ICICI Bank

CONSOLIDATED FINANCIAL STATEMENTS OF ICICI BANK CANADA

5TH ANNUAL REPORT AND ACCOUNTS 2008

Directors
K. V. Kamath, *Chairman (upto April 9, 2009)*
Chanda D. Kochhar, *Vice-Chairperson (upto April 9, 2009); Chairperson (w.e.f. April 10, 2009)*
Robert G. Long
John Thompson
David P. Smith
Sonjoy Chatterjee
Sriram H. Iyer, *President & CEO*

Auditors
KPMG LLP

Anthony Coulthard
Corporate Secretary

Registered Office
Don Valley Business Park
150 Ferrand Drive
Suite 1200
Toronto, Ontario
Canada M3C 3E5

management's report

to the members

The Management of ICICI Bank Canada (the "Subsidiary") is pleased to present their fifth annual report and accounts 2008, together with the financial statements and auditors' report for the year ended December 31, 2008. All information provided in this Management Report is as at December 31, 2008.

Principal Activities

The Subsidiary, a wholly-owned subsidiary of ICICI Bank Limited (the "Parent"), is a full service direct bank with an asset base of about CAD 6.50 billion, as at December 31, 2008, offering a comprehensive suite of personal, commercial and cross-border banking products and services. The Subsidiary is supported by a state-of-the-art electronic banking platform (icicibank.ca), a 24-hour toll-free customer contact centre and proprietary ABMs. It has established its branch network in the Greater Toronto Area (Brampton, Downtown Toronto, Gerrard Street East, Mississauga, Scarborough and Don Valley), the Greater Vancouver Regional District (Downtown Vancouver and Surrey) and in Calgary, Alberta.

The Subsidiary is regulated by the Ministry of Finance (Canada), and operates under the supervision of the Office of the Superintendent of Financial Institutions. It is also a member of the Canada Deposit Insurance Corporation.

Directors and Corporate Secretary

The names of the Directors and the Corporate Secretary of the Subsidiary are as follows:

K. V. Kamath, *Chairman* (upto April 9, 2009)
Chanda D. Kochhar, *Vice-Chairperson* (upto April 9, 2009);
Chairperson (w.e.f. April 10, 2009)
Robert G. Long
John Thompson
David P. Smith
Sonjoy Chatterjee
Sriram H. Iyer, *President & CEO*
Anthony Coulthard, *Corporate Secretary*

Directors' Interests

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.

As at December 31, 2008, the Subsidiary had issued 597 million common shares, 10 million Series A preferred shares, 509,280 Series B preferred shares, 600,000 Series C preferred shares, 1,000,000 Series D preferred shares and 1,200,000 Series E preferred shares to its Parent. The Series A preferred shares are not redeemable by the Subsidiary until ten years from their issuance date and bear a fixed non-cumulative cash dividend of 1% per annum. The Series B preferred shares and Series C preferred shares are not redeemable by the Subsidiary until five years from their issuance date and bear a fixed non-cumulative cash dividend of 7% per annum. The Series D preferred shares and Series E preferred shares are not redeemable by the Subsidiary until five years from their issuance date and bear a fixed non-cumulative cash dividend of 7.25% per annum. No cash dividends have been paid on these preferred shares.

ANTHONY COULTHARD
Corporate Secretary

auditors' report

to the shareholder

We have audited the consolidated balance sheet of ICICI Bank Canada as at December 31, 2008 and the consolidated statements of operations and comprehensive income, 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 consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

For KPMG, LLP
Chartered Accountants

Licensed Public Accountants

Toronto, Canada, February 26, 2009

consolidated balance sheet

as at December 31, 2008

	2008	(Rs. in 000's) 2007
ASSETS		
Cash (note 1)	**69,827**	**197,672**
Deposits with regulated financial institutions:		
Interest-bearing	**7,935,512**	*1,291,918*
Non-interest bearing	**233,356**	*391,366*
	8,238,695	*1,880,956*
Securities (note 2):		
Trading account	**9,781,268**	*28,116,607*
Available-for-sale	**45,526,586**	*896,072*
Investment account	**2,332,198**	*2,775,000*
	57,640,052	*31,787,679*
Loans, net of allowance for credit losses (note 3):		
Commercial and corporate loans and commercial mortgages	**142,847,987**	*34,095,806*
Residential mortgages	**45,275,321**	*41,267,581*
Personal	**169,481**	*220,799*
	188,292,789	*75,584,186*
Other:		
Fixed assets, net (note 4)	**136,306**	*97,742*
Other assets (note 5)	**6,159,525**	*5,138,676*
	6,295,831	*5,236,418*
	260,467,367	*114,489,239*
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Deposits (note 6):		
Personal	**208,884,037**	*97,594,898*
Commercial	**7,811,982**	*2,619,869*
Interbank	**4,300**	*442,477*
	216,700,319	*100,657,244*
Other:		
Accounts payable and other liabilities (note 7)	**13,012,800**	*1,055,082*
Subordinated notes (note 8)	**2,999,438**	*999,813*
	16,012,238	*2,054,895*
Shareholder's equity:		
Share capital (note 9):		
Common shares	**23,875,523**	*10,677,998*
Paid-in capital	**33,415**	—
Preferred shares	**3,708,586**	*1,508,998*
Surplus (deficit)	**114,321**	*(410,138)*
Accumulated other comprehensive income	**22,965**	*242*
	27,754,810	*11,777,100*
	260,467,367	*114,489,239*

See accompanying notes to consolidated financial statements.

For KPMG, LLP
Chartered Accountants

For and on behalf of the Board

Toronto, Canada, February 26, 2009

Director *Director*

statement of changes in shareholder's equity

	2008	(Rs. in 000's) 2007
Common shares (note 9):		
Balance, beginning of year	**10,677,998**	*4,479,160*
Issued during the year	**13,197,525**	*6,198,838*
Balance, end of year	**23,875,523**	*10,677,998*
Paid-in capital	**33,415**	—
Preferred shares (note 9):		
Balance, beginning of year	**1,508,998**	*399,925*
Issued during the year	**2,199,588**	*1,109,073*
Balance, end of year	**3,708,586**	*1,508,998*
Surplus (deficit):		
Balance, beginning of year	**(410,138)**	*(599,672)*
Transitional adjustment on adoption of new accounting policies (preamble to notes)	**—**	*95,561*
Net income	**524,459**	*93,973*
Balance, end of year	**114,321**	*(410,138)*
Accumulated other comprehensive income, net of income taxes:		
Balance, beginning of year	**242**	—
Cumulative effect of adopting new accounting policies (preamble to notes)	**—**	*16,479*
Other comprehensive income (loss)	**22,723**	*(16,237)*
Balance, end of year	**22,965**	*242*
Total shareholder's equity	**27,754,810**	*11,777,100*

See accompanying notes to consolidated financial statements.

consolidated statement of operations

for the year ended December 31, 2008

	2008	(Rs. in 000's) 2007
Interest income:		
Loans	**6,836,496**	*3,430,437*
Securities	**1,464,732**	*1,471,164*
Deposits with regulated financial institutions	**186,315**	*28,514*
	8,487,543	*4,930,115*
Interest expense:		
Deposits	**6,931,543**	*3,597,405*
Subordinated notes (note 8)	**172,809**	*72,506*
Short-term borrowings (note 10)	**2,007**	*800*
	7,106,359	*3,670,711*
Net interest income	**1,381,184**	*1,259,404*
Provision for credit losses (note 3)	**554,964**	*138,814*
Net interest income after provision for credit losses	**826,220**	*1,120,590*
Non-interest income (note 11)	**1,526,839**	*68,297*
Net interest and non-interest income	**2,353,059**	*1,188,887*
Non-interest expenses:		
Salaries and benefits	**546,061**	*376,649*
General and administrative	**174,090**	*86,464*
Marketing and business development	**173,718**	*109,779*
Capital and other taxes	**161,246**	*144,533*
Call center and outsourcing	**123,465**	*78,585*
Professional fees	**113,493**	*67,467*
Occupancy costs	**78,827**	*61,269*
Depreciation	**51,977**	*40,712*
Data processing fees	**35,887**	*31,634*
Travel, moving and entertainment	**29,888**	*27,315*
Communication	**28,363**	*32,314*
	1,517,015	*1,056,721*
Income before income taxes	**836,044**	*132,166*
Provision for income taxes (note 12)	**311,585**	*38,193*
Net income	**524,459**	*93,973*
Other comprehensive income (loss), net of income taxes:		
Change in unrealized gain (loss) on available-for-sale securities, net of income taxes of Rs.11,518 (2007 - Rs. 8,078)	**22,723**	*(16,237)*
Comprehensive income for the year	**547,182**	*77,736*

See accompanying notes to consolidated financial statements.

For KPMG, LLP
Chartered Accountants

For and on behalf of the Board

Toronto, Canada, February 26, 2009

Director *Director*

consolidated statement of cash flows

	2008	(Rs. in 000's) 2007
Cash provided by (used in):		
Operating Activities:		
Net income	**524,459**	*93,973*
Items not involving cash:		
Provision for credit losses	**554,964**	*138,814*
Depreciation	**51,977**	*40,712*
Future income taxes	**(27,626)**	*38,193*
Amortization of deposit broker commissions	**308,772**	*144,973*
Interest accrued on subordinated notes	**12,105**	*13,198*
Net change in derivative financial instruments	**9,540,230**	*(3,209,078)*
Change in non-cash operating items:		
Other items, net	**1,159,546**	*(1,043,724)*
	12,124,427	*(3,782,939)*
Financing Activities:		
Deposits, net	**116,043,075**	*35,709,263*
Proceeds from subordinated note	**1,999,625**	*999,813*
Proceeds from issue of preferred shares	**2,199,588**	*1,109,072*
Proceeds from issue of common shares	**13,197,525**	*6,198,837*
	133,439,813	*44,016,985*
Investing Activities:		
Purchase of securities	**(354,807,813)**	*(230,536,766)*
Proceeds from sale of securities	**328,955,441**	*224,211,472*
Treasury placements	**(4,931,724)**	—
Loans, net	**(113,263,572)**	*(32,358,812)*
Purchase of fixed assets	**(90,557)**	*(23,476)*
	(144,138,225)	*(38,707,582)*
Increase in cash and cash equivalents	**1,426,015**	*1,526,464*
Cash and cash equivalents, beginning of year	**1,880,956**	*354,492*
Cash and cash equivalents, end of year	**3,306,971**	*1,880,956*
Represented by:		
Cash	**69,827**	*197,672*
Interest-bearing deposits with regulated financial institutions	**3,003,788**	*1,291,918*
Non-interest bearing deposits with regulated financial institutions	**233,356**	*391,366*
	3,306,971	*1,880,956*
Supplemental cash flow information:		
Interest paid	**5,212,387**	*1,612,658*
Income taxes paid	**—**	*71,187*

See accompanying notes to consolidated financial statements.

(In thousands of Indian Rupees)

ICICI Bank Canada (the "Bank") is a wholly owned subsidiary of ICICI Bank Limited (the "Parent"). The Office of the Superintendent of Financial Institutions Canada ("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 consolidated 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 in each note below. These accounting policies conform, in all material respects, to Canadian GAAP, and have been included below with notes related to their financial statement captions.

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

The consolidated financial statements include the assets, liabilities, results of operations and comprehensive income, changes in shareholder's equity and cash flows of the Bank and its wholly owned subsidiary, ICICI Wealth Management Inc., after the elimination of intercompany transactions and balances. ICICI Wealth Management Inc. was incorporated on July 28, 2006. A subsidiary is defined as a corporation controlled by the Bank, which is normally a corporation in which the Bank owns more than 50% of the voting shares.

Significant accounting changes:

(a) Financial Instruments:

On January 1, 2007, the Bank adopted two new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530, Comprehensive Income ("Section 1530"), and Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855").

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income ("OCI"). OCI represents changes in shareholder's equity during a period arising from transactions and other events with non-owner sources and includes unrealized foreign currency translation gains and losses on self-sustaining foreign operations. The cumulative changes in OCI are included in consolidated accumulated other comprehensive income ("AOCI"), which is presented as a new category of shareholder's equity on the consolidated balance sheet.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the consolidated balance sheet when the Bank becomes a party to the contractual provisions of the financial instrument. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available-for-sale ("AFS"), held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities held for trading are measured at fair value with changes in those fair values recognized in non-interest income. Financial assets held to maturity are measured at amortized cost using the effective interest rate method of amortization. AFS financial assets are measured at fair value with changes in those fair values recognized in OCI.

Section 3855 also provides an entity the option to designate a financial instrument as held-for-trading on its initial recognition or upon adoption of the standard, even if the financial instrument, other than loans and receivables, was not originally acquired for the purpose of selling or repurchasing it in the near term.

Other significant accounting implications arising upon the adoption of Section 3855 include the use of the effective interest rate method of amortization for all transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized costs.

Interest income and expense are recognized in the consolidated statement of operations and comprehensive income using the effective interest method. The effective interest rate method is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

(b) Capital disclosures [note 18]:

Effective January 1, 2008, the Bank has adopted CICA Handbook Section 1535, Capital Disclosures, which requires disclosure on the Bank's objectives, policies and processes for managing capital, quantitative data about what is considered capital and whether it has complied with any capital requirements and the consequences of non-compliance with such capital requirements.

(c) Financial instruments - Disclosure and presentation [note 20]:

Effective January 1, 2008, the Bank has adopted CICA Handbook Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. These accounting standards on financial instruments revise and enhance the current disclosure requirements but do not change the existing presentation requirements for financial instruments. The standards provide additional information on the nature and extent of risks arising from financial instruments to which the Bank is exposed, and how it manages those risks.

Significant accounting policies

1. Cash and Cash Equivalents

The Bank considers cash and cash equivalents to represent cash balances on hand, interest-bearing and non-interest bearing deposits with regulated financial institutions with an original maturity of 90 days or less. Included in deposits with regulated financial institutions, is Rs. 4,931,724 (2007 - nil) of deposits with an original maturity greater than 90 days.

2. Securities

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

Trading account securities:

Trading account and AFS securities are recorded at fair value. The fair value of securities are based on quoted market prices where available; otherwise, the fair values are estimated using quoted market values for similar securities or other third party evidence, as available. In those cases where third party evidence is not available, other valuation techniques are utilized such as internally developed models.

Trading account securities, comprised of securities purchased for resale in the near term, are recognized initially at fair value, and transaction costs are recognized in the consolidated statement of operations and comprehensive income when incurred. Gains and losses arising from changes in fair value are recognized in the consolidated statement of operations and comprehensive income.

Interest income on trading securities is determined in accordance with the effective interest method and recognized in the consolidated statement of operations and comprehensive income on an accrual basis.

The composition and maturity profile of trading account securities are as follows:

	2008			
	Under 1 year Rs.	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Total trading securities Rs.**
Credit linked notes	**—**	**5,072,026**	**—**	**5,072,026**
Collateralized debt obligations	**—**	**860,349**	**—**	**860,349**
Corporate bonds	**—**	**1,061,661**	**496,240**	**1,557,901**
Commercial paper	**—**	**—**	**2,290,992**	**2,290,992**
	—	**6,994,036**	**2,787,232**	**9,781,268**

	2007			
	Under 1 year Rs.	*1 to 5 years Rs.*	*Over 5 years Rs.*	*Total trading securities Rs.*
Credit linked notes	*—*	*4,573,862*	*—*	*4,573,862*
Collateralized debt obligations	*—*	*2,506,810*	*—*	*2,506,810*
Corporate bonds	*1,102,793*	*1,713,439*	*—*	*2,816,232*
Government bonds and treasury bills	*8,625,103*	*—*	*—*	*8,625,103*
Commercial paper	*2,994,398*	*—*	*—*	*2,994,398*
Bankers' acceptances	*6,600,202*	*—*	*—*	*6,600,202*
	19,322,496	*8,794,111*	*—*	*28,116,607*

As at December 31, 2008, trading securities held included those denominated in U.S. dollars. These securities comprised of credit linked notes, collateralized debt obligations, corporate bonds and commercial paper of Rs.5,072,026, Rs. 860,349, Rs. 476,770 and Rs. 990,644 respectively, denominated in U.S. dollars (US$ 104,125, US$ 17,662, US$ 9,788 and US$ 20,337, respectively).

During the year ended December 31, 2008, losses realized from the sale of fixed income securities were Rs. 4,007, losses realized from the sale of government guaranteed securities were Rs. 3,834, losses realized from sale of collateralized debt obligations and credit default swaps were Rs. 50,526 and an unrealized loss of Rs. 1,910,511 was recognized directly in non-interest income with respect to changes in fair value of other trading account securities.

As at December 31, 2008, the Bank held Rs. 3,623,760 principal amount in asset-backed commercial paper ("ABCP") which was rated R-1 High by Dominion Bond Rating Service when it was initially issued in 2007.

The deterioration in global credit markets, prolonged illiquidity, the limited information available concerning the value of the underlying assets, increased market volatility and a significantly weaker U.S. housing market all contributed to the turmoil in the Canadian ABCP market.

In August, 2007, the sponsors of the ABCP held by the Bank announced that they could not place new ABCP due to unfavourable conditions in the Canadian capital markets and, therefore, existing ABCP could not be paid when it matured. As a result, there is presently no active market for the ABCP held by the Bank. Of the total amount held, Rs. 3,023,873 principal amount of the ABCP is subject to a court sanctioned restructuring plan ("Montreal Accord" or the "Plan").

Montreal Accord:

Under the terms of the Plan, which was completed on January 21, 2009, non-bank ABCP was replaced with longer-term floating rate notes with maturities more closely matching the maturities of the underlying assets, which were allocated into one of three Master Asset Vehicles ("MAV1", "MAV2" or "MAV3"). MAV1 and MAV2 contain those series of non-bank ABCP supported in whole or in part by synthetic assets (largely collateralized debt obligations). The majority of these series were pooled and supported by margin funding facilities (self-funded in the case of the MAV1 noteholders) provided by certain financial institutions and note holders, as well as a senior funding facility provided by the Government of Canada and certain of the Provinces.

(In thousands of Indian Rupees)

The margin funding facilities and senior funding facility will fund margin calls in the event insufficient collateral exists within the pooled series to support the leveraged collateralized debt obligations. Those assets that have exposure to US sub-prime mortgages or that did not have their collateral triggers adjusted were considered ineligible for pooling ("ineligible assets") and will not benefit from the funding facilities. MAV3 contains those series of non-bank ABCP backed solely by traditional securitization assets or ineligible assets.

In the current year, as a result of updating the model's assumptions based on the anticipated terms of the Plan, an additional impairment charge Rs. 901,137 was recognized. The carrying value of the Bank's non-bank ABCP, net of provisions, as at December 31, 2008, is Rs. 2,290,992 which includes Rs. 1,764,291 of ABCP subject to the Plan. The recorded net carrying value of the non-bank ABCP represents management's best estimate of the fair value of the non-bank ABCP as at December 31, 2008.

The valuation was based on estimates and circumstances that may change in subsequent periods. Items that may have a material impact on the fair value of the non-bank ABCP or subsequent notes under the Plan include any further changes in economic conditions, including market illiquidity and interest rates.

In January 2009, the Bank received an initial payment representing interest that has accrued on ABCP between August 2007 and August 31, 2008, net of expenses. Further payments representing interest earned in the ABCP conduits for the period between September 1, 2008, and the closing date would also be received. The interest collections shall be recorded on cash basis in the period of receipt.

AFS securities:

AFS securities are recognized initially at fair value and transaction costs are added to the initial carrying value of the securities. AFS securities are subsequently carried at fair value. Unrealized gains and losses arising from changes in fair value are included in other comprehensive income until sale when the cumulative gain or loss is transferred to the consolidated statement of operations and comprehensive income. As at December 31, 2008, the fair value of AFS securities exceeded their amortized cost by Rs. 28,588 (2007 - unrealized loss of Rs. 5,759). Interest income determined in accordance with the effective interest method and other-than-temporary impairment losses are recognized in the consolidated statement of operations and comprehensive income.

The composition and maturity profile of AFS securities are as follows:

	2008			
	Under 1 year Rs.	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Total AFS securities Rs.**
Banker's acceptances	**18,427,763**	**—**	**—**	**18,427,763**
Bearer deposit notes	**5,255,533**	**—**	**—**	**5,255,533**
Corporate bonds	**604,011**	**405,106**	**—**	**1,009,117**
Commercial paper	**413,978**	**—**	**—**	**413,978**
Government bonds and treasury bills	**20,420,195**	**—**	**—**	**20,420,195**
	45,121,480	**405,106**	**—**	**45,526,586**

	2007			
	Under 1 year Rs.	*1 to 5 years Rs.*	*Over 5 years Rs.*	*Total AFS securities Rs.*
Corporate bonds	*499,826*	*396,246*	*—*	*896,072*

The fair market value of the AFS securities are shown in the following tables:

	2008			
	Amortized cost Rs.	**Gross unrealized gains Rs.**	**Gross unrealized losses Rs.**	**Fair value of AFS securities Rs.**
Banker's acceptances	**18,424,897**	**3,506**	**(640)**	**18,427,763**
Bearer deposit notes	**5,254,497**	**1,559**	**(523)**	**5,255,533**
Corporate bonds	**1,005,638**	**4,259**	**(780)**	**1,009,117**
Commercial paper	**413,737**	**241**	**—**	**413,978**
Government bonds and treasury bills	**20,399,229**	**21,048**	**(82)**	**20,420,195**
	45,497,998	**30,613**	**(2,025)**	**45,526,586**

	2007			
	Amortized cost Rs.	*Gross unrealized gains Rs.*	*Gross unrealized losses Rs.*	*Fair value of AFS securities Rs.*
Corporate bonds	*901,831*	*—*	*(5,759)*	*896,072*

As at December 31, 2008, AFS securities held included those denominated in U.S. dollars. These securities comprised treasury bills, commercial paper and bearer deposit notes of Rs.1,193,283, Rs.413,978 and Rs.1,825,752 respectively, denominated in U.S. dollars (US$ 24,497, US$ 8,499 and US$ 37,481 respectively).

For the year ended December 31, 2008, a gain of Rs. 22,723 (2007 - loss of Rs. 16,237), net of income taxes, was recognized directly in OCI with respect to the changes in fair value of AFS securities.

Investment account securities:

Investment account securities comprise securities with fixed or determinable payments that management has the intention and ability to hold to maturity. They are initially recognized at fair value plus incremental costs directly attributable to the acquisition of the security. Debt securities are subsequently carried at amortized cost using the effective interest method, and equity securities are carried at cost. When a security's book value exceeds fair value, a write down in book value will occur if it has been determined that there has been an other-than-temporary impairment.

The composition and maturity profile of investment account securities are as follows:

	2008			
	Under 1 year Rs.	**1 to 5 years Rs.**	**Over 5 years Rs.**	**Total investment securities Rs.**
Asset-backed securities	**—**	**422,264**	**657,220**	**1,079,484**
Corporate bonds	**—**	**1,252,714**	**—**	**1,252,714**
	—	**1,674,978**	**657,220**	**2,332,198**

	2007			
	Under 1 year Rs.	*1 to 5 years Rs.*	*Over 5 years Rs.*	*Total investment securities Rs.*
Asset-backed securities	*—*	*432,079*	*693,310*	*1,125,389*
Corporate bonds	*481,110*	*1,168,501*	*—*	*1,649,611*
	481,110	*1,600,580*	*693,310*	*2,775,000*

3. Loans

Loans are initially recognized at fair value with incremental transaction costs included in the initial carrying value of the loan. Loans are subsequently carried at amortized cost using the effective interest method, net of allowance for credit losses. 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 a 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. For impaired loans, interest accrual is discontinued. 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 occurred but have not yet been identified. This allowance relates primarily to loans, but also to other credit instruments such as letters of credit, and is either specific or general.

To ensure that any impairment is identified on a timely basis, the Bank's loans are reviewed regularly for their credit quality, taking into consideration all readily available information. When substantive information suggests any significant deterioration in the credit quality of a loan or a portfolio of loans, the credit or credits are reviewed immediately, even if a regularly scheduled review is not due.

Loans where interest and principal is contractually past due 90 days are automatically recognized as impaired, unless management determines the loan as fully secured in the process of collection and the collection efforts are reasonably expected to result in either payment of the loan or restoring it to a current status within 180 days from the date payment has become contractually in arrears. Subsequent payments (interest and principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assumed and all delinquent principal and interest payments are brought to current status.

During the year ended December 31, 2008, loan balances of Rs. 4,325 (2007 - nil) were written off. The following loans were impaired at the consolidated balance sheet date and specific provisions were created against these loans.

	2008		*2007*	
	Gross loans Rs.	**Specific allowance Rs.**	*Gross loans Rs.*	*Specific allowance Rs.*
Personal loans	**42**	**(42)**	*1,600*	*(1,600)*
Personal lines of credit	**—**	**—**	*3,159*	*(3,159)*
Commercial loans and commercial mortgages	**273,979**	**(48,492)**	*11,998*	*(11,998)*
Commercial lines of credit	**200,593**	**(200,468)**	*206,121*	*(206,121)*
	474,614	**(249,002)**	*222,878*	*(222,878)*

(In thousands of Indian Rupees)

For loans not covered by a specific provision, a general provision is established against the loan portfolio where prudent assessment by the Bank of past experience and existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an individual basis. The composition of the loan portfolio is as follows:

2008	Gross amount Rs.	General allowance Rs.	Specific allowance Rs.	Deferred Loan fees Rs.	Net amount Rs.
Commercial loans and commercial mortgages	11,731,414	(54,683)	(248,960)	(70,320)	11,357,451
Corporate loans	132,425,967	(599,932)	—	(335,499)	131,490,536
Conventional residential mortgages	382,351	(2,869)	—	—	379,482
Insured residential mortgages	44,895,839	—	—	—	44,895,839
Personal	169,572	(49)	(42)	—	169,481
	189,605,143	(657,533)	(249,002)	(405,819)	188,292,789
Undrawn commitments and other contingent liabilities:					
Commercial	9,993,554	(34,337)	—	—	9,959,217
Personal	35,452	(179)	—	—	35,273
	10,029,006	(34,516)	—	—	9,994,490

2007	*Gross amount Rs.*	*General allowance Rs.*	*Specific allowance Rs.*	*Deferred Loan fees Rs.*	*Net amount Rs.*
Commercial loans and commercial mortgages	10,683,836	(42,272)	(218,119)	(12,517)	10,410,928
Corporate loans	23,887,320	(110,579)	—	(91,863)	23,684,878
Conventional residential mortgages	577,092	(2,320)	—	—	574,772
Insured residential mortgages	40,692,809	—	—	—	40,692,809
Personal	225,798	(240)	(4,759)	—	220,799
	76,066,855	(155,411)	(222,878)	(104,380)	75,584,186
Undrawn commitments and other contingent liabilities:					
Commercial	599,088	(12,118)	—	—	586,970
Personal	14,877	(40)	—	—	14,837
	613,965	(12,158)	—	—	601,807

Undrawn commitments and other contingent liabilities include an unused portion of commercial and personal lines of credit, letters of credit facility to commercial clients, import bills for collection and standby letters of credit and bank guarantee.

The following is a summary of the changes in the allowance for credit losses for the year ended December 31, 2008:

	2008 General Rs.	2008 Specific Rs.	2008 Total Rs.	*2007 Total Rs.*
Balance, beginning of year	155,411	222,878	378,289	241,515
Provision for credit losses	502,122	26,124	528,246	136,774
Balance, end of year	657,533	249,002	906,535	378,289

The provision for credit losses within the consolidated statement of operations and comprehensive income includes provisions for funded loans reflected in this table and also includes provisions for undrawn commitments and other contingent liabilities of Rs. 22,393 for the year ended December 31, 2008.

As at December 31, 2008, the Bank held loans, net of allowances, denominated in U.S. dollars, British pounds, Euros and Japanese Yens of Rs. 98,292,020 (US$ 2,017,866), Rs. 3,618,605 (£50,964), Rs. 5,990,197 (€88,149) and Rs. 1,773,258 (¥3,304,006), respectively.

An analysis of the Bank's loan portfolio, net of allowances for credit losses and deferred loan fees, by category and by location of ultimate risk, is as follows:

	2008 Rs.	*2007 Rs.*
Canada:		
Commercial loans and commercial mortgages	11,436,605	10,671,319
Corporate loans	16,596,412	753,219
Conventional residential mortgages	382,351	577,092
Insured residential mortgages	44,895,839	40,692,809
Personal	169,572	225,798
	73,480,779	52,920,237
Allowance for credit losses	(360,852)	(267,710)
	73,119,927	52,652,527
India:		
Commercial loans and commercial mortgages	158,683	—
Corporate loans	79,498,420	16,242,953
	79,657,103	16,242,953
Allowance for credit losses	(382,024)	(77,945)
	79,275,079	16,165,008
Other:		
Commercial loans and commercial mortgages	65,807	—
Corporate loans	35,995,634	6,799,285
	36,061,441	6,799,285
Allowance for credit losses	(163,658)	(32,634)
	35,897,783	6,766,651
	188,292,789	75,584,186

4. **Fixed Assets**

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

	Useful life	2008 Cost Rs.	2008 Accumulated depreciation Rs.	2008 Net book value Rs.	*2007 Net book value Rs.*
Computer hardware and software	3 years	91,562	(78,999)	12,563	16,917
Furniture, fixtures and equipment	5 years	81,021	(32,902)	48,119	26,835
Leasehold improvements	Lease term	131,327	(55,703)	75,624	53,990
		303,910	(167,604)	136,306	97,742

5. **Other Assets**

	2008 Rs.	*2007 Rs.*
Future income tax asset (note 12)	—	208,201
Prepaid expenses, deposits and accounts receivable	364,732	416,122
Fair value of derivative financial instruments	4,550,698	2,655,621
Other	1,244,095	1,858,732
	6,159,525	5,138,676

6. **Deposits**

Deposits are initially recorded at fair value with incremental transaction costs added to the initial carrying value. Deposits are subsequently measured at amortized cost using the effective interest method. Deposit balances for current, savings and term deposits are shown below:

2008	Payable on demand: Interest bearing Rs.	Payable on demand: Non-interest bearing Rs.	Payable after notice Rs.	Payable on fixed date Rs.	Total Rs.
Personal	983,806	—	16,691,930	17,628,731	35,304,467
Commercial	3,612,847	—	3,340,092	810,063	7,763,002
Broker:					
Personal	—	—	—	173,579,570	173,579,570
Commercial	—	—	—	48,980	48,980
Interbank - Parent (note 10)	—	4,300	—	—	4,300
	4,596,653	4,300	20,032,022	192,067,344	216,700,319

2007	*Payable on demand: Interest bearing Rs.*	*Payable on demand: Non-interest bearing Rs.*	*Payable after notice Rs.*	*Payable on fixed date Rs.*	*Total Rs.*
Personal	368,171	—	16,690,870	5,460,936	22,519,977
Commercial	1,088,036	—	1,005,211	449,996	2,543,243
Broker:					
Personal	—	—	—	75,074,921	75,074,921
Commercial	—	—	—	76,626	76,626
Interbank	—	166,209	—	—	166,209
Interbank - Parent (note 10)	—	276,268	—	—	276,268
	1,456,207	442,477	17,696,081	81,062,479	100,657,244

(In thousands of Indian Rupees)

The maturity profile of deposits payable on fixed date is as follows:

	2008			2007
	Under 1 year Rs.	1 to 5 years Rs.	Total Rs.	*Total Rs.*
Payable on fixed date	**48,955,115**	**143,112,229**	**192,067,344**	*81,062,479*

The Bank sources certain deposit balances through the use of brokers. Upon the placement of a deposit with the Bank, the broker earns a commission, which the Bank amortizes over the life of the related deposit. As at December 31, 2008, the Bank had unamortized broker commissions on deposits of Rs. 916,247 (2007 - Rs. 328,658) included in the above balances.

7. Accounts Payable and Accrued Liabilities

	2008 Rs.	*2007 Rs.*
Accounts payable	**249,473**	*67,347*
Fair value of derivative financial instruments	**11,761,246**	*325,939*
Deferred income	**1,160**	*26,475*
Other	**1,000,921**	*635,321*
	13,012,800	1,055,082

8. Subordinated Notes

The Bank issued a subordinated note to its affiliate, ICICI Bank UK PLC, in the amount of Rs.999,813 on January 31, 2007. The note bears interest at the rate of LIBOR plus 2.5% per annum, payable quarterly in arrears, until April 2012, and at the rate of LIBOR plus 3.0% per annum thereafter, until maturity on April 30, 2017.

The Bank issued a subordinated note to ICICI Bank Limited (Bahrain branch) in the amount of Rs.999,813 on March 31, 2008. This note bears interest at the rate of LIBOR plus 4.6% per annum, payable quarterly in arrears, until April 2013, and at the rate of LIBOR plus 5% per annum thereafter, until maturity on March 31, 2018.

The Bank issued a subordinated note to ICICI Bank Limited (Bahrain branch) in the amount of Rs.999,813 on September 23, 2008. This note bears interest at the rate of LIBOR plus 4.6% per annum, payable quarterly in arrears, until September 23, 2013, and at the rate of LIBOR plus 5% per annum thereafter, until maturity on September 23, 2018.

The weighted average cost of borrowing as at December 31, 2008 is 8.49%.

During the year ended December 31, 2008, the Bank incurred interest expense of Rs. 172,809 (2007 - Rs. 72,506) related to the notes.

9. 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.

	2008		2007	
	Number of shares	Amount Rs.	*Number of shares*	*Amount Rs*
Common shares	**597,000,000**	**23,875,523**	*267,000,000*	*10,677,998*
Preferred shares:				
Series A	**10,000,000**	**399,925**	*10,000,000*	*399,925*
Series B	**509,280**	**509,185**	*509,280*	*509,185*
Series C	**600,000**	**599,888**	*600,000*	*599,888*
Series D	**1,000,000**	**999,813**	—	—
Series E	**1,200,000**	**1,199,775**	—	—
		3,708,586		*1,508,998*

The Bank has issued the common and preferred shares shown above for cash consideration to the Parent.

OSFI must approve any plan to redeem any of the Bank's preferred shares for cash. The Series A preferred shares are not redeemable at the option of the Bank prior to 10 years following their issuance and bear a fixed, non-cumulative cash dividend of 1% per annum. The Series B and Series C preferred shares are not redeemable at the option of the Bank prior to five years following their issuance and bear a fixed, non-cumulative cash dividend of 7% per annum. The Series D and Series E preferred shares are not redeemable at the option of the Bank prior to five years following their issuance and bear a fixed, non-cumulative cash dividend of 7.25% per annum.

The redemption of these preferred shares would require the payment in cash of the value of the preferred shares together with declared and unpaid dividends up to the redemption date. The holders of these preferred shares are entitled to annual, non-cumulative preferential cash dividends, which have not been declared or paid to date. The Bank is prohibited from declaring dividends on its preferred or common shares when it would be, as a result of paying a dividend, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act (Canada).

During the year, an amount of Rs. 33,415 has been expensed as employee benefits and recorded as paid-in-capital. The amount represents the cost of the stock options granted to the employees of the Bank under the Employee Stock Option Scheme of the Parent.

In January, 2009, the Bank issued 55 million common shares to the Parent for cash consideration of Rs. 2,199,588.

10. Related Party Transactions

The Parent held a non-interest bearing deposit of Rs. 4,300 (2007 - Rs. 276,268) with the Bank as at December 31, 2008 (note 6). The Bank incurred an interest expense of Rs. 791 (2007 - Rs. 800) related to short-term borrowings from the Parent and of Rs. 253 (2007 - nil) from ICICI Bank UK PLC during the year ended December 31, 2008. During the year, the Bank also incurred an interest expense on the subordinated notes from ICICI Bank UK PLC of Rs.68,147 (2007 - Rs. 72,506) and Rs. 104,662 (2007 - nil) from ICICI Bank Limited (Bahrain branch).

In addition to the deposit and borrowing activities, the Bank also transacts with the Parent in normal course of business on commercial terms for various treasury products and for various services, pursuant to service level agreements, including legal, call center, information technology system development and maintenance, treasury middle office and branch operations, internet banking development and maintenance and internal audit services. For the year ended December 31, 2008, the Bank had incurred costs of Rs. 203,245 (2007 - Rs. 78,578) related to these services, of which Rs. 33,728 (2007 - Rs. 4,332) remains payable at December 31, 2008. These transactions are in the normal course of operations and are pursuant to the agreements between the parties.

11. Non-Interest Income

	2008 Rs.	*2007 Rs.*
Commercial loan fees	**167,040**	*136,628*
Foreign exchange gain (loss), net	**645,093**	*(145,546)*
Gain on derivative transactions	**1,194,594**	*41,441*
Gain on sale of mortgages	**269,096**	*83,934*
Investment banking fees	**1,176,410**	*481,852*
Gain (loss) on sale of securities	**(58,367)**	*224,918*
Mark-to-market loss on securities held for trading	**(1,910,511)**	*(811,327)*
Other	**43,484**	*56,397*
	1,526,839	*68,297*

During the year, the Bank provided investment banking and advisory services. Investment banking fees are recognized in the consolidated statement of operations and comprehensive income upon completion of the contractual terms of service and when collection is assured.

The Bank enters into derivative contracts on behalf of clients and simultaneously enters into offsetting contracts with another counterparty to eliminate the risk of the contracts to the Bank. Gains from entering into these simultaneous offsetting contracts are recognized at the time of entering into the contracts.

12. 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 income 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 future income tax liability of Rs. 19,472 (2007 - asset of Rs. 208,201) has been recorded using the average enacted tax rate of 33.5%.

The Bank's income taxes for the year ended December 31, 2008 are summarized as follows:

	2008 Rs.	*2007 Rs.*
Current tax	**339,211**	—
Future income taxes/ (recovery)	**(27,626)**	*38,193*
	311,585	*38,193*

Significant components of the Bank's future income tax asset (liability) are as follows:

	2008 Rs.	*2007 Rs.*
Fixed assets	**25,051**	*50,151*
Deferred broker commission	**(287,768)**	*(102,261)*
Non-capital losses carried forward	**32,187**	*249,553*
Allowance for credit losses	**209,507**	*86,744*
Deferred gain on securities	**(107,570)**	*(41,472)*
Other deferred income	**109,123**	*9,278*
Future income tax asset (liability)	**(19,472)**	*251,993*
Less: Valuation allowance	**—**	*43,792*
Net future income tax asset (liability)	**(19,472)**	*208,201*

(In thousands of Indian Rupees)

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

	2008 Rs.	*2007 Rs.*
Income taxes at statutory tax rate	**291,539**	*47,751*
Permanent differences	**7,015**	*1,480*
Other	**13,044**	*(11,038)*
Income taxes	**311,598**	*38,193*

As at December 31, 2008, the Bank had non-capital loss carryforwards of Rs. 97,612 (2007 - Rs. 780,893) for income tax purposes. If not utilized these losses will expire as follows:

	2008 Rs.	*2007 Rs.*
2014	—	*237,995*
2015	—	*510,704*
2027	**31,997**	*32,194*
2028	**65,615**	*—*
	97,612	*780,893*

The benefits associated with these loss carry forwards have been recognized within the consolidated financial statements.

13. Foreign Currency Translation

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

14. Fair Values of Financial Instruments

The fair values of securities in the investment account 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. For credit derivatives, the Bank values the securities based on models using credit spreads from international counterparties.

The fair market value of investment account securities is shown below:

	2008			
	Amortized cost Rs.	Fair value Rs.	Gross unrealized gain Rs.	Gross unrealized loss Rs.
Asset-backed securities	**1,079,484**	**1,091,364**	**11,880**	**—**
Corporate bonds	**1,252,714**	**1,188,559**	**—**	**(64,155)**
	2,332,198	**2,279,923**	**11,880**	**(64,155)**

	2007			
	Amortized cost Rs.	*Fair value Rs.*	*Gross unrealized gain Rs.*	*Gross unrealized loss Rs.*
Asset-backed securities	*1,125,389*	*1,076,918*	*—*	*(48,471)*
Corporate bonds	*1,649,611*	*1,638,653*	*—*	*(10,958)*
	2,775,000	*2,715,571*	*—*	*(59,429)*

In normal economic and credit environments, the estimated fair values of all variable rate loans, deposits and borrowings would approximate their book values. The book values and fair values for fixed rate loans and deposits at December 31, 2008 are as follows:

	2008		
	Book value Rs.	Fair value Rs.	Fair value over (under) book value Rs.
Fixed rate loans and mortgages	**57,363,124**	**59,950,693**	**2,587,569**
Fixed rate deposits	**192,067,344**	**194,020,682**	**(1,953,338)**

	2007		
	Book value Rs.	*Fair value Rs.*	*Fair value over (under) book value Rs.*
Fixed rate loans and mortgages	*45,507,266*	*45,393,487*	*(113,779)*
Fixed rate deposits	*79,431,024*	*79,629,587*	*(198,563)*

15. Derivative financial instruments

In the ordinary course of business, the Bank uses derivative financial instruments, primarily over-the-counter forward contracts and forward currency swaps, to manage its exposure to currency fluctuations, as part of the Bank's asset liability management program. The Bank hedges exposures on foreign currency denominated assets by entering into offsetting foreign currency forward or swaps contracts. The Bank also enters into offsetting interest rate swaps and option contracts as a service to clients to assist them in risk management. The Bank has no net market risk exposure as a result of entering into these simultaneous contracts.

The derivatives which are not designated as accounting hedges are carried at fair value with changes in fair value being recorded in non-interest income in the consolidated statement of operations and comprehensive income. At the consolidated balance sheet date, other assets and liabilities of Rs. 3,781,427 (2007 – Rs. 2,655,621) and Rs. 10,991,975 (2007 - Rs. 325,939), respectively, representing market valuations of derivative contracts were recognized. The derivatives which are designated as accounting hedges have a market valuation of Rs. 769,271 (2007 - Rs. 3,479), and have been recorded in the consolidated balance sheet.

Notional amounts of derivative 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 outstanding derivative portfolio, as at the consolidated balance sheet date:

	2008				*2007*
	Under 1 year Rs.	1 to 5 years Rs.	Over 5 years Rs.	Total Rs.	*Total Rs.*
Forward foreign exchange contracts	**54,867,450**	**—**	**—**	**54,867,450**	*109,100*
Foreign currency swaps	**81,037,163**	**26,685,148**	**7,894,594**	**115,616,905**	*42,375,133*
Interest rate swaps	**2,118,921**	**44,058,951**	**9,937,010**	**56,114,882**	*9,693,102*
Interest rate options - purchased	**1,217,771**	**2,435,542**	**—**	**3,653,313**	*2,973,362*
Interest rate options - written	**1,217,771**	**2,435,542**	**—**	**3,653,313**	*2,973,322*
Credit default swap	**—**	**—**	**—**	**—**	*634,281*
	140,459,076	**75,615,183**	**17,831,604**	**233,905,863**	*58,758,300*

The following is a summary of the fair value of the Bank's outstanding derivative portfolio, as at the consolidated balance sheet date:

	2008			*2007*		
	Positive fair value Rs.	Negative fair value Rs.	Net fair value Rs.	*Positive fair value Rs.*	*Negative fair value Rs.*	*Net fair value Rs.*
Forward foreign exchange contracts	**293,912**	**(1,040,321)**	**(746,409)**	*—*	*—*	*—*
Foreign currency swaps	**1,461,910**	**(8,850,721)**	**(7,388,811)**	*2,350,679*	*(32,314)*	*2,318,365*
Interest rate swaps	**2,025,189**	**(1,869,788)**	**155,401**	*296,344*	*(151,252)*	*145,092*
Interest rate options - purchased	**416**	**—**	**416**	*—*	*(3,319)*	*(3,319)*
Interest rate options - written	**—**	**(416)**	**(416)**	*8,598*	*—*	*8,598*
Credit default swap	**—**	**—**	**—**	*—*	*(139,054)*	*(139,054)*
	3,781,427	**(11,761,246)**	**(7,979,819)**	*2,655,621*	*(325,939)*	*2,329,682*

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.

All of the Bank's counterparties to derivative contracts are large financial institutions, including the Parent.

The following is a summary of the risk-weighted amounts, which represent the credit equivalent amount weighted according to the credit worthiness of the counterparty, using factors prescribed by OSFI:

	2008			*2007*		
	Current replacement cost Rs.	Credit equivalent amount Rs.	Risk-weighted amount Rs.	*Current replacement cost Rs.*	*Credit equivalent amount Rs.*	*Risk-weighted amount Rs.*
Forward foreign exchange contracts	**293,912**	**1,384,023**	**1,381,418**	*—*	*—*	*—*
Foreign currency swaps	**1,461,910**	**3,586,342**	**3,282,938**	*2,350,679*	*2,774,440*	*1,387,264*
Interest rate swaps	**2,025,189**	**2,774,483**	**2,774,483**	*296,344*	*350,534*	*175,287*
Interest rate options - purchased	**416**	**30,860**	**30,860**	*—*	*14,867*	*7,433*
Interest rate options - written	**—**	**—**	**—**	*8,598*	*23,405*	*11,663*
	3,781,427	**7,775,708**	**7,469,699**	*2,655,621*	*3,163,246*	*1,581,647*

(In thousands of Indian Rupees)

16. Contractual Repricing and Maturity Schedule

The table below shows 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):

2008

	Floating rate Rs.	Under 3 months Rs.	3 to 6 months Rs.	Over 6 to 12 months Rs.	Over 1 to 5 years Rs.	Over 5 years Rs.	Non-interest sensitive Rs.	Total Rs.
Assets								
Cash and deposits	—	8,168,868	—	—	—	—	69,827	8,238,695
Securities	—	37,069,121	8,052,358	—	9,074,121	3,444,452	—	57,640,052
Interest rate	—	1.69%	1.36%	—	4.57%	4.48%	—	
Loans, net	130,929,665	3,350,634	344,113	17,296,319	32,270,480	4,101,578	—	188,292,789
Interest rate	5.98%	3.69%	5.88%	5.45%	5.56%	5.43%	—	
Fixed assets, net	—	—	—	—	—	—	136,306	136,306
Other assets	—	—	—	—	—	—	6,159,525	6,159,525
	130,929,665	48,588,623	8,396,471	17,296,319	41,344,601	7,546,030	6,365,658	260,467,367
Liabilities and Shareholder's Equity								
Deposits	24,632,975	10,331,778	8,475,586	30,147,751	143,112,229	—	—	216,700,319
Interest rate	1.83%	3.87%	3.82%	3.97%	4.46%	—	—	
Accounts payable and other liabilities	—	—	—	—	—	—	13,012,800	13,012,800
Subordinated notes	2,999,438	—	—	—	—	—	—	2,999,438
Interest rate	8.49%	—	—	—	—	—	—	
Shareholder's equity	—	—	—	—	—	—	27,754,810	27,754,810
	27,632,413	10,331,778	8,475,586	30,147,751	143,112,229	—	40,767,610	260,467,367
Total Gap	103,297,252	38,256,845	(79,115)	(12,851,432)	(101,767,628)	7,546,030	(34,401,952)	—

2007

	Floating rate Rs.	*Under 3 months Rs.*	*3 to 6 months Rs.*	*Over 6 to 12 months Rs.*	*Over 1 to 5 years Rs.*	*Over 5 years Rs.*	*Non-interest sensitive Rs.*	*Total Rs.*
Assets								
Cash and deposits	—	1,683,284	—	—	—	—	197,672	1,880,956
Securities	—	15,850,188	—	4,421,811	10,822,370	693,310	—	31,787,679
Interest rate	—	4.19%	—	5.33%	5.59%	4.18%	—	
Loans, net	29,155,694	2,731,168	120,377	948,262	41,941,614	687,071	—	75,584,186
Interest rate	7.03%	4.48%	6.25%	6.49%	5.81%	5.91%	—	
Fixed assets, net	—	—	—	—	—	—	97,742	97,742
Other assets	—	—	—	—	—	—	5,138,676	5,138,676
	29,155,694	20,264,640	120,377	5,370,073	52,763,984	1,380,381	5,434,090	114,489,239
Liabilities and Shareholder's Equity								
Deposits	19,152,288	12,431,509	9,454,067	13,062,910	46,113,992	—	442,478	100,657,244
Interest rate	4.19%	4.25%	4.73%	4.69%	4.69%	—	—	
Accounts payable and other liabilities	—	—	—	—	—	—	1,055,082	1,055,082
Subordinated notes	999,813	—	—	—	—	—	—	999,813
Interest rate	7.17%	—	—	—	—	—	—	
Shareholder's equity	—	—	—	—	—	—	11,777,100	11,777,100
	20,152,101	12,431,509	9,454,067	13,062,910	46,113,992	—	13,274,660	114,489,239
Total Gap	9,003,593	7,833,131	(9,333,690)	(7,692,837)	6,649,992	1,380,381	(7,840,570)	—

17. Lease Commitments

Future minimum annual rental commitments for premises and equipment under long-term non-cancellable operating leases for the next five years ended December 31 and thereafter, are shown below:

	Rs.
2009	93,654
2010	78,100
2011	66,084
2012	66,010
2013	64,002
Thereafter	198,842
	566,692

18. Capital Adequacy

OSFI requires all banks to maintain sufficient capital to meet or exceed its capital adequacy requirements. The Bank is in compliance with the requirements for assets to capital multiple and risk-based Tier 1 and total capital ratios.

The Bank has a Capital Management Policy, which is reviewed and approved annually by the Board of Directors, governing the quantity and quality of capital to be maintained by the Bank. The objective of this policy is to maintain capital at levels that meet or exceed regulatory capital requirements, and that is also appropriate for business requirements, from time to time.

Effective January 1, 2008, the Bank adopted the new capital adequacy framework (Basel II), as required by OSFI. This framework requires capital to be held for credit, operational and market risks. The Bank is in compliance with OSFI's capital adequacy requirements.

The regulatory capital and the regulatory capital ratios, as at December 31, 2008, are presented below:

	Rs.
Capital:	
Net Tier 1	27,428,416
Total	30,147,346
Regulatory capital ratios:	
Tier 1	14.8%
Total	16.2%
Assets to capital multiple	8.6

19. 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 annual salary. The amount of the benefit expense for the year ended December 31, 2008, was Rs. 4,902 (2007 - Rs. 4,659) and is included in salaries and benefits in the consolidated statement of operations and comprehensive income.

20. Risk Management Framework

As a financial intermediary, the Bank is exposed to various types of risks. The objective of the risk management framework at the Bank is to ensure that the key risks facing the Bank are identified, understood, measured and monitored and that the policies and procedures established to address these risks are strictly adhered to.

The key principles underlying the risk management framework at the Bank are:

(i) The Board of Directors has oversight over the risks assumed by the Bank. Specific Board Committees have been constituted to facilitate focused oversight over these risks.

(ii) Policies approved from time to time by the Board of Directors / Committees of the Board form the governing framework for each type of risk. The business activities are undertaken within this policy framework.

(iii) Independent groups and sub-groups have been constituted across the Bank to facilitate independent evaluation, monitoring and reporting of risks. These groups function independently of the business.

The key risks that the Bank is primarily exposed to include credit, market (including interest rate risk and liquidity risk), operational risk. The approach of management to handle the key risks facing the Bank is outlined below.

(a) Credit risk:

Credit risk is the risk that unexpected losses may arise as a result of the Bank's borrowers or market counterparties failing to meet their obligations to pay. The Bank's Credit Investment & Recovery Policy ("CIRP"), which is approved by its Board of Directors, describes the principles which underlie and drive the Bank's approach to credit risk management together with the systems and processes through which it is implemented and administered. The CIRP aims to maximise the Bank's risk-adjusted rate of return whilst maintaining the Bank's credit risk exposure within limits and parameters as approved by the Board of Directors of the Bank.

The Bank takes a two-tier approach to assessment of credit risk — a commercial officer proposing the transaction review followed by a credit officer's independent assessment of the same. The CIRP lays down a structured and standardised credit approval process, which includes a well-established procedure of independent and comprehensive credit risk assessment and the assignment of an internal risk rating to the borrower. The risk rating is a critical input for the credit approval process and is used as an input in arriving at the credit risk spread and level of General Provision for the proposal.

Credit proposals are approved by either the Risk Committee ("RC") or the Management Credit Committee ("MCC") based on, inter alia, the amount and internal risk rating of the facility. All credit proposals are approved by the MCC before being recommended to the RC by the Chief Risk Officer.

The credit middle office function is responsible for credit administration which includes monitoring compliance with the terms and conditions for credit facilities prior to disbursement. It also reviews the completeness of documentation and creation of security for assets financed.

Monitoring credits, whilst ongoing, can also be triggered by any material credit event coming to the Bank's notice through either primary or secondary sources. All borrower accounts are reviewed at least on an annual basis or in a shorter interval if recommended by the credit officer or the relevant sanctioning committee.

Credit risk is also managed at the portfolio level by monitoring and reporting to the MCC and RC, the key parameters of risk concentration namely product specific exposures, large exposures, industry/sectoral exposures, country/geographical exposures and rating category-based exposures.

(b) Market risk:

Market risk is the uncertainty of earnings faced by the Bank as a result of volatility in market factors (i.e. interest rates, exchange rates, market liquidity, asset prices etc). Market risk events may impact the valuation of investments in the trading book resulting in an impact on the profit and loss account. The policies approved by the Board for addressing market risk are Liquidity & Investment Policy ("LIP") and Liquidity Contingency Plan.

The Asset Liability Management Committee ("ALCO") considers various investment and treasury operations matters, implementation of risk mitigation measures, and recommends major policy changes governing treasury activities to the RC. Furthermore, an independent Treasury Middle Office Group is set up to monitor and report the various risk limits set through the LIP.

The key risks to which the Bank's trading book is exposed from a market risk perspective relate to:

(i) Interest rate risk:

Interest rate risk is defined as the exposure of a bank's financial condition to adverse movements in interest rates. Earnings from interest sensitive investments and the overall value of the investment portfolio will be impacted by changes in interest rates. The LIP currently sets out the measurement process to include the use of re-pricing gap reports and estimation of the sensitivity of the Bank's net interest income to a 100 basis points adverse change in the level of interest rates, defined as Earnings at Risk ("EaR"). The sum of EaR for the Bank over a 4 quarter horizon and the adverse mark-to-market impact on the trading book for an adverse 100 basis point parallel shift in interest rates shall not exceed 10% of the Bank's current Tier I plus Tier 2 capital.

Further, the Bank uses Duration of Equity ("DoE") as an all-encompassing measure, which takes into consideration duration and value of both assets and liabilities. DoE is a measure of interest rate sensitivity, which indicates by how much the market value of equity would change if interest rates change by 1%. The Bank has set a maximum limit of (+/-) 10% of Tier 1 capital given a 100 bps change in interest rates and as at December 31, 2008, the actual DoE was - 3.72 years.

(ii) Foreign exchange risk:

The risk arises due to positions in non-Canadian dollar denominated currencies, which in turn arises from assets and liabilities in those currencies. The risk originates as a result of the impact on revenue due to the potential revaluation of non-Canadian dollar assets and liabilities. The aggregate net overnight open exchange position across all foreign currencies as per LIP shall not exceed Rs. 1,217,750. Value-at-Risk ("VaR") is a tool for measuring market risk on trading positions. It seeks to ascertain the maximum loss on a portfolio at a given confidence level over a specific holding period. As per LIP, the VaR limit (99%-1day) on the aggregate overnight open position is Rs. 18,266 and the actual VaR as at December 31, 2008, was Rs. 4,871.

(iii) Liquidity risk:

Liquidity risk relates to the potential difficulty in accessing financial markets in order to meet payment obligations. It includes both the risk of unexpected increases in the cost of funding the assets and the risk of being unable to liquidate investments in a timely manner at a reasonable price. Treasury ensures that adequate liquidity is maintained at all times through systematic funds planning and maintenance of liquid investments as well as by focusing on more stable funding sources such as retail deposits in the long term. In addition, liquidity stress testing analysis is regularly performed to assess the Bank's ability to withstand an extreme crisis situation.

The Head of Treasury is responsible for managing the market risk of treasury positions and the day-to-day liquidity of the Bank. 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. The ALCO and the RC undertake a periodic review of the market risk and liquidity position of the Bank.

(c) Operational risk:

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events.

The Bank has developed and implemented an Operational Risk Management Policy (the "ORMP") which covers the aspects pertaining to minimising losses due to process failures, flaws in product designs that can expose the Bank to losses due to fraud, impact of failures in technology/systems and continuity in the Bank's operations.

The Management Committee ("MC"), comprised of senior executives, is responsible for the development, testing, implementation and maintenance of the ORMP. The Bank has implemented its risk and control self assessment approach to identify and ensure effective control of its operational risks.

To identify operational risks in new products/ processes, all such proposals are approved by the Product and Process Approval Committee ("PAC"), comprising of senior executives after obtaining inputs from the relevant groups and control functions in the Bank. All PAC proposals are internally rated by Operational Risk group.

The Bank has developed and implemented a Business Continuity Plan ("BCP"). This plan is designed to facilitate continuity in critical business operations in the event of a disaster or an emergency situation. The BCP has been formulated on the basis of a business impact analysis carried out for the individual groups involving identification of critical activities and determination of their recovery time objectives.

The Bank has developed and implemented an Outsourcing Policy to mitigate outsourcing risks and ensure the application of a standardised approach for all outsourcing arrangements entered into by the Bank. All proposed outsourcing arrangements are assessed for their criticality prior to outsourcing. For all such arrangements deemed to be critical, a detailed assessment is conducted and the proposal is approved by the MC. The performance of vendors are periodically reviewed and assessment reports are presented to the RC.

(d) Group risk management framework:

The Bank is subject to the group risk management framework, which has been developed by the Parent in order to identify, evaluate and manage key risks on a group wide basis. The framework is applicable to all overseas banking entities, including the subsidiaries, of the Parent. The policies applicable to the Bank are formulated in consultation with the Risk Management Group of the Parent prior to the policies being placed before the Bank's Board of Directors for their approval.

21. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.