986) has been recorded, net of a valuation allowance of Rs. 49,769 (2005 - Rs. 47,878), using the enacted tax rate of 36.12%.

The Bank's provision for (recovery of) income taxes for the period ended December 31, 2006 is summarized as follows:

	2006 Rs.	*2005 Rs.*
Current income taxes	**—**	*271*
Future income taxes	**(243)**	*(148,018)*
	(243)	*(147,747)*

	2006	*2005*
Significant components of the Bank's future income tax asset are as follows:		
Fixed assets	**38,862**	*21,075*
Loan origination deferred fees	**—**	*1,652*
Deferred broker fees	**(83,750)**	*(27,978)*
Deferred gains on securities & mortgages	**(36,803)**	*—*
Other deferred income	**29,976**	*—*
Non-capital losses carried forward	**271,272**	*261,234*
Allowance for credit losses	**65,177**	*17,881*
Future income tax asset	**284,734**	*273,864*
Less: valuation allowance	**49,769**	*47,878*
Net future income tax asset	**234,965**	*225,986*

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:

	2006 Rs.	*2005 Rs.*
Income taxes at statutory tax rate	**(5,100)**	*(169,517)*
Permanent differences	**729**	*477*
Large corporations tax	**—**	*257*
Valuation allowance	**40**	*28,712*
Other	**4,088**	*—*
Recovery of income taxes	**(243)**	*(140,071)*

At December 31, 2006, the Bank has non-capital loss carryforwards of Rs. 797,098 (2005 - Rs. 723,303) for tax purposes. If not utilized, these losses will expire as follows:

2010	**769**	*918*
2014	**276,600**	*250,916*
2015	**519,729**	*471,469*
	797,098	*723,303*

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

11. FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into Candian 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.

12. GUARANTEE FACILITY

The Parent has provided a guarantee of Rs.381,375 to Royal Bank of Canada, securing the credit facilities that it may extend to the Bank. As at December 31, 2006 nil (2005 – nil) was drawn under this facility.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of securities are disclosed in Note 2 and the fair values of derivatives are disclosed in Note 14. 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, 2006 are as follows:

	2006		
	Book value Rs.	**Fair value Rs.**	**Fair value over book value Rs.**
Fixed rate loans	**27,836,332**	**26,864,398**	**(971,934)**
Fixed rate deposits	**51,682,071**	**47,955,427**	**(3,726,644)**

	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*

14. 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. 57,702 (2005 - Rs. 89,550) and Rs. 889,633 (2005 - Rs. 28,455), respectively, representing market valuations of foreign currency swaps, 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, 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:

	2006				*2005*
	Under 1 year Rs.	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Total Rs.**	*Total Rs.*
Forward contracts	**—**	**—**	**—**	**—**	*164,634*
Cross currency swaps	**24,842,357**	**—**	**—**	**24,842,357**	*8,597,726*
Commodities	**—**	**—**	**—**	**—**	*9,535,083*
	24,842,357	**—**	**—**	**24,842,357**	*18,297,443*

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:

	2006		
	Positive fair value Rs.	**Negative fair value Rs.**	**Net fair value Rs.**
Forward contracts	**—**	**(7,083)**	**(7,083)**
Cross currency swaps	**61,237**	**(944,141)**	**(882,904)**
	61,237	**(951,224)**	**(889,987)**

	2005		
	Positive fair value Rs.	*Negative fair value Rs.*	*Net fair value Rs.*
Forward contracts	*1,212*	*(477)*	*735*
Cross currency swaps	*87,457*	*(27,096)*	*60,361*
Commodities	*881*	*(881)*	*—*
	89,550	*(28,454)*	*61,096*

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 creditworthiness 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:

	2006		
	Current replacement cost Rs.	**Credit equivalent amount Rs.**	**Risk-weighted amount Rs.**
Cross currency swaps	**61,237**	**1,570,762**	**785,401**
	61,237	**1,570,762**	**785,401**

	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*

15. 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, 2006							
	Floating rate Rs.	**Under 3 months Rs.**	**3 to 6 months Rs.**	**6 to 12 months Rs.**	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Non-interest sensitive Rs.**	**Total Rs.**
ASSETS								
Cash and deposits	—	4,348	—	—	—	—	333,703	338,051
Interest rate	—	3.52%	—	—	—	—	—	—
Securities	—	7,596,265	—	1,966,980	11,609,703	3,669,018	—	24,841,966
Interest rate	—	4.25%	—	6.53%	6.53%	6.53%	—	—
Loans, net	13,457,999	2,218,687	60,448	308,342	24,393,393	695,286	—	41,134,155
Interest rate	6.57%	6.59%	4.50%	3.18%	4.59%	5.40%	—	—
Fixed assets, net	—	—	—	—	—	—	109,645	109,645
Other assets	—	—	—	—	—	—	790,781	790,781
Total assets	13,457,999	9,819,300	60,448	2,275,322	36,003,096	4,364,304	1,234,129	67,214,598
LIABILITIES AND SHAREHOLDER'S EQUITY								
Deposits	8,937,714	8,975,851	5,960,548	9,441,663	27,303,246	—	271,196	60,890,218
Interest rate	2.91%	4.11%	4.32%	4.31%	4.22%	—	4.22%	—
Accounts payable and accrued liabilities	—	—	—	—	—	—	2,243,477	2,243,477
Shareholder's equity	—	—	—	—	—	—	4,080,903	4,080,903
Total liabilities and shareholder's equity	8,937,714	8,975,851	5,960,548	9,441,663	27,303,246	—	6,595,576	67,214,598
Total gap	4,520,285	843,449	(5,900,100)	(7,166,341)	8,699,850	4,364,304	(5,361,447)	—

	December 31, 2005							
	Floating rate Rs.	*Under 3 months Rs.*	*3 to 6 months Rs.*	*6 to 12 months Rs.*	*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%	5.9%	4.18%	—	—
Loans, net	6,737,111	1,095,492	91,863	3,818	9,090,931	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	13,373,584	1,838,255	1,105,662	26,709,495
LIABILITIES AND SHAREHOLDER'S EQUITY								
Deposits	10,637,990	357,136	89,513	5,652,119	7,194,590	—	113,526	24,044,874
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	10,637,990	357,136	89,513	5,652,119	7,194,590	—	2,778,147	26,709,495
Total gap	(3,900,879)	2,405,368	437,580	(5,286,833)	6,178,994	1,838,255	(1,672,485)	—

16. 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.
2007	45,536
2008	45,040
2009	38,252
2010	30,396
2011	16,475
2012 and thereafter	33,065

17. 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 2006 was Rs.2,509 (2005 - Rs. 4,190) and is included in salaries and benefits in the statement of operations.

18. FINANCIAL INSTRUMENTS

The Canadian Institute of Chartered Accountants has issued three new standards: Financial Instruments - Recognition and Measurement, Hedges and Comprehensive Income. These will be effective for the Bank on January 1, 2007, and will require that all financial assets and liabilities will be carried at fair value in the balance sheet, except the following, which will be carried at amortized cost unless designated as held for trading upon initial recognition: loans and receivables, certain securities and non-trading financial liabilities. All derivatives, including embedded derivatives that must be seperately accounted for, will be recorded at fair value in the balance sheet.

19. SUBSEQUENT EVENT

On January 31, 2007, the Bank issued a subordinated note to ICICI Bank UK PLC in the amount of Rs 953,438. This note matures on April 30, 2017, and bears interest at Libor plus 2.5 percent payable quarterly in arrears.