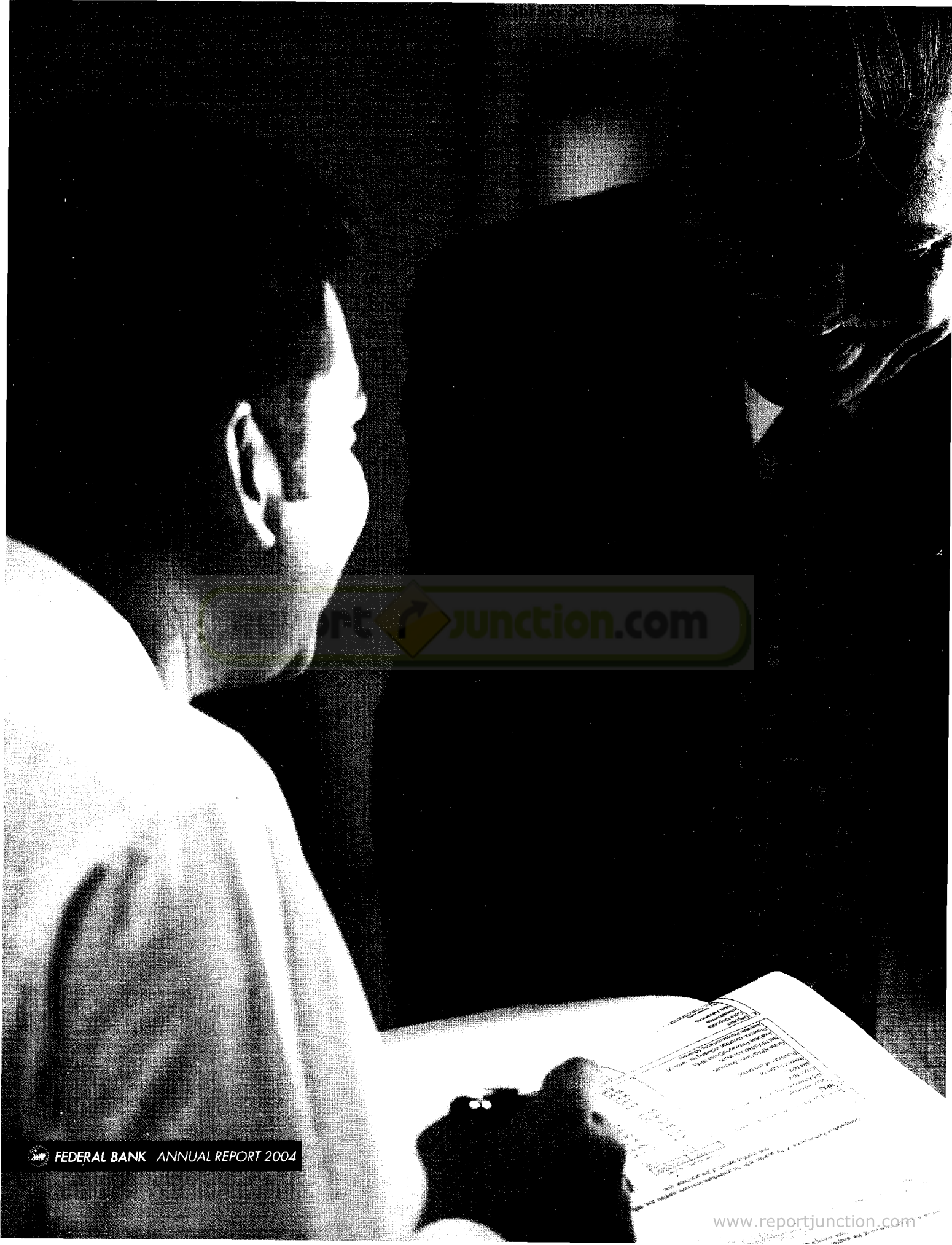




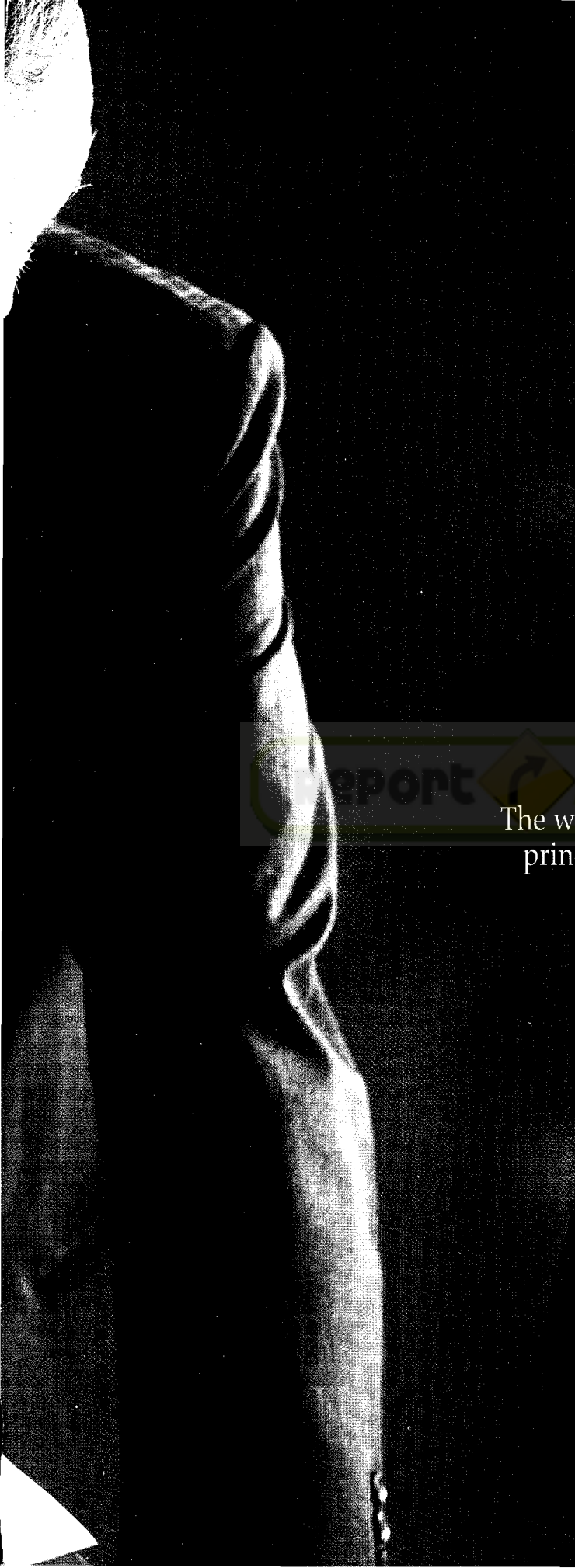
Perfect Banking
Partnership



ANNUAL REPORT 2004



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One of the people
in the picture is a Federal Bank
employee. And the other,
a customer.

And what makes us happy
and proud is that you can't tell
who is who.

That is Federal Bank's
principle of

Perfect Banking
Partnership
at work.

A principle that helps us
achieve growth and stability,
year after year.

Not just in our balance sheet,
but in the lives of our
customers too.

The winning
principle

Chairman's Message



Dear partners,

It is with a deep sense of pride and a feeling of solidarity that I choose to address all my stakeholders as partners. Because, beyond anything else, it's our spirit of partnership that helped us build one of the largest private banking corporations in the country, over the last few years.

Indeed, we have built up India's largest traditional private sector bank. We have set the benchmarks in technological products that bring the world standard in convenience to everyday lives of millions of ordinary people across India, substantially reducing the urban rural divide. We have also achieved the reach to become one of the most significant banking powers in the sub-continent. More importantly, we have grown steadily and consistently on all parameters of growth of a corporation, as you would see in the following pages. While I don't want to conceal my overwhelming joy in congratulating you on these substantial achievements, I would love to point out the importance of rightly assessing the factors of our success.

It is not technology or facilities that fundamentally account for the most sublime advances of mankind; it's people and their ideas.

Our immense success over the last few years, I would undoubtedly put down to our principle of the Perfect Banking Partnership, and our treasured employees and customers both of whom I call partners. It is these commendable people who turn our basic philosophy into a cherished experience on hundreds of our banking floors every day.

Gentlemen, let me reiterate we owe all our success to these honorable men and women. Let's give them a big hand, and wish them well in their strife.

Warm regards,

K P Padmakumar
Chairman

BOARD OF DIRECTORS



Sitting (left to right) Shri. M Joseph, Dr. C K George, Shri. K P Padmakumar, Shri. M S Parthasarathy
Standing (left to right) Shri. T N Jayachandran, Shri. S Santhanakrishnan, Prof. A M Salim, Shri. M J Subbaiah

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

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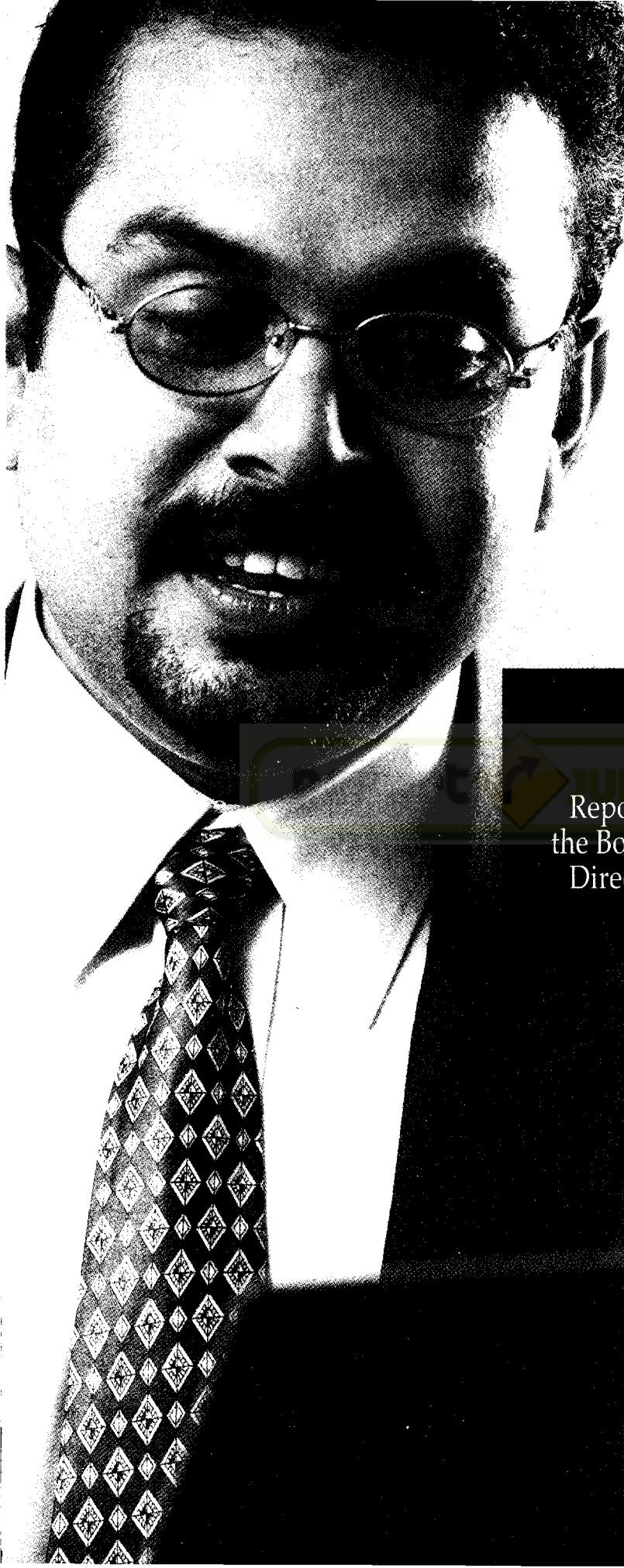
THE
FEDERAL BANK
LIMITED



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FEDERAL BANK



Report of
the Board of
Directors

Perfect Banking Partnership
is like any other relationship.
It's nurtured with trust and
sensitivity.

Sensitivity to each other's
very special needs and
expectations; and trust in
each other's ability to live up
to these expectations,
satisfying the exact needs.

That is probably why at
Federal Bank we train our
people to go that extra mile
to rightly assess the very
specific needs of our
customers. And as many of
them are heard saying,
good banking is all about
good money management
and excellent
relationship management.



ANNUAL REPORT 2004

Report of the Board of Directors

The Federal Bank Limited

Your Directors are pleased to present the Bank's 73rd Annual Report, and the audited financial statements, for the year ended 31 March 2004 (FY04¹).

Fiscal 04 a year of growth with stability

During the year the Bank consolidated the financial strength acquired in recent years, and achieved substantial growth in business volumes, marked growth in profitability, and a sharp reduction in portfolio delinquency. The year saw secular downward movement of interest rates and sluggish credit demand with accentuated competition in the pricing of assets. Despite this, the Bank could improve its lending to the corporate and Small and Medium Enterprise (SME) segments substantially and, riding on its niche market strength, could keep its net interest margin at an attractive level.

Highlights

- Highest ever operating profit of Rs. 437 crore (Rs. 351 crore in FY03)
- Net profit of Rs. 136 crore (Rs. 105 crore in FY03)
- Return on equity improved to 23.14% (21.5% in FY03), per share earnings to Rs. 62.65 (Rs. 48.36 in FY03), and book value to Rs. 298 (Rs. 244 in FY03)
- Net owned funds grew to Rs. 648 crore (Rs. 529 crore in FY03)
- Capital-adequacy ratio rose to 11.48% of risk-weighted assets (11.23% a year earlier), much higher than the regulatory minimum of 9%
- Net non-performing assets (NPAs) fell to 2.89% of net advances, from 4.95% a year earlier
- Loan-loss provisions held at year-end equaled 62% of NPAs, up from 41% a year earlier

Proposed dividend

Consequent on the improvement in profitability, the Board is pleased to recommend a dividend of 70%, up from 40% in the previous year. The Reserve Bank of India (RBI) has approved the higher rate of dividend.

Bonus issue

The Board is pleased to recommend for shareholders' approval, issuance of bonus shares to eligible shareholders of the Bank, in the ratio of two bonus shares for every one equity share held (2:1), subject to approval by RBI and in accordance with the Companies Act, 1956, guidelines issued by the Securities and Exchange Board of India (SEBI) and other regulations as may be applicable.

Business growth and profitability

The total business of the Bank grew by 23% to Rs. 21,177 crore. Gross income increased by 10.70% to Rs. 1,490 crore. The return on average total assets improved from 0.98% to 1.03%, a notch above the international benchmark of 1%.

¹FY represents the financial year ended on 31 March of the year noted.

