



Standing the test of time

THE FEDERAL BANK LIMITED  ANNUAL REPORT 1999-2000

**Tough times don't last.
Bold initiatives do.**

What is the secret ingredient that enables strong people to surmount adversities and achieve outstanding success? Why do they survive tough times while others succumb to them?

An infinite capacity for taking hard decisions is what makes successful people what they are.

At Federal Bank, our penchant for bold initiatives has paid rich dividends. Today, we have emerged stronger than ever.

Report  junction.com

Company Secretary

Shri Girish Kumar Ganapathy

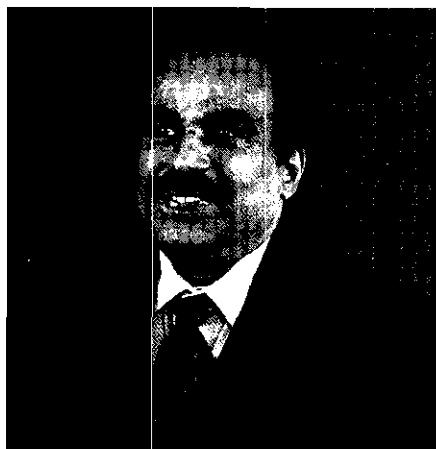
Auditors

M/s. Warriar & Warriar, Trichur
M/s. R. Rajan Associates, Trichur
M/s. Balan & Company, Aluva

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Board of Directors



Mr. K. P. PADMAKUMAR
Chairman



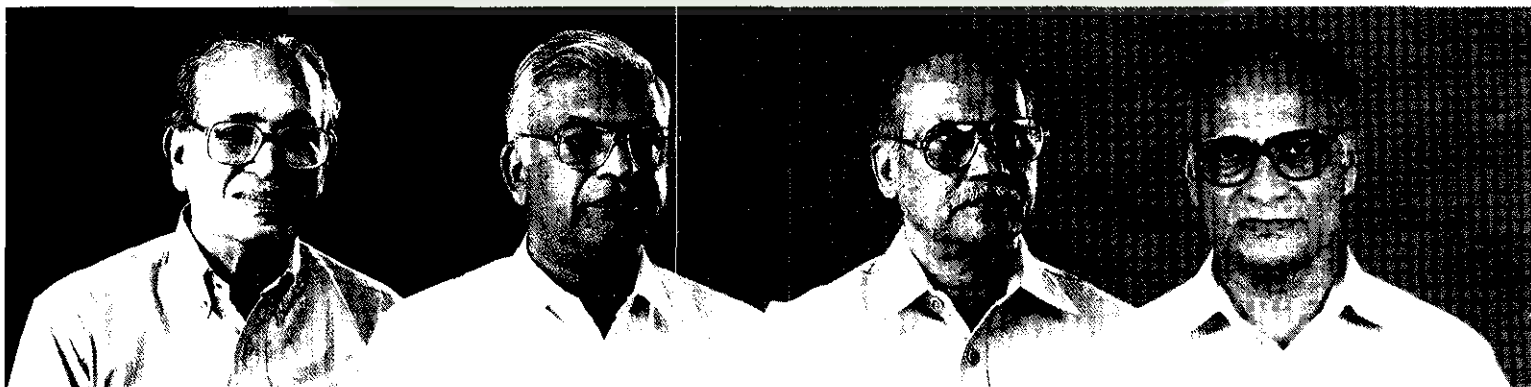
Mr. A. R. SANKARANARAYANAN
Director

Mr. T. V. ANTONY
Director

Mr. M. S. PARTHASARATHY
Director

Mr. P. S. MENON
Director

Mr. U. MAHESH RAO
Director



Mr. JUSTICE V. KHALID (Retd.)
Director

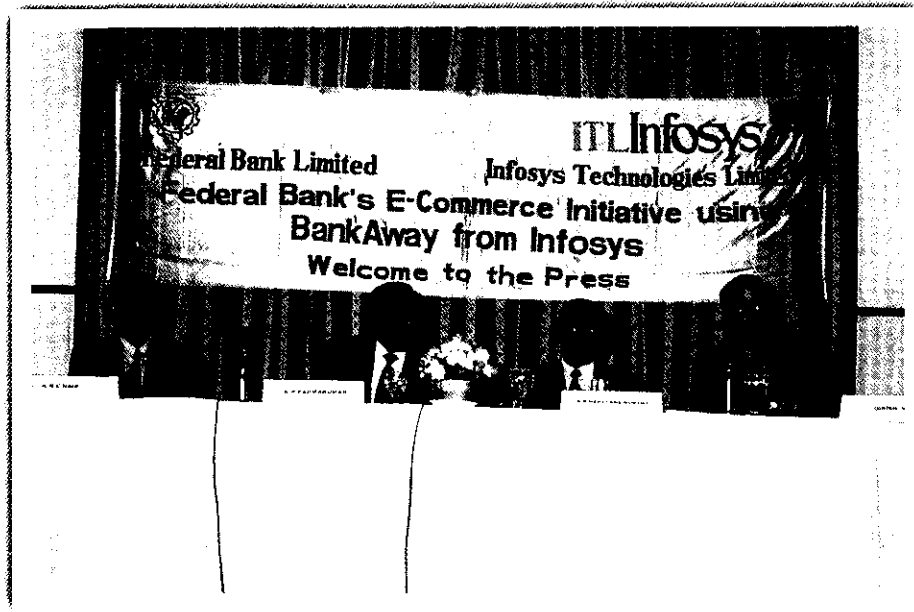
Dr. C. K. GEORGE
Director

Mr. K. V. RAMACHANDRAN
Director

Mr. M. JOSEPH
Director



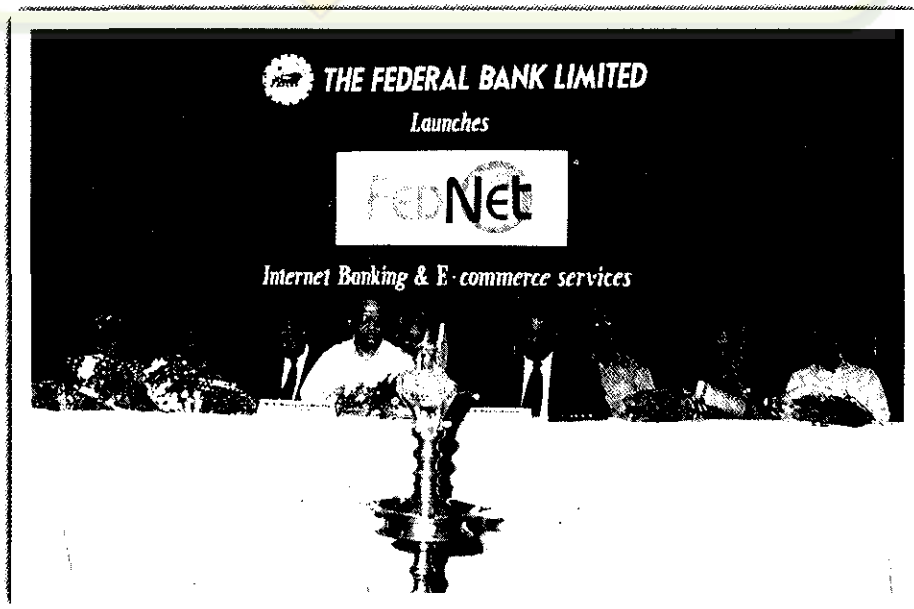
Mr. P. R. SANKARANARAYANAN
Executive Director



Union of two masterminds.

Federal Bank signs the Internet software contract with Infosys on 24 January 2000 at Bangalore.

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FedNet takes wings!

Mr. N. R. Narayanamoorthy (Chairman, Infosys) and Mr. K. P. Padmakumar (Chairman, Federal Bank) jointly launching FedNet on 28 April 2000 at Mumbai.

Your Directors are pleased to present the Bank's 69th Annual Report and the audited financial statements for the year ended 31 March 2000.

FINANCIAL PERFORMANCE – A SIGNIFICANT TURNAROUND

Leaving behind a difficult year, which saw a sharp fall in profits and erosion in net worth, the Bank has during the year under report staged a smart recovery with all-round significant improvement



Securities off the counter.

Inauguration of the Bank's Funds & Investments Branch at Bangalore.

in various performance parameters.

By deft asset-liability management, with consolidation underpinning the efforts, the capital-adequacy ratio rose to a comfortable 11.33%. Net worth rose by 12% to Rs.362 crore and book value per share to Rs.167. Side by side, significant strategic changes in the asset-liability matrix enhanced the quality and strength of the balance sheet. While favourable developments in the policy and operating environment facilitated a sharp reduction in the cost of funds, a sustained campaign enabled significant recovery of impaired assets and contrib-

uted to a rise in the yield on advances despite a general southward movement of lending rates. By astute anticipation of the interest rate movements in the Government securities market, trading income from treasury operations could be improved and this more than compensated for the fall in the portfolio interest yield, leading to a higher overall income from investments.

The following highlights of performance are noteworthy.

- Net Profit for the year at Rs. 46.39 crore
- Sharp fall in cost of deposits
- Operating expenses other than staff cost contained at previous year level
- Total income crosses Rs. 1,000-crore mark
- Large scale application of modern information technology in the Bank's operations

YEAR OF CONSOLIDATION

After a turbulent year of fluctuating fortunes, the Bank recast its business strategies with focus on consolidation and a stronger, though somewhat smaller, balance sheet. The improvement brought about in the shareholder value demonstrates the remarkable resilience of the Bank.

DIVIDEND

The Board of Directors, in pursuance of the powers vested in it under the Articles of Association and with the Reserve Bank's approval, declared an interim dividend at the rate of 25% for the year ended 31 March 2000, up from 10% paid for the previous year. The rate has been kept at that level despite the availability of adequate distributable profits, as a conservative measure to augment owned funds and thereby strengthen the balance sheet. The Board recommends that the interim dividend be declared as the final dividend by the shareholders for the year under review.

RESOURCES

Aided by a general decline in interest rates during the year, the Bank succeeded in reducing the cost of its liabilities. The average cost of deposits, which stood at 11.56% as at 31 March 1999, was brought down to 9.85% by 31 March 2000. Despite the lowering of rates, core deposits grew by



Rs. 5,43 crore to Rs. 5,916 crore from the level of Rs. 5,373 crore of the previous year. A strategic reduction of Rs. 862 crore in non-core deposits, such as inter-bank deposits and certificates of deposits, however, led to a decline in the level of total deposits by the end of the year. The average cost of non-resident Indian (NRI) deposits of the Bank, which form 44% of the core deposits, came down to 11.86% from 14% as at 31 March 1999, thanks to the repricing of these resources from time to time.

ASSET CREATION

Credit Management: The modified business strategy shifted the focus in asset creation on sustaining a higher level of average advances over the whole year, rather than on a rapid spurt towards the year end. The Bank also decided to contract lending through discounting of bills. Thus, although the overall credit portfolio at Rs. 4,036 crore as at 31 March 2000 showed a decline from Rs. 4,228 crore a year earlier, the average level of the portfolio was maintained at Rs. 3,925 crore during the year, significantly higher than the average of Rs. 3,622 crore of the previous year.

The thrust in asset creation in the retail segment continued in the year under report with many of the loan products getting refined and repositioned. A significant addition of Rs. 233 crore in retail asset portfolio could be effected despite the keen competition in the segment. Efforts to further refine the schemes are under way.

The slowdown in industrial growth did constrain the expansion of the Bank's corporate loan portfolio. The asset build-up here was marked by stringent adherence to quality norms. Rs. 370 crore worth of fresh assets were created. A



A hub of banking activity.

The Bank's Statue Branch, Trivandrum.

Corporate Finance Department

was formed at the Head Office to monitor all loans of Rs. 5 crore and above. This specialised group has enabled the Bank to respond to the expectations of its field level functionaries and has given an edge to its competitiveness. The core advances of the Bank grew by 11.26%, amounting to Rs. 416 crore, during the year.

The Bank continued its thrust in lending to small-scale industries, agriculture, weaker sections and other priority sectors. The priority-sector lending constituted 67% of the net credit as at 31 March 2000. The Bank's active participation in Government-sponsored schemes has been commended by local authorities at many centres.

RECOVERY OF IMPAIRED ASSETS

With a transparent and pragmatic recovery policy as the base, the Bank undertook a massive and sustained campaign for the recovery of impaired assets. Through loan adalats, recovery melas and negotiations with individual borrowers, a large number of suit-filed and other irregular accounts were brought to the negotiating table. After careful evaluation of the sacrifices to be made and detailed scrutiny of each case by a compromise committee of senior officials, 5,115 compromises could be arrived at. The settlements and other negotiations with defaulting borrowers enabled the Bank to secure a cash recovery of Rs. 107 crore from impaired assets, exceeding the target of Rs. 86 crore. Nevertheless, the overall level of non-performing loans showed a rise, although proportionately less than in the previous year. A full-fledged Asset Recovery Branch became functional at Mumbai. The Asset Recovery Department at the Head Office and Asset Recovery Cells at Regional Offices set up for this mission have proved to be very effective. With further strengthening of the manpower in this area, the Bank is continuing the recovery efforts with renewed vigour during the current year also.



TREASURY OPERATIONS

Despite a general decline in interest rates, the overall yield from the investment operations of the Bank was a healthy 13.40%, primarily due to the profit realised from trading Government securities and equities. Trading desks for Government securities especially at the retail end of the market became operational in Bangalore and Delhi in addition to the desks attached to the Funds and Investments Branches in Mumbai and Chennai. The entire securities portfolio was marked to market.

An Asset-Liability Management Department was set up during the year and, by December 1999, a risk-management system was put in place for monitoring and controlling asset-liability and interest-rate mismatches. The system has contributed to more competitive product-pricing.

In tune with the developments in the capital market and to take advantage of the emerging opportunities in the new issues market, Merchant Banking Divisions were set up in Mumbai, Chennai, Delhi, Calcutta and Bangalore. The divisions helped the Bank to participate in many assignments for issue management and payment of dividend warrants and refund orders, and generate significant fee income. These divisions are now well positioned to take advantage of emerging opportunities in the market.



Dignified luxury for better productivity.
The Bank's Nanthancode Branch, Trivandrum.

DEPOSITORY SERVICES

The Bank launched its depository services in Cochin in February 2000. This specialised service popular among shareholders of joint stock companies is being extensively marketed to the resident and NRI clients. The Bank will shortly be extending similar services from Mumbai also.

INTERNATIONAL BANKING BUSINESS

The foreign exchange business of the Bank reached Rs.3,823 crore, registering

a growth of 24% in the last fiscal. The rupee-drawing arrangements with various banks and exchange companies were strengthened with fresh arrangements with UAE Exchange Center and Wall Street Finance. These arrangements have enabled the Bank to broaden and deepen its relationships with NRIs.

INFORMATION TECHNOLOGY ENABLED SERVICES

The Bank has been a forerunner among the older Indian private sector banks in employing information technology for competitive advantage. During the year under review, the Bank continued the strategic rapid infusion of technology for upgrading the quality of its services. FedSoft, the Bank's own branch automation package, was implemented in 66 more branches, taking the total number of fully automated branches to 190. The single-window services and the extension of business hours in the automated branches is adding significant improvement in customer convenience. E-mail connectivity was extended to 300 branches across the country, contributing significantly to reducing communication costs. "Any Branch Banking" was introduced in Bangalore City branches and is proposed to be made available to all the metro branches during the current year. Automation of all the Head Office Departments was completed and work on interconnecting the metro branches and the Regional Offices through wide area network commenced during the year.

The Bank reached a significant milestone during the year by taking the lead among the older private sector banks in introducing true Internet banking. The Internet and e-commerce banking services, christened FedNet, are in place in 19 selected branches and will be extended to 150 branches by the end of this year. Various e-tailors have begun using the Bank as a payment gateway.

HUMAN RESOURCES

Warm and cordial staff relations continued during the year. A system of structured meetings with representatives of employee associations, introduced during the year mainly to ensure closer personal relations and greater transparency of management has also helped the Bank to involve its employees more actively in business promotion and improving customer service. Productivity per employee rose to Rs.1.61 crore as on 31 March 2000 from Rs.1.53 crore as at 31 March 1999. Various training programmes with emphasis on particular facets of banking were organised. Also, specialised programmes on millennium banking were conducted at all regional centres in Kerala, for effective interaction with the employees and officers and on 'Relationship Banking' in the Ernakulam Region. The staff performance appraisal system has been revamped with sharpened focus on performance parameters more relevant to present-day banking.

AUDIT AND INSPECTION

The Bank's system of internal inspection was totally reformed with concentrated attention on management deficiencies, appraisal system, and follow up of credit and business development. The reporting structure was also expanded by proper synchronization of concurrent and internal audit functions. Vigorous steps were taken for close monitoring and early rectification of irregularities noticed during inspections.

BOARD OF DIRECTORS

Shri M S Parthasarathy and Shri U Mahesh Rao are due to retire by rotation at the next Annual General Meeting, and being eligible, offer themselves for re-election.

In terms of section 10A(2A) of the Banking Regulation Act, 1949, Shri A R Sankaranarayanan and Shri T V Antony ceases to be Directors on 31 July 2000 on completion of eight continuous years on the Board. The Board expresses its appreciation of the valuable services rendered by Shri A R Sankaranarayanan and Shri T V Antony to the Bank. The vacancy caused by the cessation of directorship of Shri Antony may be filled at the ensuing Annual General Meeting. Shri A R Sankaranarayanan was appointed by the Board in accordance with the powers vested in it under Article 63(b) of the Articles of Association of the Bank and the Board is empowered to fill the vacancy.

Shri P R Sankaranarayanan, Executive Director of the Bank, who was on deputation as the Managing Director of Fedbank Financial Services Ltd., joined the Head Office of the Bank in November 1999.

SUBSIDIARY

The financial statements required under section 212 of the Companies Act, 1956, relating to Fedbank Financial Services Ltd., the subsidiary company of the Bank, for 1999-2000 is attached. Considering the various factors affecting the performance and potential of non-banking financial companies, it was decided to downsize the current business operations of the subsidiary, and eventually transfer its remaining assets and liabilities to the Bank. Plans envisaging an entirely new role for the company are on the anvil.

ANNUAL FINANCIAL STATEMENTS AND AUDIT REPORT

As per Section 212 of the Companies Act, 1956, the Bank's balance sheet as on 31 March 2000, its profit and loss account for the year 1999-2000, and the Auditors' report and statements required under the section, are attached.

STATUTORY AUDIT

The statutory (central audit) has been carried out jointly by M/s Warriar & Warriar, Trichur, R Rajan Associates, Trichur, and Balan & Co., Aluva. Their joint report is attached. The statutory central / branch auditors audited all the branches /offices of the Bank.

REPORT OF THE
BOARD OF
DIRECTORS

All the three auditors were appointed in 1996 and have remained in office for a continuous period of four years, the maximum permitted by Reserve Bank of India. The Bank is, therefore, required to appoint new statutory (central) auditors from the year 2000-2001 onwards. The Bank has received notice from a member proposing the name of M/s Varma & Varma Chartered Accountants, Cochin for such appointment. The name has been approved by Reserve Bank of India and the Board places it for the consideration and approval at the Annual General Meeting.

AUDIT REPORT

Explanations are offered below on the Auditors' qualifications on notes 1, 4, 6 and 7 on the accounts in Schedule 18 and on the accounting policies noted at Nos.7(e) and 8(c) in Schedule 17 to the audited annual accounts.

Note 1: The outstanding unadjusted items in the inter-branch accounts, debit notes receivable and accounts receivable do not materially affect the final accounts. Reconciliation of entries and their elimination and adjustments have been done in accordance with the relevant Reserve Bank of India directive. Every effort is being made to adjust the outstanding entries in these accounts.

Notes 4 and 6: The notes in respect of these accounts being self-explanatory, no comments are offered.

Note 7: The guidelines of the Foreign Exchange Dealers' Association of India on foreign currency forward exchange contracts, being mandatory and approved by the Reserve Bank of India, have been followed in preference to the accounting standard 11 of the Institute of Chartered Accountants of India.

Principal Accounting Policy No 7(e): This accounting policy has been followed consistently.

Principal Accounting Policy No 8(c): This is in accordance with the accounting policy being consistently followed that incomes under the heads are accounted to the extent of certainty of realization.

STATUTORY DISCLOSURE

Stock Exchange Information

The Bank's equity shares are listed on:

1. Cochin Stock Exchange Ltd.
MES, Dr P K Abdul Gafoor Memorial Cultural Complex
36/1565, 4th Floor, Judges Avenue, Kaloor, Cochin - 682 017.
2. National Stock Exchange Ltd.
Trade World, Senapati Bapat Marg, Lower Parel, Mumbai - 400 013.
3. The Stock Exchange Mumbai
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai - 400 001.

The annual listing fees have been paid to all the stock exchanges listed above.

The requirement of disclosure of steps taken to conserve energy and technology absorption does not apply to the Bank.

Through its export-financing operations, the Bank supports and encourages the country's export efforts.



Guardians of securities.
The Bank's Depository Services Division at Ernakulam.

REPORT OF THE BOARD OF DIRECTORS



Details of the Bank's employees covered by section 217 (2A) of the Companies Act, 1956 are annexed.

FEDBANK HORMIS MEMORIAL FOUNDATION

Shri Montek Singh Ahluwalia, Member, Planning Commission, delivered the fourth commemorative lecture on "Economic Reforms – Agenda for the Future" on 5 October 1999 under the auspices of the Fedbank Hormis Memorial Foundation. Sponsored by the Bank, the Foundation holds annual lectures to commemorate the cherished memory of the Bank's founder, late K P Hormis. Awards were also presented to the winners of the essay competition conducted for Bank staff members.

ACKNOWLEDGEMENTS

The Bank owes its success to the unfailing support of a number of institutions and individuals. The Board expresses its sincere gratitude to the shareholders, depositors and other clients for their continued patronage and goodwill. The Bank's significant achievements during the year were in no small measure due to the commendable role played by the staff at different levels.

The Board thanks the institutions whose assistance and support it has been privileged to receive, including the Reserve Bank of India, Registrar of Companies, SEBI, ICICI Ltd, Industrial Development Bank of India, National Bank for Agriculture and Rural Development, Small Industries Development Bank of India, National Housing Bank, Discount and Finance House of India, ICICI Securities and Finance Ltd, Export Credit Guarantee Corporation of India Ltd, Deposit Insurance and Credit Guarantee Corporation of India Ltd, Indian Banks' Association, Foreign Exchange Dealers Association of India, the Cochin, Mumbai and National Stock Exchanges, National Securities Depository Ltd, Central Depository Services Ltd; and Kerala Bankers' Chamber.

The Board hopes that the Bank will continue to receive their sustained support in the years ahead.

For and on behalf of the Board of Directors.

Aluva

25 July 2000

K P Padmakumar

Chairman

Annexure to Directors' Report

Information as per Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules 1975 as amended upto date and forming part of the Directors' Report for the year ended 31 March 2000.

Sl No.	Name of the Employee	Designation	Qualification	Experience in years	Remuneration (Rs)	Age in years	Date of joining	Particulars of last employment
1.	K P Padmakumar	Chairman	B.Sc (Agri) CAIIB	FederalBank- 4 years SBI-26 years FACT-2 years	8,89,700/-	56	29.4.95	Federal Bank Ltd Executive Director