

Harmony...

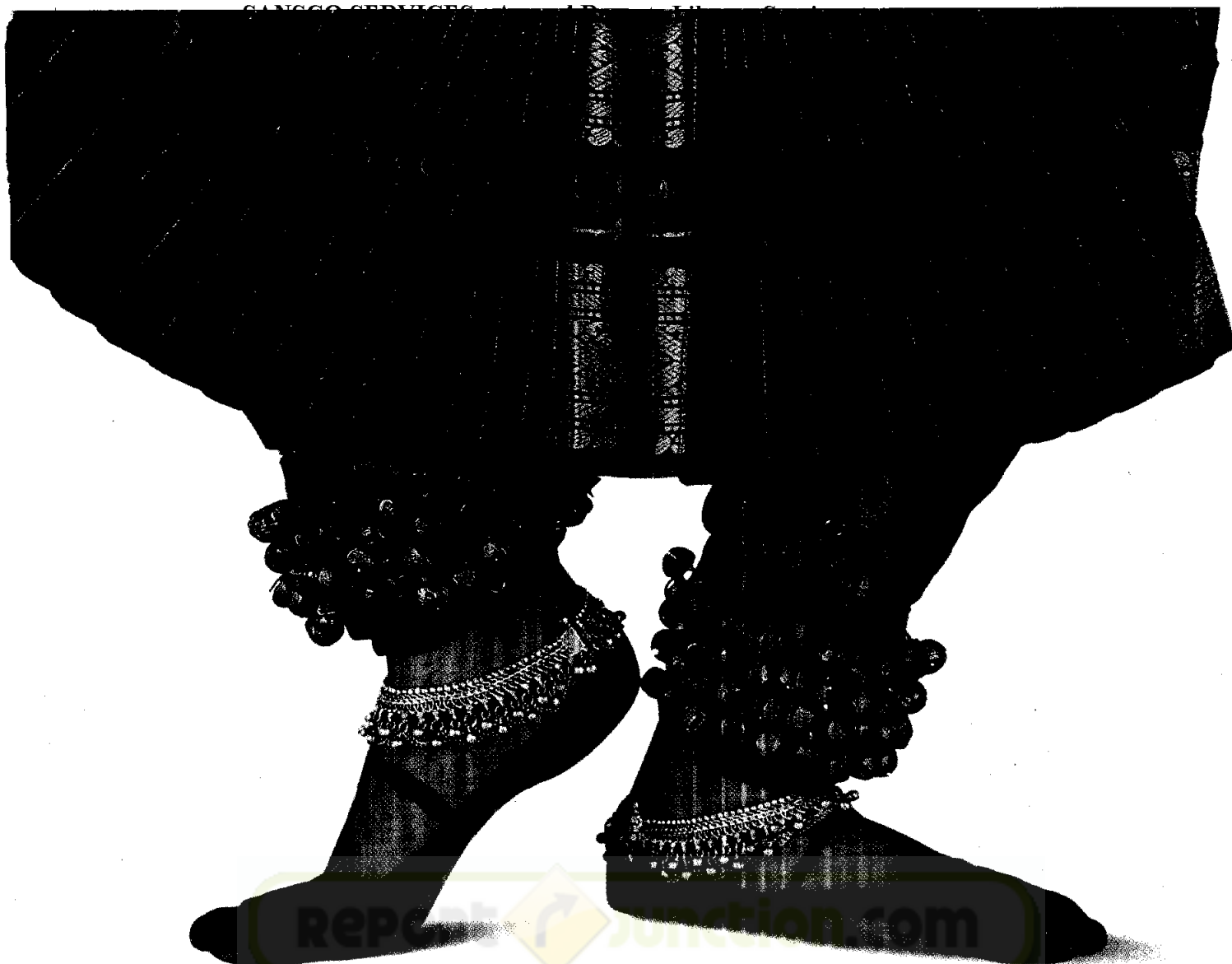


ANNUAL REPORT
2000 - 2001
THE FEDERAL BANK LIMITED



...Is a group
effort

At Federal Bank we understand this perfectl



arnessing our individual strengths and talents to create a concert of growth.

Contents

3	Report of Directors
14	Balance Sheet
15	Profit & Loss Account
38	Nationwide Network
42	Global Reach
44	Fedbank Financial Services Ltd.

Board Directors



Shri. K. P. Padmakumar
Chairman



Shri. M. S. Parthasarathy
Director



Shri. P. S. Menon
Director



Shri. U. Mahesh Rao
Director



Shri. Justice V. Khalid (Ret)
Director



Dr. C. K. George
Director



Shri. M. Joseph
Director



Shri. T. N. Jayachandran
Director



Shri. F. R. Joseph
Director (RBI)



Shri. S. R. Pillai
Director (RBI)



Shri. P. R. Sankaranarayanan
Executive Director

Company Secretary
Shri. Girish Kumar Ganapathy

Auditors
M/s. Varma & Varma,
Cochin

Your Directors are pleased to present the Bank's 70th Annual Report and the audited financial statements for the year ended 31 March 2001.

FINANCIAL PERFORMANCE - A YEAR OF ALL-ROUND GROWTH

After a year of smart recovery and consolidation, 2000-01 witnessed topline growth with sustained improvement in the bottomline. The Bank continued its policy of astute management of assets and liabilities with focus on improving shareholder value through internal accruals. Cautious monitoring and management of the asset-liability matrix, asset creation with thrust on the retail segment and recovery of impaired assets underpinned operations.

PERFORMANCE HIGHLIGHTS

- Net profit at an all-time high of Rs. 61.04 crore
- Earnings per share increased to Rs.28.11
- Book value per share increased to Rs.191.32
- Cost of deposits brought down by 85 basis points to 9%
- Operating expenses contained below the previous year level
- Yield on advances maintained at 13.49 % against a general decline in interest rates
- Return on equity moved up to 14.69% from 12.82% in the previous year

SUSTAINED GROWTH

The Bank recast its business strategies with focus on overall growth in balance-sheet size. The balance-sheet size grew by 16% to Rs.8,820 crore from Rs.7,603 crore of the previous year. Even against the backdrop of a declining interest rate scenario, the Bank's total income grew by Rs.30 crore to Rs.1,044 crore and total expenses could be brought down to Rs.857 crore from Rs.879 crore of the previous year. Notably, the return on average assets increased to 0.77% from 0.62%.

CAPITAL ADEQUACY

The Capital to Risk Assets Ratio (CRAR) stood at 10.29%, comfortably above the Reserve Bank of India (RBI) stipulated 9% level.

DIVIDEND

The Board of Directors recommend payment of dividend at the rate of 30% for the year ended 31 March 2001, up from 25% paid in the previous year, subject to Reserve Bank's approval.

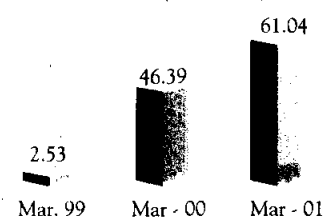
RESOURCE MOBILIZATION

As a strategy the Bank consciously adopted a policy focussed on core deposit growth to fund asset creation and retirement of high cost inter-bank liabilities. Core deposits grew to Rs.7,171 crore from the previous year's level of Rs.5,916 crore. The inter-bank deposits excluding vostro balances were reduced to Rs.275 crore from Rs.499 crore in the previous year. Total deposits registered a growth of 18.60% and reached Rs.7,665 crore from Rs.6,463 crore of the previous year. Aided by a general decline in interest rates during the year, the Bank succeeded in reducing the cost of its deposits from 9.85% to 9%. The average cost of non-resident Indian (NRI) deposits of the Bank, which represented 44% of the core deposits, came down to 10.58% from 11.86% during the year. NRI deposits grew by 20% to Rs.3,150 crore.

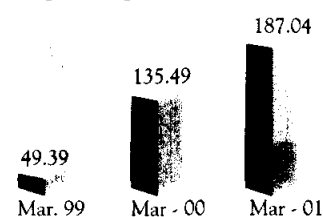


REPORT OF THE BOARD OF DIRECTORS

Net Profit (Rs.crore)

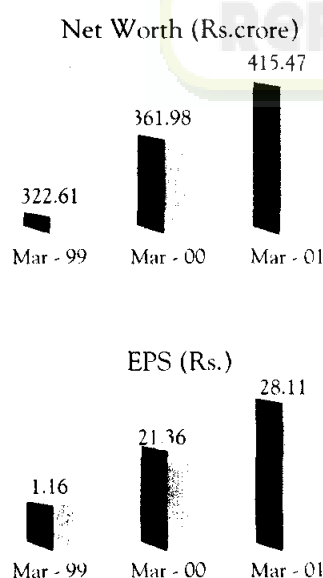


Operating Profit (Rs. crore)





REPORT OF THE BOARD OF DIRECTORS



ASSET MANAGEMENT

Helped by renewed emphasis on retail credit, the Bank's total advances rose to Rs.4,854 crore from Rs.4,036 crore in the previous year. Retail loans contributed about 30% of the incremental lending, enabling the Bank to spread risk, enhance returns, and secure other business opportunities by product cross-selling. The average advances during the year stood at Rs.4,252.45 crore, up by Rs.326.98 crore over the previous year. To give focussed attention to retail credit, the Bank started a Retail Banking Division at its Corporate Office and Retail Banking Desks at all its 12 Regional Offices. Campaign initiatives to popularize and reposition the Bank's conventional gold loan portfolio were also undertaken with considerable success during the year.

The deceleration in industrial growth and the availability of alternate sources of funds for corporates posed challenges to the Bank in expanding its corporate credit portfolio during the year. Nevertheless, the Bank was able to add Rs.380 crore to its corporate lending, which, in all, constituted 32% of total advances. Export advances grew by 27% from Rs.389 crore to Rs.495 crore during the year. Notwithstanding a general decline in interest rates, necessitating a phased reduction in the Bank's lending rates, the Bank managed to secure a yield of 13.5% from its credit portfolio.

In recognition of its social obligations in its lending activity, the Bank channeled a major share of its credit to small-scale industries, agriculture, weaker economic sections and other priority sectors. Priority-sector lending constituted 64% of the net Bank credit as at 31 March 2001.

MANAGEMENT OF IMPAIRED ASSETS

A transparent and pragmatic recovery policy continued to guide the management of impaired assets. The recovery policy measures were suitably modified in the light of practical imperatives and relevant RBI guidelines. Helped by loan adalats, recovery melas, and negotiations with individual borrowers, a large number of suit-filed and other irregular accounts were brought to the compromise table. Recoveries exceeded the target and reached Rs.123 crore. Nevertheless, the recovery efforts could not restrict the rise in Non Performing Assets (NPA) levels mainly because of the crash in the prices of agricultural products particularly in Kerala and the emergence of additional NPAs in the non-banking financial institutions and steel sectors. To combat the rising NPA levels the Bank tightened its monitoring and follow-up efforts with special focus on branches having a concentration of NPAs. The second full-fledged Asset Recovery Branch became functional in Chennai.

TREASURY OPERATIONS

Both the securities and capital markets were subdued throughout the year. By pursuing the few available opportunities aggressively, a yield of 13% on the Bank's investments could be garnered in spite of falling interest rates. The income from investments was Rs.376 crore, up from Rs.362 crore in the previous year. The investment portfolio grew to Rs.3,036 crore from the previous year's Rs.2,666 crore.

RISK MANAGEMENT

In compliance with the regulatory requirements and to achieve acceptable standards in risk evaluation and management, the Bank has introduced a comprehensive risk management system.

ASSET-LIABILITY MANAGEMENT (ALM)

The Asset-Liability Management Department constituted in the previous fiscal made significant progress in upgrading and modernizing its market-risk management capabilities. The Bank's entire assets and liabilities have been brought under ALM mechanism.

CREDIT RISK MANAGEMENT

A Credit Risk Management Division has been set up in the Corporate Finance Department of the Bank. The Bank has started implementing credit risk management guidelines and techniques.

DIVERSIFICATION OF INCOME STREAMS

The Bank took the following initiatives to diversify its income streams :

CASH MANAGEMENT SERVICES

To improve the share of 'other income' in the total income, and to augment the share of low cost funds, the Bank set up a Cash Management Services Cell attached to its Asset Liability Management Department. This initiative will help the Bank provide superior funds collection and transfer services to corporates and high-value clients.

DEPOSITORY SERVICES

In the first full year of DP Services, the Bank made considerable progress in this area and opened its second DP Division in Mumbai. As a significant step in offering state of the art services to customers, the Bank's depository services were web-enabled in January 2001 thus providing the DP account holders the facility to get all information on the account from the Web.

INTERNATIONAL BANKING BUSINESS

The Bank joined the Society for World-wide Inter-bank Financial Telecommunications (SWIFT) thus enabling the Bank to offer speedier services to its exporter/importer clients and NRI constituents. The foreign exchange business of the Bank touched a record level of Rs.4,000 crore. The Bank also took steps to increase the remittance facilities offered to NRIs through widening drawing arrangements by entering into agreements with Thomas Cook Al-Rosthamanai Exchange Company in Dubai. The Bank has become a major conduit for remittances from the Gulf countries.

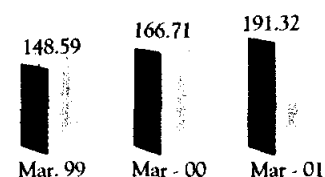
IT - TOWARDS TOTAL BANKING SOLUTIONS

The Bank continued its aggressive adoption of information technology (IT) for achieving competitive advantage and as a key business driver. The Bank was the first among the traditional private sector banks of the country to offer Internet banking. Branded 'FedNet', this facility is offered through 176 branches of the Bank. FedNet service now also covers viewing of Depository accounts and utility payments now in vogue such as online payment of telephone bills of users of Bharat Sanchar Nigam Ltd. (BSNL) in the Ernakulam secondary switching area. The year under review also saw the launching of a comprehensive IT strategic plan with the major goal of inter-connectivity of branches with Regional offices and the Head office. The Bank's foray into on-line automatic teller machines (ATMs) was another milestone of the year. The Bank has already installed 9 online ATMs and is in the process of installing 50 more during the current fiscal. Towards total inter-connectivity, the process of implementing a Wide Area Network (WAN) is already in place, with the pilot phase



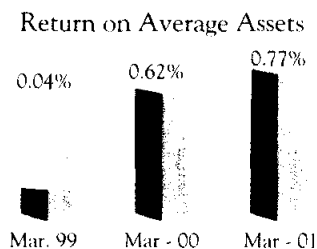
REPORT OF THE BOARD OF DIRECTORS

Book Value per Share (Rs.)





REPORT OF THE BOARD OF DIRECTORS



inter-connecting Head Office and Regional Offices in metro cities already completed. E-mail connectivity to all branches has been provided. By the end of the year, the Bank had 261 totally automated branches. The Bank is also training its personnel in IT based operations.

HUMAN RESOURCES

Harmonious industrial relations prevailed in the Bank during the year, thanks to continued interaction between the management and the Officers' Association and Employees' Union. The business per employee increased to Rs.1.90 crore from Rs.1.61 crore in the previous year. The Bank recognizes that upgradation of employee skills at all levels is essential to meet competitive challenges. Accordingly, staff training programmes were focussed on automation, customer service, treasury management, and relationship banking.

AUDIT AND INSPECTION

Significant efforts were directed during the year to improve the quality and content of internal inspection as part of steps to strengthen the systems and control mechanisms in the Bank. A management audit system is being introduced. The Bank achieved commendable progress in rectification of adverse inspection comments as a result of close monitoring and follow-up.

BOARD OF DIRECTORS

Shri M Joseph is due to retire by rotation at the forthcoming Annual General Meeting, and being eligible, offers himself for re-election.

Shri Justice V Khalid (Retd.) who was appointed on the Board of Directors of the Bank at the Annual General Meeting held on 9 September 1998, and is due for retirement by rotation at the forthcoming Annual General Meeting, has not offered himself to be re-appointed. The Board expresses its appreciation of the valuable services rendered by Justice V Khalid (Retd.) to the Bank. The resultant vacancy may be filled up at the ensuing Annual General Meeting.

SUBSIDIARY

As required under section 212 of the Companies Act, 1956, the financial statements relating to Fedbank Financial Services Ltd., the subsidiary of the Bank, for 2000-2001 are attached. In accordance with the scheme of capital reduction approved by RBI and the High Court of Kerala, the capital of the company was reduced from Rs.15 crore to Rs.0.50 crore with effect from 28 March 2001. Consequently, the Bank received back an amount of Rs.14.50 crore out of its equity contribution to the company. Future business plans for the company are being developed.

ANNUAL FINANCIAL STATEMENTS AND AUDIT REPORT

As per Section 212 of the Companies Act, 1956, the Bank's balance sheet as on 31 March 2001, its profit and loss account for the year 2000-01, and the Auditors' report and statements required under the section, are attached.

STATUTORY AUDIT

The statutory (central) audit of the Bank was carried out by M/s Varma & Varma, chartered accountants, Ernakulam, whose report is attached. The firm is eligible to undertake a similar audit for the current year and has offered itself for re-appointment, subject to the approval of Reserve Bank of India and shareholders. The statutory

central/branch auditors audited all the branches/offices of the Bank.

Explanations are offered below on the auditors' qualifications on Notes nos. 1,5 and 6 on the Accounts in Schedule 18 and on Accounting Policy nos. 7(d) and 8(c) in Schedule 17 to the audited annual accounts.

Note 1. The outstanding unadjusted items in inter-branch accounts, debit notes receivable and accounts receivable adjusted till date have not materially affected the published accounts. Reconciliation of entries and elimination and adjustments have been done as per relevant RBI directive. Every effort is being made to adjust the outstanding entries in these accounts within the shortest time.

Notes 5 and 6: The notes in respect of these accounts being self-explanatory, no comments are offered.

Principal Accounting Policy No 7(d): This is in accordance with the accounting policy being consistently followed by our Bank.

Principal Accounting Policy No 8(c): This is in accordance with the accounting policy being consistently followed. Certain incomes under the heads are accounted on cash basis only since accounting on an accrual basis is subject to greater uncertainty.

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, 4 th 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.

The requirement of disclosure under section 217(2A) of the Companies Act, 1956 does not apply to any of the Bank's employees.

DIRECTORS RESPONSIBILITY STATEMENT – As per Sec 217 (2AA)

As required by section 217(2AA) of the Companies Act, 1956, the Directors state that:

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;



REPORT OF
THE BOARD OF
DIRECTORS

(iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(iv) the Directors have prepared the annual accounts on a going concern basis.

FEDBANK HORMIS MEMORIAL FOUNDATION

Padma Vibhushan Dr. Varghese Kurian , Chairman, Institute of Rural Management, Anand, delivered the fifth commemorative lecture on "Rural Development Banking—Some Reflections" on 17 January 2001 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 on the occasion to winners of the essay competition conducted for members of staff of the Bank.

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 laudable efforts put in by the members of staff at different levels.

The Board thanks the many institutions/regulatory authorities 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, 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, Indian Banks' Association, Foreign Exchange Dealers Association, the Cochin, Mumbai and National Stock Exchanges, National Securities Depository Ltd, Central Depository Services Ltd, and Kerala Bankers' Chamber.



REPORT OF THE BOARD OF DIRECTORS

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
10 July 2001

K P Padmakumar
Chairman