

ICICI Bank UK Plc
(formerly ICICI Bank UK Limited)

Directors' report and financial statements

31 March 2007

Registered number 4663024

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Directors' report

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

Principal Activities

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

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

Business Review

The Bank was incorporated in England and Wales as a private company with limited liability on 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 2007, the Bank had total assets of USD 4,868.2 million compared to USD 2,039.2 million as at 31 March 2006. The Bank made a profit after tax of USD 39.5 million in financial year 2007 as compared to USD 14.5 million in financial year 2006.

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

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

Financial Results

The financial statements for the reporting year ended 31 March 2007 are shown on pages 10 to 42. The profit after taxation for the year is USD 39.5 million (2006 – USD 14.5 million).

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

- FRS 20 'Share Based Payment'
- FRS 23 'Effects of changes in Foreign Exchange Rates'
- The disclosure requirements of FRS 25 'Financial instruments: presentation and disclosure'
- FRS 26 'Financial Instruments: measurement' except for the recognition and de-recognition rules which will be adopted in 2007;

Directors' report *(continued)*

- UITF 43 'The interpretation of equivalence' for the purposes of section 228A of the Companies Act 1985;
- UITF 45 'Liabilities arising from participating in a specific market – Waste Electrical and Electronic Equipment.

In adopting the disclosure requirements of FRS 25 and FRS 26 the Bank has elected to take the transitional option whereby the impact is not reflected in the 2006 comparative figures. As such, certain prior year figures are not directly comparable with those presented in respect of 2007. No restatement of the prior period is necessary but opening reserves have been adjusted to give effect to the requirements of the Standards. The adoption had a net impact of USD 8.4 million shown as a deduction from opening reserves.

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

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

The Directors declared and paid a preference dividend of USD 4,125,000 (2006: USD 4,125,000) during the year on preference share capital of USD 50.0 million (2006: USD 50.0 million).

Financial Highlights

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

USD 000's, except percentages	Financial 2006	Financial 2007	% Change
Net interest income	15,441	30,875	100
Non interest income	27,121	54,973	103
Total operating income	42,562	85,848	102
Operating expenses	16,830	25,024	49
Provisions/Charges	996	5,683	471
Profit before tax	21,295	55,974	163
Profit after tax	14,525	39,541	172

The profit after tax increased by 172% to USD 39.5 million for the financial year 2007 from USD 14.5 million for the financial year 2006, primarily due to a 100% increase in net interest income and a 103% increase in non interest income partly offset by a 49% increase in operating expenses and a USD 4.7 million increase in provisions. There are no specific provisions against corporate loans.

Net interest income increased by 100% to USD 30.9 million in the financial year 2007 from USD 15.4 million in 2006 primarily due to an increase in the average volume of interest-earning assets.

Directors' report (*continued*)

The non interest income increased by 103% for the financial year 2007 to USD 55.0 million from USD 27.1 million for the financial year 2006 primarily due to a 55% increase in fees & commission income to USD 34 million and a significant increase in dealing profit.

The operating expenses increased by 49% to USD 25 million in the financial year 2007 from USD 16.8 million in the financial year 2006 primarily due to an increase in employee expenses and increases in the volume of retail business.

The total assets increased by 139% to USD 4,868.2 million at the financial year-end 2007 compared to USD 2,039.2 million at the financial year-end 2006 primarily due to a 385% increase in debt securities to USD 2,493.7 million and a 43% increase in total loans and advances to USD 1,872.9 million.

Risk Management

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

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

Retail Banking

Retail banking is a key element of the Bank's growth strategy in the UK. During the year, the Bank has continued to build its brand image and substantially increased the customer base. Retail liabilities have grown by 167% from USD 1,054 million in 2006 to USD 2,812 million in 2007. The retail banking operations of the Bank are centred on two specific segments, the first caters for the banking services requirements of the Indian community in the UK. The Bank has created a retail banking franchise focussed on delivering services to people with strong linkage to India, such as remittances and deposits. The second area is direct banking, where the Bank offers an interest based savings account to British consumers which is supported over internet and phone enabled services. The Bank also offers a range of business banking, trade and treasury advisory services to the SME segment.

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

Directors' report (*continued*)

Corporate and Investment Banking

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

Treasury

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

During the year, the Bank raised USD 750,000,000 for its general funding purposes by way of five bond issues. The amounts raised from issues of these bonds are as follows:

	<u>USD 000s</u>
Subordinated Bonds:	
From Parent Company:	
Unsecured junior subordinated bond due 2016	25,000
Unsecured junior subordinated bond due 2016	25,000
Others:	
Step-up floating rate subordinated notes callable 2011 due 2016	50,000
Perpetual subordinated notes callable 2016	150,000
Senior Bond:	
Unsecured floating rate notes due 2012	500,000
Total	<u><u>750,000</u></u>

Directors' report (*continued*)

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 Sonjoy Chatterjee	(Managing Director and CEO)
Mrs Chanda Kochhar	(Vice Chairman of the Board. Appointed as Director on 17 January 2007)
Mr WMT Fowle	
Mr RMJ Orgill	
Dr M Kaul	
Mr MR Errington	(Resigned on 4 August 2006)
Mrs Lalita Gupte	(Resigned on 31 October 2006)
Mr Bhargav Dasgupta	(Resigned on 31 October 2006)

Company Secretary

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

Mr Arnab Chakravarti	(Appointed on 1 December 2006)
Ms Julie Glass	(Appointed on 5 September 2006, resigned on 30 November 2006)
Mr Avaneesh Trivedi	(Appointed on 4 August 2006 until 4 September 2006)
Mr MR Errington	(Resigned as Chief Financial Officer and Company Secretary on 4 August 2006)

Directors' Interests

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

Share Capital

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

Directors' report (*continued*)

Employees

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

Political and charitable contributions

The Bank made charitable contributions of USD 1,200 during the financial year 2007 (financial year 2006 – USD 25,000). The Bank made no political contributions during the financial year 2007 (financial year 2006: Nil).

Disclosure of information to Auditors

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

Auditors

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

By order of the board



Sonjoy Chatterjee
Managing Director & Chief Executive Officer
27 April 2007

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 present fairly the financial position and the performance of the Bank; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. 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 (formerly ICICI Bank UK Limited)

We have audited the financial statements of ICICI Bank UK Plc ("the Bank") for the year ended 31 March 2007 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 7.

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.

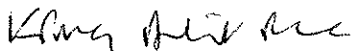
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other

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 2007 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

27 April 2007

Profit and loss account
for the year ended 31 March 2007

	Note	Year ended 31 March 2007 USD 000s	Year ended 31 March 2006 USD 000s
Interest receivable:			
Interest receivable and similar income arising on debt securities		65,030	12,811
Other interest receivable and similar income		122,720	50,469
Interest payable		<u>(156,875)</u>	<u>(47,839)</u>
Net interest income		<u>30,875</u>	<u>15,441</u>
Fees and commissions receivable		34,167	22,112
Dealing profits	5	15,726	2,486
Other operating income	4	5,080	2,523
Operating income		<u>85,848</u>	<u>42,562</u>
Administrative expenses	6	(23,869)	(15,922)
Depreciation	15	(1,155)	(908)
Provision for liabilities and charges	20	(2,958)	-
Impairment allowance	13	(2,725)	-
Provision for bad and doubtful debts: general	13	-	(996)
Profit/(loss) on sale of debt securities		833	(3,441)
Profit on ordinary activities before tax		<u>55,974</u>	<u>21,295</u>
Tax on profit on ordinary activities	8	(16,433)	(6,770)
Profit on ordinary activities after tax		<u>39,541</u>	<u>14,525</u>

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

The notes on pages 14 to 42 form part of these financial statements.

Balance sheet

at 31 March 2007

	Note	31 March 2007 USD 000s	31 March 2006 USD 000s
Assets			
Cash		1,625	395
Treasury bills and other eligible bills	10	389,226	186,926
Loans and advances to banks	11	1,086,227	587,391
Loans and advances to customers	12	786,629	726,097
Debt securities	14	2,493,662	513,888
Tangible fixed assets	15	3,972	3,891
Other assets	16	55,208	3,016
Prepayments and accrued income		51,622	17,612
Total assets		<u>4,868,171</u>	<u>2,039,216</u>
Liabilities			
Deposits by banks	17	913,145	747,418
Customer accounts	18	2,811,963	1,053,622
Debt securities in issue	19	744,725	-
Provision for liabilities and charges	20	2,958	-
Other liabilities	21	142,728	24,146
Accruals and deferred income		30,463	18,607
Shareholders' funds:			
Equity share capital	22	135,095	135,000
Non equity share capital	22	50,000	50,000
Profit and loss account		37,466	10,423
Available for sale securities reserve		(372)	-
		<u>222,189</u>	<u>195,423</u>
Total liabilities		<u>4,868,171</u>	<u>2,039,216</u>
		USD 000s	USD 000s
Memorandum items			
Contingent liabilities:			
Guarantees	24	6,538	7,680
Commitments:			
Other commitments	24	202,553	71,818
		<u>209,091</u>	<u>79,498</u>

These financial statements were approved by the board of directors on 27 April 2007 and were signed on its behalf by:



Sonjoy Chatterjee
Managing Director & Chief Executive Officer

The notes on pages 14 to 42 form part of these financial statements

Statement of total recognised gains & losses
for the year ended 31 March 2007

	31 March 2007	31 March 2006
	USD 000s	USD 000s
Profit on ordinary activities after tax	<u>39,541</u>	<u>14,525</u>
Restatement of opening positions to reflect FRS 26		
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	
Net movement	<u>(8,373)</u>	
Movements through available for sale reserve		
Movement in fair value during year	(502)	
Deferred tax credit for the period	130	
Net movement through available for sale reserve	<u>(372)</u>	
Total movement in reserves reflected in the Balance sheet	<u>(8,745)</u>	<u>10,400</u>
Reserves at 31 March 2006 as previously reported	10,423	
Retained profit for the year	35,416	
Net movement through available for sale reserve	(372)	
Restatement for FRS 26	(8,373)	
Reserves as at 31 March 2007	<u>37,094</u>	

The notes on pages 14 to 42 form part of these financial statements.

Reconciliation of movements in shareholders' funds
for the year ended 31 March 2007

	Issued Share Capital USD 000s	P&L Account USD 000s	Available for Sale reserve USD 000s	Total USD 000s
As at 1 April 2006	150,000	23	-	150,023
Ordinary shares issued during the year	35,000	-	-	35,000
Profit on ordinary activities after tax	-	14,525	-	14,525
Preference dividend paid during the year	-	(4,125)	-	(4,125)
Closing shareholders' funds as at 31 March 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)
Closing shareholders' funds	185,095	37,466	(372)	222,189

The notes on pages 14 to 42 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.

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

3 Accounting policies

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

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

In adopting the disclosure requirements of FRS 25 and FRS 26 the Bank has elected to take the transitional option whereby the impact is not reflected in the 2006 comparative figures. As such, certain prior year figures are not directly comparable with those presented in respect of 2007. No restatement of the prior period is necessary but reserves have been adjusted to give effect to the requirement of the Standards. The adoption had an impact of USD 8.4 million and this is shown as a deduction from reserves in the Statement of Total Recognised Gain and Losses. The main adjustments which would make the comparative information comply with FRS 25 and 26 would be to move derivatives and certain securities positions from cost to fair value and to adjust income to be reflected on an effective interest rate basis.

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

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

- FRS 29 'Financial Instruments: Disclosure' which will be adopted effective from 1 April 2007;
- UITF 41 'Scope of FRS 20' which will be adopted effective from 1 April 2007;
- UITF 42 'Reassessment of Embedded derivatives' which will be adopted effective from 1 April 2007; and

- UITF 44 'Group and Treasury Share transactions' which will be adopted effective from 1 April 2008.

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

(a) Cash flow statement

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

(b) Interest receivable and payable

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

(c) Fees and commissions receivable and payable

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

(d) Foreign currencies

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

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

(e) Financial assets

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

(f) Loans and advances

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

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

(g) Financial liabilities

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

(h) Determining fair value

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

(i) Financial instruments at fair value through profit and loss

Financial instruments are classified in this category if they are held for trading. Instruments are classified as held for trading if they are:

- 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.

(j) Available for sale financial assets

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

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

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

(k) Derivative instruments and hedging activities

Transactions are undertaken in derivative financial instruments (derivatives), which include interest rate swaps, futures, forward rate agreements, currency swaps, options and similar instruments, for trading and non-trading purposes. The Bank may designate a derivative as either a hedge of the fair value of a recognised fixed rate asset or liability or an unrecognised firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of future cash flows of a floating rate asset or liability (cash flow hedge) or a foreign-currency fair value or cash flow hedge (foreign currency hedge). All derivatives are recorded as assets or liabilities on the balance sheet at their respective fair values with unrealised gains and losses recorded either in reserves or in the profit and loss account, depending on the purpose for which the derivative is held. Derivatives that do not meet the criteria for designation as a hedge under FRS 26 at inception, or fail to meet the criteria thereafter, are accounted for in other assets with changes in fair value recorded in the profit and loss account.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in the profit and loss account as other non-interest income. To the extent of the effectiveness of a hedge, changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, are recorded in reserves, net of tax. For all hedge relationships, ineffectiveness resulting from differences between the changes in fair value or cash flows of the hedged item and changes in the fair value of the derivative are recognised in the profit and loss account as other non-interest income.

At the inception of a hedge transaction, the Bank formally documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, risk being hedged and the methodology for measuring effectiveness. In addition, the Bank assesses, both at the inception of the hedge and on an ongoing quarterly basis, whether the derivative used in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item, and whether the derivative is expected to continue to be highly effective.

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

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

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

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

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

(I) Impairment

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

Prior to 1 April 2006, general provisions augmented specific provisions and provided cover for loans which were impaired at the balance sheet date but which would not be identified as such until some

time in the future. The general provision was determined by taking into account the structure and risk of the Bank's loan portfolio. General provisions were deducted from loans and advances in the balance sheet.

(m) 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.

(n) Taxation

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

(o) 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.

(p) Related party transactions

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

(q) Leases

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

4 Other operating income

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

5 Dealing profits/(losses)

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

	Year ended 31 March 2007 USD 000s	Year ended 31 March 2006 USD 000s
Treasury Bills & Other Eligible Bills	(4)	20
Debt Securities	(91)	69
Currency derivative contracts	5,564	-
Interest rate derivative contracts	2,570	286
Foreign exchange gains	7,687	2,111
Total	15,726	2,486

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

6 Administrative expenses

	Year ended 31 March 2007 USD 000s	Year ended 31 March 2006 USD 000s
Staff Costs (including directors' emoluments) :		
Wages and Salaries	11,311	7,155
Social Security Costs	635	607
Other Administrative Expenses	11,923	8,160
Total	23,869	15,922

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

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

7 Profit on ordinary activities before tax

(a) is stated after charging

	Year Ended 31 March 2007 USD 000s	Year Ended 31 March 2006 USD 000s
Auditors' remuneration		
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements pursuant to legislation	243	142
Other services pursuant to such legislation	180	-
Other services relating to taxation	116	32
Total	539	174
Depreciation on tangible fixed assets	1,155	908
Operating lease rental in respect of leasehold premises	822	460

(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 2007 USD 000s	Year ended 31 March 2006 USD 000s
<i>Current tax:</i>		
UK Corporation tax at 30% (2006: 30%) on the taxable profit for the year	17,371	6,770
Overseas corporation charge	13	-
	<u>17,384</u>	<u>6,770</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(951)	-
<i>Tax on profit on ordinary activities</i>	<u>16,433</u>	<u>6,770</u>

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

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

	31 March 2007 USD 000s	31 March 2006 USD 000s
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	55,974	21,295
Current tax at 30%	16,792	6,388
<i>Add effects of:</i>		
Expenses not deductible for tax purposes	196	63
Other timing differences (FRS 26 Impact)	(359)	-
Timing difference on movement of collective impairment allowance / general provision for bad and doubtful debts	(64)	299
Depreciation in excess of capital allowances for the year	39	20
Provision for liabilities and charges	767	-
Overseas taxes	13	-
<i>Total current tax charge (see 8 (a) above)</i>	17,384	6,770

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

	Year ended 31 March 2007 USD 000s	Year ended 31 March 2006 USD 000s
Balance as at 31 March 2006	-	-
Effect of adoption of FRS 26	3,591	-
Credit to profit and loss account	951	-
Balance at 31 March 2007	4,542	-

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

	Year ended 31 March 2007 USD 000s	Year ended 31 March 2006 USD 000s
Collective impairment allowance	576	-
Effect of FRS 26		
Fees Income amortisation	2,328	-
Recognition of fair value of derivatives	902	-
Provision for liabilities and charges	767	-
Excess of book value over tax written down value of tangible fixed assets	(31)	-
	4,542	-

As at 31 March 2006, there were net deferred tax assets of USD 570,000 in respect of the general provision for bad and doubtful debts and other temporary differences. The Directors had considered it prudent not to recognise these assets based on the length of time the Bank had been operating and the number of accounting periods in which it had been profitable.

(e) Factors that may affect future tax charges

On 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. The net deferred tax asset amounting to USD 4.5 million as at 31 March 2007, as shown in note (c) above, would need to be reduced in respect of this rate change (to the extent that it does not reverse until after 1 April 2008) by USD 0.3 million. There is no requirement to adjust the financial statements as at 31 March 2007, as the announcement made is not yet part of UK legislation.

9 Emoluments of directors

	Year ended 31 March 2007 USD 000s	Year ended 31 March 2006 USD 000s
Directors' fees and emoluments	632	699

The emoluments of the highest paid director were USD 429,044 (2006: USD 372,884). Contributions on behalf of a director under a money purchase pension scheme amounted to USD 26,245 (2006: 13,728). The number of directors to whom retirement benefits accrue under a defined contribution pension scheme is 1 (2006:2)

10 Treasury bills and other eligible bills

	31 March 2007	31 March 2006
	USD 000s	USD 000s
Government (non-trading)-UK	-	100,641
Government (available for sale)-UK	176,417	-
Government (held for trading)-UK	212,809	86,285
Total	389,226	186,926

Of the total treasury and other eligible bills, USD 176,417,000 (2006: 100,641,000) are non trading investment securities. These comprise UK Treasury bills which are short term in nature and are analysed below:

	31 March 2007		31 March 2006	
	USD 000s	USD 000s	USD 000s	USD 000s
	Book Value	Net Discount	Net Book Value	Net Book Value
Opening balance	100,786	(145)	100,641	-
Purchase	1,033,625	840	1,034,465	100,786
Maturities	(958,512)	-	(958,512)	-
Net discount	-	-	-	(260)
Accretion	-	-	-	115
Changes in fair value	(177)	-	(177)	-
Closing Balance	175,722	695	176,417	100,641

11 Loans and advances to banks

(a) Residual Maturity	31 March 2007	31 March 2006
	USD 000s	USD 000s
Banks		
Repayable on demand	14,929	2,431
Other loans and advances		
Remaining Maturity :		
5 year or less but over 1 year	4,000	83,900
1 year or less but over 3 months	486,670	71,496
3 months or less	578,347	418,475
	<u>1,083,946</u>	<u>576,302</u>
Parent Company		
Repayable on demand	2,281	1,089
Other loans and advances		
Remaining Maturity :		
1 year or less but over 3 months	-	6,425
3 months or less	-	3,575
	<u>2,281</u>	<u>11,089</u>
	<u>1,086,227</u>	<u>587,391</u>

(a) Concentrations of exposure

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

	31 March 2007	31 March 2006
	USD 000s	USD 000s
Total gross advances to banks located in :		
Europe and North America	1,069,025	530,818
India	2,281	3,678
Rest of the World	14,921	52,895
Total	<u>1,086,227</u>	<u>587,391</u>

12 Loans and advances to customers

(a) Residual maturity	31 March 2007	31 March 2006
	USD 000s	USD 000s
Repayable on demand or at short notice	86,365	40,538
Other loans and advances		
Remaining Maturity :		
Over 5 years	-	54,926
5 year or less but over 1 year	-	317,307
1 year or less but over 3 months	379,494	115,904
3 months or less	325,409	199,555
Sub – total	791,268	728,230
Collective impairment allowance (note 13)	(4,590)	-
Specific impairment allowance (note 13)	(49)	-
General provision for bad and doubtful debts (note 13)	-	(2,133)
Total	786,629	726,097

(b) Concentration of exposure

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

	31 March 2007	31 March 2006
	USD 000s	USD 000s
Total gross advances to customers located in :		
Europe and North America	453,354	343,743
India	182,900	317,297
Rest of the World	154,965	67,190
Total	791,219	728,230

13 Impairment allowance and general & specific bad debt provisions

	31 March 2007			31 March 2006		
	Specific impairment allowance USD 000s	Collective impairment allowance USD 000s	Total USD 000s	Specific USD 000s	General USD 000s	Total USD 000s
Opening Balance	-	2,133	2,133	-	1,137	1,137
New charges	268	2,457	2,725	-	996	996
Write-offs	(219)	-	(219)	-	-	-
Closing Balance	49	4,590	4,639	-	2,133	2,133

14 Debt securities

	31 March 2007 Market Value USD 000s	31 March 2006 Market Value USD 000s
Available for sale / non-trading	1,945,885	430,286
Held for trading	547,777	83,602
Total	2,493,662	513,888
Analysed by issuer		
Available for sale / non-trading		
Issued by public bodies	58,155	50,215
Issued by other issuers	1,721,256	357,027
Bank certificates of deposit	167,181	24,236
Held for trading		
Issued by public bodies	-	1,000
Issued by other issuers	547,777	82,602
	2,494,369	515,080
Less : Unamortised discounts	(707)	(1,192)
	2,493,662	513,888
Analysed by listing status		
Available for sale / non-trading		
Unlisted	365,215	169,745
Listed	1,581,377	261,733
Held for trading		
Unlisted	-	2,491
Listed	547,777	81,111
Total	2,494,369	515,080
Analysed by maturity		
Due within 1 year	167,181	24,236
Due 1 year and above	2,327,188	490,844
Total	2,494,369	515,080

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

	31 March 2007 USD 000s	31 March 2006 USD 000s
	Net Book Value	Net Book Value
Opening balance	430,286	168,380
Purchases	3,083,415	624,141
Maturities	(336,428)	(145,832)
Sales	(1,230,578)	(118,679)
Redemptions	-	(98,500)
Amortisation	(485)	776
Changes in fair value	(325)	-
Closing balance	<u>1,945,885</u>	<u>430,286</u>

15 Tangible fixed assets

	Leasehold Improvements USD 000s	Other assets USD 000s	Total USD 000s
Cost			
At 1 April 2006	2,356	3,167	5,523
Additions	360	877	1,237
At 31 March 2007	<u>2,716</u>	<u>4,044</u>	<u>6,760</u>
Depreciation			
At 1 April 2006	262	1,371	1,633
Charge for year	259	896	1,155
At 31 March 2007	<u>521</u>	<u>2,267</u>	<u>2,788</u>
Net book value			
At 31 March 2007	<u>2,195</u>	<u>1,777</u>	<u>3,972</u>
At 31 March 2006	<u>2,094</u>	<u>1,797</u>	<u>3,891</u>

16 Other assets

	31 March 2007 USD 000s	31 March 2006 USD 000s
Cheques in clearing	819	1,490
Deposits receivable	1,976	1,173
Other debtors	329	353
Deferred tax asset	4,542	-
Derivative financial instruments	39,473	-
Unsettled securities	<u>8,069</u>	<u>-</u>
Total	<u>55,208</u>	<u>3,016</u>

17 Deposits by banks

	31 March 2007	31 March 2006
	USD 000s	USD 000s
Banks		
5 years or less but over 1 year	430,058	380,000
1 year or less but over 3 months	185,000	75,000
3 months or less but not repayable on demand	263,087	127,418
	<u>878,145</u>	<u>582,418</u>
Parent and group companies		
5 years or less but over 1 year	35,000	35,000
3 months or less but not repayable on demand	-	130,000
	<u>35,000</u>	<u>165,000</u>
Total	<u>913,145</u>	<u>747,418</u>

18 Customer accounts

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

	31 March 2007	31 March 2006
	USD 000s	USD 000s
5 years or less but over 1 year	3,332	74,887
1 year or less but over 3 months	427,218	150,221
3 months or less but not repayable on demand	386,922	279,208
	<u>817,472</u>	<u>504,316</u>
Repayable on demand	1,994,491	549,306
Total	<u>2,811,963</u>	<u>1,053,622</u>

19 Debt securities in issue

	31 March 2007 USD 000s	31 March 2006 USD 000s
Subordinated Notes issued	744,725	-
	<u>744,725</u>	<u>-</u>

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

Date of Issue	Nature of Issue	Interest Rate	Interest frequency	Maturity	31 March 2007 000s
To Parent Bank					
11 July 2006	Unsecured junior subordinated bond due 2016	Libor + 200 bps	Annually	Bullet payment in 2016	25,000
28 July 2006	Unsecured junior subordinated bond due 2016	Libor + 200 bps	Annually	Bullet payment in 2016	25,000
Listed					
30 November 2006	Step-up floating rate subordinated notes	Libor + 100 bps	Semi-annually	Bullet payment in 2016 and Callable 2011	50,000
12 December 2006	Perpetual subordinated notes	6.375 %	Annually	Callable by issuer at par in 2016	150,000
27 February 2007	Unsecured floating rate notes	Libor + 62 bps	Quarterly	Bullet payment in 2016	500,000
					<u>750,000</u>
Less: Bond issue expenses					(2,001)
Less: Adjustments to carrying amount for change in the value of hedge of interest rate risk					<u>(3,274)</u>
					<u>744,725</u>

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

20 Provision for liabilities and charges

	USD 000s
1 April 2006	-
Charged to P&L during the year	2,958
31 March 2007	<u>2,958</u>

21 Other liabilities

	31 March 2007	31 March 2006
	USD 000s	USD 000s
Amounts in clearing	8,141	5,793
Corporation tax payable	8,551	4,116
Other creditors	37,538	2,147
Derivative financial instruments	61,578	3,098
Unsettled securities	26,920	8,992
Total	142,728	24,146

22 Called up share capital

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

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

23 Pension scheme

During the year, the Bank made a contribution of USD 66,401 (2006: USD 78,033) to the pension scheme. Out of this amount, USD 8,494 was accrued at the year end (2006: USD 4,727).

24 Contingent liabilities and commitments

(a) Guarantees and other commitments:

	31 March 2007	31 March 2006
	USD 000s	USD 000s
Guarantees	6,538	7,680

Other commitments:

Undrawn formal standby facilities, credit lines and other commitments to lend maturing in:

Less than one year	202,553	71,818
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(Assets of USD 4 million (2006: USD 16 million) have been lodged as security against the above commitments)

(b) Significant concentrations of contingent liabilities and commitments

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

(c) Foreign exchange contracts

In addition to the commitments disclosed above, there are outstanding foreign exchange contracts for purchases of USD 1,730,504,247 (2006: USD 416,852,000) and sales of USD 1,730,504,247 (2006: USD 416,852,000).

25 Operating lease commitments

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

	31 March 2007	31 March 2006
	USD 000s	USD 000s
	Land & Buildings	Land & Buildings
Operating leases which expire :		
Between 1 and 5 years	205	144
More than 5 years	587	518
	<u>792</u>	<u>662</u>

26 Risk Management Framework

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

Major risks

Credit risk

Credit risk arises principally on the lending activities of the Bank. Credit risk policies are applied by the Executive Credit Committee which operates within the authority granted to it by the Board Risk and Credit Committee. Country and counterparty limits are established and monitored on a daily basis, with a detailed review at least once a year. Management receives regular reports on the

utilisation of these limits. The maximum amount of credit risk, without taking account of any collateral or netting arrangements, as at 31 March 2007 is approximately USD 4.4 billion (2006: USD 1.8 billion)

Interest rate risk

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

Price risk (Trading book)

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

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

Price Risk (Trading book)

Particulars	Portfolio size	Increase in interest rates (in bps)	
		100	200
Impact on value of Trading book fixed income investments USD 000s	759,416	(641)	(1,283)

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

Particulars	Portfolio size	Increase in interest rates (in bps)	
		100	200
Impact on value of Trading book fixed income investments USD 000s	169,887	(269)	(538)

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 2007, assuming a parallel shift in the yield curve, has been set out in the following table:

Interest rate risk (impact on interest earnings)

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

Interest rate risk (impact on interest earnings)

Particulars	Increase in interest rates (in bps)	
	100	200
Impact on Net Interest Income over a one year horizon USD 000s	2,002	4,003

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

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

Interest rate re-pricing schedule

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

	Rates	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	Non Interest bearing	Trading book	Total
Assets									
Cash		-	-	-	-	-	1,625	-	1,625
Treasury bills and other eligible bills	5.2	146,881	-	29,536	-	-	-	212,809	389,226
Loans and advances to banks	4.8	711,805	355,691	18,731	-	-	-	-	1,086,227
Loans and advances to customers	5.9	786,629	-	-	-	-	-	-	786,629
Debt securities	5.1	1,643,822	221,612	29,506	37,492	13,454	-	547,776	2,493,662
Tangible fixed assets		-	-	-	-	-	3,972	-	3,972
Other assets		-	-	-	-	-	15,735	39,473	55,208
Prepayments and accrued income		-	-	-	-	-	51,622	-	51,622
Total Assets		3,289,137	577,303	77,773	37,492	13,454	72,954	800,059	4,868,171
Deposits by banks	5.1	863,145	30,000	-	20,000	-	-	-	913,145
Customer Accounts	5.1	2,285,524	388,846	38,373	3,312	20	95,888	-	2,811,963
Other liabilities		-	-	-	14,737	-	66,413	61,578	142,728
Provision for liability and charges		-	-	-	-	-	2,958	-	2,958
Accruals and deferred income		-	-	-	-	-	30,463	-	30,463
Debt securities in issue	5.6	544,725	50,000	-	-	150,000	-	-	744,725
Shareholders' funds		-	-	-	-	-	222,189	-	222,189
Total Liabilities		3,693,394	468,846	38,373	38,049	150,020	417,911	61,578	4,868,171

Contingent
Liabilities :

Rates	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	Non Interest bearing	Trading book
Swap	(186,558)	50,000	-	557	136,000	-	-
Gap	(590,815)	158,457	39,400	-	(565)	(344,958)	738,481
Cumulative	(590,815)	(432,358)	(392,958)	(392,958)	(393,523)	(738,481)	-

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

At 31 March 2006, the interest rate risk 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 one year	More than one year but not more than 5 years	More than 5 years	Non interest bearing	Trading book	Total
Assets								
Cash	-	-	-	-	-	395	-	395
Treasury and other eligible bills	100,641	-	-	-	-	-	86,285	186,926
Loans and advances to banks	553,290	20,489	10,092	-	-	3,520	-	587,391
Loans and advances to customers	598,917	123,180	4,000	-	-	-	-	726,097
Debt Securities	345,007	53,442	-	28,624	3,213	-	83,602	513,888
Tangible fixed assets	-	-	-	-	-	3,891	-	3,891
Other assets	-	-	-	-	-	3,016	-	3,016
Prepayments and accrued income	-	-	-	-	-	17,612	-	17,612
Total assets	1,597,855	197,111	14,092	28,624	3,213	28,434	169,887	2,039,216

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than one year	More than one year but not more than 5 years	More than 5 years	Non interest bearing	Trading book	Total
Liabilities								
Deposits by banks	722,418	25,000	-	-	-	-	-	747,418
Customer accounts	777,908	94,255	55,966	73,917	-	51,576	-	1,053,622
Other liabilities	11,531	-	-	-	-	12,615	-	24,146
Accruals and deferred income	-	-	-	-	-	18,607	-	18,607
Shareholders' funds	-	-	-	-	-	195,423	-	195,423
Total liabilities	1,511,857	119,255	55,966	73,917	-	278,221	-	2,039,216
Derivatives								
IRS	(45,993)	5,000	-	43,993	(3,000)	-	-	-
Gap	40,005	82,856	(41,874)	(1,300)	213	(249,787)	169,887	-
Cumulative	40,005	122,861	80,987	79,687	79,900	(169,887)	-	-

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

Market risk

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

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

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

The VAR for the Bank's trading book as at 31 March 2007 was USD 395,000 (2006: USD 73,000) and the average, highest and lowest VARs during the period from 01 April 2006 to 31 March 2007 were USD 217,000 (2006: USD 60,000), USD 468,000 (2006: USD 134,000) and USD 59,000 (2006:

USD10,000) respectively. These figures are purely indicative as they are simply based on a month-end time series.

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

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

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

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

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

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

Liquidity risk

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

Foreign exchange risk

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

Operational risk

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

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

27 Fair values of financial assets and financial liabilities

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

	31 March 2007 Fair value	31 March 2007 Book value	31 March 2006 Fair value	31 March 2006 Book value
	USD 000's	USD 000's	USD 000's	USD 000's
Non trading book financial assets and liabilities				
Assets:				
Cash	1,625	1,625	395	395
Treasury bills and other eligible bills	176,417	176,417	100,661	100,641
Loans & advances to banks	1,086,227	1,086,227	587,391	587,391
Loans & advances to customers	786,629	786,629	726,097	726,097
Debt securities	1,947,055	1,947,055	425,487	430,286
Liabilities:				
Deposits by banks & customer accounts	3,725,108	3,725,108	1,801,040	1,801,040
Debt securities in issue	744,725	744,725	-	-
Trading book financial assets and liabilities				
Assets:				
Treasury bills and other eligible bills	212,809	212,809	86,285	86,285
Debt securities	547,777	547,777	83,602	83,602
Derivative financial instruments	39,473	39,473	-	-
Liabilities:				
Derivative financial instruments	61,578	61,578	1,641	3,098

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

28 Derivative financial instruments

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

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

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

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

The Bank uses derivatives to mitigate interest rate risk. Hedge accounting is applied to derivatives and hedged items when the criteria under FRS 26 have been met. The Bank uses interest rate swaps to manage fixed rates of interest. The swaps exchange fixed rate for floating rate on assets to match the floating rates paid on funding or exchanges fixed rates on funding to match the floating rates received on assets. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. As at 31 March 2007, the notional amounts of swaps designated as fair value hedges was USD 58 million and these contracts had a negative fair value of USD 3.8 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 2007, the principal amounts of the instruments were:

Instrument	Non- Trading Notional Principal	USD 000s Trading		
		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 Derivative	-	254,438	192	(1,930)

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

Instrument	Non- Trading Notional Principal	USD 000s Trading		
		Notional Principal	Gross positive Fair value	Gross negative fair value
Exchange rate contracts	325,149	91,703	841	(831)
Interest rate contracts	261,450	60,127	285	(43)
Credit Derivatives	5,000	-	-	-

Credit risk disclosure:

Residual maturity of fair value of derivatives:

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

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

Instrument				USD 000s
	1 Year or less	More than 1 year but not more than 5 year	More than 5 year	Total
Non Trading Book				
Financial institutions	(16)	(274)	(190)	(480)
Trading book				
Financial institutions	(17,944)	2,593	(6,274)	(21,625)
Other				

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

Instrument				USD 000s
	1 Year or less	More than 1 year but not more than 5 year	More than 5 year	Total
Non Trading Book				
Financial institutions	1,430	465	461	2,356
Trading book				
Financial institutions	(27)	55	-	28
Other	229	(5)	-	224

Risk weighted amounts:

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

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

Counterparty locations			USD 000s
	Notional Amounts	Risk Weighted amounts	Positive fair value
Financial Institutions			
Europe & North America	2,177,433	9,540	9,540
India	744,625	4,106	6,146
Singapore	2,451	-	-
Other			
Europe & North America	895,863	17,821	23,787

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

Counterparty locations	Notional Amounts	Risk Weighted amounts	Positive fair value
Financial Institutions			
Europe & North America	466,671	2,475	2,293
India	88,814	275	225
Singapore	117,572	100	77
Other			
Europe & North America	70,372	279	234

29 Assets and liabilities denominated in foreign currency

	31 March 2007	31 March 2006
	USD 000s	USD 000s
Denominated in US Dollars	2,236,560	1,109,505
Denominated in Sterling	1,265,167	669,608
Denominated in other currencies	1,366,444	260,103
Total assets	4,868,171	2,039,216
Denominated in US Dollars	1,988,227	1,117,937
Denominated in Sterling	1,959,429	663,701
Denominated in other currencies	920,515	257,578
Total liabilities	4,868,171	2,039,216

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

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

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