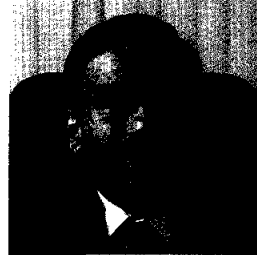




ANNUAL REPORT 2001-2002 THE FEDERAL BANK LIMITED

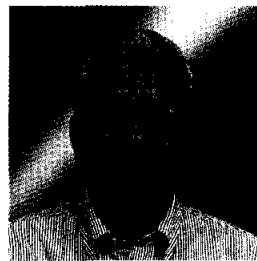
B O A R D
Of
D I R E C T O R S



Shri. K. P. Padmakumar
Chairman



Shri. M.S.Parthasarathy
Director



Dr.C.K.George
Director



Shri. M.Joseph
Director



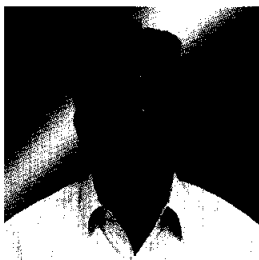
Shri. T.N.Jayachandran
Director



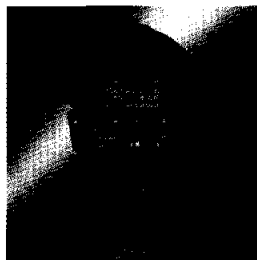
Prof. A.M.Salim
Director



Shri. S.Santhanakrishnan
Director



Shri. M.J.Subbaiah
Director



Shri. F.R.Joseph
Director (RBI)



Shri. S.R.Pillai
Director (RBI)

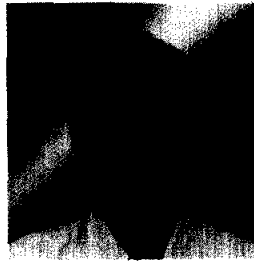
MANAGEMENT TEAM



Shri.
P.R.Sankaranarayanan
Executive Director



Shri. A.Akbar
General Manager



Shri. M.M.Antony
General Manager



Shri. George John
General Manager



Shri. P.C.John
General Manager

Company Secretary

Shri. Girish Kumar Ganapathy

Auditors

M/s. Varma & Varma, Kochi

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- 7. Report of the Board of Directors
- 22. Balance Sheet
- 23. Profit & Loss Account
- 54. Fedbank Financial Services Ltd.
- 65. Consolidated Balance Sheet



REPORT OF
THE BOARD OF
DIRECTORS

Your Directors are pleased to present the Bank's 71st Annual Report and the audited financial statements for the year ended 31 March 2002.

Financial Performance – A Milestone Year In The Journey Forward

The operating milieu for commercial banks in the fiscal, was by and large characterized by a softer interest rate regime, treasury operations offering handsome opportunities of gains, good inflow of foreign exchange, comfortable resources growth and slower credit growth. Commercial banks have also made significant advance in absorption of technology and upgradation of technology infrastructure, putting in place comprehensive risk-management systems and widening streams of other income.

For the Bank, the year was one of a major leap in consolidation of its balance sheet acquiring tremendous in-built strength and quality. The Bank also followed the policy of dexterous management of its assets and liabilities with focus on enhancing shareholder value through internal accruals. Operational thrusts were also on technology infusion and consequent client value creation, quality asset creation with emphasis on retail segment and quantum reduction in the level of non-performing assets.

Performance Highlights

- Operating Profit reached an all-time high of Rs.305.40 crore
- Net Profit at Rs.82.01 crore showed 34% increase
- Book value per share increased to Rs.206.63
- Earnings per share improved to Rs.37.76
- Return on equity moved upto 19%
- Reduction in absolute amount of both gross and net NPA levels

Sustainable Business Growth

The Bank's business growth was more or less in tandem with the plan adopted at the beginning of the year. A medium range five-year business plan 2002-06 adopted during the year formed the platform with the core objective of achieving sustainable growth. The balance sheet size grew by 15% to Rs.10,145 crore from Rs.8,820 crore of the previous year. The total income of the Bank increased by Rs.218.54 crore to Rs.1,262.81 crore from Rs.1,044.27 crore of the previous year. The total expenses stood at Rs.957.41 crore. The return on average assets increased to 0.87% from 0.77%.

Capital Adequacy

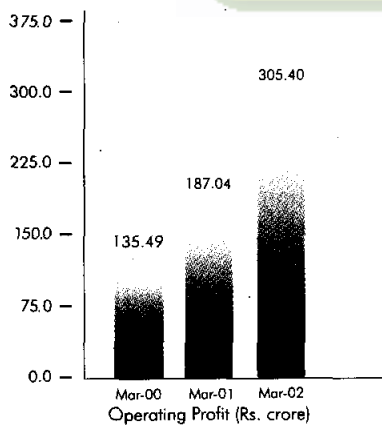
The capital to risk assets ratio (CRAR) stood at 10.63% up from 10.29% of the previous year and well above the 9% level stipulated by the Reserve Bank of India.

Dividend

Your Directors are pleased to recommend a dividend at the rate of 35% for the year ended 31 March 2002, up from 25% paid in the previous year, subject to the approval of the Reserve Bank of India.

Resource Management

The Bank's conscious policy of funding asset creation through low cost core deposit growth and retirement of high cost inter-bank liabilities continued to guide the Bank's strategies in resource mobilization. The average core deposits grew by 19.16% and reached Rs.7,512.21





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crore from the previous year level of Rs.6,304.28 crore and the average total deposits grew by 18.82 % and reached Rs.8,101.38 crore from the previous year level of Rs.6,818.08 crore. The inter-bank deposits excluding vostro balance could be reduced to Rs.236 crore from Rs.275 crore in the previous year. Total deposits registered a growth of 15.65% and reached Rs.8,865 crore from Rs.7,665 crore. The average cost of deposits came down to 8.70%. Non-resident Indians continued to form a stable client base of the bank contributing 44% of the Bank's total deposits aggregating Rs.3,864 crore, up from Rs.3,150 crore of the previous year by 23%. The average cost of funds came down to 8.64% from 8.98 % in the previous year.

Asset Management

In asset management, the Bank was broadly guided by the policy objective of efficient and profitable utilization of resources, risk-diversified portfolios and commensurate return for credit risks undertaken. Thrust on expansion through retail end of the portfolio was thus a logical extension of this policy. Retail focus also offers other business opportunities through product cross-selling. Retail loans corpus at Rs.991 crore constituted 19% of the net advances of the Bank as at 31 March 2002. The average advances during the year grew by 16.09%, up by Rs.684.21 crore to Rs.4,936.66 crore from Rs.4,252.45 crore of the previous year. The total advances grew by Rs.335 crore to Rs.5,189.13 crore from Rs.4,854.13 crore of the previous year.

In Corporate lending the Bank continued a cautious approach with focus on quality asset creation. The recessionary trends in the industrial economy and slower pace of credit off-take further weakened chances of asset creation in corporate lending. Nevertheless , corporate advances grew from Rs.1,622 crore to Rs.1,834 crore in FY 02, a growth of Rs. 212 crore. In percentage terms, growth works out to 13%, a growth which is quite satisfactory considering the economic scenario in the country.

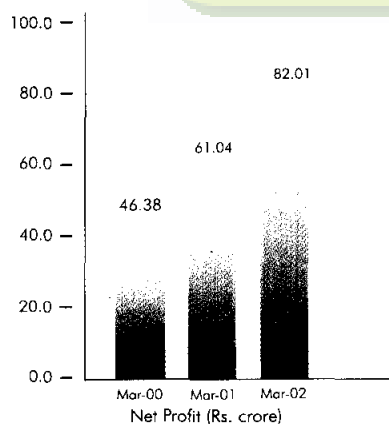
The Bank's focus on social lending continued. The total outstanding under priority sector advances constituted 76% of net bank credit up from 40% mandatorily required as per directives of the Reserve Bank of India. Even under the falling interest rate scenario, the Bank managed to maintain the yield on advances at 13.13%. The income on advances increased from Rs.573.83 crore to Rs.648.04 crore registering a growth of Rs.74.21 crore or 12.95% during the fiscal. The Bank has also been able to bring about a perceptible improvement in the total advances portfolio by reducing the sectoral exposures within the ceiling of 5%.

Management of Impaired Loans

The year was a turnaround for the Bank in the management of impaired assets. The Bank brought down the net non-performing loans level to 8.60% of net advances from 10.08% of the previous year. In absolute terms net NPA came down to Rs.445.84 crore from Rs.489.36 crore of the previous year. Including the written-off loans, the Bank's provisions reached 50.27% of the total NPAs, a significant achievement.

On the operational front, the pragmatic and transparent recovery policy of the Bank continued to guide the operational decisions. Loan adalats, recovery melas and negotiations with delinquent borrowers continued to constitute the strong platform for recovery. The Bank also pursued vigorous recovery drive at the field level. Streamlined follow-up of cases at Debts Recovery Tribunals and civil courts have also started yielding results. The aggregate recoveries from NPAs were Rs.155 crore.

Management of NPAs occupies top priority in the Bank's activities. The Bank had tightened





REPORT OF THE BOARD OF DIRECTORS

its monitoring and follow-up efforts and during the current fiscal special efforts will focus on 100 identified branches. The Bank is also in the process of setting up its third Asset Recovery branch in Coimbatore.

Treasury Operations

Complementary to the general trend, it was a year when treasury operations especially trading operations added significant contribution to the bottomline of the Bank. The Government securities market remained buoyant for the most part of the year and the available opportunities were seized through timely moves. The Bank's total investments grew by 23.73% to Rs.3,756 crore from Rs.3,036 crore of the previous fiscal. The return on gross average investments including trading gains stood at 14.90% up from 13% of the previous year. The year also saw the Bank foraying into derivative products besides making its presence felt in the securities market, with added impetus.

Risk Management

The Bank has attached considerable importance to improve its ability to identify, measure, monitor and control the overall level of risks involved. The Bank has laid down a detailed Credit Policy and Risk Management Policy. Other initiatives launched include fixing of prudential exposure norms for individual exposure, group exposure and substantial exposure. Benchmark financial ratios have been defined and norms have been set for maximum exposure to industry/ sector, credit risk in investments and country exposure. Rating format has been revised and rating of all credit limits of Rs.5 crore and above has already been completed. Steps have been taken to rate all advances above Rs.2 lakh. Risk-prone linkage has been established. The asset-liability management system in place extensively provides systems and procedures to address the market risks in operation. The Bank's entire assets and liabilities have been brought under the mechanism and maturity mismatches are properly addressed on a definite interval basis. The Bank is also in the process of moving over to audit and inspection based on risk associated with the activities undertaken. Towards better interest - rate risk management, the Bank started working out earnings at risk (EaR) and fixed prudential limit for EaR during the FY 2001-02.

Income Streams

In a softening interest rate scenario, the pressure on available spread will always be mounting. The Bank's rationale of widening the scope of non-interest income streams within the ambit of permitted regulations germinates from this philosophy.

Cash Management Services (CMS)

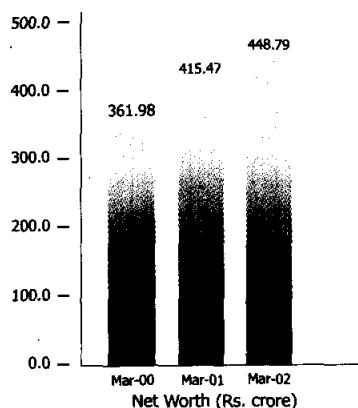
Within a short span of time, the Bank could successfully market its CMS products to a number of corporates, which include insurance companies, banks, public sector undertakings and other large corporates. The Bank could offer customised products to suit the requirements of various corporates and Bank's CMS products are well accepted in the market.

Depository Services

The Bank's Depository Services is now fully web enabled and customers can view their Depository Participant accounts logging on to FedNet or the Bank's web-site. Currently the Bank has two DP Divisions, one in Mumbai and the other in Kochi.

Insurance Marketing

With a view to exploit the opportunities available to augment the fee-based income of the





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Bank to sustain profitability, and to make available to customers a wide range of innovative and customized insurance products, the Bank has tied up with ICICI-Prudential Life Insurance Co. Ltd. to undertake distribution of their life insurance Products on a fee-based income without risk participation.

Foreign Currency Services

The aggregate foreign exchange customer business of the Bank touched Rs.4,632 crore. The Bank recently commenced a technology enabled service christened "FedFast" offering speedier remittance facility to its constituents in the Middle East. 13 Exchange houses and 7 banks were maintaining rupee-drawing arrangements with us during the financial year under review.

Audit and Inspection

In tune with the enhanced focus, regulators are attributing to audit and inspection, the Bank has taken many initiatives to strengthen the supervisory systems available in the Bank. The inspection policy adopted during the period adequately addresses the issues in this regard. For administrative offices, the envisaged management audit system is in an experimental shape. The Bank made significant advancement in rectification of inspection comments in areas relating to detailed, concurrent, revenue, computer and Reserve Bank inspections.

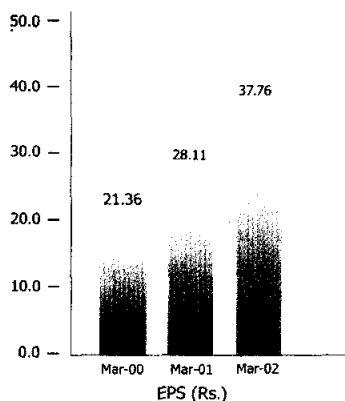
Information Technology Turns The Key Driver

For improvement in operational efficiency, delivery channels and customer convenience, the Bank continued to rely aggressively on information technology. The year gone by also saw all the branches of the Bank functioning in a totally automated environment, truly a milestone event. The Bank pioneered many trends in enhancing IT infrastructure and introduced the centralised interoffice server connecting all the branches and offices through the Internet. The Bank's prestigious technology product 'FedNet' Internet banking is now available through all the branches of the Bank. FedNet also covers Depository Participant Services, utility payment services and on-line shopping with selected malls.

Foray into on-line Automated Teller Machine Services was another major step in widening the Bank's delivery channels. Currently the Bank has operationalised 39 ATMs and the plan is to take this number to 150 by the end of fiscal 2003. Another project of implementing 'FedWide' interconnecting branches with Regional Offices and corporate office is also in progress. A corporate e-mail server has already been set up at the Bank's head office in Aluva and uniform e-mail addresses were created for all branches. The Bank also introduced mobile banking service during the year. The Bank has become a member of INFINET, the financial network set up by RBI. Full fledged systems for the RBI's Negotiated Dealing Systems (NDS) were set up at the Funds & Investment Branch in Mumbai, enabling online trading in securities from February, 2002.

Human Resources

For the Bank, human resources constitute a strategic resource. In managing this resource the Bank gives priority to competency enhancement and skill up-gradation. Training programmes thus focused on instilling latest trends in leadership development, risk management and technology absorption. The Bank also took care to continue an appropriate compensation and reward system with focus on infusing in its manpower a sense of proprietary interest. A harmonious industrial relations climate prevailed in the Bank. The Bank also continued timely interactions with the Officers Association and Employees Union. The business per



REPORT OF THE BOARD OF DIRECTORS

employee increased to Rs.2.19 crore from Rs.1.90 crore the previous year.

Board of Directors

The Reserve Bank of India has approved the re-appointment of the Chairman of the Bank, Shri K P Padmakumar for a period of one year effective 1 January 2002, on completion of his term of office of three years, on the existing terms and conditions.

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

Shri U Mahesh Rao and Shri P S Menon, Directors liable to retire by rotation, had resigned from the Board on 16 November 2001 and 7 December 2001 respectively and the resultant casual vacancies were got filled by the Board of Directors appointing Shri S Santhanakrishnan and Shri M J Subbaiah on 8 January 2002 in accordance with section 262 of the Companies Act, 1956 and Article 67 of the Articles of Association of the Bank. Shri S Santhanakrishnan, a Chartered Accountant by profession, is also an expert in Information Technology (IT), holding chairmanship/membership in many prominent IT committees. Shri Subbaiah is a well experienced banker having served in State Bank of India as DGM, as Senior General Manager at ICICI Ltd., Managing Director of Centurion Bank and also presently director in four other companies. Shri Santhanakrishnan who has been appointed in the place of Shri Menon comes up for appointment at the ensuing AGM, since Shri P S Menon would have retired at the ensuing AGM if he had continued in the directorship. The Bank will benefit from the rich and varied experience of Shri Santhanakrishnan and the Board recommend the appointment of Shri Santhanakrishnan. The Board gratefully acknowledges the valuable services rendered to the Bank by Shri P S Menon and Shri Mahesh Rao as members of the Board of the Bank.

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 2001-2002 are attached. Various options for future business plans for the company are being developed.

Annual Financial Statements and Audit Report

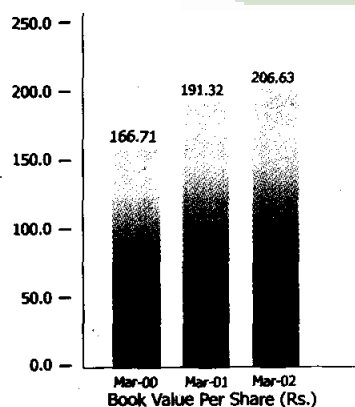
As per section 212 of the Companies Act, 1956, the Bank's balance sheet as on 31 March 2002, its profit and loss account for the year 2001-02, and the Auditors' report and statements required under the section, are attached.

Statutory Audit

The statutory (central) audit of the Bank was carried out by M/s Varma & Varma, chartered accountants, Kochi, whose report is attached. The firm is eligible to undertake this audit for the current year also and has offered itself for reappointment, subject to the approval of the 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 Note nos. 1, 4(i) and 5(a) on the Accounts in Schedule 19 and on Accounting Policy Nos. 4(b), 7(c) and 8(c) in Schedule 18 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





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RBI directive on an ongoing basis. Every effort is being made to adjust the outstanding entries in these accounts within the shortest time.

Notes 4(i), 5(a) and Accounting Policy 4(b) : The Accounting Policy and Notes in respect of these accounts being self-explanatory, no comments are offered.

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

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

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

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

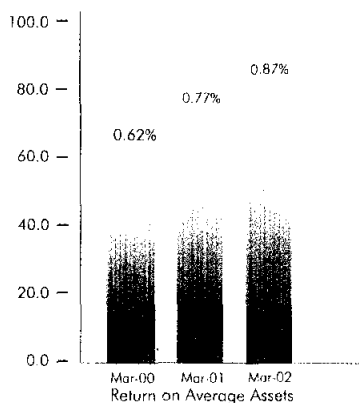
Through its export-financing operations, the Bank supports and encourages the country's export efforts.

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;



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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

This Foundation has been set up as a charitable trust by the Bank to promote the fond memory of its founder late Kulangara Paulo Hormis. Propagation of banking knowledge and hosting of lectures are the main activities of the trust. Shri N R Narayanamurthy, Chairman and Chief Mentor of Infosys Technologies Ltd. delivered the sixth commemorative lecture on "Global Capitalism and Modern Corporation – Strategies for Leadership Development in Corporate Governance and Social Responsibilities" on 4 May 2002 at Kochi. Prizes were also presented by Shri Murthy to the winners of essay competition conducted by the Foundation for members of staff of the Bank.

Acknowledgements

The Bank acknowledges the unstinting support of a number of institutions and individuals for its achievements. The Board expresses its sincere gratitude to the shareholders, depositors and other clients for their continued patronage and goodwill. The role played by the members of staff at different levels was a major contributing factor for the significant achievements of the Bank during the year.

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 Bank 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.

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

20 June 2002

K P Padmakumar

Chairman