# ICICI BANK UK PLC (FORMELY ICICI BANK UK LIMITED)

## 4TH ANNUAL REPORT AND ACCOUNTS 2006-2007

**Directors**
K. V. Kamath, *Chairman*
Chanda D. Kochhar, *Vice Chairperson*
W. Michael T. Fowle
Richard M. J. Orgill
M. L. Kaul
Sonjoy Chatterjee, *Managing Director & CEO*

**Auditors**
KPMG Audit Plc

**Registered Office**
21 Knightsbridge
London SW1X 7LY
United Kingdom

# directors' report

## to the members

The Directors have pleasure in presenting the Fourth annual report of ICICI Bank UK Plc ("the Bank"), together with the audited financial statements for the year ended March 31, 2007.

### Principal activities

ICICI Bank UK Plc is a full service bank offering retail, corporate and investment banking services in the UK. The Bank is authorised and regulated by the Financial Services Authority (FSA). The Bank is a wholly owned subsidiary of ICICI Bank Limited, which is India's largest bank in terms of market capitalisation. The key business areas include retail banking, corporate and investment banking, trade finance and private banking.

The Bank's corporate and investment-banking business encompasses funding and advisory services for Indian corporates seeking to expand in the UK and Europe. The Bank's retail activities focus on two specific segments: branch banking and online banking. The Bank offers regular high street retail banking services with a full product suite including current accounts, savings accounts, internet banking, debit and credit cards. The Bank delivers its products and services through five branches located in the UK and one branch in Antwerp, Belgium as well as through internet and telephone banking. The second area is direct banking, where the Bank offers an interest based savings account to British consumers which is supported over internet and phone enabled services.

### Business review

The Bank was incorporated in England and Wales as a private company with limited liability on February 11, 2003 and was converted to a public limited company, assuming the name ICICI Bank UK Plc, on October 30, 2006. As a public limited company, the Bank is able to access the capital markets. As at March 31, 2007, the Bank had total assets of Rs. 211,619.3 million compared to Rs. 88,644.6 million as at March 31, 2006. The Bank made a profit after tax of Rs. 1,718.8 million in financial year 2007 as compared to Rs. 631.3 million in financial year 2006.

The Bank has a foreign currency deposit rating of Baa1 from Moody's Investors Service Limited (Moody's).

The bank has been managed as a single business. For the purpose of the Enhanced Business Review, however management have provided their estimated analysis of the business by individual activity.

### Financial results

The financial statements for the reporting year ended March 31, 2007 are shown on pages 164 to 175. The profit after taxation for the year is Rs. 1,718.8 million (2006 – Rs. 631.3 million).

The Bank has adopted the following new standards during the year:

- FRS 20 'Share Based Payment'
- FRS 23 'Effects of changes in Foreign Exchange Rates'
- The disclosure requirements of FRS 25 'Financial instruments: presentation and disclosure'
- FRS 26 'Financial Instruments: measurement except for the recognition and de-recognition rules which will be adopted in 2007;
- UITF 43 'The interpretation of equivalence' for the purposes of Section 228A of the Companies Act 1985;
- UITF 45 'Liabilities arising from participating in a specific market – Waste Electrical and Electronic Equipment.

In adopting the disclosure requirements of FRS 25 and FRS 26 the Bank has elected to take the transitional option whereby the impact is not reflected in the 2006 comparative figures. As such, certain prior year figures are not directly comparable with those presented in respect of 2007. No restatement of the prior period is necessary but opening reserves have been adjusted to give effect to the requirements of the Standards. The adoption had a net impact of Rs. 365.2 million shown as a deduction from opening reserves.

No prior period restatements were required in respect of the other new policies adopted. The Bank has elected not to early adopt the following standards and interpretations that have been issued but are not yet effective:

- FRS 29 'Financial Instruments: Disclosure' which will be adopted effective from April 1, 2007;
- UITF 41 'Scope of FRS 20' which will be adopted effective from April 1, 2007;
- UITF 42 'Reassessment of Embedded derivatives' which will be adopted effective from April 1, 2007; and
- UITF 44 'Group and Treasury Share transactions' which will be adopted effective from April 1, 2008.

The Directors declared and paid a preference dividend of Rs. 179,313,750 (2006: Rs. 179,313,750) during the year on preference share capital of Rs. 2173.5 million (2006: Rs. 2173.5 million).

### Financial highlights

The financial performance for the financial year 2007 is summarised in the following table:

| Rs. 000's, except percentages | *Financial 2006* | Financial 2007 | % Change |
|---|---|---|---|
| Net interest income | *671,252* | **1,342,150** | 100 |
| Non interest income | *1,178,963* | **2,389,713** | 103 |
| Total operating income | *1,850,215* | **3,731,863** | 102 |
| Operating expenses | *731,597* | **1,087,808** | 49 |
| Provisions/Charges | *43,296* | **247,040** | 471 |
| Profit before tax | *925,666* | **2,433,195** | 163 |
| Profit after tax | *631,391* | **1,718,843** | 172 |

The profit after tax increased by 172% to Rs. 1,718.8 million for the financial year 2007 from Rs. 631.3 million for the financial year 2006, primarily due to a 100% increase in net interest income and a 103% increase in non interest income partly offset by a 49% increase in operating expenses and a Rs. 203.7 million increase in provisions. There are no specific provisions against corporate loans.

Net interest income increased by 100% to Rs. 1,342 million in the financial year 2007 from Rs. 671.2 million in 2006 primarily due to an increase in the average volume of interest-earning assets.

The non interest income increased by 103% for the financial year 2007 to Rs. 2,389.7 million from Rs. 1,178.9 million for the financial year 2006 primarily due to a 55% increase in fees & commission income to Rs. 1,478 million and a significant increase in dealing profit.

The operating expenses increased by 49% to Rs. 1,087.8 million in the financial year 2007 from Rs. 731.6 million in the financial year 2006 primarily due to an increase in employee expenses and increases in the volume of retail business.

The total assets increased by 139% to Rs. 211,619 million at the financial year-end 2007 compared to Rs. 88,644 million at the financial year-end 2006 primarily due to a 385% increase in debt securities to Rs. 108,399 million and a 43% increase in total loans and advances to Rs. 81,413 million.

**Risk management**

The Bank has a centralised Risk Management Group with a mandate to identify, assess and monitor all its principal risks in accordance with defined policies and procedures. The Risk Management Group directly reports to the Chief Executive Officer and is independent of the business units.

The Bank is exposed to credit risk, market risk, liquidity risk and operational risk. In its lending operations, the Bank is principally exposed to credit risk, being the risk of loss that may occur from the failure of any party to make the required repayments on loans due to the Bank as and when they fall due. The main market risk facing the Bank is the interest rate risk to which the Bank is exposed as a financial intermediary as well as liquidity risk and exchange rate risk on foreign currency positions. Details of the Bank's financial risk management objectives and policies, including those in respect of financial instruments, and details of the Bank's indicative exposure to risks are given in Note 26.

**Retail banking**

Retail banking is a key element of the Bank's growth strategy in the UK. During the year, the Bank has continued to build its brand image and substantially increased the customer base. Retail liabilities have grown by 167% from Rs. 45,800.9 million in 2006 to Rs. 122,236 million in 2007. The retail banking operations of the Bank are centred on two specific segments, the first caters for the banking services requirements of the Indian community in the UK. The Bank has created a retail banking franchise focussed on delivering services to people with strong linkage to India, such as remittances and deposits. The second area is direct banking, where the Bank offers an interest based savings account to British consumers which is supported over internet and phone enabled services. The Bank also offers a range of business banking, trade and treasury advisory services to the SME segment.

The Bank offers private banking services to clients in the UK, primarily focusing on high net-worth individuals of Indian origin. This activity includes offering of India-linked products in the areas of real estate and private equity. A new retail branch is being opened in Birmingham while the German banking regulator has approved the opening of an overseas branch in Frankfurt with the aim of providing retail banking products.

**Corporate and investment banking**

The Bank's key objective on the wholesale side is to be a dominant player in the corporate and investment banking sector for Indian corporates with global aspirations. The Bank has focused on creating a strong corporate transaction team with the necessary advisory and financing capabilities. It has leveraged relationships across India, the UK and Europe to facilitate the growth and acquisition aspirations of Indian companies. The corporate and investment banking activities saw a significant increase in income levels both from higher net interest income and associated fee income. The Bank achieved a significant market share in cross-border India-UK deals for the year, with Antwerp branch being a key contributor to the fee income from the diamond sector. This year also saw the start of the establishment of the Bank as a player in the M&A activities of local UK corporates.

**Treasury**

Treasury activity during the year has continued to focus principally upon efficient liquidity management and increasing and diversifying the availability of lines of credit. The Bank has also gradually increased trading activity during the year, driven by a growth in client based transactions, accompanied by a continually enhanced risk management control and reporting framework.

During the year, the Bank raised Rs. 32,602,500,000 for its general funding purposes by way of five bond issues. The amounts raised from issues of these bonds are as follows:

| | (Rs. in 000's) |
|---|---|
| **Subordinated bonds:** | |
| From Parent Company: | |
| Unsecured junior subordinated bond due 2016 | 1,086,750 |
| Unsecured junior subordinated bond due 2016 | 1,086,750 |
| Others: | |
| Step-up floating rate subordinated notes callable 2011 due 2016 | 2,173,500 |
| Perpetual subordinated notes callable 2016 | 6,520,500 |
| **Senior bond:** | |
| Unsecured floating rate notes due 2012 | 21,735,000 |
| **Total** | **32,602,500** |

**Directors**

The names of the Directors as at the date of this report and those who served during the year are as follows:

| | |
|---|---|
| K. V. Kamath | (Chairman of the Board) |
| Sonjoy Chatterjee | (Managing Director and CEO) |
| Chanda D. Kocchar | (Vice Chairperson of the Board. Appointed as Director on January 17, 2007) |
| W. M. T Fowle | |
| R. M. J. Orgill | |
| Dr. M. Kaul | |
| M. R. Errington | (Resigned on August 4, 2006) |
| Lalita Gupte | (Resigned on October 31, 2006) |
| Bhargav Dasgupta | (Resigned on October 31, 2006) |

**Company Secretary**

The names of the Company Secretary at the date of the report and those who served during the year are as follows:

| | |
|---|---|
| Arnab Chakravarti | (Appointed on December 1, 2006) |
| Julie Glass | (Appointed on September 5, 2006, resigned on November 30, 2006) |
| Avaneesh Trivedi | (Appointed on August 4, 2006 until September 4, 2006) |
| M. R. Errington | (Resigned as Chief Financial Officer and Company Secretary on August 4, 2006) |

**Directors' interests**

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Bank at that date.

**Share capital**

During the year ended March 31, 2007, the Bank raised equity capital of GBP 50,000. As at the reporting date, the issued Share Capital (including preference shares), fully paid, amounted to USD 185,000,000 and GBP 50,002.

**Employees**

As at March 31, 2007 the Bank had 159 employees. The Bank encourages the involvement of all employees in overall performance and profitability through a profit sharing incentive scheme based largely on the financial results and other quantitative and qualitative factors. The Bank has a pension scheme wherein employees are entitled to a minimum of five percent contribution of their basic salary. All employees are covered for their life to the extent of four times their base salary. The Bank also has a private medical insurance plan, which covers employees and their dependents.

**Political and charitable contributions**

The Bank made charitable contributions of Rs. 52,164 during the financial year 2007 (financial year 2006 – Rs. 1,086,750). The Bank made no political contributions during the financial year 2007 (financial year 2006: Nil).

**Disclosure of information to auditors**

The Directors who held office at the date of approval of this Director's report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's Auditors are unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Bank's Auditors are aware of that information.

**Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.

By order of the board

SONJOY CHATTERJEE
*Managing Director & CEO*

*April 27, 2007*

# independent auditors' report

## Report of KPMG Audit Plc to ICICI Bank UK PLC ("the Company")

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

In accordance with the terms of our engagement letter dated June 2, 2007, we have carried out specific agreed procedures in respect of the non-statutory financial statements for the year ended March 31, 2007 ('the financial statements') on pages 164 to 175 which have been prepared by, and are the sole responsibility of, the directors of 'the Company'. Our responsibility, under the terms of our engagement letter, is to form an opinion, on the basis of the work performed, and report our opinion to the Company.

These financial statements are based on the statutory accounts of ICICI Bank UK PLC for the year ended March 31, 2007 on which we have reported as auditors and have been translated into Indian Rupees for presentation purposes only at the rate of USD 1:INR 43.47.

Our report has been prepared for the Company solely in connection with the terms of our engagement letter. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

The procedures we have performed do not constitute an audit and have the limited scope described below. This report has been prepared solely in accordance with practice established in the United Kingdom.

We report as follows:

1. We confirm that the information in the financial statements for the year ended March 31, 2007 has been accurately extracted from the statutory accounts for the year ended March 31, 2007;
2. We have recalculated the translation into Indian Rupees of the financial information in the financial statements at the rate of USD 1:INR 43.47 and confirm that the calculations are arithmetically correct.

KPMG Audit Plc
*Chartered Accountants*
*Registered Auditor*

July 6, 2007

# profit and loss account balance sheet

ICICI Bank

## for the year ended March 31, 2007 as at March 31, 2007

| | Note | (Rs. in 000's) | March 31, 2006 |
|---|---|---|---|
| Interest receivable and similar income arising on debt securities | | **2,826,889** | *556,912* |
| Other interest receivable and similar income | | **5,334,628** | *2,193,901* |
| Interest payable | | **(6,819,367)** | *(2,079,561)* |
| **Net interest income** | | **1,342,150** | *671,252* |
| Fees and commissions receivable | | **1,485,253** | *961,192* |
| Dealing profits | 5 | **683,623** | *108,076* |
| Other operating income | 4 | **220,837** | *109,695* |
| **Operating income** | | **3,731,863** | *1,850,215* |
| Administrative expenses | 6 | **(1,037,603)** | *(692,112)* |
| Depreciation | 15 | **(50,205)** | *(39,485)* |
| Provision for liabilities and charges | 20 | **(128,584)** | — |
| Impairment allowance | 13 | **(118,456)** | — |
| Provision for bad and doubtful debts: general | 13 | **—** | *(43,296)* |
| Profit/(loss) on sale of debt securities | | **36,180** | *(149,656)* |
| **Profit on ordinary activities before tax** | | **2,433,195** | *925,666* |
| Tax on profit on ordinary activities | 8 | **(714,352)** | *(294,275)* |
| **Profit on ordinary activities after tax** | | **1,718,843** | *631,391* |

The result for the year is derived entirely from continuing activities.

The notes on pages 166 to 175 form part of these financial statements.

Balance sheet at March 31, 2007

| | Note | (Rs. in 000's) | March 31, 2006 |
|---|---|---|---|
| **Assets** | | | |
| Cash | | **70,630** | *17,155* |
| Treasury bills and other eligible bills | 10 | **16,919,637** | *8,125,682* |
| Loans and advances to banks | 11 | **47,218,301** | *25,533,888* |
| Loans and advances to customers | 12 | **34,194,768** | *31,563,437* |
| Debt securities | 14 | **108,399,491** | *22,338,711* |
| Tangible fixed assets | 15 | **172,688** | *169,121* |
| Other assets | 16 | **2,399,892** | *131,106* |
| Prepayments and accrued income | | **2,243,982** | *765,599* |
| **Total assets** | | **211,619,389** | *88,644,699* |
| **Liabilities** | | | |
| Deposits by banks | 17 | **39,694,399** | *32,490,260* |
| Customer accounts | 18 | **122,236,009** | *45,800,948* |
| Debt securities in issue | 19 | **32,373,196** | — |
| Provision for liabilities and charges | 20 | **128,584** | — |
| Other liabilities | 21 | **6,204,386** | *1,049,627* |
| Accruals and deferred income | | **1,324,240** | *808,826* |
| **Shareholders' funds:** | | | |
| Equity share capital | 22 | **5,872,598** | *5,868,450* |
| Non equity share capital | 22 | **2,173,500** | *2,173,500* |
| Profit and loss account | | **1,628,642** | *453,088* |
| Available for sale securities reserve | | **(16,165)** | — |
| Total stockholders equity | | **9,658,575** | *8,495,038* |
| Total liabilities and shareholders equity | | **211,619,389** | *88,644,699* |

# Statement of total recognised gains & losses

## for the year ended March 31, 2007

| | (Rs. in 000's) | *March 31, 2006* |
|---|---|---|
| **Profit on ordinary activities after tax** | **1,718,843** | *631,391* |
| **Restatement of opening positions to reflect FRS 26** | | |
| Adjustment to reflect income on an effective interest rate basis | **(374,798)** | |
| Opening derivatives moved to market value | **(145,283)** | |
| Deferred tax impact at 30% | **156,101** | |
| **Net movement** | **(363,980)** | |
| **Movements through available for sale reserve** | | |
| Movement in fair value during year | **(21,816)** | |
| Deferred tax credit for the period | **5,651** | |
| Net movement through available for sale reserve | **(16,165)** | |
| **Total movement in reserves reflected in the Balance sheet** | **(380,145)** | *453,088* |
| Reserves at March 31, 2006 as previously reported | **453,088** | |
| Retained profit for the year | **1,539,534** | |
| Net movement through available for sale reserve | **(16,165)** | |
| Restatement for FRS 26 | **(363,980)** | |
| **Reserves as at March 31, 2007** | **1,612,477** | |

The notes on pages 166 to 175 form part of these financial statements.

# reconciliation of movements in shareholders' funds

## for the year ended March 31, 2007

| | **Issued Share Capital (Rs. in 000's)** | **P&L Account (Rs. in 000's)** | **Available for Sale reserve (Rs. in 000's)** | **Total (Rs. in 000's)** |
|---|---|---|---|---|
| As at April 1, 2006 | 6,520,500 | 1,000 | — | 6,521,500 |
| Ordinary shares issued during the year | 1,521,450 | — | — | 1,521,450 |
| Profit on ordinary activities after tax | — | 631,402 | — | 631,402 |
| Preference dividend paid during the year | — | (179,314) | — | (179,314) |
| Closing shareholders' funds as at March 31, 2006 | 8,041,950 | 453,088 | — | 8,495,038 |
| Effect of adoption of FRS 26 as at April 1, 2006 | — | (363,980) | — | (363,980) |
| Ordinary shares issued during the year | 4,153 | — | — | 4,153 |
| Unrealised loss on available for sale securities | — | — | (21,816) | (21,816) |
| Tax impact | — | — | 5,651 | 5,651 |
| Profit on ordinary activities after tax | — | 1,718,843 | — | 1,718,843 |
| Preference dividend paid during the year | — | (179,314) | — | (179,314) |
| Closing shareholders' funds | 8,046,103 | 1,628,637 | (16,165) | 9,658,575 |

The notes on pages 166 to 175 form part of these financial statements.

1. **Overview**

ICICI Bank UK Plc ("ICICI Bank" or "the Bank"), incorporated in the United Kingdom, provides a wide range of banking and financial services including retail banking, commercial lending, trade finance and treasury services.

2. **Basis of preparation**

The financial statements have been prepared under the historical cost convention in accordance with the special provisions of Part VII, Chapter II of the Companies Act 1985 relating to banking companies and applicable accounting standards.

In 2006, the financial statements were also prepared in accordance with the requirements of the British Bankers Association Statements of Recommended Accounting Practice. These requirements have been largely superseded by the requirements of Financial Reporting Standard ("FRS") 25 and FRS 26.

3. **Accounting policies**

In these financial statements the following new standards have been adopted for the first time:

- FRS 20 'Share Based Payment'
- FRS 23 'Effects of changes in Foreign Exchange Rates'
- The disclosure requirements of FRS 25 'Financial instruments: presentation and disclosure'
- FRS 26 'Financial Instruments: measurement' except for the recognition and de-recognition rules which will be adopted in 2007;
- UITF 43 'The interpretation of equivalence' for the purposes of Section 228A of the Companies Act 1985;
- UITF 45 'Liabilities arising from participating in a specific market –Waste Electrical and Electronic Equipment.

In adopting the disclosure requirements of FRS 25 and FRS 26 the Bank has elected to take the transitional option whereby the impact is not reflected in the 2006 comparative figures. As such, certain prior year figures are not directly comparable with those presented in respect of 2007. No restatement of the prior period is necessary but reserves have been adjusted to give effect to the requirement of the Standards. The adoption had an impact of Rs. 365 million and this is shown as a deduction from reserves in the Statement of Total Recognised Gain and Losses. The main adjustments which would make the comparative information comply with FRS 25 and 26 would be to move derivatives and certain securities positions from cost to fair value and to adjust income to be reflected on an effective interest rate basis.

No prior period restatements were required in respect of the other new policies adopted.

The Bank has elected not to early adopt the following standards and interpretations that were issued but not yet effective:

- FRS 29 'Financial Instruments: Disclosure' which will be adopted effective from April 1, 2007;
- UITF 41 'Scope of FRS 20' which will be adopted effective from April 1, 2007;
- UITF 42 'Reassessment of Embedded derivatives' which will be adopted effective from April 1, 2007; and
- UITF 44 'Group and Treasury Share transactions' which will be adopted effective from April 1, 2008.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

**(a) Cash flow statement**

As a wholly owned subsidiary whose parent produces publicly available accounts (see Note 30), the Bank has taken advantage of the exemption available within FRS 1 (revised), "Cash Flow Statements", and does not produce a cash flow statement.

**(b) Interest receivable and payable**

Interest receivable and payable is accrued over the period of the related loans, securities and deposits using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. In the preceding year interest income and expenses were calculated and recognised in the profit and loss account on an accruals basis.

**(c) Fees and commissions receivable and payable**

Fees and commission are taken to profit when received, except when those fees are an adjustment to the yield on the related asset, in which case they are deferred over the period of asset using the effective interest rate method. Fees and commissions payable on borrowings are expensed to the profit and loss account over the life of the borrowing using the effective interest rate method and are included in interest expense. In the preceding year, fees and commissions were taken to income once the related service had been provided and the right to receive the associated fees had been established.

**(d) Foreign currencies**

The financial statements are prepared in US Dollars, which is the functional currency of the Bank as it represents the currency of the primary economic environment in which the Bank operates and since a significant proportion of the banking assets and liabilities, revenues and expenses are transacted in US Dollars.

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at the exchange rates ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Income and expenses denominated in foreign currencies are converted into US Dollars at the rate of exchange ruling at the date of the transaction.

**(e) Financial assets**

The Bank classifies its financial assets in the following categories: financial instruments at fair value through profit and loss; loans and receivables; and available for sale financial assets. Management determines the classification of financial assets and liabilities at initial recognition. They are de-recognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership. Financial assets are recognised at trade date, being the date on which the Bank commits to purchase or sell the assets.

**(f) Loans and advances**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost using effective interest rates. Loans and advances are stated at amortized cost after deduction of amounts which are required as impairment provisions. Where loans have been acquired at a premium or discount, these premiums and discounts are amortised through the profit and loss account from the date of acquisition to the date of maturity using the effective interest rate method.

Prior to April 1, 2006 loans and advances were stated at cost after deduction of amounts which in the opinion of the directors were required as specific or general provisions. Where loans had been acquired at a premium or discount, these premiums and discounts were amortised through the profit and loss account from the date of acquisition to the date of maturity on a straight line basis. The policy was to designate loans as non-performing as soon as management had doubts as to the ultimate collectibility of the principal or interest. Loans were also considered to be non-performing if principal or interest was 90 days overdue. When a loan was designated as non-performing, interest was suspended and a specific provision was raised, if required.

**(g) Financial liabilities**

Financial liabilities are measured at amortised cost. Financial liabilities are de-recognised when they are extinguished. Financial liabilities are recognised at trade date.

**(h) Determining fair value**

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or asking price (as appropriate) in an active market wherever possible. Where a market value of an unlisted instrument is not available the use of approved models is permitted. The fair values of all other items have been calculated by discounting expected future cash flows at prevailing interest rates.

i) Financial instruments at fair value through profit and loss
Financial instruments are classified in this category if they are held for trading. Instruments are classified as held for trading if they are:

ii) acquired principally for the purposes of selling or repurchasing in the near term; or

iii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments cannot be transferred into or out of this category after inception. Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the Profit and Loss account. Financial instruments at fair value through profit and loss include debt securities which are held for trading purposes only and are valued at market value. The cost of such securities, when the market value is greater than the cost, is not disclosed as it cannot be determined without unreasonable cost. Where the listing of a security has been suspended or withdrawn, positions are valued at directors' valuation.

Derivatives are carried at fair value in the balance sheet within 'Other assets' and 'Other liabilities'. Valuation adjustments to cover credit and market liquidity risks are made with gains and losses taken directly to the profit and loss account and reported within 'Dealing profit'. Positive and negative fair values of derivatives are offset where the contracts have been entered into under master netting agreements or other arrangements that represent a legally enforceable right of set-off, which will survive the liquidation of either party, and there is the intention to settle net.

**(i) Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not categorised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and temporary impairment losses arising from changes in fair value are included in the Available-for-Sale Securities Reserve until sale when the cumulative gain or loss is transferred to the income statement.

Other than temporary impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Prior to April 1, 2006, where dated investment securities intended to be held on a continuous basis had been purchased at a premium or discount, these premiums and discounts were amortised on an effective interest rate basis through the profit and loss account over the period to maturity. These securities were included in the balance sheet at cost less provision for impairment in value and adjusted for the amortisation of premiums and discounts arising on acquisition. The amortisation of premiums and discounts were included in interest income. Any profit or loss on realisation of these securities was recognised in the profit and loss account as it arose and included in 'Profit/ (loss) on sale of debt securities'. Other treasury bills and debt securities were included in the balance sheet at market value. Changes in the market value of such assets and liabilities were recognised in the profit and loss account as dealing profits as they arose. For liquid portfolios, securities were valued by reference to bid or offer prices as appropriate.

**(j) Derivative instruments and hedging activities**

Transactions are undertaken in derivative financial instruments (derivatives), which include interest rate swaps, futures, forward rate agreements, currency swaps, options and similar instruments, for trading and non-trading purposes. The Bank may designate a derivative as either a hedge of the fair value of a recognised fixed rate asset or liability or an unrecognised firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of future cash flows of a floating rate asset or liability (cash flow hedge) or a foreign-currency fair value or cash flow hedge (foreign currency hedge). All derivatives are recorded as assets or liabilities on the balance sheet at their respective fair values with unrealised gains and losses recorded either in reserves or in the profit and loss account, depending on the purpose for which the derivative is held. Derivatives that do not meet the criteria for designation as a hedge under FRS 26 at inception, or fail to meet the criteria thereafter, are accounted for in other assets with changes in fair value recorded in the profit and loss account. Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in the profit and loss account as other non-interest income. To the extent of the effectiveness of a hedge, changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, are recorded in reserves, net of tax. For all hedge relationships, ineffectiveness resulting from differences between the changes in fair value or cash flows of the hedged item and changes in the fair value of the derivative are recognised in the profit and loss account as other non-interest income. At the inception of a hedge transaction, the Bank formally documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, risk being hedged and the methodology for measuring effectiveness. In addition, the Bank assesses, both at the inception of the hedge and on an ongoing quarterly basis, whether the derivative used in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item, and whether the derivative is expected to continue to be highly effective.

The Bank discontinues hedge accounting prospectively when either it is determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires or is sold, terminated or exercised; the derivative is de-designated because it is unlikely that a forecasted transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flow or forecasted transaction is still expected to occur, gains and losses that were accumulated in reserves are amortised or accreted into the profit and loss account. Gains and losses are recognised in the profit and loss account immediately if the cash flow hedge was discontinued because a forecasted transaction did not occur.

The Bank may occasionally enter into a contract (host contract) that contains a derivative that is embedded in the financial instrument. If applicable, an embedded derivative is separated from the host contract and can be designated as a hedge; otherwise, the derivative is recorded as a freestanding derivative.

Prior to April 1, 2006, derivatives classified as trading were held for portfolio management purposes within the Bank's trading book. Trading book activity is the buying and selling of financial instruments in order to take advantage of short term changes in market prices. Trading book derivatives were carried at fair value in the balance sheet within 'Other assets' and 'Other liabilities'. Positive and negative fair values of trading derivatives were offset where contracts had been entered into under master netting agreements or other arrangements that represent a legally enforceable right of set-off which would have survived the liquidation of either party. Gains and losses were taken directly to the profit and loss account and reported within 'Dealing profits'.

Off-balance sheet financial derivatives were entered into by the Bank for hedging purposes to reduce the risks arising on transactions entered into in the normal course of business. The income and expense arising from off-balance sheet financial derivatives entered into for hedging purposes was recognised in the accounts in accordance with the accounting treatment of the underlying transactions or transactions being hedged. All off-balance sheet financial derivatives were held for the period in which the underlying hedge matures. To qualify as a hedge, a derivative had to effectively reduce the price or interest rate risk of the asset, liability or anticipated transaction to which it was linked and be designated as a hedge at inception of the derivative contract. Accordingly, changes in the market value of the derivative had to be highly correlated with changes in the market value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

**(k) Impairment**

Impairment provisions are made where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows from the asset that can be reliably estimated. Losses expected as a result of future events are not recognised. Evidence of impairment is considered on both individual and portfolio bases.

Prior to April 1, 2006, general provisions augmented specific provisions and provided cover for loans which were impaired at the balance sheet date but which would not be identified as such until some time in the future. The general provision was determined by taking into account the structure and risk of the Bank's loan portfolio. General provisions were deducted from loans and advances in the balance sheet.

**(l) Depreciation**

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets on a straight-line basis over their estimated useful economic lives as follows:

| | |
|---|---|
| Leasehold improvements | Over the lease period |
| Office equipment | 6 – 7 years |
| Furniture, fixtures and fittings | 6 – 7 years |
| Computer hardware and software | 3 – 4 years |

Fixed assets are stated at cost less accumulated depreciation.

**(m) Taxation**

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and for accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred Tax". Deferred tax assets are recognised to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**(n) Pension costs**

The Bank operates a stakeholder defined contribution pension scheme. Contributions to the scheme are charged to the profit and loss account as incurred.

**(o) Related party transactions**

The Bank has taken advantage, under FRS 8, "Related Party Disclosures", of the exemption not to disclose related party transactions with group companies, as it is a wholly owned subsidiary of ICICI Bank Limited (see note 30).

**(p) Leases**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

**4. Other operating income**

Other operating income principally consists of amounts receivable from the parent company in respect of a revenue sharing agreement on remittances originated by the Bank or through an alliance with a third party, amounts receivable in respect of relationship management services, and amounts receivable in respect of private banking services.

**5. Dealing profits/(losses)**

Dealing profits/losses mainly consist of net profit or loss on transactions in securities which are not held as available for sale (or prior to April 1, 2006 held as financial fixed assets), net profit or loss on exchange activities, save in so far as the profit or loss is included in interest receivable or interest payable, and net profits or losses on other dealing operations involving financial instruments.

| | **Year ended March 31, 2007 (Rs. in 000's)** | *Year ended March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Treasury Bills & Other Eligible Bills | **(174)** | *869* |
| Debt Securities | **(3,956)** | *2,999* |
| Currency derivative contracts | **241,867** | — |
| Interest rate derivative contracts | **111,718** | *12,433* |
| Foreign exchange gains | **334,168** | *91,775* |
| **Total** | **683,623** | *108,076* |

Debt securities include bonds, certificates of deposit and credit linked notes. Exchange rate contracts include currency spots, forwards and options and interest rate contracts include swaps and futures.

**6. Administrative expenses**

| | **Year ended March 31, 2007 (Rs. in 000's)** | *Year ended March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Staff Costs | | |
| (including directors' emoluments) : | | |
| Wages and Salaries | **491,689** | *311,028* |
| Social Security Costs | **27,603** | *26,386* |
| Other Administrative Expenses | **518,311** | *354,698* |
| **Total** | **1,037,603** | *692,112* |

The number of persons employed by the Bank (including directors) during the year was as follows:

| | **Year ended March 31, 2007 No. of Employees** | *Year ended March 31, 2006 No. of Employees* |
|---|---|---|
| Management | **46** | *22* |
| Non Management | **113** | *84* |
| **Total** | **159** | *106* |

**7. Profit on ordinary activities before tax**

**(a) is stated after charging**

| | **Year Ended March 31, 2007 (Rs. in 000's)** | *Year Ended March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Auditors' remuneration | | |
| Amounts receivable by the auditors and their associates in respect of: Audit of financial statements pursuant to legislation | **10,563** | *6,173* |
| Other services pursuant to such legislation | **7,825** | — |
| Other services relating to taxation | **5,043** | *1,391* |
| **Total** | **23,431** | *7,564* |
| Depreciation on tangible fixed assets | **50,205** | *39,485* |
| Operating lease rental in respect of leasehold premises | **35,732** | *19,996* |

**(b) Segmental reporting**

The Bank has one class of business and all other services provided are ancillary to this. All business is conducted from the United Kingdom and all activities are managed as a single business.

**8. Taxation**

**(a) Analysis of charge in the year**

| | Year ended March 31, 2007 (Rs. in 000's) | *Year ended March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| *Current tax* | | |
| UK Corporation tax at 30% (2006: 30%) on the taxable profit for the year | **755,127** | *294,275* |
| Overseas corporation charge | **565** | — |
| | **755,692** | *294,275* |
| *Deferred tax* | | |
| Origination and reversal of timing differences | **(41,340)** | — |
| *Tax on profit on ordinary activities* | **714,352** | *294,275* |

**(b) Factors affecting the tax charge for the current year**

The current tax charge for the year is higher (2006: higher) than the standard rate of corporation tax in the UK (30% (2006: 30%)). The differences are explained below.

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| *Current tax reconciliation* | | |
| Profit on ordinary activities before tax | **2,433,195** | *925,666* |
| Current tax at 30% | **730,000** | *277,700* |
| *Add effects of:* | | |
| Expenses not deductible for tax purposes | **8,479** | *2,708* |
| Other timing differences (FRS 26 Impact) | **(15,606)** | — |
| Timing difference on movement of collective impairment allowance / general provision for bad and doubtful debts | **(2,782)** | *12,998* |
| Depreciation in excess of capital allowances for the year | **1,695** | *869* |
| Provision for liabilities and charges | **33,341** | — |
| Overseas taxes | **565** | — |
| *Total current tax charge (see 8 (a) above)* | **755,692** | *294,275* |

**(c) The movements on deferred tax during the year were:**

| | Year ended March 31, 2007 (Rs. in 000's) | *Year ended March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Balance as at March 31, 2006 | **—** | — |
| Effect of adoption of FRS 26 | **156,101** | — |
| Credit to profit and loss account | **41,340** | — |
| Balance at March 31, 2007 | **197,441** | — |

**(d) Deferred tax is composed of the following items:**

| | Year ended March 31, 2007 (Rs. in 000's) | *Year ended March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Collective impairment allowance | **25,039** | — |
| Effect of FRS 26 | | |
| Fees Income amortisation | **101,198** | — |
| Recognition of fair value of derivatives | **39,210** | — |
| Provision for liabilities and charges | **33,341** | — |
| Excess of book value over tax written down value of tangible fixed assets | **(1,347)** | — |
| | **197,441** | — |

As at March 31, 2006, there were net deferred tax assets of Rs. 24,777,900 in respect of the general provision for bad and doubtful debts and other temporary differences. The Directors had considered it prudent not to recognise these assets based on the length of time the Bank had been operating and the number of accounting periods in which it had been profitable.

**(e) Factors that may affect future tax charges**

On March 21, 2007, the intention to reduce UK corporation tax rates from 30% to 28% from April 1, 2008 was announced in the UK Budget. The net deferred tax asset amounting to Rs. 195.6 million as at March 31, 2007, as shown in note (c) above, would need to be reduced in respect of this rate change (to the extent that it does not reverse until after April 1, 2008) by Rs. 13 million. There is no requirement to adjust the financial statements as at March 31, 2007, as the announcement made is not yet part of UK legislation.

**9. Emoluments of directors**

| | Year ended March 31, 2007 (Rs. in 000's) | *Year ended March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Directors' fees and emoluments | **27,473** | *30,386* |

The emoluments of the highest paid director were Rs. 18,650,543 (2006: Rs. 16,209,267). Contributions on behalf of a director under a money purchase pension scheme amounted to Rs. 1,140,870 (2006: 596,756). The number of directors to whom retirement benefits accrue under a defined contribution pension scheme is 1 (2006:2)

**10. Treasury bills and other eligible bills**

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Government (non-trading)-UK | **—** | *4,374,873* |
| Government (available for sale)-UK | **7,668,847** | — |
| Government (held for trading)-UK | **9,250,790** | *3,750,809* |
| **Total** | **16,919,637** | *8,125,682* |

Of the total treasury and other eligible bills, Rs. 7,668,846,990 (2006: 4,374,864,270) are non trading investment securities. These comprise UK Treasury bills which are short term in nature and are analysed below:

| | | | March 31, 2007 | *March 31, 2006* |
|---|---|---|---|---|
| | (Rs. in 000's) | (Rs. in 000's) | (Rs. in 000's) | *(Rs. in 000's)* |
| | Book Value | Net Discount | Net Book Value | *Net Book Value* |
| Opening balance | 4,381,167 | (6,303) | 4,374,864 | — |
| Purchase | 44,931,679 | 36,515 | 44,968,194 | *4,381,167* |
| Maturities | (41,666,517) | — | (41,666,517) | — |
| Net discount | — | — | — | *(11,302)* |
| Accretion | — | — | — | *4,999* |
| Changes in fair value | (7,694) | — | (7,694) | — |
| Closing Balance | 7,638,635 | 30,212 | 7,668,847 | *4,374,864* |

**11. Loans and advances to banks**

**(a) Residual Maturity**

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| **Banks** | | |
| Repayable on demand | **648,964** | *105,676* |
| Other loans and advances | | |
| Remaining Maturity : | | |
| 5 year or less but over 1 year | **173,880** | *3,647,133* |
| 1 year or less but over 3 months | **21,155,545** | *3,107,932* |
| 3 months or less | **25,140,744** | *18,191,108* |
| **Total** | **47,119,133** | *25,051,849* |
| Repayable on demand | **99,168** | *47,339* |
| Other loans and advances | | |
| Remaining Maturity : | | |
| 1 year or less but over 3 months | **—** | *279,295* |
| 3 months or less | **—** | *155,405* |
| | **99,168** | *482,039* |
| **Total** | **47,218,301** | *25,533,888* |

**(b) Concentrations of exposure**

The Bank has the following concentrations of loans and advances to banks:

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| **Total gross advances to banks located in :** | | |
| Europe and North America | **46,470,517** | *23,074,658* |
| India | **99,168** | *159,884* |
| Rest of the World | **648,616** | *2,299,346* |
| **Total** | **47,218,301** | *25,533,888* |

## 12. Loans and advances to customers

### (a) Residual maturity

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Repayable on demand or at short notice | 3,754,287 | *1,762,187* |
| Other loans and advances | | |
| Remaining Maturity : | | |
| Over 5 years | — | *2,387,633* |
| 5 year or less but over 1 year | — | *13,793,335* |
| 1 year or less but over 3 months | 16,496,604 | *5,038,347* |
| 3 months or less | 14,145,524 | *8,674,656* |
| **Sub–total** | **34,396,415** | *31,656,158* |
| Collective impairment allowance (note 13) | (199,527) | — |
| Specific impairment allowance (note 13) | (2,130) | — |
| General provision for bad and doubtful debts (note 13) | — | *(92,721)* |
| **Total** | **34,194,768** | *31,563,437* |

### (b) Concentration of exposure

The Bank has the following concentrations of loans and advances to customers

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| **Total gross advances to customers located in :** | | |
| Europe and North America | 19,707,298 | *14,942,508* |
| India | 7,950,663 | *13,792,901* |
| Rest of the World | 6,736,329 | *2,920,749* |
| **Total** | **34,394,290** | *31,656,158* |

## 13. Impairment allowance and general & specific bad debt provisions

| | March 31, 2007 | | | *March 31, 2006* | | |
|---|---|---|---|---|---|---|
| | Specific impairment allowance (Rs. in 000's) | Collective impairment allowance (Rs. in 000's) | Total (Rs. in 000's) | *Specific (Rs. in 000's)* | *General (Rs. in 000's)* | *Total (Rs. in 000's)* |
| Opening Balance | — | 92,722 | 92,722 | — | *49,425* | *49,425* |
| New charges | 11,650 | 106,806 | 118,456 | — | *43,296* | *43,296* |
| Write-offs | (9,520) | — | (9,520) | — | — | — |
| Closing Balance | 2,130 | 199,528 | 201,658 | — | *92,721* | *92,721* |

## 14. Debt securities

| | March 31, 2007 Market Value (Rs. in 000's) | *March 31, 2006 Market Value (Rs. in 000's)* |
|---|---|---|
| Available for sale / non-trading | 84,587,625 | *18,704,532* |
| Held for trading | 23,811,866 | *3,634,179* |
| **Total** | **108,399,491** | *22,338,711* |
| **Analysed by issuer** | | |
| **Available for sale/non-trading** | | |
| Issued by public bodies | 2,527,998 | *2,182,846* |
| Issued by other issuers | 74,822,998 | *15,519,964* |
| Bank certificates of deposit | 7,267,358 | *1,053,539* |
| **Held for trading** | | |
| Issued by public bodies | — | *43,470* |
| Issued by other issuers | 23,811,866 | *3,590,709* |
| | 108,430,220 | *22,390,528* |
| **Less:** Unamortised discounts | (30,729) | *(51,817)* |
| | 108,399,491 | *22,338,711* |
| **Analysed by listing status** | | |
| **Available for sale / non-trading** | | |
| Unlisted | 15,875,896 | *7,378,815* |
| Listed | 68,742,458 | *11,377,534* |
| **Held for trading** | | |
| Unlisted | — | *108,284* |
| Listed | 23,811,866 | *3,525,895* |
| **Total** | **108,430,220** | *22,390,528* |
| **Analysed by maturity** | | |
| Due within 1 year | 7,267,358 | *1,053,539* |
| Due 1 year and above | 101,162,862 | *21,336,989* |
| **Total** | **108,430,220** | *22,390,528* |

**Movement of debt securities available for sale / non-trading:**

| | March 31, 2007 (Rs. in 000's) Net Book Value | *March 31, 2006 (Rs. in 000's) Net Book Value* |
|---|---|---|
| Opening balance | 18,704,532 | *7,319,479* |
| Purchases | 134,036,050 | *27,131,409* |
| Maturities | (14,624,525) | *(6,339,317)* |
| Sales | (53,493,226) | *(5,158,976)* |
| Redemptions | — | *(4,281,795)* |
| Amortisation | (21,083) | *33,733* |
| Changes in fair value | (14,128) | — |
| Closing balance | 84,587,620 | *18,704,533* |

## 15. Tangible fixed assets

| | Leasehold Improvements (Rs. in 000's) | Other assets (Rs. in 000's) | Total (Rs. in 000's) |
|---|---|---|---|
| **Cost** | | | |
| *At April 1, 2006* | *102,415* | *137,669* | *240,084* |
| *Additions* | *15,649* | *38,123* | *53,772* |
| **At March 31, 2007** | **118,064** | **175,792** | **293,856** |
| **Depreciation** | | | |
| *At April 1, 2006* | *11,389* | *59,574* | *70,963* |
| *Charge for year* | *11,259* | *38,946* | *50,205* |
| **At March 31, 2007** | **22,648** | **98,520** | **121,168** |
| **Net book value** | | | |
| **At March 31, 2007** | **95,416** | **77,272** | **172,688** |
| *At March 31, 2006* | *91,026* | *78,095* | *169,121* |

## 16. Other assets

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Cheques in clearing | 35,602 | *64,770* |
| Deposits receivable | 85,897 | *50,990* |
| Other debtors | 14,302 | *15,346* |
| Deferred tax asset | 197,441 | — |
| Derivative financial instruments | 1,715,891 | — |
| Unsettled securities | 350,759 | — |
| **Total** | **2,399,892** | *131,106* |

## 17. Deposits by banks

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| **Banks** | | |
| 5 years or less but over 1 year | 18,694,621 | *16,518,600* |
| 1 year or less but over 3 months | 8,041,950 | *3,260,250* |
| 3 months or less but not repayable on demand | 11,436,378 | *5,538,860* |
| | 38,172,949 | *25,317,710* |
| **Parent and group companies** | | |
| 5 years or less but over 1 year | 1,521,450 | *1,521,450* |
| 3 months or less but not repayable on demand | — | *5,651,100* |
| | 1,521,450 | *7,172,550* |
| **Total** | **39,694,399** | *32,490,260* |

## 18. Customer accounts

| | March 31, 2007 (Rs. in 000's) | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| **With agreed maturity dates or periods of notice, by remaining maturity:** | | |
| 5 years or less but over 1 year | 144,842 | *3,255,338* |
| 1 year or less but over 3 months | 18,571,166 | *6,530,107* |
| 3 months or less but not repayable on demand | 16,819,477 | *12,137,172* |
| | 35,535,485 | *21,922,617* |
| Repayable on demand | 86,700,524 | *23,878,331* |
| **Total** | **122,236,009** | *45,800,948* |

## 19. Debt securities in Issue

| | March 31, 2007 (Rs. in 000's) | March 31, 2006 (Rs. in 000's) |
|---|---|---|
| Subordinated Notes issued | **32,373,196** | — |
| | **32,373,196** | — |

During the year, the Bank issued various subordinated bonds as follows:

| Date of Issue | Nature of Issue | Interest Rate | Interest frequency | Maturity | March 31, 2007 (Rs. in 000's) |
|---|---|---|---|---|---|
| **To Parent Bank** | | | | | |
| July 11, 2006 | Unsecured junior subordinated bond due 2016 | Libor + | Annually 200 bps | Bullet payment in 2016 | **1,086,750** |
| July 28, 2006 | Unsecured junior subordinated bond due 2016 | Libor + | Annually 200 bps | Bullet payment in 2016 | **1,086,750** |
| **Listed** | | | | | |
| November 30, 2006 | Step-up floating rate subordinated notes | Libor + | Semi— 100 bps | Bullet payment in annually2016 and Callable 2011 | **2,173,500** |
| December 12, 2006 | Perpetual subordinated notes | 6.375 % | Annually | Callable by issuer at par in 2016 | **6,520,500** |
| February 27, 2007 | Unsecured floating rate notes | Libor + 62 bps | Quarterly | Bullet payment in 2016 | **21,735,000** |
| | | | | | **32,602,500** |
| *Less:* Bond issue expenses | | | | | **(86,983)** |
| *Less:* Adjustments to carrying amount for change in the value of hedge of interest rate risk | | | | | **(142,321)** |
| | | | | | **32,373,196** |

For all the subordinated notes, the notes and coupons are direct, unsecured and subordinated obligations of the Bank, and rank *pari passu* without any preference among themselves.

## 20. Provision for liabilities and charges

| | (Rs. in 000's) |
|---|---|
| April 1, 2006 | — |
| Charged to P&L during the year | **128,584** |
| March 31, 2007 | **128,584** |

## 21. Other liabilities

| | March 31, 2007 (Rs. in 000's) | March 31, 2006 (Rs. in 000's) |
|---|---|---|
| Amounts in clearing | **353,889** | *251,822* |
| Corporation tax payable | **371,712** | *178,923* |
| Other creditors | **1,631,777** | *93,330* |
| Derivative financial instruments | **2,676,796** | *134,670* |
| Unsettled securities | **1,170,212** | *390,882* |
| **Total** | **6,204,386** | *1,049,627* |

## 22. Called up share capital

| | March 31, 2007 | March 31, 2006 |
|---|---|---|
| **Authorised** | | |
| Ordinary shares of £1 each (equity) | **100,000,000** | *100,000,000* |
| Ordinary shares of USD1 each (equity) | **450,000,000** | *450,000,000* |
| Ordinary shares of ¸1 each (equity) | **500,000,000** | *500,000,000* |
| Non cumulative perpetual callable preference shares of USD1 each (non equity) | **50,000,000** | *50,000,000* |
| **Allotted, Called up and Fully paid** | | |
| 135 million ordinary shares of $1 each (equity) | **135,000,000** | *135,000,000* |
| 50 million non cumulative perpetual callable preference shares of USD1 each (non equity) | **50,000,000** | *50,000,000* |
| 50,002 Ordinary shares of £1 each (equity) | **50,002** | *2* |

During the year, the Bank allotted 50,000 ordinary shares of £1 each for a cash consideration of £50,000

## 23. Pension scheme

During the year, the Bank made a contribution of Rs. 2,886,451 (2006: Rs. 3,392,095) to the pension scheme. Out of this amount, Rs. 369,234 was accrued at the year end (2006: Rs. 205,483).

## 24. Contingent liabilities and commitments

| | March 31, 2007 (Rs. in 000's) | March 31, 2006 (Rs. in 000's) |
|---|---|---|
| **(a) Guarantees and other commitments:** | | |
| Guarantees | **284,207** | *333,850* |
| **Other commitments:** | | |
| Undrawn formal standby facilities, credit lines and other commitments to lend maturing in: | | |
| Less than one year | **8,804,979** | *3,121,928* |
| (Assets of Rs. 174 million (2006: Rs. 695.5 million) have been lodged as security against the above commitments) | | |

**(b) Significant concentrations of contingent liabilities and commitments**

Approximately 25% (2006: 67%) of total contingent liabilities and commitments relate to counterparties in India.

**(c) Foreign exchange contracts**

In addition to the commitments disclosed above, there are outstanding foreign exchange contracts for purchases of Rs. 75,225,019,617 (2006: Rs. 18,120,556,440) and sales of Rs. 75,225,019,617 (2006: Rs. 18,120,556,440).

## 25. Operating lease commitments

As at March 31, 2007, the Bank has the following non cancellable annual operating lease commitments:

| | March 31, 2007 (Rs. in 000's) Land & Buildings | March 31, 2006 (Rs. in 000's) Land & Buildings Operating leases |
|---|---|---|
| which expire: | | |
| Between 1 and 5 years | **8,911** | *6,260* |
| More than 5 years | **25,517** | *22,517* |
| | **34,428** | *28,777* |

## 26. Risk Management Framework

Through its banking services the Bank is exposed to a range of risks. The Bank's goal in risk management is to ensure that it understands, measures and monitors the various risks that arise and that the Bank adheres to the policies and procedures which are established to address these issues. As a Bank, the Bank is primarily exposed to credit risk, interest rate risk, liquidity risk, foreign exchange risk and operational risk. A committee of the Board of Directors has been constituted to oversee risk management. Additionally, the Board of Directors has delegated authority to the Chief Executive Officer, who is assisted by executive management committees and a risk function which is independent from the Bank's business operations. In turn, this is supplemented by internal audit.

**Major risks**

***Credit risk***

Credit risk arises principally on the lending activities of the Bank. Credit risk policies are applied by the Executive Credit Committee which operates within the authority granted to it by the Board Risk and Credit Committee. Country and counterparty limits are established and monitored on a daily basis, with a detailed review at least once a year. Management receives regular reports on the utilisation of these limits. The maximum amount of credit risk, without taking account of any collateral or netting arrangements, as at March 31, 2007 is approximately Rs. 191.3 billion (2006: Rs. 78.2 billion)

***Interest rate risk***

Interest rate risk primarily arises on the mismatching of the Bank's assets with its funding. This is monitored daily and is managed by the Asset and Liability Committee. Principal limits have been established for the Bank's assets and liabilities when allocated to time bands by reference to the next contractual re-pricing date.

***Price risk (Trading book)***

The Bank undertakes proprietary trading activities to enhance earnings. The Trading Book Policy statement provides direction to the trading activities of the Bank and covers all positions in financial instruments held by the Bank for the purposes of trading.

The impact of an increase in interest rates on the trading book fixed income (fixed and floating rate) investments as at March 31, 2007, assuming a parallel shift in yield curve, has been set out in the following table:

**Price Risk (Trading book)**

**(Rs. in 000's)**

| **Particulars** | **Portfolio size** | **Increase in interest rates (in bps) 100** | **200** |
|---|---|---|---|
| Impact on value of Trading book fixed income investments | 33,011,813 | (27,864) | (55,772) |

The impact of an increase in interest rates on the trading book fixed income (fixed and floating rate) investments as at March 31, 2006:

**(Rs. in 000's)**

| **Particulars** | **Portfolio size** | **Increase in interest rates (in bps) 100** | **200** |
|---|---|---|---|
| Impact on value of Trading book fixed income investments | 7,384,988 | (11,693) | (23,387) |

Volatility in interest rates has an impact on an entity's interest earnings. The impact of an increase in interest rates on the Bank's net interest income as at March 31, 2007, assuming a parallel shift in the yield curve, has been set out in the following table:

***Interest rate risk (impact on interest earnings)***

**(Rs. in 000's)**

| **Particulars** | **Portfolio size** | **Increase in interest rates (in bps) 100** | **200** |
|---|---|---|---|
| Impact on Net Interest Income over a one year horizon | | 42,557 | 85,114 |

The impact of an increase in interest rates on the Bank's net interest income as at March 31, 2006, assuming a parallel shift in the yield curve has been set out in the following table:

***Interest rate risk (impact on interest earnings)***

**(Rs. in 000's)**

| **Particulars** | **Portfolio size** | **Increase in interest rates (in bps) 100** | **200** |
|---|---|---|---|
| Impact on Net Interest Income over a one year horizon | | 87,027 | 174,010 |

The positive impact as a result of an increase in interest rates is due to positive near term Balance Sheet re-pricing gaps. The interest rate re-pricing schedules as at March 31, 2007 and March 31, 2006 have been set out in the following table. Short-term debtors and creditors have been included in all of the following disclosures, where applicable.

The combined impact of the price risk associated with an increase of 100 bps in interest rates on the trading book assets, coupled with the impact on the net interest income viewed over a four quarter horizon is measured against a limit of 10% of Tier I & II capital base of the Bank as at the end of the immediately preceding financial year.

**Interest rate re-pricing schedule**

At March 31, 2007, the interest rate risk comprises (all amounts in Rs. 000's):

| | **Rates** | **Less than 3 months** | **More than 3 months but not more than 6 months** | **More than 6 months but not more 1 year** | **More than 1 year but not more than 5 years** | **More than 5 years** | **Non Interest bearing** | **Trading book** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash | | — | — | — | — | — | 70,639 | — | 70,639 |
| Treasury bills and other eligible bills | 5.2 | 6,384,917 | — | 1,283,930 | — | — | — | 9,250,807 | 16,919,654 |
| Loans and advances to banks | 4.8 | 30,942,163 | 15,461,888 | 814,237 | — | — | — | — | 47,218,288 |
| Loans and advances to customers | 5.9 | 34,194,763 | — | — | — | — | — | — | 34,194,763 |
| Debt securities | 5.1 | 71,456,942 | 9,633,474 | 1,282,622 | 1,629,777 | 584,845 | — | 23,811,823 | 108,399,483 |
| Tangible fixed assets | | — | — | — | — | — | 172,663 | — | 172,663 |
| Other assets | | — | — | — | — | — | 684,000 | 1,715,891 | 2,399,891 |
| Prepayments and accrued income | | — | — | — | — | — | 2,244,008 | — | 2,244,008 |
| **Total Assets** | | **142,978,785** | **25,095,362** | **3,380,789** | **1,629,777** | **584,845** | **3,171,310** | **34,778,521** | **211,619,389** |
| Deposits by banks | 5.1 | 37,520,913 | 1,304,100 | — | 869,400 | — | — | — | 39,694,413 |
| Customer Accounts | 5.1 | 99,351,728 | 16,903,136 | 1,668,070 | 143,973 | 869 | 4,168,251 | — | 122,236,027 |
| Other liabilities | | — | — | — | 640,617 | — | 2,886,973 | 2,676,796 | 6,204,386 |
| Provision for liability and charges | | — | — | — | — | — | 128,584 | — | 128,584 |
| Accruals and deferred income | | — | — | — | — | — | 1,324,227 | — | 1,324,227 |
| Debt securities in issue | 5.6 | 23,679,196 | 2,173,500 | — | — | 6,520,500 | — | — | 32,373,196 |
| Shareholders' funds | | — | — | — | — | — | 9,658,556 | — | 9,658,556 |
| **Total Liabilities** | | **160,551,837** | **20,380,736** | **1,668,070** | **1,653,990** | **6,521,369** | **18,166,591** | **2,676,796** | **211,619,389** |
| **Contingent Liabilities :** | | | | | | | | | |
| Swap | | (8,109,676) | 2,173,500 | — | 24,213 | 5,911,920 | — | — | |
| Gap | | (25,682,728) | 6,888,126 | 1,712,718 | — | (24,561) | (14,995,324) | 32,101,769 | |
| **Cumulative** | | **(25,682,728)** | **(18,794,602)** | **(17,081,884)** | **(17,081,884)** | **(17,106,445)** | **(32,101,769)** | **—** | |

The figures above do not demonstrate the exposure of the Bank to particular interest rates as the assets and liabilities have been consolidated across all currencies.

At March 31, 2006, the interest rate risk comprises (all amounts in Rs. 000s):

| | Less than 3 months | More than 3 months but not more than 6 months | More than 6 months but not more 1 year | More than 1 year but not more than 5 years | More than 5 years | Non Interest bearing | Trading book | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash | — | — | — | — | — | 17,171 | — | 17,171 |
| Treasury and other eligible bills | 4,374,864 | — | — | — | — | — | 3,750,809 | 8,125,673 |
| Loans and advances to banks | 24,051,516 | 890,657 | 438,699 | — | — | 153,014 | — | 25,533,886 |
| Loans and advances to customers | 26,034,922 | 5,354,635 | 173,880 | — | — | — | — | 31,563,437 |
| Debt Securities | 14,997,454 | 2,323,124 | — | 1,244,264 | 139,669 | — | 3,634,179 | 22,338,690 |
| Tangible fixed assets | — | — | — | — | — | 169,142 | — | 169,142 |
| Other assets | — | — | — | — | — | 131,106 | — | 131,106 |
| Prepayments and accrued income | — | — | — | — | — | 765,594 | — | 765,594 |
| **Total assets** | 69,458,756 | 8,568,416 | 612,579 | 1,244,264 | 139,669 | 1,236,027 | 7,384,988 | 88,644,699 |
| Liabilities | | | | | | | | |
| Deposits by banks | 31,403,510 | 1,086,750 | — | — | — | — | — | 32,490,260 |
| Customer accounts | 33,815,661 | 4,097,265 | 2,432,842 | 3,213,151 | — | 2,242,009 | — | 45,800,928 |
| Other liabilities | 501,253 | — | — | — | — | 548,374 | — | 1,049,627 |
| Accruals and deferred income | — | — | — | — | — | 808,846 | — | 808,846 |
| Shareholders' funds | — | — | — | — | — | 8,495,038 | — | 8,495,038 |
| **Total liabilities** | 65,720,424 | 5,184,015 | 2,432,842 | 3,213,151 | — | 12,094,267 | — | 88,644,699 |
| **Derivatives** | | | | | | | | |
| IRS | (1,999,316) | 217,350 | — | 1,912,376 | (130,410) | — | — | — |
| Gap | 1,739,017 | 3,601,750 | (1,820,263) | (56,511) | 9,259 | (10,858,241) | 7,384,988 | — |
| **Cumulative** | 1,739,017 | 5,340,768 | 3,520,505 | 3,463,993 | 3,473,252 | (7,384,988) | — | — |

The figures above do not demonstrate the exposure of the Bank to particular interest rates as the assets and liabilities have been consolidated across all currencies.

***Market risk***

The Bank uses a value at risk ('VAR') measure as the primary mechanism for controlling market risk. Market risk arises mainly from uncertainty about future prices of financial and other instruments used in the Bank's business. It represents the potential loss the Bank might suffer through adverse changes in interest rates and foreign exchange rates. The Bank's trading activities principally comprise trading in foreign exchange derivative financial instruments which include forwards, swaps and options. Positions in such instruments are reported at fair value.

VAR is the potential loss in value of the Bank's trading positions, which might arise due to adverse movements in markets over a defined time horizon with a specified confidence level.

The Bank's VAR, is calculated using a parametric approach at a 99% confidence level over a one day holding period.

The VAR for the Bank's trading book as at March 31, 2007 was Rs. 17,170,650 (2006: Rs. 3,173,310) and the average, highest and lowest VARs during the period from April 1, 2006 to March 31, 2007 were Rs. 9,432,990 (2006: Rs. 2,608,200), Rs. 20,343,960 (2006: Rs. 5,824,980) and Rs. 2,564,730 (2006: Rs. 434,700) respectively. These figures are purely indicative as they are simply based on a month-end time series.

The modelling of the risk characteristics of the Bank's trading positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no uniform industry method for estimating VAR and different assumptions and/or approximations could produce materially different VAR estimates. The VAR figures disclosed above, for example, have the following main limitations:

The Bank uses data for the last year to estimate its VAR. VAR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of VAR is that past changes in market risk factors may not produce accurate predictions of future market risk.

The VAR estimates the risk for a one-day time horizon. It does not capture the market risk of positions over a longer holding period.

Focusing on the maximum loss that is expected to be incurred 99% of the time says little about the size of the losses in excess of the VAR that are expected to be incurred 1% of the time.

The VAR calculation is based on certain assumptions (log-normal distribution) on the distribution of market price movements that might not hold in practice. The assumption of correlation or independence between risk types may be incorrect and therefore result in VAR not fully capturing market risk.

VAR is calculated at the close of business with intra-day exposures not being subject to intra-day VAR calculations.

***Liquidity risk***

Liquidity risk arises on the mis-matching of the residual maturity of the Bank's assets and funding. This is also monitored daily, and is managed by the Asset and Liability Committee. Limits have been established for each time band and incorporate FSA agreed limits where necessary.

***Foreign exchange risk***

Foreign exchange risk is managed within the Treasury function. Policies and procedures are detailed in an operational procedures manual. This incorporates FSA agreed limits where necessary, and other regulatory bodies requirements. It is subject to periodic review by Internal Audit, and is approved by the Board. Senior management also regularly monitors the positions taken on a daily basis.

***Operational risk***

Operational risk is the risk of loss resulting from inadequate or failed internal process, people and systems or from external events. The Bank's operational risk framework is subject to procedural policies, with senior management being responsible for their implementation and maintenance. Adherence to these policies is also subject to periodic review by Internal Audit. The policies are designed to mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining key back-up procedures and undertaking regular contingency planning.

The Bank has formulated and tested a Business Continuity Plan (BCP) to address disaster recovery situations, which is intended to provide the necessary guidance to recover the critical and important business processes in the event of an extended business disruption.

**27. Fair values of financial assets and financial liabilities**

Set out below is a comparison by category of book values and fair values of all of the Bank's trading and non trading financial assets and financial liabilities as at the year end.

| | March 31, 2007 Fair value (Rs. in 000's) | March 31, 2007 Book value (Rs. in 000's) | March 31, 2006 Fair value (Rs. in 000's) | March 31, 2006 Book value (Rs. in 000's) |
|---|---|---|---|---|
| ***Non trading book financial assets and liabilities*** | | | | |
| **Assets:** | | | | |
| Cash | **70,639** | **70,639** | *17,171* | *17,171* |
| Treasury bills and other eligible bills | **7,668,847** | **7,668,847** | *4,375,734* | *4,374,864* |
| Loans & advances to banks | **47,218,288** | **47,218,288** | *25,533,887* | *25,533,887* |
| Loans & advances to customers | **34,194,763** | **34,194,763** | *31,563,437* | *31,563,437* |
| Debt securities | **84,638,481** | **84,638,481** | *18,495,920* | *18,704,532* |
| **Liabilities:** | | | | |
| Deposits by banks & customer accounts | **161,930,445** | **161,930,445** | *78,291,209* | *78,291,209* |
| Debt securities in issue | **32,373,196** | **32,373,196** | — | — |
| ***Trading book financial assets and liabilities*** | | | | |
| **Assets:** | | | | |
| Treasury bills and other eligible bills | **9,250,807** | **9,250,807** | *3,750,809* | *3,750,809* |
| Debt securities | **23,811,866** | **23,811,866** | *3,634,179* | *3,634,179* |
| Derivative financial instruments | **1,715,891** | **1,715,891** | — | — |
| **Liabilities:** | | | | |
| Derivative financial instruments | **2,676,796** | **2,676,796** | *71,334* | *134,670* |

Market values have been used to determine the fair values of FRNs. The fair values of all other items have been calculated by discounting expected future cash flows at prevailing interest rates. Fair value is assumed to be the same as book value when interest rates reset within a short period of time.

**28. Derivative financial instruments**

The Bank enters into various financial instruments as principal to manage balance sheet interest rate and foreign exchange rate risk.

Interest related contracts include swaps, futures and forward rate agreements. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. Forward rate agreements are contracts under which two counterparties agree on the interest to be paid on a notional deposit of a specified maturity at a specific future settlement date; there is no exchange of principal.

Exchange rate related contracts include spot, currency swaps, options and forward transactions. The Bank's currency swap transactions generally involve an exchange of currencies and an agreement to re-exchange the currency at a future date where the swaps relate to assets and liabilities denominated in different currencies.

The Bank enters into over-the-counter Credit Default Swaps (CDS) for portfolio management purposes and enhanced returns.

The Bank uses derivatives to mitigate interest rate risk. Hedge accounting is applied to derivatives and hedged items when the criteria under FRS 26 have been met. The Bank uses interest rate swaps to manage fixed rates of interest. The swaps exchange fixed rate for floating rate on assets to match the floating rates paid on funding or exchanges fixed rates on funding to match the floating rates received on assets. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. As at March 31, 2007, the notional amounts of swaps designated as fair value hedges was Rs. 2,521 million and these contracts had a negative fair value of Rs. 165 million.

The contract or notional principal amounts of these instruments are not indicative of the amounts at risk which are smaller amounts payable under the terms of these instruments and upon the basis of the contract or notional principal amount. Derivatives contracts in the non-trading book are used for hedging purposes only and are accounted for on this basis and are executed with bank counterparties for whom volume and settlement limits have been approved. Group limits are approved for connected exposures.

At March 31, 2007, the principal amounts of the instruments were:

**(Rs. in 000's)**

| Instrument | Non-Trading | Trading | | |
|---|---|---|---|---|
| | Notional Principal | Notional Principal | Gross Positive Fair value | Gross Negative Fair value |
| Exchange rate contracts | **—** | **124,077,160** | **1,393,300** | **(2,169,935)** |
| Interest rate contracts | **2,525,564** | **28,408,427** | **314,245** | **(257,777)** |
| Credit Derivative | **—** | **11,060,420** | **8,346** | **(83,897)** |

At March 31, 2006, the principal amounts of the instruments were:

**(Rs. in 000's)**

| *Instrument* | *Non-Trading* | *Trading* | | |
|---|---|---|---|---|
| | *Notional Principal* | *Notional Principal* | *Gross Positive Fair value* | *Gross Negative Fair value* |
| Exchange rate contracts | *14,134,227* | *3,986,329* | *36,558* | *(36,124)* |
| Interest rate contracts | *11,365,232* | *2,613,721* | *12,389* | *(1,869)* |
| Credit Derivatives | *217,350* | — | — | — |

**Credit risk disclosure:**

Residual maturity of fair value of derivatives:

The residual maturity and the location of all exposures arising from over the counter (OTC) and non marginal exchange traded derivative contracts is set out below.

At March 31, 2007, residual maturities of the net fair values of derivatives were:

**(Rs. in 000's)**

| Instrument | 1 Year or less | More than 1 year but not more than 5 year | More than 5 year | Total |
|---|---|---|---|---|
| **Non Trading Book** | | | | |
| Financial institutions | **(696)** | **(11,911)** | **(8,259)** | **(20,866)** |
| **Trading book** | | | | |
| Financial institutions | **(780,026)** | **112,718** | **(272,731)** | **(940,039)** |
| **Other** | **—** | **—** | **—** | **—** |

At March 31, 2006, residual maturities of the net fair values of derivatives were:

**(Rs. in 000's)**

| *Instrument* | *1 Year or less* | *More than 1 year but not more than 5 year* | *More than 5 year* | *Total* |
|---|---|---|---|---|
| **Non Trading Book** | | | | |
| Financial institutions | *62,162* | *20,214* | *20,040* | *102,415* |
| **Trading book** | | | | |
| Financial institutions | *(1,174)* | *2,391* | — | *1,217* |
| **Other** | *9,955* | *(217)* | — | *9,737* |

**Risk weighted amounts:**

The weighted amounts and positive fair value have been calculated based on the Financial Service Authority's requirements. The positive fair value represents the claims that the Bank would have if all the counterparties to which it was exposed defaulted at once and the Bank were to replace the contracts.

At March 31, 2007, the risk weighted amounts and positive fair values of derivatives were:

**(Rs. in 000's)**

| Counterparty locations | Notional amounts | Risk Weighted amounts | Positive fair value |
|---|---|---|---|
| **Financial Institutions** | | | |
| Europe & North America | **94,653,013** | **414,704** | **414,704** |
| India | **32,368,849** | **178,488** | **267,167** |
| Singapore | **106,545** | **—** | **—** |
| **Other** | | | |
| Europe & North America | **38,943,165** | **774,679** | **1,034,021** |

At March 31, 2006, the risk weighted amounts and positive fair values of derivatives were:

(Rs. in 000's)

| *Counterparty locations* | *Notional Amounts* | *Risk Weighted amounts* | *Positive fair value* |
|---|---|---|---|
| **Financial Institutions** | | | |
| Europe & North America | *20,286,188* | *107,588* | *99,677* |
| India | *3,860,745* | *11,954* | *9,781* |
| Singapore | *5,110,855* | *4,347* | *3,347* |
| **Other** | | | |
| Europe & North America | *3,059,071* | *12,128* | *10,172* |

**29. Assets and liabilities denominated in foreign currency**

| | **March 31, 2007 (Rs. in 000's)** | *March 31, 2006 (Rs. in 000's)* |
|---|---|---|
| Denominated in US Dollars | **97,223,263** | *48,230,182* |
| Denominated in Sterling | **54,996,805** | *29,107,840* |
| Denominated in other currencies | **59,399,321** | *11,306,677* |
| **Total assets** | **211,619,389** | *88,644,699* |
| Denominated in US Dollars | **86,428,228** | *48,596,721* |
| Denominated in Sterling | **85,176,374** | *28,851,062* |
| Denominated in other currencies | **40,014,787** | *11,196,916* |
| **Total liabilities** | **211,619,389** | *88,644,699* |

The above should not be considered to demonstrate the Bank's exposure to foreign exchange risk due to the existence of compensating exchange rate contracts as discussed in Note 26 which are held for hedging purposes.

**30. Ultimate parent company and parent undertaking of larger group of which the Bank is a member**

The Bank is a wholly owned subsidiary of ICICI Bank Limited. The parent company is incorporated in India. Copies of the group accounts for ICICI Bank Limited can be obtained from the Secretarial Department, ICICI Bank Limited, ICICI Bank Towers, Bandra-Kurla Complex, Mumbai 400051, India.