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# THINKING DIFFERENTLY

# THE FEDERAL BANK LIMITED

Registered Office: Aluva - 683 101.

## NOTICE TO SHAREHOLDERS

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

**Date** : 9 September, 1999  
**Day** : Thursday  
**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, and the Profit & Loss account for the year ended on 31 March, 1999 together with the reports of the Board of Directors and the Auditors thereon.
2. To declare a dividend.
3. To appoint a Director in the place of Shri T.V. Antony, who retires by rotation, and being eligible offers himself for re-appointment.
4. To appoint a Director in the place of Shri P.S. Menon, who retires by rotation, and being eligible offers himself for re-appointment.
5. To consider and if thought fit, to pass the following resolution, with or without modifications, as a Special Resolution.

RESOLVED 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 of Rs.4,05,000/- to be shared equally.

### **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 1999-2000 and to appoint branch auditors in consultation with Statutory Auditors and to fix their remuneration for the purpose.
7. To appoint a person as a Director, liable to retire by rotation, on the Board of Directors of the Bank, in the vacancy caused by the cessation of directorship of Shri K.T. Chandy, on completion of eight years of directorship on the Board of the Bank, as prescribed under Sec. 10A (2A) of the Banking Regulation Act, 1949.
8. To consider and, if thought fit, to pass the following resolution, with or without modifications, as an Ordinary Resolution.

RESOLVED to approve the pay and other allowances payable, as approved by Reserve Bank of India (RBI) and indicated in the explanatory statement, to Shri K.P. Padmakumar, Chairman.

# 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 & 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 appointments will be made after getting the approval from Reserve Bank of India (RBI).

None of the Directors is interested in the resolution.

## Item No. 7

Shri K.T. Chandy was appointed to the Board of Directors of the Bank by the shareholders at the Annual General Meeting held on 30 August, 1991. Shri K.T. Chandy was former Chairman of Food Corporation of India, Hindustan Steel Ltd., Kerala State Industrial Development Corporation and Director of Hindustan Lever Ltd. etc. He was a guiding factor in all the activities of the Bank and his contribution for the overall development of the Bank as a Director has been invaluable.

As prescribed under Section 10A (2A) of the Banking Regulation Act, 1949, no director of a banking company, other than its Chairman, shall hold office for a period exceeding eight years continuously. Shri K.T. Chandy completes eight years on the Board of the Bank on 29 August, 1999. The said vacancy caused in the Board of Directors shall be filled up at this Annual General Meeting.

None of the Directors is interested in the item.

## Item No. 8

Shri K.P. Padmakumar took charge as Chairman and Chief Executive Officer of the Bank for a period of 3 years at the close of office hours on 31.12.1998, as per the terms and conditions approved by RBI vide letters No. DBOD/(T)/No.1321/06.03.01/98-99 dated 28.12.1998, No. DBOD(T)NO.1712/06.01.03/ 98-99 dated 08.03.1999 and No. DBOD(T)NO.20/06.01.03/99-2000 dated 03.07.1999 which included the terms and conditions as given herein below. He was Executive Director of the Bank for 4 years prior to his appointment as Chairman and was Asst. General Manager in State Bank of India before joining our Bank as Executive Director in 1995.

Salary	Rs. 55,000/- p.m. with annual increment of Rs. 5,000/-
D.A.	NIL
P.F.	10% of basic pay
H.R.A.	15.75% of basic pay
Conveyance	Free use of Bank's car for official use. If used for personal purpose, recovery of Rs. 250/- p.m. upto 750 kms. Charges for private use of car in excess of 750 kms. will be 60% of the rate fixed by RTA.
Official Travel	Highest class by whichever mode within the country and Business Class by air for foreign travel.
Lodging Expenses	Actual charges incurred supported by bills/vouchers
Boarding Charges	Actual charges incurred (other than alcoholic drinks) on production of bills/vouchers
Per Diem Charges / HA	a) Rs. 500/- per day in case Boarding expenses are not claimed. b) Rs. 1000/- per day if Boarding and Lodging expenses are not claimed.

Leave	<p><b>Casual Leave:</b> 12 working days in a year provided that not more than 4 days casual leave may be availed of at any one time. No accumulation or conversion of casual leave is permitted.</p> <p><b>Privilege Leave:</b> On full emoluments computed at 1 day for every 11 days except where leave has been applied and it has been refused.</p> <p><b>Sick Leave:</b></p> <ol style="list-style-type: none"> <li>30 days SL for each completed year of services;</li> <li>Such leave could be accumulated upto 360 days;</li> <li>Sick leave will be on half of the full emoluments unless twice of the amount of such leave is debited to the SL account.</li> </ol>
LTC	Highest class by whichever mode of travel within the country/actual amount incurred. Business Class by air for foreign travel subject to the condition that the reimbursement shall be limited to the Business Class fare applicable for the journey between Kochi and New Delhi.
Medical Benefits	Reimbursement of medical expenses upto a limit of Rs. 3000/- per annum for self and family with stipulation that reimbursement in respect of his family is restricted to 75% of such expenses. May be allowed to accumulate claims for reimbursement of medical expenses incurred for a period not exceeding three years, claims for periods exceeding three years will lapse. Hospitalisation charges could be reimbursed to the extent of 90% in the case of Chairman and 60% in the case of family members.
Entertainment Allowance	Upto Rs. 10,000/- p.m. including club membership, 25% of which reimbursable on declaration and balance against evidence of expenses incurred. Membership of clubs restricted to two.
Insurance Cover	Rs. 5 lakh for journey by road, rail, air.
Salary for attendant at home	Reimbursement of salary upto Rs. 1500/- p.m.
Telephone	Free use of Bank's phone at residence for official purpose.
Bonus and Sitting Fee	Chairman will not be entitled to any sitting fees for attending the Board / Committee Meetings or for bonus from the Bank.
Encashment of Leave	As applicable to other officers of the Bank. Encashment will be allowed only at the time of final demission of office.
Gratuity	As per the rates of gratuity applicable to other staff of the Bank.
Pension	Not eligible.
Driver's Salary	Reimbursement of a maximum of Rs. 2500/- p. m.
None of the Directors other than Shri K.P. Padmakumar is interested in the resolution:	

#### NOTES

- 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.
- The Share Transfer Register and the Register of Members will be closed from 30 August 1999 to 9 September 1999 (both days inclusive) during which period no transfer of shares will be registered.

By Order of the Board

Sd/-

**Girish Kumar Ganapathy**  
Company Secretary

Place : Aluva  
Date: 30.07.1999

## 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 Directors' Report may write to "The Company Secretary, The Federal Bank Ltd., Federal Towers, P.B.No. 103, Aluva - 683 101" so as to reach him latest by 23.08.1999, 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 (India) Ltd.,  
36/697, Kanjirathara House,  
Lissie Hospital Road,  
Ernakulam, Kochi - 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.

Hitherto shareholders who have not encashed the dividend warrant within a period of 3 years from the date of issue could claim refund from Registrar of Companies by filing the prescribed return. Since Companies (Amendment) Act 1999 has come into force, dividend amount remaining unclaimed/unpaid on the expiry of 7 years from the day of declaration of dividend for a particular year is required to be transferred to the Investor Education and Protection Fund of the Central Government. Further no claims shall lie against the fund or the Bank in respect of individual amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claims. Hence shareholders will not be in a position to get back the dividend amount on transferring the amount to the fund. Shareholders who have not encashed their dividend warrants for the years 1995-1996, 1996-1997 and 1997-1998 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.

Place : Aluva  
Date: 30.07.1999

By Order of the Board  
Sd/-  
**Girish Kumar Ganapathy**  
Company Secretary

TO BE IN  
TUNE WITH  
CUSTOMER  
NEEDS

Yes, we believe in

thinking differently

That the smallest

account be

as valued as the biggest.

That state-of-the-art

innovations should be as

caring as personalized

service. So that there is

always perfect harmony

between customer

and bank.

A flute is not  
just a reed.  
And banking is  
not just about  
money.





Shri. K. P. PADMAKUMAR  
Chairman

## BOARD OF DIRECTORS



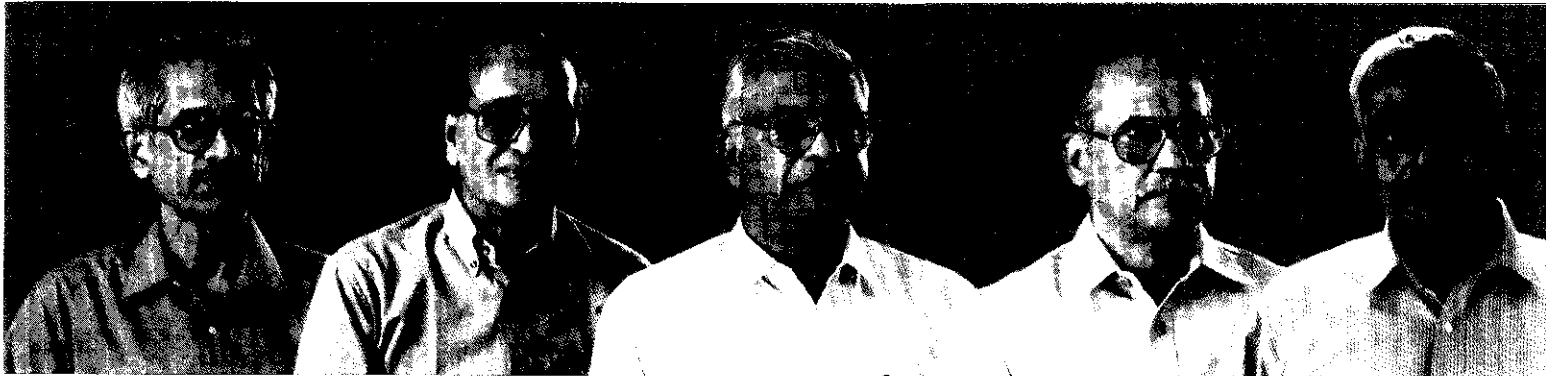
Shri. K. T. CHANDY  
Director

Shri. A. R. SANKARANARAYANAN  
Director

Shri. T. V. ANTONY  
Director

Shri. M. S. PARTHASARATHY  
Director

Shri. P. S. MENON  
Director



Shri. U. MAHESH RAO  
Director

Shri. JUSTICE V. KHALID (Rtd.)  
Director

Dr. C. K. GEORGE  
Director

Shri. K.V. RAMACHANDRAN  
Director

Shri. K. V. ANS  
Director

### Company Secretary

Shri. Girish Kumar Ganapathy

### Auditors

M/s. R. Rajan Associates  
Trichur

M/s. Warriar & Warriar  
Trichur

M/s. Balan & Company  
Aluva

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SERVICES LTD



Your Directors are happy to present the Bank's 68th Annual Report and audited financial statements for the year ended 31 March 1999.

### ECONOMIC SCENARIO

The Indian economy was greatly affected by the turbulent and unfavourable situation in the world economy consequent to the East Asian crisis. GDP growth, rose from 5% in 1997-98 to 5.8% in 1998-99 showing a recovery trend. The rate of inflation on a point to point basis as measured by the Wholesale Price Index (WPI) was placed at 5% at the end of 1998 - 99 as compared to 5.3% in the previous year. Despite erratic rainfall in the beginning of monsoon, agricultural production went up by 5.3% during 1998-99 compared to a decline of 1% in the previous year. Industrial progress was constrained by deceleration in sectors like mining, steel and cement, and the industrial growth registered was only 3.8%, down from 6.6% in the previous year. Exports registered a growth of 3.7% only. The capital market was almost dormant for a major part of the year primarily due to the reduced foreign direct investment and inflows from Foreign Institutional Investors. The foreign exchange market was highly volatile and the rupee depreciated by 11.5% from Rs.37.16 per dollar in 1997-98 to Rs.41.88, but remained almost stable thereafter, thanks to periodical interventions by Reserve Bank of India (RBI). Foreign exchange reserves as at the end of March 1999 stood at \$32 billion, up from \$29 billion a year earlier. The current account deficit was lower at 1.4 % of GDP in 1998 - 99 as against 1.5% in the previous year. The overall performance of the economy was moderate.



## REPORT OF DIRECTORS



*A new beginning with renewed dedication.  
Re-dedication of Hyderabad Abids branch.*

### THE BANKING SCENARIO

The sluggish industrial sector and depressed investment climate led to lower demand for bank credit. Non-food credit expansion decelerated to 12.1% from the previous year's 15.1%. The banking system, therefore, faced surplus liquidity. The year also saw significant volume of corporate defaults with many sectors like steel and textile showing significant signs of inability to cope up with the reform-induced changes. RBI faced the challenge of reducing monetary expansion while nurturing growth. Some bold initiatives towards integrating the financial system with the world economy were taken through both monetary policies and specific directives to the banking system. RBI reduced the Bank Rate from 10.5% to 10%, effective from 3 April 1998, and again to 9% on 29 April 1998. The rate was again lowered to 8% in March 1999. The cash reserve ratio of banks was lowered from 11% to 10.5%, sending clear signals to the financial system of a lowering of the interest-rate structure. Despite surplus liquidity, the incremental inflow of deposits to scheduled commercial banks was lower at 18.5% compared to the 19.5% growth registered in 1997-98.

Banks responded with across-the-board reduction in both deposit and lending rates. The



prime lending rates of most of the nationalised banks are now hovering around 12%. RBI also announced further tightening of the prudential norms as part of the implementation of the second report of The Narasimham Committee. Banks are required to achieve a minimum capital-to-risk assets ratio (CRAR) of 9% by March 2000, and 10% by March 2002. All these indicate that it is only through sustained profitability the banking industry can maintain its growth, not to mention accelerating growth.

### THE BANK'S PERFORMANCE

The Bank's total business funds recorded an impressive growth of Rs.665 crore over the previous year, crossing the Rs.11,000 crore mark. The slowdown in the economy, along with significant deceleration in sectors like steel, textile, real estate, and cement, restricted credit growth in the banking industry. Your Bank could, however, maintain average credit-deposit ratio of 56% during the year. In the sectors which were most affected by the slow down, the Bank had significant exposure and the corporate defaults in these sectors together with failure of some large non-banking finance companies led to perceptible increase in the non-performing assets of the Bank. The consequential higher provisions and derecognition of income coupled with reduced interest spread led to a sharp fall in the operating profit of the Bank. The gross non-performing assets (NPA) of the Bank represented 10.93%, and net NPAs (7.53%) of the total advances which are lower than overall industry average. While the year's operations showed a net profit of Rs.2.53 crore, the Bank had to transfer Rs.75 crore from the revenue and other reserves to the Profit &

Loss account, from which Rs.52.3 crore has been used towards provisions and contingencies relating to earlier years. The net worth of the Bank consequently declined to Rs.323 crore. The book value per share was Rs.148.59 as on 31 March 1999.

The high cost of deposits in a scenario of reducing yield on advances, as a result of the progressive reduction in the Bank's lending rates necessitated by market trends, has also adversely affected



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the Bank's performance during the year. While the reduction in the deposit rates, would take prospective effect, lending-rate reductions immediately affected the yield structure on loan assets. During 1994-95, because of the high lending rates prevailing at that time, the Bank had mobilised high cost deposits from the non-resident Indian (NRI) segment, primarily in the term deposit portion.

In view of the adverse circumstances discussed above, the Directors are constrained to recommend payment of a lower dividend of 10%, subject to the approval of RBI.

The Bank's shares are amongst the few selected shares notified by The Securities and Exchange Board of India (SEBI), on the basis of volume traded (about 1 lakh shares a month), to be brought under compulsory dematerialisation mode, effective from 1 June 1999, and the Bank's shares have been demated from the said date.

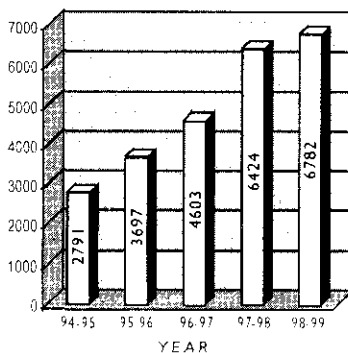
The Bank made its maiden bond issue of Rs.150 crore by way of unsecured non-convertible redeemable subordinated debentures during January 1999, augmenting the Tier II capital of the Bank. The issue was fully subscribed on the same day on which the issue was opened, reflecting the trust reposed by the investors.



## REPORT OF DIRECTORS

Report

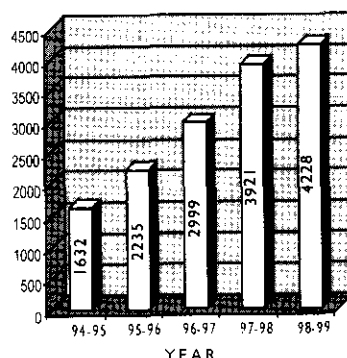
### DEPOSITS (Rs. in crores)





## REPORT OF DIRECTORS

### ADVANCES (Rs. in crores)



The Bank's CRAR improved to 10.32% as at 31 March 1999, from 9.4% as on 31 March 1998, and this is much above the RBI stipulation of a minimum of 8%. In the context of the slow down in the economy, augmenting CRAR from internal generations alone may become difficult and it would be necessary for the Bank to raise its equity base by way of a fresh capital issue, in due course.

### Resource Mobilisation

During the year the total deposits of the Bank rose by 5.6% from Rs.6,424 crore to a record Rs.6,782 crore as at 31 March 1999. The average deposits of the Bank recorded an impressive growth of 36% during the period. NRI deposits registered an impressive growth of 28%, reflecting the unstinted patronage and trust reposed in the Bank by NRIs.

### Credit Disbursals

During the year 1998-99, the credit portfolio of the Bank expanded by 7.8% from Rs. 3,921 crore to Rs.4,227.7 crore. The average advances recorded a significant growth of 34% during the year, despite the general economic slow-down and consequent decline in credit demand.

The Bank's priority sector advances stood at Rs.1,227.5 crore as at 31 March 1999, an increase of Rs.284.2 crore over the previous year, and constituted 55% of the Bank's net credit portfolio, much higher than the benchmark of 40% prescribed by RBI. It is heartening to note that the Bank's market share in advances to small-scale industry, plantation and horticulture, and minor irrigation improved during the year 1998-99. Social banking was given adequate attention by the Bank by actively participating in schemes, such as The Self Help Group and The Integrated Rural Development Programme, and The Prime Ministers Rozgar Yojana.

In tune with the emerging opportunities in infrastructure financing, the Bank has been actively assisting various projects in this sector, the most notable among them being the new Cochin international airport at Nedumbassery. The Bank's bridge loan of Rs. 10 crore enabled the prestigious project to take off from the drawing board. The Bank has also been financing various projects in Public Sector like power projects of the Kerala State Electricity Board, as well as those coming up in the private sector.

As part of the Bank's continued efforts to build up an insightful information base on various sectors of industry, so as to facilitate well-informed credit decisions, a Corporate Research Group was formed at the Head Office. In order to enable timely review and careful monitoring of the advances portfolio, adequate functional and procedural measures were put in place. The follow-up of impaired loan assets has been intensified with the establishment of an Asset Recovery Department at the Head Office, and Asset Recovery Cells have been set up at all Regional Offices. Additional manpower support exclusively for recovery has also been provided.

Against the backdrop of inadequate corporate credit demand, retail advances have been identified as a thrust area and 17 retail loan products have been launched. As these loans could be extended at every operating unit level, we expect the current year's asset growth and consequent profit growth to be primarily leveraged by the growth in the retail loan sector.



*For Delhites - a "Federal" touch.  
Interior of branch at Nehru Place, New Delhi.*