

# **ICICI BANK UK PLC**

**Directors' report and  
financial statements**

**31 March 2008**

**Registered number 4663024**



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## Directors' report

The Directors have pleasure in presenting the fifth annual report of ICICI Bank UK Plc ("the Bank"), together with the audited financial statements for the year ended 31 March 2008.

## Principal Activities

ICICI Bank UK Plc is a full service bank offering retail, corporate and investment banking services. 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 private sector Bank. The key business areas include retail banking, corporate and investment banking and private banking.

The Bank's corporate and investment-banking business includes 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 nine branches located in the UK and two branches in Europe, namely Antwerp, Belgium and Frankfurt, Germany as well as through direct banking, where the Bank offers an interest based savings account to British and German consumers which is supported over internet phone enabled channels.

## Business Review

The Bank was incorporated in England and Wales as a private company with limited liability on 11 February 2003 and was converted to a public limited company, assuming the name ICICI Bank UK Plc, on 30 October 2006. As a public limited company, the Bank is able to access the capital markets. As at 31 March 2008, the Bank had total assets of USD 8,829.0 million compared to USD 4,868.2 million as at 31 March 2007.

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

The Bank has been managed as a single business. For the purposes of the Enhanced Business Review, however, management has provided its estimated analysis of the business by individual activity.

## Financial Results

The financial statements for the reporting year ended 31 March 2008 are shown on pages 9 to 44. The profit after taxation for the year is USD 38.4 million (2007 – USD 39.5 million).

The Directors declared and paid a preference dividend of USD 4,125,000 (2007: USD 4,125,000) during the year on preference share capital of USD 50.0 million (2007: USD 50.0 million).

## Directors' report (continued)

### Financial Highlights

The financial performance for the financial year 2008 is summarised in the following table:

USD 000's, except percentages	Financial 2007	Financial 2008	% Change
Net interest income	30,875	49,840	61%
Non interest income	55,068	118,556	115%
Mark to market loss on debt securities	95	58,660	-
Total operating income	85,848	109,736	28%
Operating expenses	25,024	47,005	88%
Provisions/Charges	5,683	6,026	6%
Profit on sale of debt securities	833	23	-
Profit before tax	55,974	56,728	1%
Profit after tax	39,541	38,412	-3%

The profit before tax increased by 1% to USD 56.7 million for the financial year 2008 from USD 56.0 million for the financial year 2007, primarily due to a 61% increase in net interest income and a 115% increase in non interest income offset by mark to market losses of USD 58.7 million on debt securities and an increase of 88% in operating expenses. There was an increase of 6% in provisions although there are no specific provisions against corporate loans.

Net interest income increased by 61% to USD 49.8 million in the financial year 2008 from USD 30.9 million in 2007 primarily due to an increase in the average volume of interest-earning assets.

Non interest income increased by 115% for the financial year 2008 to USD 118.6 million from USD 55.1 million for the financial year 2007 primarily due to an increase in fees and commission income of USD 46.9 million. As referred to above, the Bank has incurred mark to market losses on debt securities amounting to USD 58.7 million.

Operating expenses increased by 88% to USD 47.0 million in the financial year 2008 from USD 25.0 million in the financial year 2007 primarily due to a 65% increase in headcount and increases in advertising and promotional expenditure.

Total assets increased by 81% to USD 8,829.0 million at the financial year-end 2008 compared to USD 4,868.2 million at the financial year-end 2007 primarily due to a 75% increase in debt securities to USD 4,365.0 million and a 124% increase in total loans and advances to USD 4,188.7 million.

Shareholders equity is stated after reporting USD 100.8 million of cumulative mark to market losses on the available for sale investment portfolio net of tax (2007 USD 0.4 million).

### Governance and 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 reports directly to the Chief Executive Officer and is independent of the business units.

The key risks the Bank is exposed to are credit risk, market risk, liquidity risk, reputation risk, regulatory 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 governance arrangements, 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 28.

### Corporate and Investment Banking

The Corporate Banking Group saw a significant increase in income, with continued expansion in the India-UK cross border investment banking sector. The India-UK investment sector is expected to remain strong, as evidenced by the continued deal flow seen in both directions. The Bank has built a solid foundation with its knowledge of regulatory, legal and financial frameworks in both these countries and a well-seasoned team with the necessary advisory and financing skills. This team has built vital networks across the UK and Europe to source advisory and financing mandates. The year under review also saw a significant expansion of the Bank's equity linked franchise with the addition of convertible bonds to its product suite. The Bank also achieved a breakthrough in its syndications business with distribution of large, complex transactions. The focus on regular, transactional income continued with this segment contributing a quarter of the Bank's overall fee income. The Bank also secured a major position in the Antwerp diamond financing market.

## Directors' report (continued)

### 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 84% from USD 2,812.0 million in 2007 to USD 5,180.3 million in 2008. The retail banking operations of the Bank are centred on two specific segments. The first caters primarily for the banking services requirements of the Indian community in the UK. The Bank has created a retail banking franchise focused 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 channels. The Bank has started offering a range of business banking and trade 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 the offering of India-linked products. During the fiscal year 4 branches have been opened in England, namely in Birmingham, Slough, Coventry and East Ham and one in Frankfurt, Germany.

### Treasury

Treasury activity during the year has continued to focus principally upon efficient liquidity management and increasing and diversifying the availability of medium and long term funds through various instruments and investors. 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 2007 the investment portfolio was impacted by the credit market turbulence. A cautious investment strategy enabled the Bank to limit its losses. This approach continues to be followed to date in 2008.

During the year, the Bank raised USD 1.3 billion for its general funding purposes by way of wholesale and institutional funding.

### Directors

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

Mr KV Kamath	(Chairman of the Board)
Mr Suvek Nambiar	(Appointed on 13 December 2007)
Mr Sonjoy Chatterjee	
Mrs Chanda Kochhar	(Vice Chairperson of the Board)
Mr William Michael Thomas Fowle	
Mr Richard Michael James Orgill	
Dr Mohan Lal Kaul	

During the year Mr Chatterjee, the Bank's Managing Director and Chief Executive Officer, was promoted to become an Executive Director on the board of ICICI Bank Limited, India. Mr Nambiar, formerly the Chief Executive Officer of the ICICI India Singapore branch, has succeeded Mr Chatterjee as the Managing Director and Chief Executive Officer of the Bank.

### Company Secretary

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

Mr Arnab Chakravarti	(Resigned on 27 July 2007)
Mr Rajosik Banerjee	(Appointed on 27 July 2007 and resigned on 26 November 2007)
Ms Aarti Sharma	(Appointed as Chief Financial Officer on 17 October 2007 and as Company Secretary on 26 November 2007)

### Share Capital

During the year ended 31 March 2008, the Bank raised equity capital of USD 310,000,000. As at the reporting date, the issued Share Capital (including preference shares), fully paid, amounted to USD 495,000,003 and GBP 50,002.

**Directors' report (continued)****Employees**

As at 31 March 2008 the Bank had 263 employees. The Bank encourages the involvement of all employees in the Bank's overall performance and profitability through a profit sharing incentive scheme based largely on the Bank's 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 have life insurance cover to the extent of four times their base salary. The Bank also has a private medical insurance plan, which covers employees and their dependents.

The Bank is committed to providing employment practices and policies which recognise the diversity of its workforce and ensure equality for employees regardless of sex, race, disability, age, sexual orientation or religious belief. Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys.

**Political and charitable contributions**

The Bank made charitable contributions of USD 118,562 during the financial year 2008 (financial year 2007 – USD 1,200). The Bank made no political contributions during the financial year 2008 (financial year 2007: 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

Suvek Nambiar  
Managing Director & Chief Executive Officer

Aarti Sharma  
Chief Financial Officer  
& Company Secretary

24 April 2008  
Registered address  
21 Knightsbridge  
London SW1X 7LY

### **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**KPMG Audit Plc**

8 Salisbury Square  
London  
EC4Y 8BB  
United Kingdom

**Report of the independent auditors to the members of ICICI Bank UK Plc**

We have audited the financial statements of ICICI Bank UK Plc ("the Bank") for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Bank's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Bank's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG Audit Plc**

*Chartered Accountants  
Registered Auditor*

24 April 2008



**Profit and loss account**

for the year ended 31 March 2008

	Note	Year ended 31 March 2008 USD 000s	Year ended 31 March 2007 USD 000s
Interest receivable:			
Interest receivable and similar income arising on debt securities		148,839	65,030
Other interest receivable and similar income		265,420	122,720
Interest payable		(364,419)	(156,875)
<b>Net interest income</b>		<u>49,840</u>	<u>30,875</u>
Fees and commissions receivable		81,023	34,167
Dealing (losses) / profits	5	(27,313)	15,726
Other operating income	4	6,186	5,080
<b>Operating income</b>		<u>109,736</u>	<u>85,848</u>
Administrative expenses	6	(45,704)	(23,869)
Depreciation	16	(1,301)	(1,155)
Provision for liabilities and charges		-	(2,958)
Collective impairment allowance	14	(6,026)	(2,725)
Profit on sale of debt securities		23	833
<b>Profit on ordinary activities before tax</b>		<u>56,728</u>	<u>55,974</u>
Tax on profit on ordinary activities	8	(18,316)	(16,433)
<b>Profit on ordinary activities after tax</b>		<u>38,412</u>	<u>39,541</u>

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

The notes on pages 10 to 35 form part of these financial statements.

**Balance sheet**

at 31 March 2008

	Note	31 March 2008 USD 000s	31 March 2007 USD 000s
<b>Assets</b>			
Cash		3,150	1,625
Treasury bills and other eligible bills	10	-	389,226
Loans and advances to banks	11	2,225,539	1,086,227
Loans and advances to customers	12	1,963,202	786,629
Debt securities	15	4,365,047	2,493,662
Tangible fixed assets	16	7,677	3,972
Other assets	17	177,925	55,208
Prepayments and accrued income		86,509	51,622
<b>Total assets</b>		<b>8,829,049</b>	<b>4,868,171</b>
<b>Liabilities</b>			
Deposits by banks	18	1,413,152	913,145
Customer accounts	19	5,180,328	2,811,963
Debt securities in issue	20	1,341,251	744,725
Provision for liabilities and charges		-	2,958
Other liabilities	21	403,240	142,728
Accruals and deferred income		25,056	30,463
Shareholders' funds:			
Equity share capital	22	445,095	135,095
Non equity share capital	22	50,000	50,000
Profit and loss account		71,753	37,466
Available for sale securities reserve		(100,826)	(372)
		466,022	222,189
<b>Total liabilities and equity</b>		<b>8,829,049</b>	<b>4,868,171</b>

Memorandum items are included in note 24 to the financial statements.

These financial statements were approved by the board of directors on 24 April 2008 and were signed on its behalf by:

Suvek Nambiar  
 Managing Director & Chief Executive Officer

Aarti Sharma  
 Chief Financial Officer & Company Secretary

The notes on pages 10 to 35 form part of these financial statements

**Statement of total recognised gains and losses**

for the year ended 31 March 2008

	31 March 2008 USD 000s	31 March 2007 USD 000s
<b>Profit on ordinary activities after tax</b>	<u>38,412</u>	<u>39,541</u>
<b>Restatement of opening positions to reflect FRS 26</b>		
Adjustment to reflect income on an effective interest rate basis	-	(8,622)
Opening derivatives moved to market value	-	(3,342)
Deferred tax impact at 30%	-	3,591
<b>Net movement</b>	<u>-</u>	<u>(8,373)</u>
<b>Movements through available for sale reserve</b>		
Movement in fair value during year	(142,763)	(502)
Deferred tax credit for the period	<u>42,309</u>	<u>130</u>
<b>Net movement through available for sale reserve</b>	<u>(100,454)</u>	<u>(372)</u>
<b>Total movement in reserves reflected in the balance sheet</b>	<u>(100,454)</u>	<u>(8,745)</u>

The notes on pages 10 to 35 form part of these financial statements.

**Reconciliation of movements in shareholders' funds**

for the year ended 31 March 2008

	Issued Share Capital	Profit and Loss Account	Available for Sale Reserve	Total
	USD 000s	USD 000s	USD 000s	USD 000s
As at 1 April 2006	185,000	10,423	-	195,423
Effect of adoption of FRS 26 as at 1 April 2006	-	(8,373)	-	(8,373)
Ordinary shares issued during the year	95	-	-	95
Unrealised loss on available for sale securities	-	-	(502)	(502)
Tax impact	-	-	130	130
Profit on ordinary activities after tax	-	39,541	-	39,541
Preference dividend paid during the year	-	(4,125)	-	(4,125)
As at 1 April 2007	185,095	37,466	(372)	222,189
Ordinary shares issued during the year	310,000	-	-	310,000
Unrealised loss on available for sale securities	-	-	(142,763)	(142,763)
Tax impact	-	-	42,309	42,309
Profit on ordinary activities after tax	-	38,412	-	38,412
Preference dividend paid during the year	-	(4,125)	-	(4,125)
Closing shareholders' funds	<u>495,095</u>	<u>71,753</u>	<u>(100,826)</u>	<u>466,022</u>

The notes on pages 10 to 35 form part of these financial statements.

**Notes**

(forming part of the 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.

**3 Accounting policies**

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

- FRS 29 'Financial Instruments: Disclosure';
- UITF 41 'Scope of FRS 20'; and
- UITF 42 'Reassessment of Embedded derivatives'.

No prior period restatements were required in respect of adopting these standards.

The Bank has prepared its financial statements in US dollars which is the functional currency and presentation currency.

### **(a) Significant judgements and estimates**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The accounting policies deemed critical to the Bank's results and financial position, based upon significant judgements and estimates, are discussed below.

#### **Loan impairment provisions**

The Group regularly reviews its loan portfolios to assess for impairment. Impairment provisions are established to recognise incurred impairment losses in loan portfolios carried at amortised cost. In determining whether an impairment has occurred at the balance sheet date, the Bank considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on loan repayment obligations.

Collectively assessed impairment allowances cover credit losses inherent in portfolios with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

#### **Valuation of financial instruments**

The Bank values its investments at fair market value. The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. Valuation techniques that rely to a greater extent on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

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

### **(b) Cash flow statement**

As a wholly owned subsidiary whose parent produces publicly available accounts (see note 32), the Bank has taken advantage of the exemption available within FRS 1 (revised), "Cash Flow Statements", and does not produce a cash flow statement.

### **(c) 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.

### **(d) Fees and commissions receivable and payable**

Fees and commission are taken to profit when the service has been rendered, 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.

### **(e) 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.

**(f) 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 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.

**(g) 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 amortised 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.

**(h) Financial liabilities**

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

**(i) 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.

**(j) 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:

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

**(k) 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.

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.

### **(l) 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. 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 amortised 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.

### **(m) 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. Evidence of impairment includes the following:

1. Significant financial difficulty of the issuer or obligor.
2. A breach of contract, such as a default or delinquency in interest or principal payments.
3. The Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession it would not otherwise consider.
4. It is probable that the borrower will enter bankruptcy or other financial reorganisation.

### **(n) 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.

### (o) Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the profit and loss statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

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.

### (p) 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.

### (q) 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 34).

### (r) 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 (losses) / profits

Dealing (losses)/profits mainly consist of net profit or loss on transactions in securities which are not held as available for sale, 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 31 March 2008 USD 000s	Year ended 31 March 2007 USD 000s
Financial Assets:		
Treasury bills and other eligible bills	-	(4)
Debt securities	(58,660)	(91)
Currency derivative contracts	(5,618)	5,564
Interest rate derivative contracts	(2,120)	2,570
Derivative Income	15,732	-
Foreign exchange gains	23,353	7,687
<b>Total</b>	<b>(27,313)</b>	<b>15,726</b>

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. Derivative income and expenses are presented on a net basis as it is not practical to split the same, although derivative assets and liabilities are grossed up on the balance sheet.



## 6 Administrative expenses

	Year ended 31 March 2008 USD 000s	Year ended 31 March 2007 USD 000s
Staff costs (including directors' emoluments) :		
Wages and salaries	20,167	11,311
Social security costs	1,447	635
Other administrative expenses	24,090	11,923
<b>Total</b>	<b>45,704</b>	<b>23,869</b>

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

	Year ended 31 March 2008 No. of Employees	Year ended 31 March 2007 No. of Employees
Management	54	46
Non Management	209	113
<b>Total</b>	<b>263</b>	<b>159</b>

## 7 Profit on ordinary activities before tax

### (a) is stated after charging

	Year Ended 31 March 2008 USD 000s	Year Ended 31 March 2007 USD 000s
<b>Auditors' remuneration</b>		
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements pursuant to legislation	620	243
Other services pursuant to such legislation	560	180
Other services relating to taxation	220	116
<b>Total</b>	<b>1,400</b>	<b>539</b>
Depreciation on tangible fixed assets	1,301	1,155
Operating lease rental in respect of leasehold premises	1,455	822

### (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 31 March 2008 USD 000s	Year ended 31 March 2007 USD 000s
<i>Current tax:</i>		
UK Corporation tax at 30% (2007: 30%) on the taxable profit for the year	15,831	17,371
Overseas corporation charge	980	13
	16,811	17,384
<i>Deferred tax</i>		
Origination and reversal of timing differences	1,505	(951)
<i>Tax on profit on ordinary activities</i>	18,316	16,433

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

The current tax charge for the year is lower (2007: higher) than the standard rate of corporation tax in the UK (30% (2006: 30%)). The differences are explained below.

	31 March 2008 USD 000s	31 March 2007 USD 000s
Current tax reconciliation		
Profit on ordinary activities before tax	56,728	55,974
Current tax at 30%	17,019	16,792
Add effects of:		
Expenses not deductible for tax purposes	342	196
Other timing differences (amortisation of impact of FRS 26)	(423)	(423)
Depreciation in excess of capital allowances for the year	(44)	39
Provision for liabilities and charges	(768)	767
Overseas taxes (net of overseas tax expense relief)	685	13
Total current tax charge (see 8 (a) above)	16,811	17,384

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

	31 March 2008 USD 000s	31 March 2007 USD 000s
Opening balance	4,542	-
Effect of adoption of FRS 26	-	3,591
(Debit)/credit to profit and loss account	(1,289)	951
Effect of change in UK tax rate from 30% to 28%	(216)	-
Tax on mark to market losses on available for sale securities	8,844	-
<b>Closing balance</b>	<b>11,881</b>	<b>4,542</b>

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

	Year ended 31 March 2008 USD 000s	Year ended 31 March 2007 USD 000s
Collective impairment allowance	478	576
Effect of FRS 26		
Fee income amortisation	1,931	2,328
Recognition of fair value of derivatives	749	902
Provision for liabilities and charges	-	767
Excess of book value over tax written down value of tangible fixed assets	(121)	(31)
Tax on mark to market losses on available for sale securities	8,844	-
	<u>11,881</u>	<u>4,542</u>

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

On 21 March 2007, the intention to reduce UK corporation tax rates from 30% to 28% from 1 April 2008 was announced in the UK Budget.

**9 Emoluments of directors**

	Year ended 31 March 2008 USD 000s	Year ended 31 March 2007 USD 000s
Directors' fees and emoluments	<u>750</u>	<u>632</u>

The emoluments of the highest paid director were USD 389,470 (2007: USD 429,044). Contributions on behalf of a director under a money purchase pension scheme amounted to USD 11,025 (2007: 26,245). The number of directors to whom retirement benefits accrue under a defined contribution pension scheme is 1 (2007:1)

**10 Treasury bills and other eligible bills**

	31 March 2008 USD 000s	31 March 2007 USD 000s
Government (non-trading)-UK	-	-
Government (available for sale)-UK	-	176,417
Government (held for trading)-UK	-	212,809
<b>Total</b>	<u>-</u>	<u>389,226</u>

	USD 000s Book Value	31 March 2008 USD 000s Net Discount	USD 000s Book Value	31 March 2007 USD 000s Net Discount
Opening balance	175,722	695	100,786	(145)
Purchases	-	-	1,033,625	840
Sales	(175,722)	(695)	-	-
Maturities	-	-	(958,512)	-
Changes in fair value	-	-	(177)	-
Closing balance	-	-	<u>175,722</u>	<u>695</u>

## 11 Loans and advances to banks

### (a) Residual Maturity

	31 March 2008 USD 000s	31 March 2007 USD 000s
<b>Banks</b>		
Repayable on demand	76,088	14,929
Other loans and advances Remaining Maturity :		
5 year or less but over 1 year	112,090	4,000
1 year or less but over 3 months	55,270	486,670
3 months or less	1,929,215	578,347
	<u>2,172,663</u>	<u>1,083,946</u>
<b>Parent and group companies</b>		
Repayable on demand	52,876	2,281
	<u>2,225,539</u>	<u>1,086,227</u>

### (b) Concentrations of exposure

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

	31 March 2008 USD 000s	31 March 2007 USD 000s
<b>Total gross advances to banks located in :</b>		
Europe and North America	1,708,432	1,069,025
India	169,151	2,281
Rest of the World	347,956	14,921
<b>Total</b>	<u>2,225,539</u>	<u>1,086,227</u>

## 12 Loans and advances to customers

### (a) Residual Maturity

	31 March 2008 USD 000s	31 March 2007 USD 000s
Repayable on demand or at short notice	82,498	86,365
Other loans and advances		
Remaining Maturity :		
Over 5 years	154,821	-
5 years or less but over 1 year	1,283,818	-
1 year or less but over 3 months	292,458	379,494
3 months or less	160,223	325,409
Sub – total	<u>1,973,818</u>	<u>791,268</u>
Collective Impairment allowance(Note 14)	(10,616)	(4,590)
Specific impairment allowance(Note 14)	-	(49)
<b>Total</b>	<u>1,963,202</u>	<u>786,629</u>

**(b) Concentration of exposure**

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

	31 March 2008 USD 000s	31 March 2007 USD 000s
Total gross advances to customers located in :		
Europe and North America	<b>1,292,917</b>	453,403
India	<b>244,888</b>	182,900
Rest of the World	<b>436,013</b>	154,965
Total	<b><u>1,973,818</u></b>	<u>791,268</u>

**13 Potential credit risk loans**

	31 March 2008 USD 000s	31 March 2007 USD 000s
Accruing loans which are contractually overdue as to principal or interest		
Less than 90 days	<b>83,138</b>	22,791
Total	<b><u>83,138</u></b>	<u>22,791</u>

	31 March 2008 USD 000s	31 March 2007 USD 000s
Accruing loans which are contractually overdue 90 days or less as to principal or interest		
United Kingdom	<b>19,188</b>	22,791
Rest of the World	<b>63,950</b>	-
Total	<b><u>83,138</u></b>	<u>22,791</u>

**14 Impairment allowance**

	31 March 2008			31 March 2007		
	Specific impairment allowance USD 000s	Collective impairment allowance USD 000s	Total USD 000s	Specific impairment allowance USD 000s	Collective impairment allowance USD 000s	Total USD 000s
Opening Balance	<b>49</b>	<b>4,590</b>	<b>4,639</b>	-	2,133	2,133
New charges	-	<b>6,026</b>	<b>6,026</b>	268	2,457	2,725
Write-offs	<b>(49)</b>	-	<b>(49)</b>	(219)	-	(219)
Closing Balance	<b>-</b>	<b><u>10,616</u></b>	<b><u>10,616</u></b>	<u>49</u>	<u>4,590</u>	<u>4,639</u>

**15 Debt securities**

	31 March 2008 Market Value USD 000s	31 March 2007 Market Value USD 000s
<b>Analysed by designation :</b>		
Available for sale	3,014,488	1,945,885
Held for trading	1,350,559	547,777
<b>Total</b>	<b><u>4,365,047</u></b>	<b><u>2,493,662</u></b>
<b>Analysed by issuer :</b>		
<b>Available for sale</b>		
Issued by public bodies	240,707	58,155
Issued by other issuers	2,723,925	1,721,256
Bank certificates of deposit	49,856	167,181
<b>Held for trading</b>		
Issued by public bodies	35,828	-
Issued by other issuers	649,114	547,777
Bank certificates of deposit	665,617	-
	<u>4,365,047</u>	<u>2,494,369</u>
<b>Less : Unamortised discounts</b>	-	(707)
	<u>4,365,047</u>	<u>2,493,662</u>
<b>Analysed by listing status Available for sale</b>		
Unlisted	230,806	365,215
Listed	2,783,682	1,581,377
<b>Held for trading</b>		
Unlisted	665,617	-
Listed	684,942	547,777
<b>Total</b>	<b><u>4,365,047</u></b>	<b><u>2,494,369</u></b>
<b>Analysed by maturity</b>		
Due within 1 year	777,598	167,181
Due 1 year and above	3,587,449	2,327,188
<b>Total</b>	<b><u>4,365,047</u></b>	<b><u>2,494,369</u></b>

Movement of available for sale debt securities :

	Net Book Value USD 000s	Net Book Value USD 000s
Opening balance	1,945,885	430,286
Purchases	1,603,319	3,083,415
Maturities	(241,311)	(336,428)
Sales	(149,428)	(1,230,578)
Amortisation	(1,214)	(485)
Changes in fair value	(142,763)	(325)
Closing balance	<u>3,014,488</u>	<u>1,945,885</u>

## 16 Tangible fixed assets

	Leasehold improvements	Other assets	Total
	USD 000s	USD 000s	USD 000s
<b>Cost</b>			
At 1 April 2007	2,716	4,044	6,760
Additions	3,421	1,585	5,006
At 31 March 2008	<b>6,137</b>	<b>5,629</b>	<b>11,766</b>
<b>Depreciation</b>			
At 1 April 2007	521	2,267	2,788
Charge for year	329	972	1,301
At 31 March 2008	<b>850</b>	<b>3,239</b>	<b>4,089</b>
Net book value			
At 31 March 2008	<b>5,287</b>	<b>2,390</b>	<b>7,677</b>
31 March 2007	2,195	1,777	3,972

## 17 Other assets

	31 March 2008	31 March 2007
	USD 000s	USD 000s
Cheques in clearing	394	819
Deposits receivable	3,257	1,976
Other debtors	955	329
Deferred tax asset	11,881	4,542
Current tax asset	<u>29,520</u>	<u>-</u>
Derivative financial instruments	131,918	39,473
Unsettled securities	-	8,069
Total	<b><u>177,925</u></b>	<b><u>55,208</u></b>

## 18 Deposits by banks

	31 March 2008	31 March 2007
	USD 000s	USD 000s
<b>Banks</b>		
5 years or less but over 1 year	711,798	430,058
1 year or less but over 3 months	340,000	185,000
3 months or less but not repayable on demand	361,354	263,087
	<b>1,413,152</b>	<b>878,145</b>
<b>Parent and group companies</b>		
5 years or less but over 1 year	-	35,000
	-	35,000
Total	<b><u>1,413,152</u></b>	<b><u>913,145</u></b>

## 19 Customer accounts

With agreed maturity dates or periods of notice, by remaining maturity:

		31 March 2008 USD 000s	31 March 2007 USD 000s
Over 5 years		20	-
5 years or less but over 1 year		13,768	3,332
1 year or less but over 3 months		765,379	427,218
3 months or less but not repayable on demand		1,008,706	386,922
		<b>1,787,873</b>	817,472
Repayable on demand		<b>3,392,455</b>	1,994,491
Total		<b>5,180,328</b>	2,811,963

## 20 Debt securities in issue

		31 March 2008 USD 000s	31 March 2007 USD 000s
Bonds issued **		<b>1,341,251</b>	744,725
		<b>1,341,251</b>	744,725

The Bank has issued various bonds and medium term notes programmes as follows:

Date of Issue	Nature of Issue	Interest rate	Interest frequency	Maturity	USD 000s
11-Jul-06	Unsecured junior subordinated bond 2016 * due	Libor + 200 bps	Semi-annually	First call in 2011 Bullet payment in 2016	25,000
28-Jul-06	Unsecured junior subordinated bond due 2016 *	Libor + 200 bps	Semi-annually	First call in 2011 Bullet payment in 2016	25,000
30-Nov-06	Step-up floating rate junior subordinated notes	Libor + 100 bps	Semi-annually	First Call in 2011 Bullet payment in 2016	50,000
12-Dec-06	Perpetual junior subordinated notes	6.38%	Annually	First Call in 2016 Perpetual maturity	150,000
27-Feb-07	Unsecured senior floating rate notes	Libor + 62 bps	Quarterly	Bullet payment in 2012	500,000
14-Jun-07	Unsecured senior floating rate notes	Libor + 50 bps	Quarterly	Bullet payment in 2010	500,000
29-Nov-07	Unsecured senior fixed rate notes (Medium term note issues in SGD)	4.04%	Semi-annually	Bullet payment in 2010	32,613



27-Dec-07	Unsecured junior subordinated bonds due 2017 (Medium term note in GBP)	Libor + 275 bps	Semi-annually	First call in 2012 Bullet payment in 2017	19,841
31-Mar-08	Unsecured junior subordinated bonds due 2018 (Medium term note)	Libor + 460 bps	Quarterly	First call in June 2013, Bullet payment in 2018	50,000
Less: Bond issue expenses					(2,872)
Less: Adjustments to carrying amount for change in the value of hedge					(8,331)
					<u>1,341,251</u>

\* Initially held by the Parent, but later sold to market counterparties.

\*\* Listed with Singapore stock exchange.

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.

## 21 Other liabilities

	31 March 2008 USD 000s	31 March 2007 USD 000s
Amounts in clearing	72,524	8,141
Corporation tax payable	-	8,551
Other creditors	48,027	37,538
Derivative financial instruments	282,689	61,578
Unsettled securities	-	26,920
<b>Total</b>	<u><b>403,240</b></u>	<u><b>142,728</b></u>

## 22 Called up share capital

Authorised	31 March 2008 Number	31 March 2007 Number
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	USD 000s	USD 000s
135 million ordinary shares of \$1 each (equity)	445,000	135,000
50 million non cumulative perpetual callable preference shares of USD1 each (non equity)	50,000	50,000
50,002 Ordinary shares of £1 each (equity)	95	95
Total Share Capital	495,095	135,095

During the year, the Bank allotted 310,000,000 ordinary shares of USD1 each for a cash consideration of USD 310,000,000.

## 23 Pension scheme

During the year, the Bank made a contribution of USD 210,618 (2007: USD 66,401) to the pension scheme. Out of this amount, USD 11,529 was accrued at the year end (2007: USD 8,494).

## 24 Contingent liabilities and commitments

### (a) Guarantees and other commitments:

	31 March 2008 USD 000s	31 March 2007 USD 000s
Guarantees	51,570	6,538
Other commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend maturing in:		
Less than one year	172,910	202,553

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

Approximately 57% (2007: 25%) 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 of USD 3,672,301,235 (2007: USD 1,730,504,247).

## 25 Operating lease commitments

As at 31 March 2008, the Bank has the following non cancellable annual operating lease commitments:

	31 March 2008 USD 000s Land & Buildings	31 March 2007 USD 000s Land & Buildings
Operating leases which expire :		
Between 1 and 5 years	434	205
More than 5 years	808	587
	<u>1,242</u>	<u>792</u>

## 26 Categories and classes of Financial Instruments

As at 31 March 2008:

Assets	Fair value through P&L	Loans & Receivables	Available for Sale	Non trading liability	Others (including non financial instruments)	Total
Cash	-	-	-	-	3,150	3,150
Loans and advances to banks	-	2,225,539	-	-	-	2,225,539
Loans and advances to customers	-	1,963,202	-	-	-	1,963,202
Debt securities	1,350,559	-	3,014,488	-	-	4,365,047
Tangible fixed assets	-	-	-	-	7,677	7,677
Other assets	131,918	-	-	-	46,007	177,925
Prepayments and accrued income	-	75,378	-	-	11,131	86,509
<b>Total assets</b>	<u>1,482,477</u>	<u>4,264,119</u>	<u>3,014,488</u>	<u>-</u>	<u>67,965</u>	<u>8,829,049</u>
<b>Liabilities</b>						
Deposits by banks	-	-	-	1,413,152	-	1,413,152
Customer accounts	-	-	-	5,180,328	-	5,180,328
Debt securities in issue	-	-	-	1,341,251	-	1,341,251
Other liabilities	-	282,689	-	120,551	-	403,240
Accruals and deferred income	-	-	-	25,056	-	25,056
Shareholders' funds:						
Equity share capital	-	-	-	-	445,095	445,095
Non equity share capital	-	-	-	-	50,000	50,000
Profit and loss account	-	-	-	-	71,753	71,753
Available for sale securities reserve	-	-	(100,826)	-	-	(100,826)
<b>Total liabilities</b>	<u>-</u>	<u>282,689</u>	<u>(100,826)</u>	<u>8,080,338</u>	<u>566,848</u>	<u>8,829,049</u>

**As at 31 March 2007:**

Assets	Fair value though P&L	Loans & Receivables	Available for Sale	Non trading liability	Others (including non financial instruments)	Total
Cash	-	-	-	-	1,625	1,625
Treasury bills and other eligible bills	212,809	-	176,417	-	-	389,226
Loans and advances to banks	-	1,086,227	-	-	-	1,086,227
Loans and advances to customers	-	-	786,629	-	-	786,629
Debt securities	547,777	-	1,945,885	-	-	2,493,662
Tangible fixed assets	-	-	-	-	3,972	3,972
Other assets	39,473	-	-	-	15,735	55,208
Prepayments and accrued income	-	44,496	-	-	7,126	51,622
<b>Total assets</b>	<b>800,059</b>	<b>1,917,352</b>	<b>2,122,302</b>	<b>-</b>	<b>28,458</b>	<b>4,868,171</b>
Liabilities						
Deposits by banks	-	-	-	913,145	-	913,145
Customer accounts	-	-	-	2,811,963	-	2,811,963
Debt securities in issue	-	-	-	744,725	-	744,725
Other liabilities	61,578	-	-	72,599	11,509	145,686
Accruals and deferred income	-	-	-	-	30,463	30,463
Shareholders' funds:						
Equity share capital	-	-	-	-	135,095	135,095
Non equity share capital	-	-	-	-	50,000	50,000
Profit and loss account	-	-	-	-	37,466	37,466
Available for sale securities reserve	-	-	(372)	-	-	(372)
<b>Total liabilities</b>	<b>61,578</b>	<b>-</b>	<b>(372)</b>	<b>4,542,432</b>	<b>264,533</b>	<b>4,868,171</b>

## 27 Capital

The Company's capital requirements are set and monitored by the FSA. Regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, preference share capital and retained earnings.

Tier 2 capital, which includes lower tier 2 and upper tier 2 debt and impairment provisions.

The Bank assesses its capital requirement taking the following factors into consideration:

- Its growth objectives and the risks associated;
- Implications of any regulatory changes.

The level of total capital is matched against risk-weighted assets which are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets. The Company has put in place processes to monitor and manage capital adequacy.

The Bank has implemented the Basel II framework for calculating minimum capital requirements, on 1 January 2008.

The Bank's capital as at 31 March 2008 is as follows:

	31 March 2008 USD mn	31 March 2007 USD mn
Total Capital	864.7	445.1
- Tier I	566.8	222.6
- Tier II	297.8	222.6

## 28 Risk Management Framework

ICICI Bank UK PLC has adopted governance practices in line with the requirements of the UK's Combined Code on Corporate Governance. The Board is assisted by its sub-committees, the Audit Committee, the Governance Committee and the Board Risk and Credit Committee, and approves the Group's overall risk management framework. The Board has delegated responsibility for the day-to-day management of the Bank to the Managing Director and Chief Executive Officer. In this role, the Managing Director and Chief Executive Officer is supported by the Management Committee, which he chairs. The Management Committee is supported by various other committees, which include the Executive Credit Committee, the Asset Liability Management Committee and the Product and Product Approval Committee

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:

1. 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.
2. 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.
3. 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 and liquidity risk), operational, compliance and reputation risk. The approach of management to handle the key risks facing the Bank is outlined below.

### 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 Risk Management Policy (CRMP), 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 CRMP 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 CRMP 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 risk premium for the proposal.

Credit proposals are approved by either the Board Risk and Credit Committee (BRCC) or the Executive Credit Committee (ECC) based on, inter alia, the amount and internal risk rating of the facility. All credit proposals are passed through the ECC before, if required as per the CRMP, going to the BRCC.

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 BRCC the key parameters of risk concentration viz. product specific exposures, large exposures, industry/sectoral exposures, country/geographical exposures and rating category based exposures.

The maximum amount of on balance sheet credit risk, without taking account of any collateral or netting arrangements, as at 31 March 2008 is approximately USD 8.7 billion (2007: USD 4.4 billion). The maximum amount of off balance sheet credit risk on guarantees and letters of credit is approximately USD 51.0 million (2007: USD 2.9 million).

An analysis of the Bank's debt securities portfolio based on ratings provided by external rating agencies is as follows:

	31 March 2008 USD mn	31 March 2007 USD mn
AAA	431	802
AA+	59	-
AA	287	161
AA-	754	420
A+	514	335
A	617	425
A-	190	134
BBB+	81	49
BBB	195	90
BBB-	204	39
B+ and below	-	45
Non rated	1,033	383
Total	<u>4,365</u>	<u>2,883</u>

An analysis of the Bank's loans and advances to banks and customers based on internal ratings is as follows:

	31 March 2008 USD mn	31 March 2007 USD mn
Investment grade	3,931.0	1,775.9
Non investment grade	257.7	97.0
	<u>4,188.7</u>	<u>1,872.9</u>

The Bank has adopted the Standardised approach to Credit Risk Management under the Basel II framework.

### 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 the Treasury Policy Manual (TPM), Trading Book Policy statement (TBPS) and Liquidity management policies comprising of the Liquidity policy statement, Liquidity gap limits 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 BRCC. Furthermore, an independent Treasury Middle Office group (TMOG) is set up to monitor and report the various risk limits set through the TPM and TBPS.

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

- **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 Treasury Policy Manual 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). The various limits set for interest rate risk are monitored and the utilizations reported to ALCO and BRCC on a periodic basis.

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%. Currently a limit of 5.0 has been prescribed for the DoE of the Bank.

- **Forex risk** – The risk arises due to positions in non-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-dollar assets and liabilities. Foreign exchange risk is managed within the Treasury function in accordance with the position limits agreed with the regulator.

- **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 BRCC undertake a periodic review of the market risk and liquidity position of the Bank.

#### VAR based approach (for treasury positions)

The Bank uses a value at risk ('VAR') measure along with position and stop loss limits as the primary mechanisms for controlling market risk. It represents the potential loss in value of the Bank's treasury positions, which might arise due to adverse movements in markets (changes in interest rates and foreign exchange rates) over a defined time horizon with a specified confidence level. The VAR, is calculated using a parametric approach at a 99% confidence level over a one day holding period. The VAR for the Bank's treasury positions as at 31 March 2008 was USD 2,001,088 (2007: USD 884,912).

The modeling 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.

In addition to the VAR framework, the Bank also has stop loss limits that are used to monitor and control the overall risk on treasury positions. The stop loss limits would address the combined impact of forex risk, interest rate risk and credit spread risk.

#### Interest rate risk sensitivity

The impact of an increase in interest rates on fixed income (fixed and floating rate) investments as at 31 March 2008, assuming a parallel shift in yield curve, has been set out in the following table:

Particulars	Portfolio size	Increase in interest rates (in bps)	
USD 000s		100	200
Reserves	2,829,747	14,137	28,274
Profit and loss account	1,350,560	4,008	8,017
Decrease on value of debt securities (excluding credit linked notes)		18,145	36,291

The impact of an increase in interest rates on fixed income (fixed and floating rate) investments as at 31 March 2007:

Particulars	Portfolio size	Increase in interest rates (in bps)	
USD 000s		100	200
Reserves	1,542,076	5,005	10,010
Profit and loss account	760,586	1,590	3,181
Decrease on value of debt securities (excluding credit linked notes)		6,595	13,191

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 31 March 2008, assuming a parallel shift in the yield curve, has been set out in the following table:

Particulars	Increase in interest rates (in bps)	
	100	200
Impact on Net Interest Income over a one year horizon USD 000s	7,245	14,490

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

Particulars	Increase in interest rates (in bps)	
	100	200
Impact on Net Interest Income over a one year horizon USD 000s	979	1,958

The positive impact is as a result of an increase in interest rates is due to positive near term Balance Sheet re-pricing gaps.

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 the Tier I & II capital base of the Bank as at the end of the immediately preceding financial year.

### 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 (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.

An Operational Risk Management Committee comprising of senior executives has been set up, which 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 all the relevant groups and control functions in the bank.

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 BRCC. The performance of vendors are periodically reviewed and assessment reports are presented to the Audit Committee.

The Bank has decided to adopt the Basic Indicator Approach for the purposes of calculating its operational risk capital charge as per Basel II.

### Reputation risk

Reputation risk is the current and prospective impact on earnings and capital arising from stakeholders' holding a negative opinion of the Bank. Reputation risk could arise as a consequence of any of the other risk types materializing in the business or as a result of negative perceptions surrounding the Parent. The Bank and its Parent strives to manage the reputation of the Bank at all times by trying to achieve alignment between the organisation's goals and values, its conduct and action and between expectations and experiences of stakeholders. The senior management of the Bank does not consider reputation risk in isolation, but considers it within the broader context of the institution's governance, risk and compliance structures and culture.

Reputation risk is a key consideration of the strategic business and credit approval processes undertaken by the Bank's ECC, BRCC and PAC. The Bank analyses reputation risk by way of looking at sources of reputation risk as classified by their likelihood of occurrence and also the consequent event as classified by the potential of their impact on the Bank. Appropriate control processes are then suggested to mitigate the identified reputation risks.



### Compliance Risk

Compliance risk is defined as the Bank's failure to comply with the regulatory requirements of the various regulators governing its activities, as well as the risk of the Bank engaging in prohibited activities or jurisdictions. To mitigate this risk, a dedicated compliance team, with overall oversight from the Parent, is focused on ensuring that the Bank undertakes all activities in full compliance with regulations by which it is governed and with the laws of the various jurisdictions in which it operates. It has direct access to the Bank's senior management as well as to the Audit Committee and is responsible for:

- Helping the business to ensure adherence to external regulatory requirements and internal policies;
- Helping the reporting team to ensure sufficient, complete and timely reporting to regulators;
- Making reports to the Bank's management and Board regarding the adequacy of compliance arrangements and exceptions thereto;
- Ensuring that substantive tests are carried out on the functions of the Bank, to verify the adequacy of the Bank's compliance procedures; and
- Incorporating recent developments on regulatory matters into the compliance procedures of the Bank and ensuring that employees receive adequate training in response to such changes.

The Bank has developed policies and procedures regarding Anti Money Laundering (AML) to guard against the Bank being used for the purpose of money laundering. All departments of the Bank have established their own detailed operational procedures for AML.

The Bank's money laundering reporting officer makes a quarterly report to the Audit Committee. This report is also circulated to the Compliance and Audit Group at the Parent. The report includes observations in respect of deficiencies in compliance with procedures, a summary of latest changes in money laundering preventive guidelines and regulations, details of AML training provided to staff members during the relevant period, and a risk assessment of the impact of new products and services.

Given the critical importance of compliance with regulations as well as internal policies and procedures, the compliance function is further strengthened through supervision from the Parent, with the head of compliance additionally reporting into the Group wide Compliance Head.

### Group Risk Management Framework

The Bank is subject to the Group Risk Management Framework, which has been developed by ICICI Bank Limited, India 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. Further, the Bank's Head of Risk reports to the Bank's Managing Director and Chief Executive Officer and additionally reports into the Risk Management Group of the Parent.

## 29 Cashflow payable under contractual maturity

At 31 March 2008, the contractual maturity comprises (all amounts in USD 000s):

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	No contractual maturity	Total
Deposits by banks	274,693	156,518	214,215	888,177	-	-	1,533,603
Customer accounts	4,464,104	203,014	581,396	16,962	20	-	5,265,496
Other liabilities	120,551	-	-	-	-	-	120,551
Derivative financial liabilities	234,461	117,609	49,068	38,705	3,292	-	443,135
Accruals and deferred income	25,056	-	-	-	-	-	25,056
Debt securities in issue	264,237	13,966	14,118	1,146,834	405,814	-	1,844,969
Shareholders' funds	-	-	-	-	-	466,022	466,022
<b>Total Liabilities</b>	<b>5,383,102</b>	<b>491,107</b>	<b>858,797</b>	<b>2,090,678</b>	<b>409,126</b>	<b>466,022</b>	<b>9,698,832</b>

At 31 March 2007, the contractual maturity comprises (all amounts in USD 000s):

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	No contractual maturity	Total
Deposits by banks	313,389	8,841	200,403	495,901	-	-	1,018,534
Customer accounts	2,504,970	311,257	31,061	3,438	10	-	2,850,736
Other liabilities	81,150	-	-	-	-	-	81,150
Derivative financial liabilities	48,075	3,409	7,501	31,523	-	-	90,508
Accruals and deferred income	-	-	-	-	-	30,463	30,463
Debt securities in issue	11,714	11,841	23,428	726,284	256,898	-	1,030,165
Shareholders' funds	-	-	-	-	-	222,189	222,189
<b>Total Liabilities</b>	<b>2,959,298</b>	<b>335,348</b>	<b>262,393</b>	<b>1,257,146</b>	<b>256,908</b>	<b>252,652</b>	<b>5,323,745</b>

The balances in the above table will not agree directly to the balances in the Bank's balance sheet as the table incorporates all cash flows, on an undiscounted basis, relating to both principal and those associated with all future coupon payments (except for trading liabilities and trading derivatives).

### 30 Analysis of gain / (losses) and income/(expense)

Set out below is the profit generated by the Bank's financial assets and financial liabilities for the year ended 31 March 2008

	Impact on reserves	Fair value through P&L	Impact on profit and loss account				
			AFS	Loans and receivable	Financial Liabilities at cost	Others	Total
Interest Income	-	41,063	107,776	265,420	-	-	414,259
Interest Expense	-	-	-	-	(364,419)	-	(364,419)
Fees and commissions receivable	-	-	-	-	-	81,023	81,023
Realised/Unrealised losses	(142,763)	(27,313)	-	-	-	-	(27,313)
Other operating income	-	-	-	-	-	6,186	6,186
	<b>(142,763)</b>	<b>13,750</b>	<b>107,776</b>	<b>265,420</b>	<b>(364,419)</b>	<b>87,209</b>	<b>109,736</b>

Set out below is the profit generated by the Bank's financial assets and financial liabilities for the year ended 31 March 2007

	Impact on reserves	Fair value through P&L	Impact of profit and loss account				
			Available for sale	Loans and receivable	Financial liabilities at cost	Others	Total
Interest income	-	14,645	50,385	122,720	-	-	187,750
Interest expense	-	-	-	-	(156,875)	-	(156,875)
Fees and commissions receivable	-	-	-	-	-	34,167	34,167
Realised/Unrealised losses	(502)	15,726	-	-	-	-	15,726
Other operating income	-	-	-	-	-	5,080	5,080
	<b>(502)</b>	<b>30,371</b>	<b>50,385</b>	<b>122,720</b>	<b>(156,875)</b>	<b>39,247</b>	<b>85,848</b>

### 31 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.

	31 March 2008 Fair value USD 000's	31 March 2008 Book value USD 000's	31 March 2007 Fair value USD 000's	31 March 2007 Book value USD 000's
<b>Non trading book financial assets and liabilities</b>				
<b>Assets:</b>				
Cash	3,150	3,150	1,625	1,625
Treasury bills and other eligible bills	-	-	176,417	176,417
Loans and advances to banks	2,225,539	2,225,539	1,086,227	1,086,227
Loans and advances to customers	1,963,202	1,963,202	786,629	786,629
Debt securities	3,014,488	3,014,488	1,947,055	1,947,055
<b>Liabilities:</b>				
Deposits by banks and customer accounts	6,593,480	6,593,480	3,725,108	3,725,108
Debt securities in issue	1,341,251	1,341,251	744,725	744,725
<b>Trading book financial assets and liabilities</b>				
<b>Assets:</b>				
Treasury bills and other eligible bills	-	-	212,809	212,809
Debt securities	1,350,559	1,350,559	547,777	547,777
Derivative financial instruments	131,918	131,918	39,473	39,473
<b>Liabilities:</b>				
Derivative financial instruments	282,689	282,689	61,578	61,578

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.

### 32 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 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 31 March 2008, the notional amounts of swaps designated as fair value hedges was USD 18.2 million and these contracts had a negative fair value of USD 3.2 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 31 March 2008, the principal amounts of the instruments were:

USD 000s

Instrument	Non-Trading	Trading		
	Notional Principal	Notional Principal	Gross Positive Fair value	Gross Negative Fair value
Exchange rate Contracts	-	4,682,631	52,805	(181,902)
Interest rate contracts	18,177	3,401,538	79,113	(84,104)
Credit derivatives	-	368,486	-	(16,683)

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

USD 000s

Instrument	Non-Trading	Trading		
	Notional Principal	Notional Principal	Gross Positive Fair value	Gross Negative Fair value
Exchange rate contracts	-	2,854,317	32,052	(49,918)
Interest rate contracts	58,099	653,518	7,229	(5,930)
Credit derivatives	-	254,438	192	(1,930)

### 33 Assets and liabilities denominated in foreign currency

	31 March 2008 USD 000s	31 March 2007 USD 000s
Denominated in US Dollars	3,674,671	2,236,560
Denominated in Sterling	2,043,122	1,265,167
Denominated in other currencies	3,111,256	1,366,444
<b>Total assets</b>	<b>8,829,049</b>	<b>4,868,171</b>
Denominated in US Dollars	3,082,820	1,988,227
Denominated in Sterling	4,673,457	1,959,429
Denominated in other currencies	1,072,772	920,515
<b>Total liabilities</b>	<b>8,829,049</b>	<b>4,868,171</b>

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 32 which are held for hedging purposes.

### 34 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.