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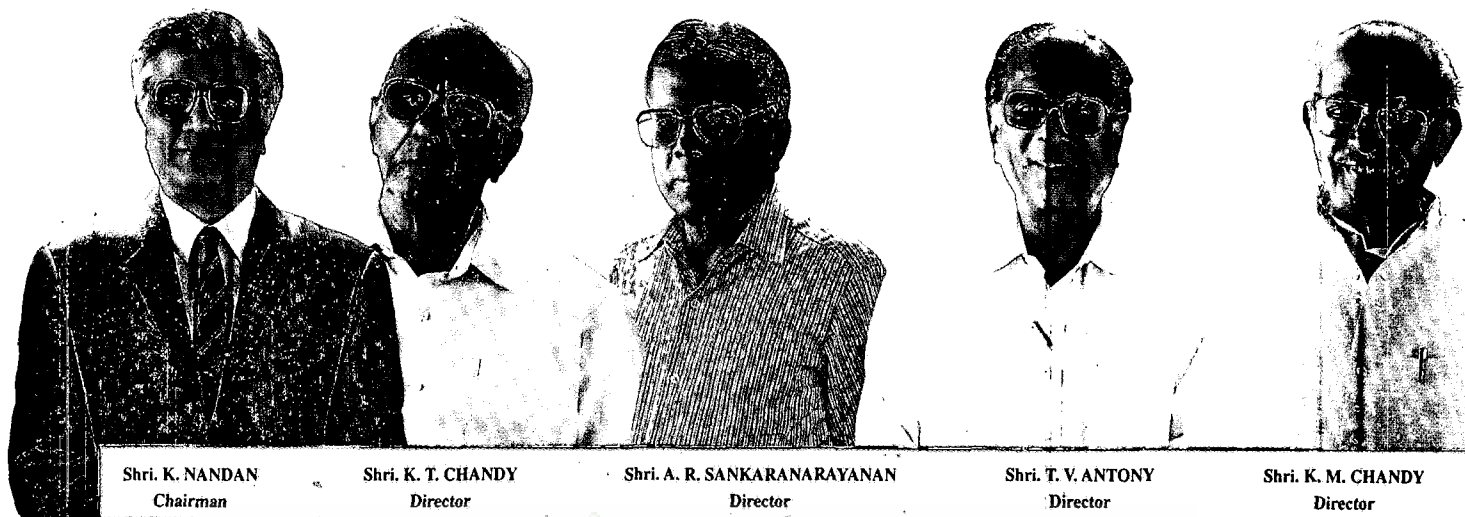
D E D I C A T I O N

E X C E L L E N C E





# B O A R D O F



Shri. K. NANDAN  
Chairman

Shri. K. T. CHANDY  
Director

Shri. A. R. SANKARANARAYANAN  
Director

Shri. T. V. ANTONY  
Director

Shri. K. M. CHANDY  
Director

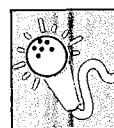
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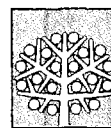
BOARD OF DIRECTORS



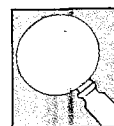
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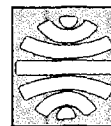
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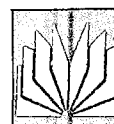
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33 FEDBANK FINANCIAL SERVICES LTD.

Company Secretary

Shri. Girish Kumar Ganapathy

Auditors

M/s. Warriar & Warriar  
Trichur

M/s. R. Rajan Associates  
Trichur

M/s. Balan & Company  
Alwaye

# THE FEDERAL BANK LIMITED

Registered Office : Aluva - 683 101

## NOTICE TO SHAREHOLDERS

Notice is hereby given that the Sixty Seventh Annual General Meeting of The Federal Bank Limited will be held as shown below:

Date : 9th September, 1998  
Day : Wednesday  
Time : 3 P.M.  
Venue : Municipal Town Hall, Aluva.

to transact the following items of business :

### ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 1998 and the Profit & Loss account for the period ended on that date together with the reports of the Board of Directors and the Auditors thereon.
2. To declare dividend.
3. To appoint a Director in the place of Mr. K.T. Chandy who retires by rotation, and being eligible offers himself for reappointment.
4. To appoint a Director in the place of Mr. M.S. Parthasarathy who retires by rotation, and being eligible offers himself for reappointment.
5. To appoint M/s. Warriar & Warriar, Trichur, M/s. Balan & Co., Alwaye and M/s. R. Rajan Associates, Trichur, as Joint Statutory Auditors of the Bank to hold office until the conclusion of the next Annual General Meeting of the Bank, on a remuneration to be fixed by the Board.

### SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following resolution, with or without modifications as an Ordinary Resolution.  
RESOLVED that the Board of Directors be and is hereby authorised to arrange audit of branches for the accounting year 1998 - 99 and to appoint branch auditors in consultation with Statutory Auditors and to fix their remuneration for the purpose.
7. To consider and, if thought fit, to pass the following resolution, with or without modifications as an Ordinary Resolution.  
RESOLVED that Mr. Justice V. Khalid (Retired), be and is hereby appointed as a Director of the Bank whose period of office shall be liable to determination by retirement of Directors by rotation.
8. To consider and, if thought fit, to pass the following resolution, with or without modifications as an Ordinary Resolution.  
RESOLVED that the ninth position, currently lying vacant, on the Board of Directors be filled, and FURTHER RESOLVED that Mr. U. Mahesh Rao be and is hereby appointed to the said vacancy on the Board of Directors of the Bank, as a Director whose period of office shall be liable to determination by retirement of Directors by rotation.

## EXPLANATORY STATEMENT

(As required under Section 173 (2) of the Companies Act, 1956)

In conformity with Section 173 (2) of the Companies Act, 1956, the following explanatory statements furnish the material facts relating to items No. 6, 7 and 8.

### Item No. 6

In accordance with the provisions of Section 228 (3) (a) of the Companies Act, 1956, the Board of Directors may be authorised to appoint Branch Auditors in consultation with the Statutory Auditors. The appointment will be made after getting the approval from RBI.

None of the Directors is interested in the resolution.

### Item No. 7

Mr. K.M. Noordin Mather, who was appointed as a Director of the Bank liable to retire by rotation, at the Annual General Meeting held on 8th September 1989, ceased to be a Director of the Bank on 7th September 1997, on completion of eight years of Directorship as per Sec. 10A (2A) of the Banking Regulation Act, 1949. A notice has been received from a member along with a deposit of Rs. 500/- (Five hundred only) as required by Sec. 257 of the Companies Act 1956, proposing Mr. Justice V. Khalid (Retired) as a candidate for the office of the Director of the Bank liable to retire by rotation. Mr. Justice V. Khalid (Retired) has signed and filed with the Bank his consent in writing to act as a Director, if appointed.

Mr. Justice V. Khalid (Retired), is a luminary in the field of law and is a former Supreme Court Judge. Before his elevation to the Supreme Court, he was Chief Justice of Jammu & Kashmir High Court and earlier he was a Judge in the High Court of Kerala. In view of his vast and varied experience in the field of law, your Directors feel that his association with the Bank will be of benefit to the Bank and his appointment will, therefore, be in the interest of the Bank.

None of the Directors is interested in the resolution.

### Item No. 8

As per Article 62 of the Articles of Association of the Bank, the maximum number of Directors of the Bank can be nine. In view of the growth achieved by the Bank in the past years, in terms of business and profit, it is felt that the strength of the Board be expanded to nine to bring in persons with long experience in the fields of investment, banking etc.

A notice has been received from a member along with a deposit of Rs. 500/- (five hundred only) as required by Sec. 257 of the Companies Act 1956, proposing Mr. Rao as a candidate for the office of the Director of the Bank liable to retire by rotation. Mr. Rao has signed and filed with the Bank his consent in writing to act as a Director, if appointed.

Mr. Rao was till recently the Managing Director of General Insurance Corporation of India, Mumbai the largest public sector enterprise in the field of general insurance. Given his long experience and knowledge of investment finance and

the corporate sector, your Directors feel that Mr. Rao's association with the Bank, will be of benefit to the Bank and his appointment will, therefore, be in the interest of the Bank.

None of the Directors is interested in the resolution.

#### NOTES

1. A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote instead of himself. The instrument appointing a proxy shall be deposited at the Registered Office of the Bank not later than 48 hours before the scheduled time for holding the meeting. A proxy need not be a member.
2. The Share Transfer Register and the Register of Members will be closed from 19th August 1998 to 9th September, 1998 (both days inclusive) during which period no transfer of shares will be registered.

By Order of the Board

Aluva,  
Date : 04.08.1998

Girish Kumar Ganapathy  
*Company Secretary*



## FOR THE ATTENTION OF SHAREHOLDERS

### Proxy Form and Attendance Slip

A blank proxy form and attendance slip is sent along with the notice and Annual Report. Shareholders are requested to detach the attendance slip and produce it for verification at the venue of the meeting.

### Queries at the AGM

Shareholders wishing to make queries at the AGM on any aspect of the working of the Bank, the published accounts or the Director's Report may write to "The Company Secretary, The Federal Bank Ltd., Federal Towers, PB No. 103, Aluva - 683 101" so as to reach him latest by 24.08.98, specifying the point/s requiring clarification from the Chairman.

### Correspondence

All correspondence relating to shares and dividend should be addressed to the Bank's Registrars and Share Transfer Agents, viz :

Integrated Enterprises Ltd.,  
36/697, Kanjirathara House,  
Lissie Hospital Road,  
Ernakulam-682 018

### Unclaimed Dividends

Dividend Warrants to be issued to shareholders will be valid for payment for a period of 6 months from the date of issue.

It may be noted that any dividend amount remaining unclaimed / unpaid on the expiry of 3 years from the day of declaration of dividend for a particular year is required to be transferred to the General Revenue Account of the Central Government in terms of Section 205 A of the Companies Act, 1956. Thus a share holder who has not encashed a dividend warrant relating to a period of more than 3 years back should claim the amount from the Registrar of Companies, M.G. Road, Ernakulam, by applying in the prescribed form (proforma available at the Secretarial Department, HO Aluva).

In accordance with statutory requirements, unclaimed dividends for the following financial years will be deposited with the Central Government on the dates specified hereunder.

Dividend for the year	Date of issue of dividend warrant	Schedule date of transfer to Central Govt. a/c
1994 - 95	06.09.1995	11.09.1998
1995 - 96	30.09.1996	08.10.1999
1996 - 97	06.10.1997	19.10.2000

Shareholders who have not encashed their dividend warrants for any of the above years are requested to have the warrants revalidated by sending them to the Bank.

### Change of Address

Shareholders are requested to intimate any change in their address, to the Registrars and share Transfer Agents, whose address is noted above, by a separate communication duly quoting their share folio number.

Aluva,  
Date : 04.08.1998

Girish Kumar Ganapathy  
Company Secretary

# D I R E C T O R S



**Shri. M. S. PARTHASARATHY**  
Director

**Shri. P. S. MENON**  
Director

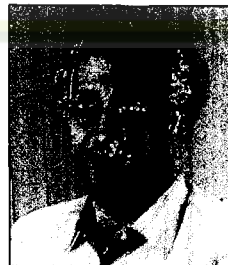
**Shri. K. V. ANS**  
Director

**Shri. M. T. VARGHESE**  
Director

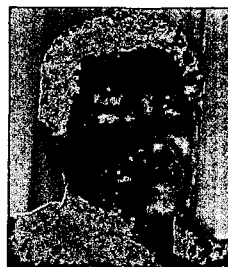
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**Shri. K. P. PADMAKUMAR**  
Executive Director



**Shri. C. BHASKARAN**  
General Manager



**Shri. C. P. PATHROSE**  
General Manager



**Shri. K. V. KURIAKOSE**  
General Manager



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## CHAIRMAN'S MESSAGE



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*During the last fiscal, Federal Bank achieved the unique distinction of becoming the largest bank in the private sector. This significant growth in Balance Sheet size also saw wide spectrum growth in the range and depth of our clientele whose support all along has made us reach where we are today. In the years ahead, keeping customer delight in sharp focus, we shall constantly strive to increase the shareholders' wealth, achieving excellence in all parameters of banking.*

**K. Nandan**  
Chairman

India's Premier Private Sector Bank





## REPORT OF DIRECTORS



Your Directors are happy to present the Bank's 67th Annual Report and audited financial statements for the year ended 31st March, 1998.

**IMPRESSIVE PROGRESS IN A DIFFICULT YEAR** The year 1997-98 turned out to be one in which certain adverse factors which affected the national economy made it difficult for the banking system to achieve substantial progress. Nevertheless, the year saw your Bank cross a major milestone in its history. Its total working funds (i.e. deposits plus advances) crossed the Rs. 10,000 crore level from the previous year's Rs.7602 crore thereby raising it to the top spot among private sector banks in the country. This was accomplished through a pace of expansion in both deposits and advances that was about twice the rate of growth recorded by the domestic banking system as a whole. The Bank's branch network, which reached out further into various regions of the country, remained the largest among privately owned banks in India. The Bank's net profit for the year exceeded the Rs.50 crore mark, which incidentally also helped improve the Bank's capital-adequacy ratio.

**DIFFICULT OPERATING ENVIRONMENT** The Indian economy's performance during 1997-98 recorded a downslide, after a relatively strong display in the preceding three years. Growth in the gross domestic product (at 1980-81 prices) declined sharply to 5% during the year from the level of 7.2-7.5% rise in the previous two years. The slackening was largely because of a 3.7% fall in agricultural output after a 9.3% rise in 1996-97, and a deceleration of growth in industrial production to 4.2% from 12.1% in 1995-96 and 7.1% in 1996-97. Infrastructural inadequacies were a major reason for the industrial slowdown. Sluggish market coupled with uncertainties in the investment climate adversely affected the required stimulus for industrial investment, which declined as reflected in a fall in the output of capital goods. Export earnings, in US dollar terms, recorded just 2.6% growth in 1997-98, lower than even the 5.3% growth registered in 1996-97, and far lower than the expansion of 20.7% achieved in 1995-96. Imports also slowed down considerably, increasing, in US dollar values, by only 5.8% during the year compared with 6.7% in 1996-97 and 28% in 1995-96. The rupee depreciated against the US dollar by about 4.5% during the year. Foreign exchange reserves remained at a comfortable level, reaching \$26 billion at the end of the year. The service sector, however, recorded a 8.9% growth in 1997-98, higher than the 8.1% rise in 1996-97, but this was mainly because of substantially higher growth in public administration and defence outlays. Average inflation during the year was below 5%, down from 6.9 % in the previous year, but real interest rates continued to be high.

While liquidity in the banking system was comfortable at least in the first half of the year, depressed demand for credit combined with cautious selection of borrower led to slow expansion in bank credit to the commercial sector. With new avenues for sound lending rather limited, banks found Government securities providing safe havens for surplus resources. The Reserve Bank of India (RBI) sought to influence interest rates of the banking system by rejuvenating the Bank Rate mechanism and linking to it some of the deposit rates and the refinance rate. There was a significant decline in both deposit and lending rates of banks as RBI reduced the Bank Rate progressively in three stages during April-October 1997. However, in the wake of the financial turbulence that swept East Asian economies during the year, RBI



## REPORT OF DIRECTORS

modified its monetary policy during the period November 1997 - January 1998, in order to counteract any speculative pressures on the rupee. The Bank Rate was raised sharply by two percentage points to 11%, and the Cash Reserve Ratio (CRR) by one percent to 10.5%. By March 1998, as the foreign exchange market conditions appeared settled, these measures were partly reversed. By April 1998, the Bank Rate was back at the 9% level, and the CRR at 10%.

These policy changes and the response thereto of competing institutions, inevitably required frequent but competitive adjustments in your bank's interest-rate structures and operational strategies. The general downward push to interest rates during most of the year, however, brought interest-rate spreads and profitability of banks under pressure and accentuated the need for greater intermediation efficiency. Further, the general economic slowdown adversely impacted on client performance, and banks had to be vigilant about the levels of their Non-Performing Assets (NPAs) and initiate suitable measures to counteract portfolio problems.

### THE BANK'S PERFORMANCE

**Higher Profits and Larger Equity Base** The Bank's gross profit for the year showed a 41.7% rise to Rs. 92.7 crore from Rs. 65.4 crore in the previous year. The net profit was Rs. 50.3 crore, up from Rs. 46.2 crore in 1996-97. It would have been much higher but for the decline in the net interest-rate spreads, in the wake of the aforesaid RBI measures to bring down the general level of interest rates, and the far higher level of provisions which the Bank considered it prudent to make in respect of past advances that had turned non-performing.

The Directors are happy to recommend a dividend of 35% on the paid-up capital, subject to RBI approval.

After the proposed dividend and other appropriations, the shareholders' funds will be Rs. 374.1 crore, which is 13% larger than Rs. 320.2 crore a year earlier. The expanded equity will include share premium of Rs. 148.9 crore, statutory reserve of Rs. 110.3 crore, general reserve of Rs. 76.8 crore, capital reserve of Rs. 15 crore, apart from paid-up capital of Rs. 21.7 crore.

The enlarged equity improves the Bank's Capital-To-Risk-Assets Ratio (CRAR) further to 9.4% from 9.2% in March 1997.

### Substantial Additional Resource Mobilisation

The total deposits of the Bank rose by Rs. 1,821 crore to a record Rs. 6,424 crore as at 31st March 1998, registering a growth of 39.6%, which is more than double the 18.9% registered by all commercial banks. The Bank continued to enjoy the growing trust and confidence of Non Resident Indians (NRIs), whose deposits with the Bank rose by 25% during the year to Rs. 1,806 crore, representing about 28% of the Bank's aggregate deposits.

**Sharp Expansion in Credit Delivery** Despite the generally weak demand for bank credit, the Bank was able to enlarge its credit portfolio by as much as Rs. 922 crore during the year to Rs. 3,921 crore. The 31% growth was far higher than that of 16% recorded by all commercial banks.

The Bank's credit portfolio is well distributed over several resilient and healthy sectors, subsectors and within prudent exposure limits. Despite

