

# **ICICI BANK UK PLC**

**Directors' report and  
financial statements**

**March 31, 2011**

**Registered number 4663024**



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## Directors' report

The Directors have pleasure in presenting the eighth annual report of ICICI Bank UK PLC, together with the audited financial statements for the year ended March 31, 2011.

## 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, trade finance and treasury.

The Bank's corporate and investment banking business includes funding and advisory services for Indian corporations seeking to develop their overall business, including in the UK and Europe, as well as for Europe based multinational corporations. 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 varied product suite including current accounts, savings accounts, online banking and debit cards. The Bank delivers its products and services through eleven branches located in the UK and two branches in mainland Europe, located in Antwerp (Belgium) and Frankfurt (Germany) as well as through online banking. With regard to the online banking, the Bank offers an interest based savings account and fixed rate term accounts 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, 2011, the Bank had total assets of USD 6,442.0 million compared to USD 7,418.9 million as at March 31, 2010.

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 analysis of the business by individual activity.

During financial year 2011, the Bank continued to remain focused on maintaining adequate liquidity and capital together with moderating loan growth and risk containment of the investment book.

## Financial Results

The financial statements for the reporting year ended March 31, 2011 are shown on pages 9 to 49. The profit after taxation for the year was USD 36.6 million (2010: USD 37.0 million).

## Directors' report (continued)

### Financial Highlights

The financial performance for the financial year 2011 is summarised in the following table:

USD 000's, except percentages	Financial 2011	Financial 2010	% Change
Net interest income	74,828	47,117	59%
Non interest income	28,179	49,008	(43%)
Gain on buy back of bonds	150	6,415	(98%)
Mark to market on financial instruments	3,752	10,674	(65%)
<b>Total operating income</b>	<b>106,909</b>	<b>113,214</b>	<b>(6%)</b>
Operating expenses	(44,491)	(49,304)	(10%)
<b>Profit before provisions, charges and taxes</b>	<b>62,418</b>	<b>63,910</b>	<b>(2%)</b>
Provisions/Charges/Impairment	(17,756)	(20,549)	(14%)
Profit/(loss) on sale of debt securities	6,390	8,932	(28%)
<b>Profit before tax</b>	<b>51,052</b>	<b>52,293</b>	<b>(2%)</b>
<b>Profit after tax</b>	<b>36,556</b>	<b>36,993</b>	<b>(1%)</b>

The profit before tax was USD 51.1 million in the financial year 2011 compared with USD 52.3 million in the financial year 2010. Total operating income (excluding income from buy back of bonds and mark to market income) has increased by 7% versus financial year 2010, driven by an improvement in net interest income partially offset by reduction in non-interest income. Net interest income has increased by 59% versus financial year 2010 driven by lower cost of funds and improvement in overall yield on assets due to reduction in investments book. Non-interest income has reduced by 43% in financial year 2011 due to lower corporate banking related fee income. Retail remittances and other income increased by 42% versus financial year 2010. Operating expenses at USD 44.5 million reduced by 10% compared with financial year 2010 mainly driven by the Bank's continued focus on enhancing operating efficiencies.

Net interest margin improved to 113 bps in financial year 2011 versus 63 bps in financial year 2010. The cost of funds reduced during the year due to maturities of high cost liabilities and reduction in interest rates across tenors for the retail deposits. The Bank also reduced the investments book which contributed to an improvement in the overall asset yields.

Non-interest income mainly comprised of corporate banking related fee income of USD 23.5 million and USD 4.7 million of retail income. A mark to market gain of USD 3.8 million booked during the financial year 2011 was primarily driven by tightening of spreads on credit linked notes.

Operating expenses reduced by 10% to USD 44.5 million in the financial year 2011 from USD 49.3 million in the financial year 2010, primarily due to process efficiencies across the Bank.

Specific and collective provisions of USD 17.8 million were booked on loans and investments during the year.

Total assets stood at USD 6,442.0 million as at March 31, 2011 compared to USD 7,418.9 million as at March 31, 2010, reflecting a decrease of 13% mainly due to a reduction in the investment book.

The Bank booked a mark to market write back of USD 24 million (net of tax) on its available for sale portfolio during the year due to the impact of tightening of credit spreads on the investment portfolio.

The Bank paid USD 4.1 million dividend on preference capital during the financial year.

## Directors' report (continued)

### Corporate and Investment Banking

The Corporate Banking Group continued its focus on the strategy of careful management of the balance sheet during the year, prioritising return on investment over balance sheet growth. The group maintained a dedicated focus on key client relationships. While the client base broadened during the year, the client acquisition process was selective. The group targeted the German market through new relationships with subsidiaries of selected Indian companies and large multinational companies. The group continued to proactively review the portfolio along with monitoring of large exposures and specific portfolio actions. Special focus was maintained on supporting India linked and global relationships of ICICI Group. In terms of product areas, emphasis was placed on initiating and building transaction banking and trade finance volumes.

### Retail Banking

The Retail banking operations of the Bank are centred on two specific segments.

The first segment caters primarily to meet the banking requirements of the Indian community in the UK, focused on delivering services such as remittances and deposits. There is also a limited private banking service for high net-worth individuals of Indian origin in UK. The Bank also progressed on offering services to businesses located around its eleven branches in UK. The Bank continues to have a significant market share of the remittance market to India, and a substantial franchise of customer relationships. In the current year, the Bank profitably grew fee income through its branches, and won an award for the Best Remittance Company in the UK for remittances into the Asia Pacific region.

The second area is Online Banking, where the Bank offers savings and fixed rate accounts aimed at British and German consumers under the HiSAVE brand in the United Kingdom and HiZins brand in Germany, supported through the phone and internet channels. The Bank's retail customer account balances stood at USD 4.2 billion as at March 31, 2011 (March 31, 2010: USD 4.55 billion). The Bank also won awards in the market for its HiSAVE and HiZins product and service offerings, including being deemed 'Best Online Savings Provider' in UK by MoneyFacts, UK's largest consumer financial information agency.

### Treasury

Treasury activity during the year continued to focus principally on efficient management of liquidity. During the year, in preparation for the new liquidity regime of FSA, Treasury has built a liquid asset buffer in Government securities and balances with central banks. Further, the Bank has continued to adopt a strategy of maintaining 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 and to fund the requirements of the balance sheet. The Bank regularly reviews its asset/liability maturity mismatches and interest rate positions, and maintains liquidity gaps and interest rate positions within prescribed limits, which are monitored by the Asset Liability Committee (ALCO) of the Bank.

The Bank's investment portfolio was positively impacted by tightening of credit spreads. Further the Bank's strategy has been to rebalance the mix of savings and term deposits to meet the changing balance sheet requirements. The Bank has liquidated part of the investment portfolio in line with the reduction in on-demand deposit balances.

The Bank continued to maintain a high capital adequacy ratio during the financial year, which was further strengthened by the issue of USD 150 million Tier 2 bonds during the year (see Note 25).

## 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 is independent of the business units and reports directly to the Managing Director and Chief Executive Officer, as well as to the Risk Management Group of the Parent Bank.

The Bank is primarily exposed to credit risk, market risk (including interest and liquidity risks), operations, compliance and reputation 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 risks facing the Bank are interest rate risk arising due to adverse movements in the interest rates, exchange rate risk on foreign currency positions and liquidity risk arising due to the potential difficulty of resorting to the financial markets in order to meet payment obligations.

As part of overall risk management and to adapt to the changing retail banking regulatory environment in the UK, the Bank is reviewing its business model and conducting a strategic review of its lending portfolio with a view to further diversify its lending and reduce geographical and industry concentration of exposures.

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 33.

### 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, 2011, the Bank did not raise equity capital. 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, 2011 the Bank had 235 employees. The Bank encourages the involvement of all employees in the Bank's overall performance and profitability. The Bank has a pension scheme operating in the UK in which the 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 employment practices and policies which recognise the diversity of its workforce and ensures 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.

The Bank recognises its social and statutory duty to employ disabled persons and has followed a policy of providing, wherever possible, the same employment opportunities for disabled persons as for others.

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

The Bank made charitable contributions of USD 8,974 during the financial year 2011 (financial year 2010: USD 9,600). The Bank made no political contributions during the financial year 2011 (financial year 2010: Nil).

**Payment to Creditors**

The Bank has a regular cycle of obtaining services and releasing payment to creditors and suppliers. The Bank honours payment to its creditors and suppliers as per agreed terms and conditions and within agreed time frame as stipulated in the contract.

**Directors**

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

Mrs Chanda Kochhar	Chairperson of the Board
Mr Kannan N.S.	Appointed as Non Executive Director effective April 13, 2010
Mr William Michael Thomas Fowle	Non Executive Director
Mr Richard Michael James Orgill	Non Executive Director
Dr Mohan Lal Kaul	Non Executive Director
Mr Richard Banks	Non Executive Director
Mr Suvek Nambiar	Managing Director and Chief Executive Officer

Mr Sonjoy Chatterjee ceased to be a Director of ICICI Bank UK PLC effective April 13, 2010.

**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 is 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 is aware of that information.

**Auditor**

In accordance with Section 489 of the Companies Act 2006, 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

April 21, 2011  
Registered address  
One Thomas More Square  
London E1W 1YN

### **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).

Under company law, the directors must not approve the financial statements unless they are satisfied that the statements give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company 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.



### **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, 2011 set out on pages 9 to 49. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members 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**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at March 31, 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Helen Ruth Horgan (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London E14 5GL

April 21, 2011

## Profit and loss account

for the year ended March 31, 2011

	Note	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
Interest receivable and similar income arising on debt securities		30,887	55,792
Other interest receivable and similar income		226,787	230,962
Interest expense		(182,846)	(239,637)
<b>Net interest income</b>		<b>74,828</b>	<b>47,117</b>
Fees and commissions receivable		23,578	40,541
Foreign exchange revaluation gains		2,828	7,456
Income on financial instruments at fair value through profit and loss	5	3,240	9,460
Other operating income	6	2,285	2,225
Gain on buy back of bonds	7	150	6,415
<b>Operating income</b>		<b>106,909</b>	<b>113,214</b>
Administrative expenses	8	(42,153)	(46,814)
Depreciation	21	(2,338)	(2,490)
Specific impairment on investment securities	18	1,112	-
Impairment provision on financial assets	18	(18,868)	(20,549)
Profit/(loss) on sale of debt securities		6,390	8,932
<b>Profit on ordinary activities before tax</b>		<b>51,052</b>	<b>52,293</b>
Tax on profit on ordinary activities	11	(14,496)	(15,300)
<b>Profit on ordinary activities after tax</b>		<b>36,556</b>	<b>36,993</b>

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

The notes on pages 13 to 49 form part of these financial statements.

**Balance sheet**  
at March 31, 2011

	Note	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Assets</b>			
Cash		1,057	1,060
Loans and advances to banks	15	875,384	1,429,224
Loans and advances to customers	16	3,594,595	3,635,269
Investment securities	19	1,575,373	2,000,397
Tangible fixed assets	21	9,760	11,666
Other assets	22	337,406	285,930
Prepayments and accrued income		48,445	55,319
<b>Total assets</b>		<b>6,442,020</b>	<b>7,418,865</b>
<b>Liabilities</b>			
Deposits by banks	23	355,627	782,806
Customer accounts	24	4,210,158	4,552,107
Debt securities and subordinated liabilities	25	838,492	1,112,408
Other liabilities	26	262,727	245,458
Accruals and deferred income		91,654	99,483
<b>Total Liabilities</b>		<b>5,758,658</b>	<b>6,792,262</b>
Shareholders' funds:			
Equity share capital	27	545,095	545,095
Non equity share capital	27	50,000	50,000
Capital Contribution		2,131	1,467
Retained earning		148,013	115,582
Available for sale reserve		(61,877)	(85,541)
<b>Total Equity</b>		<b>683,362</b>	<b>626,603</b>
<b>Total Equity &amp; Liabilities</b>		<b>6,442,020</b>	<b>7,418,865</b>

The notes on pages 13 to 49 form part of these financial statements

These financial statements were approved by the Board of Directors on April 21, 2011 and were signed on its behalf by:

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

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

**ICICI Bank UK PLC**  
Registered number 4663024

**Statement of total recognised gains and losses**  
 for the year ended March 31, 2011

	Note	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Profit on ordinary activities after tax</b>		<u>36,556</u>	<u>36,993</u>
<b>Movement in available for sale reserve</b>			
- Movement in fair value during the year		17,962	232,412
- Amount transferred to the profit and loss account in respect of impairment		14,905	-
- Other fair value gains/losses transferred to profit and loss account		-	-
<b>Movement in available for sale reserve</b>		<u>32,867</u>	<u>232,412</u>
Taxation relating to available for sale reserve	11	(9,203)	(53,250)
Net movement in available for sale reserve		<u>23,664</u>	<u>179,162</u>
<b>Total gains and losses recognised</b>		<u>60,220</u>	<u>216,155</u>

The notes on pages 13 to 49 form part of these financial statements.

### Reconciliation of movements in shareholders' funds

for the year ended March 31, 2011

	Issued Share Capital USD 000s	Profit and loss Account USD 000s	Available for Sale reserve USD 000s	Other USD 000s	Total USD 000s
<b>As at April 01, 2009</b>	<b>595,095</b>	<b>78,589</b>	<b>(264,703)</b>	<b>851</b>	<b>409,832</b>
Capital contribution (share based payments)	-	-	-	616	616
Unrealised gain on available for sale securities	-	-	232,412	-	232,412
Tax impact	-	-	(53,250)	-	(53,250)
Profit on ordinary activities after tax	-	36,993	-	-	36,993
<b>As at April 01, 2010</b>	<b>595,095</b>	<b>115,582</b>	<b>(85,541)</b>	<b>1,467</b>	<b>626,603</b>
Capital Contribution (Share based payments)	-	-	-	664	664
Unrealised gain on available for sale securities	-	-	32,867	-	32,867
Tax impact	-	-	(9,203)	-	(9,203)
Profit on ordinary activities after tax	-	36,556	-	-	36,556
Preference dividend paid during the year	-	(4,125)	-	-	(4,125)
<b>Closing shareholders' funds as at 31 March 2011</b>	<b>595,095</b>	<b>148,013</b>	<b>(61,877)</b>	<b>2,131</b>	<b>683,362</b>

The notes on pages 13 to 49 form part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Reporting entity

ICICI Bank UK PLC ("ICICI Bank" or "the Bank"), is a Company incorporated in the United Kingdom. The Bank's registered address is - One Thomas More Square, London E1W 1YN. The Bank is primarily involved in providing a wide range of banking and financial services including retail banking, corporate and investment banking, trade finance and treasury services.

### 2 Basis of preparation

#### (a) Statement of Compliance

The financial statements of the Bank have been prepared in accordance with the UK GAAP as issued by the Accounting Standards Board.

#### (b) Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with the special provisions of Part XV of the Companies Act 2006 relating to banking companies and applicable accounting standards except for derivative financial instruments, financial instruments at fair value through profit or loss and available for sale financial assets which are valued at fair value.

#### (c) Functional and presentation currency

The financial statements are prepared and presented 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. A significant proportion of the banking assets and revenues are transacted in US Dollars.

#### (d) Cash flow exemptions

Under FRS 1 the Bank is exempted from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Bank in its own published consolidated financial statements (see Note 40).

#### (e) Related party exemptions

As the Bank is a wholly owned subsidiary of ICICI Bank Limited, the Bank has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group (see Note 40).

#### (f) Going concern

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 meets its liquidity requirements through managing both retail and wholesale funding sources and maintains a sufficient buffer over regulatory capital requirements. The Bank's risk management policies and procedures are mentioned in detail in Note 33.

The Bank is a wholly owned subsidiary of ICICI Bank Limited. The Parent Bank has issued a letter of comfort to the Bank's regulator, the Financial Services Authority (FSA), stating that the Parent Bank intends to financially support the Bank in ensuring that it meets all of its financial obligations as they fall due.

In addition, the Bank's forecasts and projections, taking account of possible changes in its business model in subsequent years, including stress testing and scenario analysis, show that the Bank will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. In making their assessment, the directors have also considered future projections of profitability, cash flows and capital resources as well as a review of the business model and a strategic review of the lending portfolio to diversify and reduce geographical and industry concentration of exposures. The directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future and therefore it is appropriate to adopt the Annual Accounts on a going concern basis.

### 3 Significant accounting policies

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

- An amendment to FRS 29 'Financial Instruments: Disclosures' amended to add explicit emphasis on the interaction between qualitative and quantitative disclosure.

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 income and expense**

Interest income and expense are recognised in profit and loss 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. When calculating the effective interest rate, the Bank estimates the future cash flows considering all contractual terms of the financial instruments but not the credit losses. 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 income and expense**

Fees and commission are recognised in the profit and loss account 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 raised are expensed to the profit and loss account over the life of the borrowing raised using the effective interest rate method and are included in interest expense.

**(c) Foreign Currencies**

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) Investment securities**

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for, depending on their classification, as either held to maturity, fair value through profit or loss, or available for sale.

**(e) Financial assets and financial liabilities**

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date of origination.

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

Financial liabilities (other than derivatives) are measured at amortised cost and are recognised at trade date. They are de-recognised when liabilities are extinguished.

**(f) 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 held for trading, designated at fair value through profit and loss or 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.

Policy in relation to write-offs: The Bank writes off its exposure in full when the Bank has pursued all remedies available to it and all underlying processes to recover have been exhausted. Write off may also be considered when a recovery is not anticipated to be made for at least twelve months and the interest is not being serviced. Any amount written off is in the first instance applied against specific provision for the exposure. In the normal course of business the loss to be written off will already have been fully provided. Any decision for a write-off is approved by the Board Credit Committee of the Bank.

**(g) Fair value measurement**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, on the measurement date. 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 or if the market for a financial instrument is not active, 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.

In case of unobservable inputs or in case of unlisted entities, the inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which the level at which an arm's length transaction would occur under normal business conditions could be determined. In such cases, estimates are made in the valuation technique to reflect uncertainties in fair values resulting from a lack of market data inputs. These include most recent arm's length transaction between knowledgeable, willing parties; reference to fair value of a similar instrument; discounted cash flow; or option pricing models.

However, the valuation techniques incorporate all factors that market participants have considered in setting a price; and have been consistent with accepted economic methodologies for pricing financial instruments.

#### **(h) 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/incurred 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.
- iii) It is a derivative (except for derivative that is a financial guarantee contract or a designated as effective hedging instrument).

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 only and 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 netting agreements or other arrangements that represent a legally enforceable right of set-off, which will survive the liquidation of either party, and there is the intention to settle net.

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

Available for sale financial assets are those 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 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 investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit and loss. The cumulative loss that is removed from equity and recognised in profit and loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity investment is recognised directly in equity since it cannot be reversed through income statement.

#### **(j) Held to maturity financial assets**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

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

The 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 and 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, it 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.

#### **(l) Derivatives held for risk management purposes and hedge accounting 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 hedging 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 hedging 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 it is either determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires or is sold, terminated or exercised; the derivative is de-designated because it is unlikely that a forecasted transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

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

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

#### **(m) Identification and measurement of 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:

- i) Significant financial difficulty of the issuer or obligor.
- ii) A breach of contract, such as a default or delinquency in interest or principal payments.
- iii) The Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession it would not otherwise consider.

iv) Indications that the borrower will enter bankruptcy or other financial reorganisation.

Refer Note 4 (a) and Note 4 (b) for the detailed policy guidance.

#### **(n) Tangible fixed assets**

Fixed assets are stated at cost less accumulated depreciation and impairment. Cost includes expenditures that are directly attributable to the acquisition of the asset

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

Depreciation methods, useful life and residual values are reviewed at each balance sheet date.

#### **(o) Provisions**

Provision are recognised when it is probable that an outflow of economic benefits will be required to settle a present, legal or constructive obligation, which has arisen as a result of a past event and for which a reliable estimate can be made of the amount of the obligation. All significant provisions have been discounted for current market assessments and the time value of money.

#### **(p) Deposits, debt securities issued and subordinated liabilities**

Deposits, debt securities issued and subordinated liabilities are the sources of debt funding. Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### **(q) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax and deferred 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 or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date and includes any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, in respect of all timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. As required by FRS 19 "Deferred Tax", deferred tax is measured at the tax rates expected to be applied to the temporary difference when they reverse, based on the tax laws that have been enacted or substantially enacted by the reporting date. 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(r) Employee benefits**

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

#### **(s) Leases**

Operating lease rentals are charged to the profit and loss account on a straight line basis over the non-cancellable lease term provided the same is ascertainable unless another basis is more appropriate.

#### **(t) 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.

#### (u) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

#### (v) Share Capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

### 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.

#### (a) Allowances for credit losses

The Bank regularly reviews its loan portfolio to assess for impairment. Impairment provisions are established to recognise incurred impairment losses in loan portfolio carried at amortised cost. In determining whether an impairment has occurred at the balance sheet date, the Bank assesses impairment if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment.

The assets which may be analysed for impairment and subject to specific impairment provisioning are expected to broadly fall in the following categories.

- i) **Borrower's financial difficulty/credit deterioration/any trigger event:** The Bank assesses an asset for specific impairment if it becomes probable that the borrower is facing significant financial difficulty. The Bank also assesses for specific impairment and makes specific provisions if necessary, if there is any significant credit deterioration or any event which reduces the financial stability of the borrower to repay its interest and principal. The indicators of impairment can include, among other things -
  - a) Net worth of the risk counterparty/borrower turning negative
  - b) Delay in interest and or principal repayments
  - c) Breach in financial covenants
  - d) Likelihood of borrower entering bankruptcy/financial reorganization.
  - e) Rating downgrade by external credit rating agencies.
  - f) National or local economic conditions that correlate with defaults on the assets in the borrower group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).
  - g) Substantial decline in value of security provided to the Bank, especially when security is prime consideration for the lending. The unsecured portion of the exposure may be subjected to impairment testing.
  - h) Invocation of contractual comfort by the Bank such as corporate guarantee/put option which is not honoured by the counterparty.
- ii) **Restructured/renegeotiated cases:** A restructured account is one where the Bank, for economic or legal reasons relating to the borrower's difficulty, grants to borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of advances/securities which would generally include among others, alteration of repayment period/ repayable amount/the amount of instalments/rate of interest (due to reasons other than competition).

At each reporting period, the Bank assesses its loans and receivables portfolio. For an asset that is restructured, if the present value of renegotiated payments of interest and principal are not expected to recover the original carrying amount of the asset, then the loan is treated as impaired and specific provisioning is made.

The Bank's policy is to identify and recognise impairment in a loan when it is probable that the Bank will not be able to collect, or there is no longer a reasonable certainty that the Bank will collect all amounts due according to the contractual terms of the loan agreement. In line with the Group policy, the Bank considers past due cases as

impaired if the principal or interest on a loan is ninety days overdue as at the end of the quarter and the Bank does not have visibility of recovery of the outstanding due in the near term.

- iii) **Collective impairment:** Collectively assessed impairment allowances cover credit losses inherent to portfolios of similar economic characteristics, when there is an 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, the management considers factors such as historical trend, credit quality of the portfolio, portfolio size, concentrations, and economic factors. The collective impairment provisioning policy is defined in the Credit Risk Management Policy (CRMP) of the Bank. The policy stipulates that collective impairment provisions, based on sector and rating of exposure, need to be provided in respect of the entire loan and receivables portfolio. The Bank has adopted FRS 26 guidelines where the provisioning is determined by the extent of the underlying credit risk in the portfolio of the Bank. This is also the direction provided by the Basel Accord. FRS 26 guidelines require provisions to be made on loans based on expected losses in the portfolio. In line with market practice, the Bank has been using a representative set of Probability of Default (PD)/Loss Given Default (LGD) data to determine the extent of provisioning required to be made by the Bank in respect of its loan portfolio on a collective basis. The aggregate provisioning requirement is arrived at by multiplying the outstanding amounts under each portfolio type (internally rated and externally rated exposures) on the relevant date with the corresponding PD and LGD of that rating band.

#### (b) Impairment of available for sale financial assets

The Bank regularly reviews its available for sale securities portfolio 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 any 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.

#### (c) 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, or the financial instruments are traded infrequently and have little price transparency or the fair value is less objective, and requires varying degrees of judgment, the Bank uses valuation techniques to arrive at the fair value.

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 consists of unrealised and realised gains or losses on transactions in securities and derivatives.

	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
Debt securities	3,752	10,674
Realised/unrealised gains on derivative instruments	(512)	(1,214)
<b>Total</b>	<b>3,240</b>	<b>9,460</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 within other assets and other liabilities on the balance sheet.

## 6 Other operating income

Other operating income primarily consists of retail branch related fees and other corporate banking related income.

## 7 Gains on buyback of bonds

During the year the Bank bought back its own bonds with a notional value of USD 16.25 million, resulting in a gain of USD 0.15 million (2010: notional value of USD 60.3 million and gain of USD 6.4 million).

## 8 Administrative expenses

	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
Staff costs (including Directors' emoluments) :		
Wages and salaries	20,986	21,508
Social security costs	1,649	1,551
Other administrative expenses	19,518	23,755
<b>Total</b>	<b>42,153</b>	<b>46,814</b>

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

	Year ended March 31, 2011 No. of Employees	Year ended March 31, 2010 No. of Employees
Management	52	54
Non Management	183	186
<b>Total</b>	<b>235</b>	<b>240</b>

## 9 Profit on ordinary activities before tax is stated after charging

	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
<b>Auditors' remuneration</b>		
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements pursuant to legislation	935	906
Other services pursuant to such legislation	184	274
Other services relating to taxation	52	39
<b>Total</b>	<b>1,171</b>	<b>1,219</b>
Depreciation on tangible fixed assets	2,338	2,490
Operating lease rental in respect of leasehold premises	3,213	3,029

## 10 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 the UK, Germany and Belgium and all activities are centrally managed as a single business from the UK.

## 11 Taxation

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

	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
<i>Current tax</i>		
UK Corporation tax at 28% on the taxable profit for the year	12,663	13,913
Overseas corporation charge	1,717	955
	<b>14,380</b>	14,868
Adjustments for prior years	120	239
	<b>14,500</b>	<b>15,107</b>
<i>Deferred tax</i>		
Origination and reversal of timing differences	235	193
Prior year adjustment to deferred tax	(239)	-
<b>Tax on profit on ordinary activities</b>	<b>14,496</b>	<b>15,300</b>

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

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Current tax reconciliation</b>		
Profit on ordinary activities before tax	<b>51,052</b>	<b>52,293</b>
Current tax at 28%	14,295	14,642
Add effects of:		
Expenses not deductible for tax purposes	193	215
Other timing differences (FRS 26 Impact)	(505)	(335)
Timing difference on movement of collective impairment allowance for bad and doubtful debts	(60)	(60)
Depreciation less than/(in excess of) capital allowances for the year	269	238
Overseas taxes (net of overseas tax expense relief)	188	168
Adjustment for prior years	120	239
<b>Total current tax charge (see 11 (a) above)</b>	<b>14,500</b>	<b>15,107</b>

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

	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
Balance as at March 31, 2010	2,129	55,818
Debit to profit and loss account:		
Reversal of Deferred tax asset	(70)	(432)
Debit to available for sale reserves:		
Rate differential from 28% to 26%	(164)	(53,257)
Adjustments for prior year	239	-
<b>Balance as at March 31, 2011</b>	<b>2,134</b>	<b>2,129</b>

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

	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
Collective impairment allowance	277	358
<b>Effect of FRS 26</b>		
- Fees Income amortisation	1,122	1,450
- Recognition of fair value of derivatives	435	561
Excess of tax written down value over book value of tangible fixed assets	300	(1)
Adjustment for tax disallowed expenses	-	(239)
<b>Total</b>	<b>2,134</b>	<b>2,129</b>

(e) Taxation relating to available for sale reserve

	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
Deferred tax adjustment for the period	-	13,603
Provision for tax for current year	(9,203)	(66,853)
	<b>(9,203)</b>	<b>(53,250)</b>

## 12 Emoluments of directors

	Year ended March 31, 2011 USD 000s	Year ended March 31, 2010 USD 000s
Directors' fees and emoluments	<b>667</b>	<b>547</b>

The emoluments of the highest paid director were USD 345,903 (2010: USD 312,711). Contributions on behalf of a director under a money purchase pension scheme amounted to USD 15,334 (2010: USD 13,862). The number of directors to whom retirement benefits accrue under a defined contribution pension scheme is 1 (2010:1).

## 13 Share-based payments

During the year, USD 0.66 million was charged to the income statement in respect of equity-settled share-based payment transactions (2010: USD 0.62 million). 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:

	Year ended March 31, 2011 Range	Year ended March 31, 2010 Range
Risk-free interest rate <sup>1</sup> (%)	5.26-8.41	4.91-6.49
Expected life <sup>2</sup> (years)	6.35-6.87	6.85
Expected volatility <sup>3</sup> (%)	48.38-49.82	48.65
Expected dividend yield (%)	1.20	2.53
Share price at grant date (\$)	\$ 21.81	\$ 9.33

1 The risk-free rate was determined from the Fixed Income Money Market and Derivatives Association of India (FIMMDA).

2 Expected life is not a single input parameter but a function of various behavioural assumptions. Expected life is determined based on simplified method of vesting for grants.

3 Expected volatility during the estimated expected term of the option is based on historical volatility determined based on observed market prices of the publicly traded shares.

### Share Option Scheme

The Parent Bank has 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 in April 2010 will vest in a graded manner over a five year period, with 20%, 20%, 30%, 30% of these grants vesting in each year and Options granted in February 2011 will vest in a graded manner, with 50%, 50% of these grants vesting in the years 2014 and 2015. The 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 to employees of ICICI Bank UK PLC up



to March 31, 2011 are given below:

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
Outstanding at the beginning of the year	569	559
Additions during the year	125	10
Released in the year	-	-
Forfeited in the year	-	-
Outstanding at the end of the year	<u>694</u>	<u>569</u>

#### 14 Financial Services Compensation Scheme

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse during 2008 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 March 31, 2010 stood at USD 32.15 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 accrued an amount of USD 1.7 million during the financial year 2011 in respect of the share of forecast management expense, including interest costs, for 2011-12 levy year (2010: accrued USD 2.2 million for 2010-11 levy year). This accrual is based on the Bank's estimated share of total market protected deposits at December 31, 2010. 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.

#### 15 Loans and advances to banks

##### (a) Residual Maturity

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Banks</b>		
Repayable on demand	17,761	40,973
<b>Other loans and advances</b>		
Remaining Maturity :		
Over 5 years	27,487	20,849
5 year or less but over 1 year	-	-
1 year or less but over 3 months	113,080	93,919
3 months or less	646,090	1,197,027
	<u>804,418</u>	<u>1,352,768</u>
<b>Parent and Group Companies</b>		
Repayable on demand	6,124	7,471
<b>Other loans and advances</b>		
Remaining Maturity :		
5 year or less but over 1 year	-	75,000
1 year or less but over 3 months	75,000	-
3 months or less	-	4,557
	<u>81,124</u>	<u>87,028</u>
Sub Total	<b>885,542</b>	1,439,796
Collective impairment allowance	(779)	(1,193)
Specific impairment allowance	(9,379)	(9,379)
<b>Total</b>	<u><b>875,384</b></u>	<u><b>1,429,224</b></u>

## (b) Concentration of exposure

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

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Total gross advances to banks located in :</b>		
Europe and North America	297,154	769,273
India	585,470	670,127
Rest of the World	2,918	396
<b>Total</b>	<b>885,542</b>	<b>1,439,796</b>

## 16 Loans and advances to customers

### (a) Residual Maturity

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
Repayable on demand or at short notice	70,156	68,411
<i>Other loans and advances</i>		
Remaining Maturity :		
Over 5 years	225,628	328,994
5 years or less but over 1 year	2,293,068	2,006,215
1 year or less but over 3 months	606,968	796,325
3 months or less	448,623	483,687
<b>Sub total</b>	<b>3,644,443</b>	<b>3,683,632</b>
Collective Impairment allowance	(22,317)	(19,536)
Specific impairment allowance	(27,531)	(28,827)
<b>Total</b>	<b>3,594,595</b>	<b>3,635,269</b>

### (b) Concentration of exposure

Geographical concentrations of loans and advances to customers

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Total gross advances to customers located in :</b>		
Europe and North America	983,314	1,226,917
India	2,529,177	2,430,552
Rest of the World	131,952	26,163
<b>Total</b>	<b>3,644,443</b>	<b>3,683,632</b>

## 17 Potential credit risk on financial instruments

March 31, 2011

USD 000s

	Neither past due nor impaired	Past due not impaired	Impaired	Impairment allowances	Total
Cash	1,057	-	-	-	1,057
Loans and advances to banks	859,881	-	24,882	(9,379)	875,384
Loans and advances to customers	3,534,533	5,963	81,630	(27,531)	3,594,595
Investment securities	1,549,107	-	41,171	(14,905)	1,575,373
Other assets:					
- Cheques in clearing	1,842	-	-	-	1,842
- Deposits receivable	2,768	-	-	-	2,768
- Deferred tax asset	2,134	-	-	-	2,134
- Derivative financial instruments	228,637	-	-	-	228,637
- Unsettled securities	11,900	-	-	-	11,900
Prepayment and accrued income	48,445	-	-	-	48,445
<b>Total financial instruments</b>	<b>6,240,304</b>	<b>5,963</b>	<b>147,683</b>	<b>(51,815)</b>	<b>6,342,135</b>

March 31, 2010

USD 000s

	Neither past due nor impaired	Past due not impaired	Impaired	Impairment allowances	Total
Cash	1,060	-	-	-	1,060
Loans and advances to banks	1,410,979	-	27,624	(9,379)	1,429,224
Loans and advances to customers	3,555,479	3,901	104,716	(28,827)	3,635,269
Investment securities	2,000,397	-	-	-	2,000,397
Other assets:					
- Cheques in clearing	215	-	-	-	215
- Deposits receivable	1,694	-	-	-	1,694
- Deferred tax asset	2,129	-	-	-	2,129
- Derivative financial instruments	166,956	-	-	-	166,956
- Unsettled securities	28,677	-	-	-	28,677
Prepayment and accrued income	55,319	-	-	-	55,319
<b>Total financial instruments</b>	<b>7,222,905</b>	<b>3,901</b>	<b>132,340</b>	<b>(38,206)</b>	<b>7,320,940</b>

### Loans and advances to customers

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Loans contractually overdue as to principal or interest</b>		
- Less than 60 days	5,963	3,901
- 61 to 90 days	-	-
- more than 90 days	38,493	50,995
<b>Total</b>	<b>44,456</b>	<b>54,896</b>
<b>Concentration of overdue exposure</b>		
United Kingdom	5,055	5,025
Rest of the world	39,401	49,871
<b>Total</b>	<b>44,456</b>	<b>54,896</b>

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Past due whether impaired or not</b>		
Past due not impaired	5,963	3,901
Past due impaired	38,493	50,995
<b>Total</b>	<b>44,456</b>	<b>54,896</b>
<b>Past due not impaired</b>		
- Less than 60 days	5,963	3,901
- 61 to 90 days	-	-
- More than 90 days	-	-
<b>Total</b>	<b>5,963</b>	<b>3,901</b>

As at March 31, 2011 the Bank did not have any loans which have been renegotiated/restructured during the year, which would otherwise have been past due/impaired.

### 18 Impairment allowance

	March 31, 2011			March 31, 2010		
	Specific impairment allowance USD 000s	Collective impairment allowance USD 000s	Total USD 000s	Specific impairment allowance USD 000s	Collective impairment allowance USD 000s	Total USD 000s
<b><u>Loans and advances</u></b>						
<b>Opening Balance</b>	22,189	20,734	42,923	5,000	21,806	26,806
<b>New charges :</b>						

Loans and advances	15,422	3,200	18,622	21,621	(1,372)	20,249
Write offs	(701)	(373)	(1,074)	(4,432)	-	(4,432)
Retail Loans	-	(465)	(465)	-	300	300
<b>Closing Balance</b>	<b>36,910</b>	<b>23,096</b>	<b>60,006</b>	<b>22,189</b>	<b>20,734</b>	<b>42,923</b>
<b><i>Investments</i></b>						
<b>Opening Balance</b>	16,017	-	16,017	91,434	-	91,434
<b>New charges (Equity)</b>	14,905	-	14,905	-	-	-
Adjustments on disposal or write back (Debt)	(16,017)	-	(16,017)	(75,417)	-	(75,417)
<b>Closing Balance</b>	<b>14,905</b>	<b>-</b>	<b>14,905</b>	<b>16,017</b>	<b>-</b>	<b>16,017</b>

## 19 Investment securities

	March 31, 2011 Market Value USD 000s	March 31, 2010 Market Value USD 000s
<b>Analysed by designation:</b>		
Available for sale	1,451,193	1,810,484
Held to Maturity	26,238	25,116
Financial instruments at fair value through profit and loss	97,942	164,797
<b>Total</b>	<b>1,575,373</b>	<b>2,000,397</b>
<b>Analysed by issuer:</b>		
<b>Available for sale</b>		
Issued by public bodies	696,074	284,669
Issued by other issuers	755,119	1,525,815
<b>Held to Maturity</b>		
Issued by other issuers	26,238	25,116
<b>Financial instruments at fair value through profit and loss</b>		
Issued by other issuers	97,942	164,797
<b>Total</b>	<b>1,575,373</b>	<b>2,000,397</b>
<b>Analysed by listing status:</b>		
<b>Available for sale</b>		
Unlisted	517,435	-
Listed	933,758	1,810,484
<b>Held to Maturity</b>		
Unlisted	26,238	25,116
<b>Financial instruments at fair value through profit and loss</b>		
Unlisted	97,942	164,797
<b>Total</b>	<b>1,575,373</b>	<b>2,000,397</b>

<b>Analyzed by maturity</b>		
Due within 1 year	759,996	285,607
Due 1 year and above	815,377	1,714,790
<b>Total</b>	<b>1,575,373</b>	<b>2,000,397</b>
<b>Analyzed by class</b>		
Debt securities		
- Credit Link Notes	97,942	164,797
- Banks/Corporate Bonds	809,986	1,648,645
- Asset Backed Securities	123,745	151,539
- Treasury Bill	517,435	-
Equity	26,265	35,416
<b>Total</b>	<b>1,575,373</b>	<b>2,000,397</b>

Included above are investments in fellow subsidiaries/parent with a market value of USD 34.54 million at March 31, 2011 (2010: USD 45.0 million)

**Investments held at fair value at March 31, 2011 by valuation method:**

	Quoted prices in active markets (1) USD 000s	Valuation techniques based on observable market data (2) USD 000s	Total USD 000s
Available for sale	1,212,105	239,088	1,451,193
Financial instruments at fair value through profit and loss	-	97,942	97,942
<b>Total</b>	<b>1,212,105</b>	<b>337,030</b>	<b>1,549,135</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.
- (3) The Bank does not hold any investments valued using unobservable market data.

**20 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. The amendment also permits an entity to transfer from the available for sale category to the loans and receivable category in certain circumstances.

The reclassifications were made as a result of significant reductions in market liquidity for these assets, and a change in the intention to hold the assets for the foreseeable future or to maturity. These circumstances formed part of the wider context of market turmoil and are considered a rare event and, as such, the reclassification was permitted under the amendments to FRS 26. On the date of reclassification, the fair value of the asset was deemed to be the asset's new amortized cost, and the assets have been tested for impairment since reclassification.

USD 000s

	At March 31, 2011		At March 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>From held for trading to available for sale</b>				
-Corporate Bonds	237,069	237,069	359,172	359,172
-Asset Backed Securities	4,038	4,038	5,127	5,127
<b>From held for trading to loans &amp; receivables</b>				
-Asset Backed Securities	-	-	999	1,570
<b>From available for sale to loans and receivables</b>				
-Corporate Bonds	207,584	207,584	262,983	262,155
-Asset Backed Securities	150,018	142,173	135,831	113,634
<b>Total</b>	<b>598,709</b>	<b>590,864</b>	<b>764,112</b>	<b>741,657</b>

The amount reclassified was based on the fair value of the financial assets as at the date of reclassification. If these reclassifications had not been made, the Bank's pre-tax profit for FY 2011 would have decreased by USD 2.6 million and the Bank's pre-tax gain in AFS reserve would have decreased by USD 8.5 million. The following table sets forth, for the periods indicated, the fair value gains and losses, income and expense recognized in the income statement both before and after the date of reclassification.

USD 000s

	Impact on profit & loss account			
	Post Reclassification	Assuming No reclassification	Post Reclassification	Assuming No reclassification
	March 31, 2011	March 31, 2011	March 31, 2010	March 31, 2010
<b>From held for trading to available for sale</b>				
-Corporate Bonds	10,725	8,352	23,387	70,452
-Asset Backed Securities	108	(220)	521	1,331
<b>From held for trading to loans and receivables</b>				
-Asset Backed Securities	123	235	150	349
<b>From available for sale to loans and receivables</b>				
- Corporate Bonds	17,498	17,498	28,875	28,875
- Asset Backed Securities	(4,638)	(4,638)	3,270	3,270
<b>Total</b>	<b>23,816</b>	<b>21,227</b>	<b>56,203</b>	<b>104,277</b>

The following table sets forth, for the periods indicated, the fair value gains and losses recognized in AFS reserve in the books of ICICI Bank UK both before and after the date of reclassification.

USD 000s

	Impact of gains/(losses) on available for sale reserve			
	Post Reclassification March 31, 2011	Assuming No reclassification March 31, 2011	Post Reclassification March 31, 2010	Assuming No reclassification March 31, 2010
<b>From held for trading to available for sale</b>				
- Corporate Bonds	813	-	47,065	-
- Asset Backed Securities	(117)	-	810	-
<b>From held for trading to loans &amp; receivables</b>				
- Asset Backed Securities	-	-	198	-
<b>From available for sale to loans and receivables</b>				
- Corporate Bonds	971	971	1,506	43,925
- Asset Backed Securities	12,113	4,269	10,089	1
<b>Total</b>	<b>13,780</b>	<b>5,240</b>	<b>59,668</b>	<b>43,926</b>

## 21 Tangible fixed assets

	Leasehold Improvement assets USD 000s	Other fixed assets USD 000s	Total USD 000s
<b>Cost:</b>			
At April 1, 2010	12,012	7,403	19,415
Additions	156	276	432
<b>At March 31, 2011</b>	<b>12,168</b>	<b>7,679</b>	<b>19,847</b>
<b>Depreciation:</b>			
At April 1, 2010	2,710	5,039	7,749
Charge for year	1,542	796	2,338
<b>At March 31, 2011</b>	<b>4,252</b>	<b>5,835</b>	<b>10,087</b>
<b>Net book value:</b>			
<b>At March 31, 2011</b>	<b>7,916</b>	<b>1,844</b>	<b>9,760</b>
At April 1, 2010	9,302	2,364	11,666

## 22 Other assets

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
Amounts in clearing	1,842	215
Deposits receivable	2,768	1,694
Deferred tax asset	2,134	2,129
Derivative financial instruments	228,637	166,956



Unsettled securities	11,900	28,677
Other receivables	90,125	86,259
<b>Total</b>	<b>337,406</b>	<b>285,930</b>

Other receivables of USD 90 million mainly include USD 85.7 million on income accrued on bonds held by the Bank (2010: USD 67.5 million).

### 23 Deposits by banks

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

Banks	March 31, 2011 USD 000s	March 31, 2010 USD 000s
5 years or less but over 1 year	310,727	302,754
1 year or less but over 3 months	25,000	432,209
3 months or less but not repayable on demand	19,900	47,843
	<b>355,627</b>	<b>782,806</b>

### 24 Customer accounts

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

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
5 years or less but over 1 year	1,285,789	1,495,985
1 year or less but over 3 months	1,481,906	1,060,692
3 months or less but not repayable on demand	439,578	520,778
	<b>3,207,273</b>	<b>3,077,455</b>
Repayable on demand	<b>1,002,885</b>	<b>1,474,652</b>
<b>Total</b>	<b>4,210,158</b>	<b>4,552,107</b>

### 25 Debt securities and subordinated liabilities

Bonds issued*	March 31, 2011 USD 000s	March 31, 2010 USD 000s
Residual Maturity		
Over 5 years	468,510	317,691
5 year or less but over 1 year	-	380,680
1 year or less but over 3 months	377,430	32,166
3 months or less	-	390,388
	<b>845,940</b>	<b>1,120,925</b>
Less: Bond issue expenses	(3,504)	(4,021)

Less: Adjustments to carrying amount for change in the value of hedge which is ineffective	(3,944)	(4,496)
	<b>838,492</b>	<b>1,112,408</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, 2011 are as follows:

Date of Issue	Nature of Issue	Interest Rate	Interest frequency	Maturity	USD 000s
<b>Subordinated debt</b>					
11-Jul-06	Unsecured junior subordinated bond due 2016 #	Libor + 200 bps	Semi-annually	First call in July 2011, Maturity in July 2016	25,000
31-Jul-06	Unsecured junior subordinated bond due 2016 #	Libor + 200 bps	Semi-annually	First call in July 2011, Maturity in March 2016	15,000
30-Nov-06	Step-up floating rate junior subordinated notes due 2016	Libor + 100 bps	Semi-annually	Bullet payment in 2016 and Callable 2011	49,940
12-Dec-06	Perpetual junior subordinated notes	6.38%	Semi-annually	Callable by issuer at par in 2016; no maturity	85,000
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	16,070
31-Mar-08	Unsecured junior subordinated bonds due 2018	Libor + 460 bps	Quarterly	First call in June 2013, Maturity in April 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
23-Nov-10	Unsecured subordinated fixed rate notes due 2020	7.00%	Semi annually	Bullet payment in November 2020	150,000
<b>Other debt securities in Issue</b>					
27-Feb-07	Unsecured floating rate notes due 2012 *	Libor + 62 bps	Quarterly	Bullet payment in 2012	377,430

Less: Bond issue expenses (3,504)

Less: Adjustments to carrying amount for change in the value of hedge which is ineffective (3,944)

**838,492**

\* ICICI Bank UK repurchased and extinguished senior and subordinated bonds aggregating to USD 3.20 million during the year ended March 31, 2011

# 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.

## 26 Other liabilities

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
Amounts in clearing	20,733	15,280
Corporation tax payable	16,116	16,168
Other creditors	11,909	10,408
Derivative financial instruments	213,969	202,566
Unsettled securities	-	1,036
<b>Total</b>	<b>262,727</b>	<b>245,458</b>

## 27 Called up share capital

The concept of authorised share capital was abolished under the UK Companies Act 2006 with effect from October 1, 2009 and amendments to the Bank's Articles of Association were approved by shareholders at a General meeting on April 15, 2011.

At March 31, 2011 the Issued share capital of ICICI Bank UK PLC was:

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
545 million ordinary shares of USD 1 each (equity)	545,000	545,000
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>595,095</b>

## 28 Employee benefits

During the year, the Bank made a contribution of USD 209,640 (2010: USD 233,434) to the pension scheme. Out of this amount, USD 17,638 was accrued at the yearend (2010: USD 16,131).

## 29 Contingent liabilities and commitments

### (a) Guarantees and other commitments:

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
<b>Guarantees</b>	<b>177,100</b>	<b>33,140</b>
<b>Other commitments:</b>		
Undrawn formal standby facilities, credit lines and other commitments to lend maturing in:		
Less than one year	11,122	15,593
More than one year	-	1,200
<b>Total guarantees and commitments</b>	<b>188,222</b>	<b>49,933</b>

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

Approximately 66% (2010: 60%) of the total contingent liabilities and commitments relate to counterparties in India and the majority of the remaining balance relates to Europe.

### (c) Foreign exchange contracts

In addition to the commitments disclosed above, there are outstanding foreign exchange contracts of USD 1,147 million (2010: USD 1,703 million).

### 30 Operating lease commitments

As at March 31, 2011, the Bank has the following non-cancellable annual operating lease commitments:

Land and Buildings	March 31, 2011 USD 000s	March 31, 2010 USD 000s
Operating leases which expire:		
Within 1 year	458	98
Between 1 and 5 years	148	433
More than 5 years	2,338	2,254
	<u>2,944</u>	<u>2,785</u>

### 31 Categories and classes of Financial Instruments

As at March 31, 2011

USD 000s

	Fair value through Profit and Loss	Loans and Receivables	Available for Sale	Non trading liability	Held to Maturity	Others	Total
<b>Assets</b>							
Cash	-	-	-	-	-	1,057	1,057
Loans and advances to banks	-	875,384	-	-	-	-	875,384
Loans and advances to customers	-	3,594,595	-	-	-	-	3,594,595
Investment securities	97,942	-	1,451,193	-	26,238	-	1,575,373
Tangible fixed assets	-	-	-	-	-	9,760	9,760
Other assets	228,637	-	-	-	-	108,769	337,406
Prepayments and accrued income	-	-	-	-	-	48,445	48,445
<b>Total assets</b>	<u>326,579</u>	<u>4,469,979</u>	<u>1,451,193</u>	<u>-</u>	<u>26,238</u>	<u>168,031</u>	<u>6,442,020</u>

	Fair value though Profit and Loss	Loans and Receivables	Available for Sale	Non trading liability	Held to Maturity	Others	Total
<b>Liabilities</b>							
Deposits by banks	-	-	-	355,627	-	-	355,627
Customer accounts	-	-	-	4,210,158	-	-	4,210,158
Debt securities in issue	-	-	-	838,492	-	-	838,492
Other liabilities	213,969	-	-	48,758	-	-	262,727
Accruals and deferred income	-	-	-	91,654	-	-	91,654
Shareholders' funds							
Equity share capital	-	-	-	-	-	545,095	545,095
Non equity share capital	-	-	-	-	-	50,000	50,000
ESOP Granted	-	-	-	-	-	2,131	2,131
Profit and loss account	-	-	-	-	-	148,013	148,013
Available for sale securities reserve	-	-	(61,877)	-	-	-	(61,877)
<b>Total liabilities</b>	<b>213,969</b>	<b>-</b>	<b>(61,877)</b>	<b>5,544,689</b>	<b>-</b>	<b>745,239</b>	<b>6,442,020</b>

As at March 31, 2010

USD 000s

	Fair value though Profit and Loss	Loans and Receivables	Available for Sale	Non trading liability	Held to Maturity	Others	Total
<b>Assets</b>							
Cash	-	-	-	-	-	1,060	1,060
Loans and advances to banks	-	1,429,224	-	-	-	-	1,429,224
Loans and advances to customers	-	3,635,269	-	-	-	-	3,635,269
Investment securities	164,797	-	1,810,484	-	25,116	-	2,000,397
Tangible fixed assets	-	-	-	-	-	11,666	11,666
Other assets	166,956	-	28,677	-	-	90,297	285,930
Prepayments and accrued income	-	-	-	-	-	55,319	55,319
<b>Total assets</b>	<b>331,753</b>	<b>5,064,493</b>	<b>1,839,161</b>	<b>-</b>	<b>25,116</b>	<b>158,342</b>	<b>7,418,865</b>

	Fair value though Profit and Loss	Loans and Receivables	Available for Sale	Non trading liability	Held to Maturity	Others	Total
<b>Liabilities</b>							
Deposits by banks	-	-	-	782,806	-	-	782,806
Customer accounts	-	-	-	4,552,107	-	-	4,552,107
Debt securities in issue	-	-	-	1,112,408	-	-	1,112,408
Other liabilities	202,566	-	1,036	41,856	-	-	245,458
Accruals and deferred income	-	-	-	99,483	-	-	99,483
Shareholders' funds							
Equity share capital	-	-	-	-	-	545,095	545,095
Non equity share capital	-	-	-	-	-	50,000	50,000
Capital contribution	-	-	-	-	-	1,467	1,467
Profit and loss account	-	-	-	-	-	115,582	115,582
Available for sale securities reserve	-	-	(85,541)	-	-	-	(85,541)
<b>Total liabilities</b>	<b>202,566</b>	<b>-</b>	<b>(84,505)</b>	<b>6,588,660</b>	<b>-</b>	<b>712,144</b>	<b>7,418,865</b>

## 32 Capital Management

The Bank's regulatory capital requirements are set and monitored by the FSA. The Bank implemented the Basel II framework for calculating minimum capital requirements, with effect from January 1, 2008.

The Bank's regulatory capital is categorised into two tiers:

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

Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment and other allowances and the elements of fair value reserves relating to unrealized gains/losses on equity instruments.

Various limits are applied to the elements of the capital base. Qualifying Tier 2 capital cannot exceed Tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of Tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included in Tier 1 capital.

Under Basel II, the Bank calculates requirements for market risk in its trading portfolios based on Standardised model.

Banking operations are categorized as either trading or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognized in the balance sheet.

The Bank uses regulatory capital ratios in order to monitor its capital base and these capital ratios remain the international standards for measuring capital adequacy. The FSA's approach to such measurement based upon Basel II is now primarily based on monitoring the Capital Resource Requirement to available capital resources. The FSA also sets individual capital guidance (ICG) for the Bank that sets capital requirements in excess of the minimum Capital Resource Requirement. A key input to the ICG setting process is the Bank's Internal Capital Adequacy Assessment Process (ICAAP). The Bank submitted its ICAAP document to the FSA in December 2010.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and

to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all regulatory capital requirements throughout the year.

The Bank's regulatory capital position under Basel II is as follows:

	March 31, 2011 USD million	March 31, 2010 USD million
Total Capital	1,189.1	1,017.1
- Tier I	727.3	687.7
- Tier II	461.8	329.4

### 33 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, the Board Risk Committee (BRC), and the Board Credit Committee (BCC), and follows the ICICI 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 are supported by the Management Committee, which he chairs. The Management Committee is supported by various other committees, which include the Executive Credit Committee (ECC), the Asset Liability Management Committee (ALCO), the Operational Risk Management Committee (ORMC), the Fraud Governance Committee (FGC) and the Product and Process Approval Committee (PAC).

As a financial intermediary, the Bank is exposed to various types of risks. The objective of the risk management framework of 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 of the Bank are as follows:

1. The Board of Directors has oversight over the risks assumed by the Bank. Specific Board committees have been constituted to facilitate focused oversight of various 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 groups/sub-groups.

The key risks that the Bank is exposed to include credit (including concentration risk and residual risk), market (including interest and liquidity risks) and operational risk. The approach adopted by management to manage 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 payment obligations to pay. The Bank's Credit Risk Management Policy (CRMP), which is approved by its Board Credit Committee, 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 has 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 assesses a variety of risks relating to the borrower and the relevant industry while assigning an internal rating. Borrower risk is evaluated by considering, inter alia:

- The financial position of the borrower, by analyzing the quality of its financial statements, its past financial performance, its financial flexibility in terms of ability to raise capital and its cash flow adequacy;
- The borrower's relative market position and operating efficiency; and
- The quality of management by analyzing its track record, payment record and financial conservatism.

Industry risk is evaluated by considering, inter alia:

- Certain industry characteristics, such as the importance of the industry to the economy, its growth outlook, cyclicity and government policies relating to the industry;
- The competitiveness of the industry; and
- Certain industry financials, including return on capital employed, operating margins, and earnings stability.

After conducting an analysis of a specific borrower's risk, the Bank assigns an internal risk rating to the borrower. The Bank has a rating scale ranging from 'AAA' to 'D' (AAA signifying the highest level of credit worthiness and D signifying default). AAA through to BBB are considered as 'Investment Grade' while BB and below are considered 'Non-Investment Grade'.

Credit proposals are approved by the Board Credit Committee (BCC) or the Executive Credit Committee (ECRC) based on, inter alia, the amount and internal risk rating of the facility. All credit proposals are passed through the ECRC before, if required as per the CRMP, being put up to the BCC.

The Credit Risk team is also responsible for the following with respect to managing the Bank's credit risk

- Formulating credit policies in consultation with the Corporate Banking Group which cover the collateral management policy, credit rating framework, provisioning policy, etc.
- Establishing the delegation of sanctioning powers available to individuals, singly or jointly, and the credit committees which are documented in the Credit Approval Authorisation Manual.
- Limiting concentrations of exposure to counterparties, geographies, industrial sectors, internal rating categories, etc. and reviewing the same on a regular basis.
- Performing regular credit stress tests on the Bank's portfolio and communicating the results to the BCC.

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 BCC the key parameters of risk concentration of product specific exposures, single counterparty exposure, large exposures, industry/sectoral exposures, country/geographical exposures and rating category based exposures.



The collateral accepted by the Bank for risk mitigation includes cash, pledge/contractual comfort over equity shares (both listed and unlisted), charge over fixed assets (including plant & machinery and land & building) for term loans, charge over current assets for working capital finance, charge on specific receivables with an escrow arrangement, mortgage on residential/commercial property, assignment of underlying project contracts for project finance loans. The Bank also accepts corporate guarantee and related support undertakings from borrower group entities for mitigating credit risk.

The maximum amount of on balance sheet credit risk, without taking account of any collateral or netting arrangements, as at March 31, 2011 is approximately USD 6.4 billion (2010: USD 7.4 billion). The maximum amount of off balance sheet credit risk on guarantees and letters of credit is approximately USD 188.2 million (2010: USD 49.9 million). Potential credit risk on financial instruments is detailed in Note 17.

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

	March 31, 2011 USD million	March 31, 2010 USD million
AAA	633	134
AA+	-	-
AA	26	180
AA-	131	338
A+	72	165
A	318	542
A-	97	159
BBB+	66	69
BBB	107	111
BBB-	104	185
BB+ and below	21	29
Non rated	602	598
<b>Total</b>	<b>2,177</b>	<b>2,510</b>

#### Industry wise exposure

The following is an analysis of loans and advances by industry:

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
Industrials	584,219	664,870
Consumer Discretionary	384,361	409,021
Consumer Staples	257,800	390,959
Energy	427,044	280,366
Financials	81,903	62,054
Gems & Jewellery	327,736	350,271

Healthcare	166,332	166,687
Information Technology	212,091	179,619
Materials	715,177	718,437
Real Estate	127,000	127,000
RMBS	122,673	122,064
SME CLO	23,635	20,821
CMBS	9,334	9,963
Telecom Services	189,559	165,175
Utilities	14,849	12,776
Others	730	3,549
<b>Total</b>	<b>3,644,443</b>	<b>3,683,632</b>

### Credit quality of loan portfolio

The definition of internal risk rating for the loans and advances are given below :

AAA to AA-	:	High safety
A+ to A-	:	Adequate safety
BBB	:	Moderate safety
BB and below	:	Cautious and higher risk

Internal risk rating of loans and advances to customers

Rating	March 31, 2011 USD 000s	March 31, 2010 USD 000s
AAA to AA-	39,459	23,113
A+ to A-	1,162,806	1,077,569
BBB	1,299,803	1,490,357
BB and below	574,405	573,960
<b>Total</b>	<b>3,076,473</b>	<b>3,164,999</b>

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

### Market Risk

Market risk is defined as the 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, credit spreads, exchange rates, market liquidity, asset prices etc.)

The key policies for managing the market risk as approved by the Board Risk Committee (BRC) are:

- Treasury Policy manual (TPM) which comprises of the liquidity policy statement (LPS) and trading book policy statement (TBPS)
- Valuation and model validation policy

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 Business Risk Committee (BRC). 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 market risks to which the Bank's trading book is exposed relate to:

- **Interest rate risk** – Interest rate risk is defined as the risk of losses the Bank will incur as a result of an increase or decrease in interest rates. Interest income/expense from interest sensitive assets and liabilities are impacted by changes in interest rates. The overall value of the investment portfolio, the underlying value of the Bank's other assets, its liabilities, and off balance sheet (OBS) instruments are also impacted due to change in interest rates because the present value of future cash flows changes when interest rates change (economic value perspective).

Interest rate risk on the balance sheet is measured by the use of re-pricing gap reports and estimating the sensitivity of the Bank's net interest income (defined as Earnings at Risk) to changes in interest rates. 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 utilizations reported to the ALCO and BRC 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 how much the market value of equity would change if interest rates change by 1%. Currently a limit band of -5.0 to +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** – Equity price risk arises due to the volatility of price movements on the Bank's investment in equity shares and convertibles. The equity investment of the Bank as at March 31, 2011 is USD 26.3 million (2010: USD 35.4 million) and option value of the convertibles are USD 11.7 million (2010 : USD 6.5 million).

The Head of Treasury is responsible for managing the market risk of treasury positions of the Bank. Senior management also regularly monitors the positions taken by the Treasury. The ALCO and the BRC 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 in the trading book. 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, 2011 was USD 0.08 million. The maximum, average and minimum VAR during the year for the trading book portfolio was USD 0.33 million, USD 0.04 million and 0.02 respectively. The total VAR for the non-trading book for the Bank's treasury portfolio (including the portfolio reclassified into loans and receivables book) as at March 31, 2011 was USD 22.12 million. The modelling of the risk characteristics of the Bank's trading positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no uniform industry method for estimating VAR and different assumptions and/or approximations could produce materially different VAR estimates. The VAR figures disclosed above, for example, have the following main limitations:

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

- The VAR estimates the risk for a one-day time horizon. It does not capture the market risk of positions over a longer holding period.
- Focusing on the maximum loss that is expected to be incurred 99% of the time says little about the size of the losses in excess of the VAR that are expected to be incurred 1% of the time.
- The VAR calculation is based on certain assumptions (log-normal distribution) on the distribution of market price movements that may 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.

Statistically, the losses on the 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 like interest rate risk; credit spread risk and foreign exchange risk. The results of the stress testing are reported to the ALCO and BRC 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, 2011, assuming a parallel shift in yield curve, has been set out in the following table:

Particulars	Portfolio size	Increase in interest rates (in bps)	
		100	200
Reserves (in USD 000s)	1,451,165	3,850	7,700
Decrease in value of debt securities (excluding credit linked notes) (in USD 000s)		3,850	7,700

The impact of an increase in interest rates on investment securities as at March 31, 2010, assuming a parallel shift in yield curve, has been set out in the following table:

Particulars	Portfolio size	Increase in interest rates (in bps)	
		100	200
Reserves (in USD 000s)	1,800,184	5,808	11,615
Decrease in value of debt securities (excluding credit linked notes) (in USD 000s)		5,808	11,615

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, 2011, 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	0.43	0.86
USD	6.49	12.98

GBP	7.34	14.68
Other currencies	(0.03)	(0.06)
<b>Total</b>	<b>14.23</b>	<b>28.46</b>

The impact of an increase in interest rates on the Bank's net interest income as at March 31, 2010, 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	(0.13)	(0.25)
USD	3.65	7.29
GBP	10.52	21.03
<b>Total</b>	<b>14.01</b>	<b>28.07</b>

Increase in interest rates results in a positive impact on the NII on account of positive re-pricing gaps on the balance sheet i.e. more assets re-price within a 1 year horizon than liabilities.

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 BRC 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 ALCO and the BRC periodically undertake detailed reviews of the liquidity of the Bank.

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

- Structural Liquidity Gap Statement;
- Dynamic Liquidity Gap Statement (i.e. cash flow projections); and
- Liquidity Ratios;
- Liquidity Key Risk Indicators;
- Liquidity Stress Testing.

### 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 to 15 days,
- over 15 days - 1 month,
- 1 month-3 months,
- over 3 months - 6 months,
- over 6 months - 12 months,
- over 1 year - 3 years,
- over 2 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 8 days. This ratio was 1.76 as at March 31, 2011 (1.5 as at March 31, 2010). The loan to deposits ratio describes loans and advances as a percentage of the total customer deposits. The ratio as at March 31, 2011 was 0.92 (0.83 as at March 31, 2010).

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.

### **Liquidity Key Risk Indicators**

In addition to above mentioned measures and controls, the Bank also monitors certain important Key Risk indicators relating to liquidity risk. These indicators amongst them include internal and external indicators. These are reviewed by the ALCO on monthly basis.

### **Liquidity stress testing**

The Bank has implemented its first Individual Liquidity Adequacy Assessment (ILAA) framework in line with the requirements of the FSA policy document CP09/16 on "Strengthening Liquidity Standards" during the current year. The ILAA framework analyses the liquidity profile of the Bank in terms of the key liquidity risk drivers and their behaviour and defines stress scenarios based on which the Bank estimates the Liquid Asset Buffer (LAB) that it needs to maintain to meet liquidity contingencies. The Bank is currently transitioning to the new liquidity regime and is gradually building up its LAB. Based on the scenarios defined in the ILAA framework, the Bank carries out a stress testing of its liquidity position on a monthly frequency and reports the results of the stress test to the ALCO and BRC on a monthly and quarterly basis respectively.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The management of operational risk is governed by the Operational Risk Management Policy (ORMP) approved by the Board Risk Committee (BRC) 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. Operational risk elements covered in the ORMP include operational risk incident management, techniques for risk identification and measurement, monitoring through key risk indicators and risk mitigation techniques.

An Operational Risk Management Committee (ORMC) comprising of the senior management is responsible for the mitigation of operational risk within the Bank by the creation and maintenance of an explicit operational risk management process. The ORMC meets at least on a monthly basis to track and monitor the progress of the implementation of the ORMP. A report on the activities of the ORMC held during a quarter is presented to the BRC on a quarterly basis.

The Operational Risk Management Group (ORMG) is responsible for coordinating all the operational risk related activities of the Bank including implementing tools for managing operational risk and maintenance 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 RCSAs are reviewed at least annually in consultation with the business groups and the results of the RCSA exercise are presented to BRC semi-annually. The Bank also captures certain Key Risk Indicators (KRIs) of the various business groups. The KRIs are monitored on a monthly basis and the results are presented to the ORMC on a monthly basis and to the BRC on a quarterly basis.

The Bank has implemented a loss data collection and reporting process for all operational risk loss data (including internal and external fraud) and near miss events. The data is collected from all business and support units in the UK as well as those outsourced to India. Analysis of such data is reported to the ORMC on a monthly basis and to the BRC on a quarterly basis.

The Bank has adopted the Basic Indicator Approach for the purposes of calculating its operational risk capital charge as per Basel II. The Bank has put in place an Operational Risk Stress Testing (ORST) framework for assessing the adequacy of the operational risk capital charge by computing Operational Value at Risk (OpVaR) @99.9% Confidence Level (CL). The OpVaR is compared with the operational risk capital charge to arrive at requirement of any additional capital charge. The past three year's internal loss data and twenty two business case scenarios have been considered in computation of OpVaR. The ORST results are presented to the ORMC and BRC 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 management after obtaining inputs from all the relevant groups and control functions in the Bank.

The Bank has developed and implemented a Business Continuity and Crisis Management 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. Periodic testing of the BCP is carried out and the results and the updates are shared with ORMC. The corporate BCP of the Bank along with the 20 group specific plans are renewed and presented to the BRC annually.

The Bank has developed and implemented an Outsourcing Policy to mitigate outsourcing risks and ensure the application of a standardized 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 BRC and pre-notified to FSA. The performance of vendors is periodically reviewed and assessment reports are presented to the BRC on a quarterly basis by the performance monitoring unit.

### 34 Cash flow payable under contractual maturity

At March 31, 2011, the contractual maturity comprised

USD 000s

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non contractual maturity	Total
Deposits by banks	20,866	25,927	1,464	314,072	-	-	362,329
Customer accounts	1,442,465	636,329	845,578	1,285,789	-	-	4,210,161
Other liabilities	80,334	-	-	-	-	-	80,334
Derivative financial liabilities	29,514	5,320	26,062	108,629	12,868	-	182,393
Accruals and deferred income	51,871	9,120	12,235	18,428	-	-	91,654
Debt securities in issue	7,735	7,735	392,523	109,861	543,645	-	1,061,499
Shareholders' funds	-	-	-	-	-	683,362	683,362
<b>Total Liabilities</b>	<b>1,632,785</b>	<b>684,431</b>	<b>1,277,862</b>	<b>1,836,779</b>	<b>556,513</b>	<b>683,362</b>	<b>6,671,732</b>

At March 31, 2010, the contractual maturity comprised

USD 000s

	Less than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non contractual maturity	Total
Deposits by banks	2,668	172,459	256,421	311,920	-	-	743,468
Customer accounts	1,995,430	339,924	720,767	1,495,985	-	-	4,552,106
Other liabilities	42,892	-	-	-	-	-	42,892
Derivative financial liabilities	26,855	483	5,297	162,142	7,789	-	202,566
Accruals and deferred income	63,576	4,457	12,300	19,617	-	-	99,950
Debt securities in issue	396,372	5,368	42,409	609,760	152,530	-	1,206,439
Shareholders' funds	-	-	-	-	-	626,603	626,603
<b>Total Liabilities</b>	<b>2,527,793</b>	<b>522,691</b>	<b>1,037,194</b>	<b>2,599,424</b>	<b>160,319</b>	<b>626,603</b>	<b>7,474,024</b>

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



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

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

	March 31, 2011 Fair value USD 000's	March 31, 2011 Book value USD 000's	March 31, 2010 Fair value USD 000's	March 31, 2010 Book value USD 000's
<b>Non trading book financial assets and liabilities</b>				
<b>Assets:</b>				
Cash	1,057	1,057	1,060	1,060
Loans and advances to banks	876,385	875,384	1,407,074	1,429,224
Loans and advances to customers	3,572,072	3,594,595	3,611,794	3,635,269
Investment securities	1,477,331	1,477,431	1,835,716	1,835,600
<b>Liabilities:</b>				
Deposits by banks and customer accounts	4,561,193	4,565,785	5,278,231	5,334,913
Debt securities in issue	855,187	838,492	1,128,797	1,112,408
<b>Financial assets and liabilities at fair value through profit and loss</b>				
<b>Assets:</b>				
Derivative financial instruments	228,637	228,637	166,956	166,956
Credit linked notes	97,942	97,942	164,797	164,797
<b>Liabilities:</b>				
Derivative financial instruments	213,969	213,969	202,566	202,566

Notes:

1. 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.
2. The fair value of deposits by banks and customers has been estimated using current rates offered for deposits of similar maturities.
3. For estimating the fair value of debt securities in issue, quoted market price at the balance sheet date are considered.

### 36 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 swaps exchange fixed rate for floating rate on assets/liabilities to match the floating rates paid/received on funding or exchanges fixed rates on funding to match the floating rates received/paid on assets/liabilities. 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,

2011, the notional amounts of swaps designated as fair value hedges was USD 1,453 million (2010: USD 700 million) and these contracts had a positive fair value of USD 24.8 million (2010: negative fair value of USD 10.8 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, 2011, the principal amounts of the instruments were:

USD 000s

Instrument	Non-trading Notional Principal	Trading Notional Principal	Gross Positive Fair Value	Gross Negative Fair Value
Exchange rate	1,161,637	2,213,544	125,357	120,915
Interest rate	291,711	2,470,806	45,914	51,538

At March 31, 2010, the principal amounts of the instruments were:

USD 000s

Instrument	Non-trading Notional Principal	Trading Notional Principal	Gross Positive Fair Value	Gross Negative Fair Value
Exchange rate	-	1,928,551	64,934	90,212
Interest rate	700,064	3,458,747	102,022	112,354

### 37 Assets and liabilities denominated in foreign currency

	March 31, 2011 USD 000s	March 31, 2010 USD 000s
Denominated in US Dollars	2,973,302	3,684,536
Denominated in Sterling	2,303,757	2,278,138
Denominated in other currencies	1,164,961	1,456,191
<b>Total assets</b>	<b>6,442,020</b>	<b>7,418,865</b>
Denominated in US Dollars	1,938,927	2,198,865
Denominated in Sterling	3,468,192	4,367,992
Denominated in other currencies	1,034,901	852,008
<b>Total liabilities</b>	<b>6,442,020</b>	<b>7,418,865</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 36 which are held for hedging purposes.

### 38 Litigation

There are no material outstanding legal proceedings against the Bank.

### 39 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, 2011 financial statements.

### 40 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.