

# **ICICI BANK UK PLC**

**Directors' report and  
financial statements**

**31 March 2009**

**Registered number 4663024**



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## Directors' report

The Directors have pleasure in presenting the sixth annual report of ICICI Bank UK PLC, together with the audited financial statements for the year ended March, 31 2009.

## Principal Activities

ICICI Bank UK PLC ('the Bank') 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 eleven 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 and phone enabled channels.

## Business Review

The Bank was incorporated in England and Wales as a private company with limited liability on February 11, 2003 and was converted to a public limited company, assuming the name ICICI Bank UK PLC, on October 30, 2006. As a public limited company, the Bank is able to access the capital markets. As at March 31, 2009, the Bank had total assets of USD 7,320.7 million compared to USD 8,829.0 million as at March 31, 2008.

The Bank has a long term deposit rating of Baa2 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.

The past financial year has been characterised by a high degree of volatility in the financial markets with liquidity and capital being the two factors that were highlighted. During the financial year 2009, the Bank has focused on a conscious strategy of conservation of capital, risk containment and maintaining adequate liquidity.

## Financial Results

The financial statements for the reporting year ended March 31, 2009 are shown on pages 10 to 46. The profit after taxation for the year was USD 6.8 million (2008 USD 38.4 million).

## Directors' report (continued)

### Financial Highlights

The financial performance for the financial year 2009 is summarised in the following table:

| USD 000's, except percentages               | Financial 2008 | Financial 2009 | % Change |
|---|----------------|----------------|----------|
| Net interest income                         | 49,840         | 69,168         | 39%      |
| Non interest income                         | 118,556        | 45,851         | -61%     |
| Gain/(Loss) on buy back of bonds            | -              | 87,357         | -        |
| Mark to market on debt securities           | (58,660)       | (12,252)       | -79%     |
| Total operating income                      | 109,736        | 190,124        | 73%      |
| Operating expenses                          | (47,005)       | (60,023)       | 28%      |
| Profit before provisions, charges and taxes | 62,731         | 130,101        | 107%     |
| Provisions/Charges/Impairment               | (6,026)        | (107,545)      | -        |
| Profit/(loss) on sale of debt securities    | 23             | (12,476)       | -        |
| Profit before tax                           | 56,728         | 10,080         | -82%     |
| Profit after tax                            | 38,412         | 6,836          | -82%     |

The profit before tax was USD 10.1 million for the financial year 2009 as compared to USD 56.7 million for the financial year 2008. Total operating income has grown by 73% driven by the profits booked on buy back of bonds and lower mark to market losses during financial year 2009 vs financial year 2008. The Net Interest Income has grown by 39%, driven by higher interest yielding assets contributing to the growth in the income. The operating expenses have increased by 28%. The Bank has booked impairment charges and provisions of USD 107.5 million during the year.

Net interest income increased by 39% to USD 69.2 million in the financial year 2009 from USD 49.8 million in 2008 primarily due to increase in the high interest-earning assets.

Non interest income decreased by 61% for the financial year 2009 to USD 45.9 million from USD 118.6 million for the financial year 2008. The Bank made profit of USD 87.4 million on buy back of its own bonds. The reduction of mark to market losses on debt securities to USD 12.3 million during the year as compared to USD 58.7 million in the financial year 2008 was partly due to the reclassification of certain debt securities from the held for trading category to available for sale category and loans and receivables category.

Operating expenses increased by 28% to USD 60 million in the financial year 2009 from USD 47 million in the financial year 2008 primarily due to a 8% increase in headcount, increase in advertising and promotional expenditure and provision made on Financial Services Compensation Scheme levy during the year 2009.

Provisions and impairment charges increased to USD 107.5 million in the financial year 2009 from USD 6 million in the financial year 2008 primarily due to write-off of the entire investment exposure in Lehman Brothers and certain other specific charges/provisions.

Total assets decreased by 17% to USD 7,320.7 million at the financial year-end 2009 compared to USD 8,829.0 million at the financial year-end 2008 primarily due to a 33% decrease in Investment securities to USD 2,927 million. GBP devaluation caused a reduction in the Balance Sheet size.

Shareholders equity includes USD 264.7 million of cumulative mark to market losses on the available for sale investment portfolio net of tax (2008 USD 100.8 million).

## Directors' report (continued)

### 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 that the Bank is primarily exposed to are credit risk, market risk, liquidity risk, reputational 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 counterparty 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 and credit 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 32.

### Corporate and Investment Banking

The Corporate Banking Group witnessed a measured growth in the loan portfolio during the year. In the light of the economic slowdown, the group maintained a dedicated focus on key client relationships. While the client base broadened during the year, the client acquisition process was largely tight and selective. The thrust was to generate and sustain quality of earnings and this was achieved through a combination of higher throughput from existing clients and focus on transaction banking income. The year also witnessed a rigorous portfolio management approach through proactive and frequent reviews, tighter control and monitoring of large exposures and specific portfolio actions.

### 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 focussed on its customer base. 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 focused on raising long term retail deposits through this channel with the launch of non-callable term deposits during the year. The total balance of retail term deposits reached USD 2,796 million during the year. Overall retail liabilities are at USD 4,623 million compared to USD 5,180 million in 2008, after accounting for the drop in value of sterling.

The Bank has a similar offering in Germany since March 2008 and expanded its retail deposit base via savings account and term deposits. The Bank has also won significant accolades in the German market for its product and service offerings.

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 year, one branch has been opened in Harrow, London taking the total number of branches to eleven in the UK.

### Treasury

Treasury activity during the year has continued to focus principally upon efficient liquidity management and diversifying the sources of term funds through the introduction of online retail term (non-callable) deposits. Given the volatile conditions in the financial markets in the past financial year, the Bank has consciously adopted a strategy to maintain adequate liquidity at all times, both in terms of amount and quality, to ensure that the Bank continues to meet its liabilities as they fall due. The Bank reviews its asset/liability maturity mismatches periodically and maintains liquidity gaps within the prescribed limits.

## Directors' report (continued)

The Bank has also initiated buyback of its own bonds in the secondary market to facilitate price discovery in trading markets, resulting in an accounting gain of USD 87.4 million. At the same time, the Bank's investment portfolio was impacted by extraordinary credit market turbulence. The Bank's investment portfolio is primarily exposed to the financial sector and the majority of the portfolio is still of investment grade rating. A cautious investment strategy has enabled the Bank to limit its losses on its investment portfolio. The Bank does not have any direct exposure to US sub-prime market.

The Bank has maintained a high capital adequacy ratio during the financial year. An additional capital was received from the Parent Bank during the year.

### 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 till April 6, 2009)   |
| Mr Suvek Nambiar                | (Managing Director & Chief Executive Officer)  |
| Mr Sonjoy Chatterjee            |  |
| Mrs Chanda Kochhar              | (Vice Chairperson of the Board till April 6, 2009 and appointed as Chairperson of the Board effective April 6, 2009) |
| Mr William Michael Thomas Fowle |  |
| Mr Richard Michael James Orgill |  |
| Dr Mohan Lal Kaul               |  |

During the year, Mr KV Kamath has been appointed as the Chairman of ICICI Bank Limited and ceased to be the Director and Chairman of ICICI Bank UK PLC. Pursuant to appointment of Mrs Chanda Kochhar as the Managing Director and Chief Executive Officer of ICICI Bank Limited, Mrs Kochhar has also been appointed Chairperson of ICICI Bank UK PLC effective April 6, 2009.

### Company Secretary

The name of the Company Secretary at the date of the report and who served during the year is as follows:

Ms Aarti Sharma

### Share Capital

During the year ended March 31, 2009, the Bank raised equity capital of USD 100 million. As at the reporting date, the issued and fully paid Share Capital (including preference shares), amounted to USD 595 million.

### Employees

As at March 31, 2009 the Bank had 285 employees. The Bank encourages the involvement of all employees in the Bank's overall performance and profitability. 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.

**Directors' report (continued)****Political and charitable contributions**

The Bank made charitable contributions of USD 15,167 during the financial year 2009 (financial year 2008 – USD 118,562). The Bank made no political contributions during the financial year 2009 (financial year 2008: Nil).

**Disclosure of information to Auditor**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's Auditor 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 Auditor are aware of that information.

**Auditor**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit PLC as auditor 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

May 5, 2009  
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. Since the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

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

**Report of the independent auditor 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 March 31, 2009 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 March 31, 2009 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**

May 5, 2009

Chartered Accountants

Registered Auditor

**Profit and loss account**

for the year ended March 31, 2009

|   | Note | Year ended<br>March 31, 2009<br>USD 000s | Year ended<br>March 31, 2008<br>USD 000s |
|---|------|--|--|
| Interest receivable and similar income arising on debt securities               |      | 172,220                                  | 148,839                                  |
| Other interest receivable and similar income                                    |      | 274,841                                  | 265,420                                  |
| Interest payable  |      | (377,893)                                | (364,419)                                |
| <b>Net interest income</b>  |      | <b>69,168</b>                            | <b>49,840</b>                            |
| Fees and commissions receivable   |      | 31,046                                   | 81,023                                   |
| Foreign exchange revaluation gains  |      | 1,712                                    | 23,353                                   |
| Income/(Expense) on financial instruments at fair value through profit and loss | 5    | (667)                                    | (50,666)                                 |
| Other operating income  | 6    | 1,508                                    | 6,186                                    |
| Gain on buy back of bonds   | 7    | 87,357                                   | -  |
| <b>Operating income</b>   |      | <b>190,124</b>                           | <b>109,736</b>                           |
| Administrative expenses   | 8    | (58,413)                                 | (45,704)                                 |
| Depreciation  | 20   | (1,610)                                  | (1,301)                                  |
| Specific impairment on investment securities                                    | 17   | (91,434)                                 | -  |
| Impairment allowance on loans and advances                                      | 17   | (16,111)                                 | (6,026)                                  |
| (Loss)/profit on sale of debt securities  |      | (12,476)                                 | 23                                       |
| <b>Profit on ordinary activities before tax</b>                                 |      | <b>10,080</b>                            | <b>56,728</b>                            |
| Tax on profit on ordinary activities  | 10   | (3,244)                                  | (18,316)                                 |
| <b>Profit on ordinary activities after tax</b>                                  |      | <b>6,836</b>                             | <b>38,412</b>                            |

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

The notes on pages 13 to 46 form part of these financial statements.

**Balance sheet**

at March 31, 2009

|                                 | Note | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|---------------------------------|------|----------------------------|----------------------------|
| <b>Assets</b>                   |      |                            |                            |
| Cash                            |      | 3,108                      | 3,150                      |
| Loans and advances to banks     | 14   | 984,601                    | 2,225,539                  |
| Loans and advances to customers | 15   | 3,146,865                  | 1,963,202                  |
| Investment securities           | 18   | 2,927,000                  | 4,365,047                  |
| Tangible fixed assets           | 20   | 13,076                     | 7,677                      |
| Other assets                    | 21   | 162,985                    | 177,925                    |
| Prepayments and accrued income  |      | 83,073                     | 86,509                     |
| <b>Total assets</b>             |      | <b>7,320,708</b>           | <b>8,829,049</b>           |
| <b>Liabilities</b>              |      |                            |                            |
| Deposits by banks               | 22   | 813,326                    | 1,413,152                  |
| Customer accounts               | 23   | 4,622,767                  | 5,180,328                  |
| Debt securities in issue        | 24   | 1,168,120                  | 1,341,251                  |
| Other liabilities               | 25   | 287,430                    | 403,240                    |
| Accruals and deferred income    |      | 19,233                     | 25,056                     |
| Shareholders' funds:            |      |                            |                            |
| Equity share capital            | 26   | 545,095                    | 445,095                    |
| Non equity share capital        | 26   | 50,000                     | 50,000                     |
| Capital Contribution            | 12   | 851                        | -                          |
| Profit and loss account         |      | 78,589                     | 71,753                     |
| Available for sale reserve      |      | (264,703)                  | (100,826)                  |
|                                 |      | <b>409,832</b>             | <b>466,022</b>             |
| <b>Total liabilities</b>        |      | <b>7,320,708</b>           | <b>8,829,049</b>           |

The notes on pages 13 to 46 form part of these financial statements

These financial statements were approved by the board of directors on May 5, 2009 and were signed on its behalf by:

**Suvek Nambiar**  
 Managing Director & Chief Executive Officer

**Aarti Sharma**  
 Chief Financial Officer  
 & Company Secretary

**Statement of total recognised gains and losses**
*for the year ended March 31, 2009*

|  | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|--|----------------------------|----------------------------|
| <b>Profit on ordinary activities after tax</b>                               | <u>6,836</u>               | <u>38,412</u>              |
| <b>Movement in available for sale reserve</b>                                |                            |                            |
| Movement in fair value during the year                                       | (310,514)                  | (142,763)                  |
| - Amount transferred to the profit and loss account in respect of impairment | 91,434                     | -                          |
| - Other fair value gains/losses transferred to profit and loss account       | 10,789                     | -                          |
| <b>Movement in available for sale reserve</b>                                | <u>(208,291)</u>           | <u>(142,763)</u>           |
| Deferred tax credit for the period   | 44,414                     | 42,309                     |
| Net movement in available for sale reserve                                   | <u>(163,877)</u>           | <u>(100,454)</u>           |
| <b>Total movement in reserves reflected in the Balance sheet</b>             | <u>(157,041)</u>           | <u>(62,042)</u>            |

The notes on pages 13 to 46 form part of these financial statements

### Reconciliation of movements in shareholders' funds

for the year ended March 31, 2009

|  | Issued<br>Share<br>Capital<br>USD 000s | Profit<br>and loss<br>Account<br>USD 000s | Available<br>for Sale<br>reserve<br>USD 000s | Other<br>USD 000s | Total<br>USD 000s |
|--|--|---|--|-------------------|-------------------|
| 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)           |
| <b>As at 1 April 2008</b>                        | <b>495,095</b>                         | <b>71,753</b>                             | <b>(100,826)</b>                             | <b>-</b>          | <b>466,022</b>    |
| Ordinary shares issued during the year           | 100,000                                | -   | -  | -                 | 100,000           |
| Capital Contribution (Share based payments)      | -                                      | -   | -  | 851               | 851               |
| Unrealised loss on available for sale securities | -                                      | -   | (208,291)                                    | -                 | (208,291)         |
| Tax impact                                       | -                                      | -   | 44,414                                       | -                 | 44,414            |
| Profit on ordinary activities after tax          | -                                      | 6,836                                     | -  | -                 | 6,836             |
| Preference dividend paid during the year         | -                                      | -   | -  | -                 | -                 |
| <b>Closing shareholders' funds</b>               | <b>595,095</b>                         | <b>78,589</b>                             | <b>(264,703)</b>                             | <b>851</b>        | <b>409,832</b>    |

The notes on pages 13 to 46 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.

The financial statements are prepared on a going concern basis as the Bank is satisfied that it has the resources to continue in business for the foreseeable future. The Bank is a wholly owned subsidiary of ICICI Bank Limited. The parent company has issued a letter of comfort to the Bank's regulator, the Financial Services Authority (FSA), stating that the parent company intends to financially support the Bank in ensuring that it meets all of its financial obligations as they fall due.

### 3 Accounting policies

In these financial statements the following amendments to standards and interpretations have been implemented for the first time:

- An amendment to FRS26 'Financial Instruments: Recognition and Measurement' ('FRS26') and to FRS 29 'Financial Instruments: Disclosures' ('FRS 29').

No prior period restatements were required in respect of implementing these amendments.

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

#### (a) Interest receivable and payable

Interest receivable and payable is accrued over the period of the related loans, securities and deposits using the effective interest rate 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 (or upon reclassification) of the financial asset and liability and is not revised subsequently.

#### (b) 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 amortised over the expected maturity of the 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.

#### (c) 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.

#### **(d) 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 (available for sale, held for trading and investment securities classified as loans and receivables) are recognised at trade date, being the date on which the Bank commits to purchase or sell the assets. Other financial assets are recognised at value date.

#### **(e) Loans and receivables**

Loans and receivables which include loans and advances and other 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 rate method. Loans and receivables 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 expected date of maturity using the effective interest rate method.

#### **(f) Financial liabilities**

Financial liabilities are measured at amortised cost and are recognised at trade/value date, as applicable. They are de-recognised when they are extinguished.

#### **(g) 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. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair values of financial instruments may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. Valuation techniques are also used for valuation of unlisted investments.

#### **(h) Reclassification of financial assets**

The recent amendment to FRS 26 issued on October 10, 2008 permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the Bank upon initial recognition) out of the fair value through profit or loss category in rare circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables and if the entity has the intention and ability to hold that financial asset for the foreseeable future.

When a financial asset is reclassified, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the profit and loss account or shareholder equity, as appropriate, is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.



**(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 except certain assets on reclassification. 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 fair value.

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 Income/(expense) on financial instruments at fair value through profit and loss. Positive and negative fair values of derivatives are offset where the contracts have been entered into under a 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 profit and loss account.

Impairment losses on available-for-sale assets 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 securities 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.

**(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. 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.

#### **(l) Impairment**

Impairment provisions/charges 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 basis. 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.

#### **(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. Depreciation methods, useful life and residual values are reviewed at each balance sheet dates.

#### **(n) 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, as 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 sufficient future 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 39).

#### **(q) Leases**

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

#### **(r) Cash flow statement**

As a wholly owned subsidiary whose parent produces publicly available accounts (see note 39), the Bank has taken advantage of the exemption available within FRS 1 (revised), "Cash Flow Statements", and does not produce a cash flow statement.

#### **(s) Share based payments**

The parent bank (ICICI Bank Limited) has issued share options to the employees of ICICI Bank UK PLC. These transactions are recognised as equity-settled share based payments. The expense is recognised over the vesting period based on the market value of shares as on the date of grant of shares adjusted for the number of the employees leaving the bank. A capital contribution from the parent bank is recognised in the books over the vesting period in the shareholders' funds.

### **4 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 Bank 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 historical trend, credit quality of the portfolio, portfolio size, concentrations, and economic factors.

#### Impairment of available-for-sale financial assets

The Bank regularly reviews its available-for-sale securities portfolios to assess for impairment. Once impairment has been identified, the amount of impairment is measured based on the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in profit or loss. In determining whether an impairment event has occurred at the balance sheet date, the Bank considers whether there is any observable data which comprises evidence of the occurrence of a loss event, and evidence that the loss event results in a decrease in 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. A significant or prolonged decline in the fair value of an available for sale equity investment below its cost is also evidence of impairment.

#### Valuation of financial instruments

The Bank values its available for sale and held for trading investment securities 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 valuation techniques employ observable market data to calculate fair values, including 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.

#### 5 Income/(Expense) on financial instruments at fair value through profit and loss

Income/(expense) on financial instruments at fair value through profit and loss consist of unrealised and realised gains or losses on transactions in securities held for trading and derivatives, save in so far as the profit or loss is included in interest receivable or interest payable.

|   | Year ended<br>March 31, 2009<br>USD 000s | Year ended<br>March 31, 2008<br>USD 000s |
|---|--|--|
| Debt securities                                       | (12,252)                                 | (58,660)                                 |
| Realised /unrealised losses on derivative instruments | 11,585                                   | 7,994                                    |
| <b>Total</b>  | <b>(667)</b>                             | <b>(50,666)</b>                          |

Debt securities include bonds, certificates of deposit and credit linked notes. Derivative instruments include currency spot, forwards and option contracts and interest rate swaps and futures. Gains and losses on derivatives 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 Other operating income

Other operating income primarily consists of revenues from remittances, fees from relationship management services, private banking services, branch and other retail fees.

#### 7 Gains on buyback of bonds

During the year the Bank bought back its own bonds resulting in a gain of USD 87.4 million (2008: Nil).

## 8 Administrative expenses

|  | Year ended<br>March 31, 2009<br>USD 000s | Year ended<br>March 31, 2008<br>USD 000s |
|--|--|--|
| Staff costs (including directors' emoluments): |  |  |
| Wages and salaries                             | 21,678                                   | 20,167                                   |
| Social security costs                          | 2,062                                    | 1,447                                    |
| Other administrative expenses                  | 34,673                                   | 24,090                                   |
| <b>Total</b>                                   | <b>58,413</b>                            | <b>45,704</b>                            |

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

|                | Year ended<br>March 31, 2009<br>No. of Employees | Year ended<br>March 31, 2008<br>No. of Employees |
|----------------|--|--|
| Management     | 59   | 54   |
| Non Management | 226  | 209  |
| <b>Total</b>   | <b>285</b>                                       | <b>263</b>                                       |

## 9 Profit on ordinary activities before tax

### (a) is stated after charging

|  | Year ended<br>March 31, 2009<br>USD 000s | Year ended<br>March 31, 2008<br>USD 000s |
|--|--|--|
| <b>Auditors' remuneration</b>  |  |  |
| Amounts receivable by the auditors and their associates in respect of: |  |  |
| Audit of financial statements pursuant to legislation                  | 1,047                                    | 620                                      |
| Other services pursuant to such legislation                            | 58                                       | 560                                      |
| Other services relating to taxation                                    | 35                                       | 220                                      |
| Other services relating to taxation for previous year                  | 40                                       | -  |
| <b>Total</b>   | <b>1,180</b>                             | <b>1,400</b>                             |
| Depreciation on tangible fixed assets                                  | 1,610                                    | 1,301                                    |
| Operating lease rental in respect of leasehold premises                | 2,854                                    | 1,455                                    |

### (b) Segmental reporting

The Bank has one class of business and all other services provided are ancillary to this. All business is conducted from offices in UK, Germany and Belgium and all activities are centrally managed as a single business from United Kingdom.

## 10 Taxation

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

|  | Year ended<br>March 31, 2009<br>USD 000s | Year ended<br>March 31, 2008<br>USD 000s |
|--|--|--|
| <i>Current tax</i>   |  |  |
| UK Corporation tax at 28% (2008: 30%) on the taxable profit for the year | 2,245                                    | 15,831                                   |
| Overseas corporation charge  | 1,085                                    | 980                                      |
|  | <b>3,330</b>                             | 16,811                                   |
| Adjustments for prior years  | (563)                                    | -  |
|  | <u>2,767</u>                             | <u>16,811</u>                            |
| <i>Deferred tax</i>  |  |  |
| Origination and reversal of timing differences                           | 477                                      | 1,505                                    |
| Adjustments for prior years  |  |  |
| <b>Tax on profit on ordinary activities</b>                              | <u>3,244</u>                             | <u>18,316</u>                            |

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

|   | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|---|----------------------------|----------------------------|
| Current tax reconciliation  |                            |                            |
| Profit on ordinary activities before tax  | <b>10,080</b>              | 56,728                     |
| Current tax at 28% (2008: 30%)  | <b>2,822</b>               | 17,019                     |
| <i>Add effects of:</i>  |                            |                            |
| Expenses not deductible for tax purposes  | 134                        | 342                        |
| Other timing differences (FRS 26 Impact)  | (335)                      | (359)                      |
| Timing difference on movement of collective impairment allowance for bad and doubtful debts | (60)                       | (64)                       |
| Depreciation in excess of capital allowances for the year                                   | (13)                       | (44)                       |
| Provision for liabilities and charges   | -                          | (768)                      |
| Overseas taxes (net of overseas tax expense relief)   | 782                        | 685                        |
|   | (563)                      | -                          |
| <b>Total current tax charge (see 10 (a) above)</b>  | <u>2,767</u>               | <u>16,811</u>              |

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

|   | Year ended<br>March 31, 2009<br>USD 000s | Year ended<br>March 31, 2008<br>USD 000s |
|---|--|--|
| Balance as at March 31, 2008              | 11,881                                   | 4,542                                    |
| Debit to profit and loss account :        |  |  |
| Reversal of DTA                           | (477)                                    | (1,289)                                  |
| Effect of change in Tax rate to 28%       | -  | (216)                                    |
| MTM Loss on Available for sale securities | 44,414                                   | 8,844                                    |
| <b>Balance as at March 31, 2009</b>       | <b>55,818</b>                            | <b>11,881</b>                            |

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

|  | Year ended<br>March 31, 2009<br>USD 000s | Year ended<br>March 31, 2008<br>USD 000s |
|--|--|--|
| Collective impairment allowance  | 418                                      | 478                                      |
| <b>Effect of FRS 26</b>  |  |  |
| - Fees Income amortisation   | 1,691                                    | 1,931                                    |
| - Recognition of fair value of derivatives                                   | 655                                      | 749                                      |
| Excess of book value over tax written down value<br>of tangible fixed assets | (203)                                    | (121)                                    |
| MTM Loss on Available for sale securities                                    | 53,257                                   | 8,844                                    |
| <b>Total</b>   | <b>55,818</b>                            | <b>11,881</b>                            |

**11 Emoluments of directors**

|                                | Year ended<br>March 31, 2009<br>USD 000s | Year ended<br>March 31, 2008<br>USD 000s |
|--------------------------------|--|--|
| Directors' fees and emoluments | 526                                      | 750                                      |

The emoluments of the highest paid director were USD 321,440 (2008: USD 389,470). Contributions on behalf of a director under a money purchase pension scheme amounted to USD 16,072 (2008: 11,025). The number of directors to whom retirement benefits accrue under a defined contribution pension scheme is 1 (2008: 1)

**12 Share-based payments**

During the year, USD 0.85 million was charged to the income statement in respect of equity-settled share-based payment transactions (2008: NIL). This expense, which was computed from the fair values of the share-based payment transactions when granted, arose under employee share awards made in accordance with the ICICI Bank Group's reward structures.

### Calculation of fair values

Fair values of share options/awards, measured at the date of grant of the option/award are calculated using a binomial lattice model methodology that is based on the underlying assumptions of the Black-Scholes model. The expected life of options depends on the behaviour of option holders, which is incorporated into the option model on the basis of historic observable data. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. Expected dividends are incorporated into the valuation model for share options/awards, where applicable.

The significant weighted average assumptions used to estimate the fair value of the options granted were as follows:

|  | Range         |
|--|---------------|
| Risk-free interest rate <sup>1</sup> (%) | 7.38 – 9.25   |
| Expected life <sup>2</sup> (years)       | 2 – 5         |
| Expected volatility <sup>3</sup> (%)     | 38.90 – 53.75 |
| Expected dividend yield (%)              | 1.20 – 3.57   |
| Share price at grant date (\$)           | \$6.40        |

1 The risk-free rate was determined from the FIMMDA, PDAI and Bloomberg Yield curves of Government Securities with zero coupon.

2 Expected life is not a single input parameter but a function of various behavioural assumptions.

3 Expected volatility is estimated by considering both historic average share price volatility of ICICI Bank shares considering historical prices.

### Share Option Scheme

The parent bank has instituted an Employee Stock Option Scheme (ESOS) to enable the employees and Directors of the Bank and its subsidiaries to participate in the future growth and financial success of the bank. As per the ESOS as amended from time to time, the maximum number of options granted to any employee/director in a year is limited to 0.05% of parent bank's issued equity shares at the time of the grant, and the aggregate of all such options is limited to 5% of parent bank's issued equity shares on the date of the grant.

Options granted vest in a graded manner over a four-year period, with 20%, 20%, 30% and 30% of the grants vesting in each year, commencing not earlier than 12 months from the date of grant. Options can be exercised within 10 years from the date of grant or five years from the date of vesting, whichever is later.

Particulars of options granted upto March 31, 2009 are given below:

|  | Number (000's) |
|--|----------------|
| Outstanding at the beginning of the year | -              |
| Additions during the year                | 559            |
| Released in the year                     | -              |
| Forfeited in the year                    | -              |
| Outstanding at the end of the year       | <u>559</u>     |



### 13 Financial Services Compensation Scheme

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers such as Bradford & Bingley plc, Heritable Bank plc, Kaupthing Singer & Friedlander Limited, Landsbanki 'Icesave' and London Scottish Bank PLC. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury. The Bank could be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury which at December 16, 2008 stood at £19.7 billion. The Bank is also obligated to pay its share of forecast management expenses based on the bank's market share of deposits protected under the FSCS. The Bank has accrued USD 4.2 million as at March 31, 2009 in respect of the share of forecast management expense, including interest costs, for the 2008-09 and 2009-10 levy years. This accrual is based on the bank's estimated share of total market protected deposits at December 31, 2007 and December 31, 2008, respectively. However, the ultimate FSCS levy to the industry as a result of the 2008 collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the interest rate, the level of protected deposits and the population of FSCS members at the time.

### 14 Loans and advances to banks

#### (a) Residual Maturity

|   | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|---|----------------------------|----------------------------|
| <b>Banks</b>                              |                            |                            |
| Repayable on demand                       | 22,024                     | 76,088                     |
| <b>Other loans and advances</b>           |                            |                            |
| Remaining Maturity :                      |                            |                            |
| 5 year or less but over 1 year            | 32,133                     | 112,090                    |
| 1 year or less but over 3 months          | 55,000                     | 55,270                     |
| 3 months or less                          | 801,423                    | 1,929,215                  |
|   | <b>910,580</b>             | <b>2,172,663</b>           |
| <b>Parent and Group Companies</b>         |                            |                            |
| Repayable on demand                       | 2,909                      | 52,876                     |
| <b>Other loans and advances</b>           |                            |                            |
| Remaining Maturity :                      |                            |                            |
| 5 year or less but over 1 year            | -                          | -                          |
| 1 year or less but over 3 months          | 66,166                     | -                          |
| 3 months or less                          | 7,873                      | -                          |
|   | <b>76,948</b>              | <b>52,876</b>              |
| Sub Total                                 | 987,528                    | 2,225,539                  |
| Collective impairment allowance (Note 17) | (2,927)                    | -                          |
| <b>Total</b>                              | <b>984,601</b>             | <b>2,225,539</b>           |

**(b) Concentrations of exposure**

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

|   | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|---|----------------------------|----------------------------|
| <b>Total gross advances to banks located in :</b> |                            |                            |
| Europe and North America                          | 819,845                    | 1,708,432                  |
| India   | 2,895                      | 169,151                    |
| Rest of the World                                 | 164,788                    | 347,956                    |
| <b>Total</b>                                      | <b>987,528</b>             | <b>2,225,539</b>           |

**15 Loans and advances to customers**
**(a) Residual Maturity**

|   | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|---|----------------------------|----------------------------|
| Repayable on demand or at short notice    | 130,396                    | 82,498                     |
| <i>Other loans and advances</i>           |                            |                            |
| Remaining Maturity :                      |                            |                            |
| Over 5 years                              | 768,870                    | 154,821                    |
| 5 years or less but over 1 year           | 1,567,831                  | 1,283,818                  |
| 1 year or less but over 3 months          | 364,578                    | 292,458                    |
| 3 months or less                          | 339,069                    | 160,223                    |
| <b>Sub – total</b>                        | <b>3,170,744</b>           | <b>1,973,818</b>           |
| Collective Impairment allowance (Note 17) | (18,879)                   | (10,616)                   |
| Specific impairment allowance (Note 17)   | (5,000)                    | -                          |
| <b>Total</b>                              | <b>3,146,865</b>           | <b>1,963,202</b>           |

**(b) Concentration of exposure**

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

|   | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|---|----------------------------|----------------------------|
| <b>Total gross advances to customers located in :</b> |                            |                            |
| Europe and North America                              | 1,551,886                  | 1,292,917                  |
| India   | 654,882                    | 244,888                    |
| Rest of the World                                     | 963,976                    | 436,013                    |
| <b>Total</b>  | <b>3,170,744</b>           | <b>1,973,818</b>           |

**16 Potential credit risk loans**

|  | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|--|----------------------------|----------------------------|
| Accruing loan which is contractually overdue as to principal or interest |                            |                            |
| - Less than 60 days  | 32,832                     | 83,138                     |
| - 61 to 90 days  | -                          | -                          |
| <b>Total</b>   | <b>32,832</b>              | <b>83,138</b>              |

|  | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|--|----------------------------|----------------------------|
| Accruing loan which is contractually overdue as to principal or interest |                            |                            |
| United Kingdom   | -                          | 19,188                     |
| Rest of the world  | 32,832                     | 63,950                     |
| <b>Total</b>   | <b>32,832</b>              | <b>83,138</b>              |

**17 Impairment allowance**

|  | Specific<br>impairment<br>allowance<br>USD (000s) | March 31, 2009<br>Collective<br>impairment<br>allowance<br>USD (000s) | Total<br>USD (000s) | Specific<br>impairment<br>allowance<br>USD (000s) | March 31, 2008<br>Collective<br>impairment<br>allowance<br>USD (000s) | Total<br>USD (000s) |
|--|---|---|---------------------|---|---|---------------------|
| <b>Loans and advances</b>                      |   |   |                     |   |   |                     |
| <b>Opening Balance</b>                         | -   | 10,616  | 10,616              | 49  | 4,590   | 4,639               |
| <b>New charges :</b>                           |   |   |                     |   |   |                     |
| Corporate Loans                                | 5,000   | 11,111  | 16,111              | -   | 6,026   | 6,026               |
| Write off                                      | -   | -   | -                   | (49)  | -   | (49)                |
| Retail Loans                                   | -   | 79  | 79                  | -   | -   | -                   |
| <b>Closing Balance</b>                         | <b>5,000</b>                                      | <b>21,806</b>   | <b>26,806</b>       | <b>-</b>  | <b>10,616</b>   | <b>10,616</b>       |
| <b>Investments</b>                             |   |   |                     |   |   |                     |
| Impairment on Available<br>for sale securities | <b>91,434</b>                                     | -   | <b>91,434</b>       | -   | -   | -                   |

**18 Investment securities**

|                                   | March 31, 2009<br>Market Value<br>USD 000s | March 31, 2008<br>Market Value<br>USD 000s |
|-----------------------------------|--|--|
| <b>Analysed by designation :</b>  |  |  |
| Available for sale                | 2,927,000                                  | 3,014,488                                  |
| Held for trading                  | -  | 1,350,559                                  |
| <b>Total</b>                      | <b>2,927,000</b>                           | <b>4,365,047</b>                           |
| <b>Analysed by issuer :</b>       |  |  |
| <b>Available for sale</b>         |  |  |
| Issued by public bodies           | 572,133                                    | 240,707                                    |
| Issued by other issuers           | 2,075,221                                  | 2,723,925                                  |
| Bank certificates of deposit      | 279,646                                    | 49,856                                     |
| <b>Held for trading</b>           |  |  |
| Issued by public bodies           | -  | 35,828                                     |
| Issued by other issuers           | -  | 649,114                                    |
| Bank certificates of deposit      | -  | 665,617                                    |
|                                   | <b>2,927,000</b>                           | <b>4,365,047</b>                           |
| <b>Analysed by listing status</b> |  |  |
| <b>Available for sale</b>         |  |  |
| Unlisted                          | 485,862                                    | 230,806                                    |
| Listed                            | 2,441,138                                  | 2,783,682                                  |
| <b>Held for trading</b>           |  |  |
| Unlisted                          | -  | 665,617                                    |
| Listed                            | -  | 684,942                                    |
| <b>Total</b>                      | <b>2,927,000</b>                           | <b>4,365,047</b>                           |
| <b>Analysed by maturity</b>       |  |  |
| Due within 1 year                 | 399,880                                    | 777,598                                    |
| Due 1 year and above              | 2,527,120                                  | 3,587,449                                  |
| <b>Total</b>                      | <b>2,927,000</b>                           | <b>4,365,047</b>                           |
| <b>Analysed by class</b>          |  |  |
| <b>Debt securities</b>            |  |  |
| - Banks/Corporate Bonds           | 2,340,047                                  | 3,624,124                                  |
| - Asset Backed Securities         | 271,119                                    | 691,067                                    |
| Bank certificates of deposit      | 279,646                                    | 49,856                                     |
| <b>Equity</b>                     | 36,188                                     | -  |
| <b>Total</b>                      | <b>2,927,000</b>                           | <b>4,365,047</b>                           |

\* Included above are investments in fellow subsidiaries/parent with a market value of USD 50.7 million at March 31, 2009 (2008: USD 45 million)

Investments at March 31, 2009, by valuation method:

|                           | Quoted prices in active markets (1)<br>USD 000s | Valuation techniques based on observable market data (2)<br>USD 000s | Total<br>USD 000s |
|---------------------------|---|--|-------------------|
| <b>Available for sale</b> | <b>2,194,445</b>                                | <b>732,555</b>   | <b>2,927,000</b>  |

Notes:

- (1) Investments valued using unadjusted quoted prices in active markets for identical assets.
- (2) Investments valued using valuation techniques based on observable market data for instruments where markets are considered less than active. Instruments in this category are valued using:
  - (a) quoted prices for similar assets, or identical assets in markets which are considered to be less than active; or
  - (b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

### 19 Reclassification of Financial Assets

In October 2008, the Accounting Standard Board's issued amendments to FRS 26 'Financial Instruments: Recognition and Measurement' and FRS 29 'Financial Instruments: Disclosures' which permits an entity to reclassify certain financial assets out of the held-for-trading category, as described in Note 2(h) on the financial statements.

During the financial year, the Bank reclassified the following financial assets from the held for trading and available for sale categories:

| USD'000   | On reclassification                     |                         | At March 31, 2009 |                |
|---|---|-------------------------|-------------------|----------------|
|   | Fair value on dates of reclassification | Effective interest rate | Carrying amount   | Fair value     |
| <b>From held for trading to available for sale</b>      |   |                         |                   |                |
| -Corporate Bonds  | 495,935                                 | 7%                      | 348,721           | 348,721        |
| -Asset Backed Securities                                | 174,960                                 | 6%                      | 83,804            | 83,804         |
| <b>From held for trading to loans &amp; receivables</b> |   |                         |                   |                |
| -Asset Backed Securities                                | 2,333                                   | 9%                      | 1,539             | 1,344          |
| <b>From available for sale to loans and receivables</b> |   |                         |                   |                |
| -Corporate Bonds  | 257,402                                 | 10%                     | 259,529           | 216,724        |
| -Asset Backed Securities                                | 144,730                                 | 18%                     | 139,668           | 113,634        |
| <b>Total</b>  | <b>1,075,360</b>                        |                         | <b>833,261</b>    | <b>764,227</b> |

Note: The change in fair value for transfers from held for trading category from dates of reclassification to March 31, 2009 is predominantly on account of disposals, exchange rate movement, and mark to market post reclassification.

The amount reclassified is based on the fair value of the financial assets at the date of reclassification. In the quarter ended December 31, 2008, the bank reclassified USD 631.3 million and USD 257.4 million of financial assets from held for trading and available for sale categories respectively. During the quarter ended March 31, 2009, the bank reclassified USD 41.9 million and USD 144.7 million of financial assets from held for trading and available for sale categories respectively.

The reclassifications were made as a result of significant reductions in market liquidity for these assets, and a change in the bank's intention to hold the assets for the foreseeable future or to maturity. These circumstances form part of the wider context of market turmoil and are considered a rare event and, as such, the reclassification is permitted under the amendments to FRS26.

On the date of reclassification, the fair value of the asset is deemed to be the asset's new amortised cost, and the assets are thereafter tested for impairment. If these reclassifications had not been made, the bank's pre-tax profit would have reduced by USD 53.3 million (expense on financial instruments fair value through profit and loss would have increased by USD 58.5 million, and net interest income reduced by USD 5.2 million) and the bank's pre-tax losses in available for sale reserve would have increased by USD 10.5 million.

The following table shows the fair value gains and losses, income & expense recognised in the income statement both before and after the date of reclassification:

| USD'000   | Impact on profit & loss account     |   |   |
|---|-------------------------------------|---|---|
|   | Prior to reclassification<br>FY2008 | Till date of reclassification<br>FY2009 | Post date of reclassification<br>FY2009 |
| <b>From held for trading to available for sale</b>      |                                     |   |   |
| - Corporate Bonds                                       | (13,306)                            | (2,118)                                 | (7,966)                                 |
| - Asset Backed Securities                               | 4,281                               | 2,216                                   | 1,554                                   |
| <b>From held for trading to loans &amp; receivables</b> |                                     |   |   |
| - Asset Backed Securities                               | (426)                               | (87)                                    | 4                                       |
| <b>From available for sale to loans and receivables</b> |                                     |   |   |
| - Corporate Bonds                                       | 701                                 | 1,772                                   | 18,802                                  |
| - Asset Backed Securities                               | 11,906                              | (6,669)                                 | 2,225                                   |
| <b>Total</b>  | <b>3,156</b>                        | <b>(4,886)</b>                          | <b>14,619</b>                           |

The following table shows the fair value gains and losses recognised in the bank's unrealised available for sale reserve both before and after the date of reclassification:

| USD'000   | Impact on unrealised losses in available for sale reserve |                               |                               |
|---|---|-------------------------------|-------------------------------|
|   | Prior to reclassification                                 | Till date of reclassification | Post date of reclassification |
|   | FY2008  | FY2009                        | FY2009                        |
| <b>From held for trading to available for sale</b>      |   |                               |                               |
| - Corporate Bonds                                       | -   | -                             | (54,004)                      |
| - Asset Backed Securities                               | -   | -                             | (4,080)                       |
| <b>From held for trading to loans &amp; receivables</b> |   |                               |                               |
| - Asset Backed Securities                               | -   | -                             | (238)                         |
| <b>From available for sale to loans and receivables</b> |   |                               |                               |
| - Corporate Bonds                                       | (4,139)   | (3,327)                       | 2,103                         |
| - Asset Backed Securities                               | (50,451)  | (24,215)                      | 809                           |
| <b>Total</b>  | <b>(54,590)</b>   | <b>(27,542)</b>               | <b>(55,410)</b>               |

## 20 Tangible fixed assets

|                          | Leasehold Improvements<br>USD 000s | Other fixed assets<br>USD 000s | Total<br>USD 000s |
|--------------------------|------------------------------------|--------------------------------|-------------------|
| <b>Cost :</b>            |                                    |                                |                   |
| At April 1, 2008         | 6,137                              | 5,629                          | 11,766            |
| Additions                | 4,991                              | 2,066                          | 7,057             |
| Disposal                 | (196)                              | (292)                          | (488)             |
| <b>At March 31, 2009</b> | <b>10,932</b>                      | <b>7,403</b>                   | <b>18,335</b>     |
| <b>Depreciation :</b>    |                                    |                                |                   |
| At April 1, 2008         | 850                                | 3,239                          | 4,089             |
| Charge for year          | 450                                | 1,160                          | 1,610             |
| Disposal                 | (196)                              | (244)                          | (440)             |
| <b>At March 31, 2009</b> | <b>1,104</b>                       | <b>4,155</b>                   | <b>5,259</b>      |
| <b>Net book value :</b>  |                                    |                                |                   |
| <b>At March 31, 2009</b> | <b>9,828</b>                       | <b>3,248</b>                   | <b>13,076</b>     |
| At April 1, 2008         | 5,287                              | 2,390                          | 7,677             |

## 21 Other assets

|                                  | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|----------------------------------|----------------------------|----------------------------|
| Cheques in clearing              | -                          | 394                        |
| Deposits receivable              | 1,978                      | 3,257                      |
| Other debtors                    | 1,010                      | 955                        |
| Deferred tax asset               | 55,818                     | 11,881                     |
| Current year tax                 | -                          | 29,520                     |
| Derivative financial instruments | 100,191                    | 131,918                    |
| Unsettled securities             | 3,988                      | -                          |
| <b>Total</b>                     | <b>162,985</b>             | <b>177,925</b>             |

## 22 Deposits by banks

| Banks  | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|--|----------------------------|----------------------------|
| 5 years or less but over 1 year              | 468,919                    | 711,798                    |
| 1 year or less but over 3 months             | 194,901                    | 340,000                    |
| 3 months or less but not repayable on demand | 149,506                    | 361,354                    |
|  | <b>813,326</b>             | <b>1,413,152</b>           |

## 23 Customer accounts

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

|  | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|--|----------------------------|----------------------------|
| Over 5 years                                 | -                          | 20                         |
| 5 years or less but over 1 year              | 194,766                    | 13,768                     |
| 1 year or less but over 3 months             | 2,214,507                  | 765,379                    |
| 3 months or less but not repayable on demand | 386,412                    | 1,008,706                  |
|  | <b>2,795,685</b>           | <b>1,787,873</b>           |
| Repayable on demand                          | <b>1,827,082</b>           | <b>3,392,455</b>           |
| <b>Total</b>                                 | <b>4,622,767</b>           | <b>5,180,328</b>           |

## 24 Debt securities in issue

|               | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|---------------|----------------------------|----------------------------|
| Bonds issued* | 1,168,120                  | 1,341,251                  |
|               | <b>1,168,120</b>           | <b>1,341,251</b>           |

\*Listed with Singapore stock exchange



Details of various bonds and notes under the medium term notes programmes issued by the Bank at March 31, 2009 are as follows:

| Date of Issue   | Nature of Issue   | Interest Rate       | Interest frequency | Maturity  | USD 000s         |
|---|---|---------------------|--------------------|---|------------------|
| 11-Jul-06   | Unsecured junior subordinated bond due 2016 #                         | Libor + 200 bps     | Semi-annually      | First call in July 2011, Maturity in March 2016   | 25,000           |
| 28-Jul-06   | Unsecured junior subordinated bond due 2016 #                         | Libor + 200 bps     | Semi-annually      | First call in July 2011, Maturity in March 2016   | 25,000           |
| 30-Nov-06   | Step-up floating rate junior subordinated notes due 2016              | Libor + 100 bps     | Semi-annually      | Bullet payment in 2016 and Callable 2011          | 50,000           |
| 12-Dec-06   | Perpetual junior subordinated notes                                   | 6.38%               | Annually           | Callable by issuer at par in 2016; no maturity    | 90,000           |
| 27-Feb-07   | Unsecured floating rate notes due 2012                                | Libor + 62 bps      | Quarterly          | Bullet payment in 2012                            | 383,480          |
| 14-Jun-07   | Unsecured senior floating rate notes due 2010                         | Libor + 50 bps      | Quarterly          | Bullet payment in June 2010                       | 432,850          |
| 29-Nov-07   | Unsecured senior fixed rate notes (Issued in SGD Currency)            | 4.04%               | Semi - annually    | Bullet payment in November 2010                   | 29,552           |
| 27-Dec-07   | Unsecured junior subordinated bonds due 2017 (Issued in GBP Currency) | GBP Libor + 275 bps | Semi - annually    | First call in Dec 2012, Maturity in December 2017 | 14,332           |
| 31-Mar-08   | Unsecured junior subordinated bonds due 2018                          | Libor + 460 bps     | Quarterly          | First call in June 2013, Maturity in March 2018   | 50,000           |
| 21-Jul-08   | Unsecured junior subordinated bonds due 2018                          | 8.00%               | Semi - annually    | First call in July 2013, Maturity in July 2018    | 77,500           |
| <b>Less: Bond issue expenses</b>  |   |                     |                    |   | (4,394)          |
| <b>Less: Adjustments to carrying amount for change in the value of hedge which was previously effective</b> |   |                     |                    |   | (5,200)          |
| <b>Total</b>  |   |                     |                    |   | <b>1,168,120</b> |

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

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.

## 25 Other liabilities

|                                  | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|----------------------------------|----------------------------|----------------------------|
| Amounts in clearing              | 336                        | 72,524                     |
| Corporation tax payable          | 3,679                      | -                          |
| Other creditors                  | 91,405                     | 48,027                     |
| Derivative financial instruments | 186,086                    | 282,689                    |
| Unsettled securities             | 5,924                      | -                          |
| <b>Total</b>                     | <b>287,430</b>             | <b>403,240</b>             |

## 26 Called up share capital

|  | March 31, 2009  | March 31, 2008  |
|--|-----------------|-----------------|
| Authorised   | <b>Number</b>   | Number          |
| Ordinary shares of £1 each (equity)  | 100,000,000     | 100,000,000     |
| Ordinary shares of USD 1 each (equity)   | 950,000,000     | 450,000,000     |
| Ordinary shares of EUR 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      |
| <b>Allotted, Called up and Fully paid</b>  | <b>USD 000s</b> | <b>USD 000s</b> |
| 545 million (445 million at March 31, 2008) ordinary shares of USD 1 each (equity)       | 545,000         | 445,000         |
| 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              |
| <b>Total Share Capital</b>   | <b>595,095</b>  | <b>495,095</b>  |

During the period ended March 31, 2009, the Bank allotted 100 million ordinary shares of USD1 each for a cash consideration of USD 100 million.

## 27 Pension scheme

During the year, the Bank made a contribution of USD 257,859 (2008: USD 210,618) to the pension scheme. Out of this amount, USD 20,164 was accrued at the year end (2008: USD 11,529).

## 28 Contingent liabilities and commitments

### (a) Guarantees and other commitments:

|  | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|--|----------------------------|----------------------------|
| Guarantees   | <b>36,461</b>              | 51,570                     |
| Other commitments:   |                            |                            |
| Undrawn formal standby facilities, credit lines and other commitments to lend maturing in: |                            |                            |
| Less than one year   | <b>31,615</b>              | <b>172,910</b>             |

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

Approximately 60% (2008: 57%) of the total contingent liabilities and commitments relate to counterparties in India and the majority of the remaining balance relates to United Kingdom.

**(c) Foreign exchange contracts**

In addition to the commitments disclosed above, there are outstanding foreign exchange contracts of USD 1,070 million (2008: USD 3,672 million).

**29 Operating lease commitments**

As at March 31, 2009, the Bank has the following non cancellable annual operating lease commitments:

|                                 | March 31, 2009<br>USD 000s<br>Land and Buildings | March 31, 2008<br>USD 000s<br>Land and Buildings |
|---------------------------------|--|--|
| Operating leases which expire : |  |  |
| Between 1 and 5 years           | 429  | 434  |
| More than 5 years               | 899  | 808  |
|                                 | <b>1,328</b>                                     | <b>1,242</b>                                     |

**30 Categories and classes of Financial Instruments**

As at March 31, 2009:

| Assets                          | Fair value<br>through<br>Profit and<br>Loss | Loans and<br>Receivables | Available for<br>Sale | Non trading<br>liability | Others        | Total            |
|---------------------------------|---|--------------------------|-----------------------|--------------------------|---------------|------------------|
| Cash                            | -   | -                        | -                     | -                        | 3,108         | 3,108            |
| Loans and advances to banks     | -   | 984,601                  | -                     | -                        | -             | 984,601          |
| Loans and advances to customers | -   | 3,146,865                | -                     | -                        | -             | 3,146,865        |
| Investment securities           | -   | -                        | 2,927,000             | -                        | -             | 2,927,000        |
| Tangible fixed assets           | -   | -                        | -                     | -                        | 13,076        | 13,076           |
| Other assets                    | 100,191                                     | 5,966                    | -                     | -                        | 56,828        | 162,985          |
| Prepayments and accrued income  | -   | 77,383                   | -                     | -                        | 5,690         | 83,073           |
| <b>Total assets</b>             | <b>100,191</b>                              | <b>4,214,815</b>         | <b>2,927,000</b>      | <b>-</b>                 | <b>78,702</b> | <b>7,320,708</b> |

| <b>Liabilities</b>                    |                |          |                  |                  |                |                  |
|---------------------------------------|----------------|----------|------------------|------------------|----------------|------------------|
| Deposits by banks                     | -              | -        | -                | 813,326          | -              | 813,326          |
| Customer accounts                     | -              | -        | -                | 4,622,767        | -              | 4,622,767        |
| Debt securities in issue              | -              | -        | -                | 1,168,120        | -              | 1,168,120        |
| Other liabilities                     | 186,086        | -        | -                | 101,344          | -              | 287,430          |
| Accruals and deferred income          | -              | -        | -                | 19,233           | -              | 19,233           |
| Shareholders' funds:                  | -              | -        | -                | -                | -              | -                |
| Equity share capital                  | -              | -        | -                | -                | 545,095        | 545,095          |
| Non equity share capital              | -              | -        | -                | -                | 50,000         | 50,000           |
| Capital contribution                  | -              | -        | -                | -                | 851            | 851              |
| Profit and loss account               | -              | -        | -                | -                | 78,589         | 78,589           |
| Available for sale securities reserve | -              | -        | (264,703)        | -                | -              | (264,703)        |
| <b>Total liabilities</b>              | <b>186,086</b> | <b>-</b> | <b>(264,703)</b> | <b>6,724,790</b> | <b>674,535</b> | <b>7,320,708</b> |

As at March 31, 2008:

| <b>Assets</b>                         | <b>Fair value though Profit and Loss</b> | <b>Loans and Receivables</b> | <b>Available for Sale</b> | <b>Non trading liability</b> | <b>Others</b>  | <b>Total</b>     |
|---------------------------------------|--|------------------------------|---------------------------|------------------------------|----------------|------------------|
| 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        |
| Investment 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>                   | <b>1,482,477</b>                         | <b>4,264,119</b>             | <b>3,014,488</b>          | <b>-</b>                     | <b>67,965</b>  | <b>8,829,049</b> |
| <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>              | <b>282,689</b>                           | <b>-</b>                     | <b>(100,826)</b>          | <b>8,080,338</b>             | <b>566,848</b> | <b>8,829,049</b> |

### 31 Capital Management

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 is as follows:

|                      | March 31, 2009<br>USD mn | March 31, 2008<br>USD mn |
|----------------------|--------------------------|--------------------------|
| <b>Total Capital</b> | 1,006.8                  | 864.6                    |
| - Tier I             | 660.7                    | 566.8                    |
| - Tier II            | 346.1                    | 297.8                    |

### 32 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 Process 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 risks), operational, compliance and reputational 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 credit approval process, which includes a procedure of independent credit risk assessment and the assignment of an internal risk rating ('IRR') 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.

The Bank has a rating scale ranging from 'IRR 1' to 'IRR 10' (IRR 1 signifying the highest level of credit worthiness and IRR 10 signifying the lowest). IRR 1 through to IRR 4 are considered as 'Investment Grade' while IRR 5 and below are considered 'Non-Investment Grade'.

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.

Credit quality is monitored on an ongoing basis but can also be triggered by any material credit event coming to the Bank's notice through either primary or secondary sources. It is the Bank's policy to review borrower accounts 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 of 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 March 31, 2009 is approximately USD 7.3 billion (2008: USD 8.8 billion). The maximum amount of off balance sheet credit risk on guarantees and letters of credit is approximately USD 65.0 million (2008: USD 51.0 million).

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

|              | March 31, 2009<br>USD mn | March 31, 2008<br>USD mn |
|--------------|--------------------------|--------------------------|
| AAA          | 260                      | 431                      |
| AA+          | 3                        | 59                       |
| AA           | 125                      | 287                      |
| AA-          | 389                      | 754                      |
| A+           | 427                      | 514                      |
| A            | 568                      | 617                      |
| A-           | 293                      | 190                      |
| BBB+         | 141                      | 81                       |
| BBB          | 52                       | 195                      |
| BBB-         | 183                      | 204                      |
| B+ and below | -                        | -                        |
| Non rated    | 450                      | 1,033                    |
| <b>Total</b> | <b>2,891</b>             | <b>4,365</b>             |

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

|                      | March 31, 2009<br>USD mn | March 31, 2008<br>USD mn |
|----------------------|--------------------------|--------------------------|
| Investment grade     | 3,630                    | 3,931                    |
| Non investment grade | 502                      | 258                      |
|                      | 4,132                    | 4,189                    |

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

### Market Risk

Market risk is defined as risk of change in the actual or effective market value or earnings of the Bank's portfolio as a result of volatility in market factors (i.e. interest rates, exchange rates, market liquidity, asset prices etc).

The policies approved by the Board for addressing market risk are the Treasury Policy Manual (TPM) and Trading Book Policy statement (TBPS).

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 of interest rate risk by use of re-pricing gap reports and estimation of the sensitivity of the Bank's net interest income (defined as Earnings at Risk). The sensitivity is calculated for various interest rate scenarios across different currencies that the Bank's balance sheet is exposed to including a standard scenario of 200 basis points adverse change in the level of interest rates. The various limits set for interest rate risk are monitored and the utilisations reported to ALCO and BRCC on a periodic basis.

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.
- **Equity Risk** – The risk arises due to change in price or value of the equity investments of the Bank. The equity investment of the Bank as at March 31, 2009 is USD 36.2 million (2008: nil).

The Head of Treasury is responsible for managing the market risk of treasury positions 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 by the Treasury. The ALCO and the BRCC undertake a periodic review of the market risk 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 total VAR for the Bank's trading book portfolio as at March 31, 2009 was USD 1,143,584. The maximum, minimum and average VAR during the year for the trading book portfolio was USD 3,389,446, USD 1,143,584 and USD 2,293,940 respectively (Forex and Interest rate VaR for the Bank as at March 31, 2008 was USD 2,001,088). The total VAR for the non trading book for the Bank's treasury portfolio (including the portfolio transferred to loans and receivables book) as at March 31, 2009 was USD 62,504,009. 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.
- The Bank has started monitoring the non trading book credit VAR from January 2009 and hence there is no comparable figure for the previous year.

Statistically, the losses on Bank's portfolio would exceed the VAR only one percent of time over one year period. However, considering the limitations of the VAR, the Bank augments the VAR measure with regular stress testing to evaluate the potential impact of extreme movements in market variables. Stress testing is performed across the Bank's market risk portfolio for various risk factors. The results of the stress testing are reported to the ALCO and BRCC on periodic basis.

In addition to the VAR and stress testing 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 seek to 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 investment securities as at March 31, 2009, 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   | 2,736,699      | 7,869                               | 15,738 |
| Decrease in value of debt securities (excluding credit linked notes) |                | 7,869                               | 15,738 |



The impact of an increase in interest rates on investment securities as at March 31, 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 in value of debt securities (excluding credit linked notes) |                | 18,145                              | 36,291 |

Volatility in interest rates has an impact on an entity's interest earnings.

The impact of an increase in interest rates on the Bank's net interest income as at March 31, 2009, assuming a parallel shift in the yield curve, has been set out in the following table:

**Equivalent in USD million**

| Currency         | Impact on Net Interest Income over a one year horizon |                                       |
|------------------|---|---------------------------------------|
|                  | Increase in interest rates by 100 bps                 | Increase in interest rates by 200 bps |
| EUR              | (1.25)  | (2.49)                                |
| USD              | 5.02  | 10.03                                 |
| GBP              | 9.42  | 18.84                                 |
| Other currencies | (1.85)  | (3.69)                                |
| Total            | 11.34   | 22.69                                 |

The impact of an increase in interest rates on the Bank's net interest income as at March 31, 2008, assuming a parallel shift in the yield curve, has been set out in the following table:

**Equivalent in USD million**

| Currency         | Impact on Net Interest Income over a one year horizon |                                       |
|------------------|---|---------------------------------------|
|                  | Increase in interest rates by 100 bps                 | Increase in interest rates by 200 bps |
| EUR              | 0.14  | 0.28                                  |
| USD              | 6.43  | 12.87                                 |
| GBP              | 1.14  | 2.28                                  |
| Other currencies | (0.47)  | (0.94)                                |
| Total            | 7.24  | 14.49                                 |

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 and II capital base of the Bank as at the end of the immediately preceding financial year.

## Liquidity risk

Liquidity risk relates to the potential difficulty of resorting to the financial markets in order to meet payment obligations. Liquidity risk includes the risk of unexpected increases in the cost of funding the assets, the risk of being unable to liquidate investments in a timely manner or at a reasonable price and the risk that the Bank may not be able to raise additional funding, if required. This risk arises from mismatches in the timing of cash flows.

The Liquidity Policy Statement (LPS) approved by the BRCC outlines the overall approach for managing the Bank's exposure to liquidity risks. The Head of Treasury is responsible for managing the day to day liquidity of the Bank. The Head of Risk and CFO also review the liquidity situation at periodic intervals. Further the Asset Liability Management Committee (ALCO) and the Board Risk and Credit Committee periodically undertake detailed reviews of the liquidity of the Bank.

The Bank applies three basic measures in evaluating its liquidity risk exposure:

- Structural Liquidity Gap Statement;
- Dynamic Liquidity Gap Statement (i.e. cash flow projections); and
- Liquidity Ratios

### Structural Liquidity Gap Statement

The structural liquidity gap statement sets out the maturity profile of assets and liabilities. The statement lists the run-off/maturity profile of assets and liabilities without taking into account any business written subsequent to the date of the report i.e. it is snapshot of the Bank's structural liquidity as at a specific date.

The Structural Liquidity Gap Statement is produced using the following time bands:

- sight - 8 days,
- over 8 days - 1 month,
- 1 month - 3 months,
- over 3 months - 6 months,
- over 6 months -12 months,
- over 1 year - 3 years;
- over 3 years - 5 years; and
- over 5 years.

and measures compliance with the liquidity risk appetite in various time bands.

### Dynamic Liquidity Gap Statement

The Dynamic Liquidity Gap Statement (Cash Flow Projections Statement) demonstrates the potential/available sources of funding (i.e. corporate or retail term deposits, incremental growth in current and savings bank deposits, inter-bank borrowings etc) required to fund additional/projected asset creation in the near term period. This statement assists the Bank in managing liquidity.

### Liquidity ratios

Amongst the various ratios monitored, the Bank lays more emphasis on the Liquid assets to short term liabilities ratio and the Loan to deposits ratio. The liquid asset to short term liabilities ratio describes the value of liquid assets as compared to the short term liabilities maturing within a month. This ratio was 1.83 as at March 31, 2009 (1.50 as at March 31, 2008). The Loan to deposits ratio describes loans and advances as a percentage of the total customer deposits. The ratio as at March 31, 2009 was 0.73 (0.47 as at March 31, 2008).

The Bank also has a Liquidity Contingency plan (LCP) which details the overall approach and actions the Bank would undertake in order to manage the Bank's liquidity position during stressed conditions, as identified. The LCP addresses both the funding and operational requirements of the Bank and sets-out a funding, operational and communication plan to enable the Bank to deal with a liquidity crisis.

The Bank monitors and measures its exposure to potential liquidity risk crisis events through the use of cash flow projections, stress testing and key risk indicators, taking into consideration both firm-specific and market-wide events. The scenarios and stress tests considered by the Bank are forward looking and consider the general performance and financial stability of the economy. These scenarios and stress tests are performed on a regular basis and are presented to the ALCO and BRCC.

### **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 minimizing 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 (ORMC) comprising of senior executives is responsible for the development, testing, implementation and maintenance of the ORMP. The ORMC meets on a monthly basis to track and monitor the progress of the implementation of the ORMP.

The Bank has implemented its Risk and Control Self Assessment (RCSA) approach to identify and ensure effective control of its operational risks. The Bank also captures certain Key Risk Indicators (KRIs) of the various business groups.

The Bank had implemented loss data collection and reporting process for all Operational loss data (including internal and external fraud) and near miss events. The data is collected from all business and support units in UK as well as those outsourced to India. The data is reported to the ORMC on a monthly basis and to the Audit Committee on a quarterly basis.

To identify Operational risks in new products/processes, all such proposals are required to be 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. Proposed outsourcing arrangements are assessed for their criticality prior to outsourcing. For arrangements deemed to be critical, a detailed assessment is conducted and the proposal is approved by the BRCC. The performance of vendors is periodically reviewed and assessment reports are presented to the Audit Committee.

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

### **Reputational risk**

Reputational risk is the current and prospective impact on earnings and capital arising from stakeholders' holding a negative opinion of the Bank. Reputational risk could arise as a consequence of any of the other risk types materialising in the business or as a result of negative perceptions surrounding the Parent. The Bank and its Parent strive 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 reputational risk in isolation, but considers it within the broader context of the institution's governance, risk and compliance structures and culture.

Reputational 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 reputational risk by way of looking at sources of reputational 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 reputational 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, working closely with the Parent, oversees that the Bank undertakes all activities in 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.

The Bank's money laundering reporting officer makes a quarterly report to the Audit Committee. 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.

### 33 Cashflow payable under contractual maturity

At 31 March 2009, the contractual maturity comprises (all amounts in USD 000s):

|                                  | Less than<br>3 months | More than<br>3 months<br>but not<br>more than<br>6 months | More than<br>6 months<br>but not<br>more than<br>1 year | More than<br>1 year<br>but not<br>more than<br>5 years | More than<br>5 years | No<br>contractual<br>maturity | Total            |
|----------------------------------|-----------------------|---|---|--|----------------------|-------------------------------|------------------|
| Deposits by banks                | 101,590               | 49,480  | 38,574  | 666,148  | -                    | -                             | <b>855,792</b>   |
| Customer accounts                | 2,213,494             | 601,584   | 1,612,923   | 194,766  | -                    | -                             | <b>4,622,767</b> |
| Other liabilities                | 287,430               | -   | -   | -  | -                    | -                             | <b>287,430</b>   |
| Derivative financial liabilities | 105,521               | 29,507  | 20,414  | 67,401   | 10,919               | -                             | <b>233,762</b>   |
| Accruals and deferred income     | 19,233                | -   | -   | -  | -                    | -                             | <b>19,233</b>    |
| Debt securities in issue         | 10,310                | 10,310  | 20,506  | 946,442  | 399,330              | -                             | <b>1,386,898</b> |
| Shareholders' funds              | -                     | -   | -   | -  | -                    | 409,832                       | <b>409,832</b>   |
| <b>Total Liabilities</b>         | <b>2,737,578</b>      | <b>690,881</b>  | <b>1,692,417</b>  | <b>1,874,757</b>                                       | <b>410,249</b>       | <b>409,832</b>                | <b>7,815,714</b> |

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

|                                  | Less than<br>3 months | More than<br>3 months<br>but not<br>more than<br>6 months | More than<br>6 months<br>but not<br>more than<br>1 year | More than<br>1 year<br>but not<br>more than<br>5 years | More than<br>5 years | No<br>contractual<br>maturity | Total            |
|----------------------------------|-----------------------|---|---|--|----------------------|-------------------------------|------------------|
| Deposits by banks                | 274,693               | 156,517   | 214,215   | 888,177  | -                    | -                             | 1,533,602        |
| Customer accounts                | 4,378,937             | 203,013   | 581,396   | 16,962   | 20                   | -                             | 5,180,328        |
| Other liabilities                | 403,240               | -   | -   | -  | -                    | -                             | 403,240          |
| 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>5,580,624</b>      | <b>491,105</b>  | <b>858,797</b>  | <b>2,090,678</b>                                       | <b>409,126</b>       | <b>466,022</b>                | <b>9,896,352</b> |

The balances as noted above incorporates all cashflows on an undiscounted basis which relates to the principal and future coupon payments (except for trading liabilities and trading derivatives).

### 34 Fair values of financial assets and financial liabilities

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

|  | March 31,<br>2009<br>Fair value<br>USD 000's | March 31,<br>2009<br>Book value<br>USD 000's | March 31,<br>2008<br>Fair value<br>USD 000's | March 31,<br>2008<br>Book value<br>USD 000's |
|--|--|--|--|--|
| <b>Non trading book financial assets and liabilities</b> |  |  |  |  |
| <b>Assets:</b>   |  |  |  |  |
| Cash   | 3,108  | 3,108  | 3,150  | 3,150  |
| Loans and advances to banks*                             | 984,339                                      | 984,601                                      | 2,225,539                                    | 2,225,539                                    |
| Loans and advances to customers*                         | 3,028,809                                    | 3,146,865                                    | 1,963,202                                    | 1,963,202                                    |
| Investment securities                                    | 2,927,000                                    | 2,927,000                                    | 3,014,488                                    | 3,014,488                                    |
| <b>Liabilities:</b>                                      |  |  |  |  |
| Deposits by banks and customer accounts**                | 5,378,336                                    | 5,436,093                                    | 6,593,480                                    | 6,593,480                                    |
| Debt securities in issue***                              | 953,070                                      | 1,168,120                                    | 1,341,251                                    | 1,341,251                                    |
| <b>Trading book financial assets and liabilities</b>     |  |  |  |  |
| <b>Assets:</b>   |  |  |  |  |
| Debt securities  | -  | -  | 1,350,559                                    | 1,350,559                                    |
| Derivative financial instruments                         | 100,191                                      | 100,191                                      | 131,918                                      | 131,918                                      |
| <b>Liabilities:</b>                                      |  |  |  |  |
| Derivative financial instruments                         | 186,086                                      | 186,086                                      | 282,689                                      | 282,689                                      |

\* Fair value of loans and advances to banks and customers is based on estimated spreads that a market participant would use in valuing these loans with similar maturity and rating.

\*\* The fair value of deposits by banks and customers has been estimated using current rates offered for deposits of similar maturities.

\*\*\* For estimating the fair value of debt securities in issue, quoted market price at the balance sheet date are considered.

### 35 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 uses derivatives to mitigate interest rate risk. Hedge accounting is applied to derivatives and hedged items when the criteria under FRS 26 have been met. The Bank uses interest rate swaps to manage fixed rates of interest. The swaps exchange fixed rate for floating rate on assets to match the floating rates paid on funding or exchanges fixed rates on funding to match the floating rates received on assets. For qualifying hedges, the fair value changes of the derivative are substantially matched by corresponding fair value changes of the hedged item, both of which are recognised in profit and loss. As at March 31, 2009, the notional amounts of swaps designated as fair value hedges was USD 15.7 million and these contracts had a negative fair value of USD 3.53 million.

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

**At March 31, 2009, the principal amounts of the instruments were:**

**USD 000s**

| Instrument    | Non-trading<br>Notional Principal | Trading<br>Notional Principal | Gross Positive<br>Fair Value | Gross Negative<br>Fair Value |
|---------------|-----------------------------------|-------------------------------|------------------------------|------------------------------|
| Exchange rate | -                                 | 2,859,338                     | 25,852                       | (118,552)                    |
| Interest rate | 15,177                            | 3,561,917                     | 74,339                       | (67,534)                     |

**At March 31, 2008, the principal amounts of the instruments were:**

**USD 000s**

| Instrument              | Non-trading<br>Notional Principal | Trading<br>Notional Principal | Gross Positive<br>Fair Value | Gross Negative<br>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)                     |

**36 Assets and liabilities denominated in foreign currency**

|                                 | March 31, 2009<br>USD 000s | March 31, 2008<br>USD 000s |
|---------------------------------|----------------------------|----------------------------|
| Denominated in US Dollars       | 3,468,605                  | 3,674,671                  |
| Denominated in Sterling         | 1,898,838                  | 2,043,122                  |
| Denominated in other currencies | 1,953,265                  | 3,111,256                  |
| <b>Total assets</b>             | <b>7,320,708</b>           | <b>8,829,049</b>           |
| Denominated in US Dollars       | 2,308,643                  | 3,082,820                  |
| Denominated in Sterling         | 4,379,993                  | 4,673,457                  |
| Denominated in other currencies | 632,072                    | 1,072,772                  |
| <b>Total liabilities</b>        | <b>7,320,708</b>           | <b>8,829,049</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 35 which are held for hedging purposes.

**37 Litigation**

There are no material outstanding legal proceedings against the Bank.

**38 Post balance sheet events**

There have been no material events after the balance sheet date which would require disclosure or adjustments to the March 31, 2009 financial statements.

**39 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.