

# ANNUAL REPORT 2006 - 2007

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Shri. P. Chidambaram, Hon. Minister of Finance presenting the award instituted by The Financial Express and Ernst & Young for best banks to Federal Bank and Chairman Shri. M. Venugopalan receiving the award.


**THE FEDERAL BANK LIMITED**

Regd. Office : Aluva – 683 101

Dear Shareholder(s)

**Re.: Payment of dividend through Electronic Clearing Services (ECS)**

In case you have not already sent the ECS/Bank Account particulars to our Registrars, Integrated Enterprises (India) Limited or to you Depository Participant (in case of demat holdings) we would request you to provide the said particulars in the format given below to facilitate prompt. Safe and correct payment of dividends as soon as it is declared.

Please ensure that the details submitted by you to the Registrars/Depository Participants are correct as any error therein could result in the dividend amount being credited to wrong account.

Payment of dividend through ECS and/or the designated Bank Account which appear on the dividend warrant, will help to prevent fraudulent encashment of dividend warrants.

Kindly help us in our endeavor to serve you better.

**For The Federal Bank Limited  
Company Secretary**

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**FORM FOR ECS MANDATE/ BANK ACCOUNT PARTICULARS**

I/We \_\_\_\_\_ do hereby authorise The Federal Bank Limited

\* Print the following details on my /our dividend warrant.

\* Credit my dividend amount directly to my Bank account by ECS.

(\* Strike out whichever is not applicable)

My/Our Folio No.: \_\_\_\_\_

DP ID No. \_\_\_\_\_

Client ID No.: \_\_\_\_\_

Particulars of Bank Account : \_\_\_\_\_

A. Bank Name : \_\_\_\_\_

B. Branch Name : \_\_\_\_\_

Address (for Mandate only)

C. 9 Digit Code No. of the Bank & : \_\_\_\_\_

Branch as appearing on the MICR Cheque : \_\_\_\_\_

D. Account Type (Saving/Current) : \_\_\_\_\_

E. Account No. as appearing in the Cheque Book : \_\_\_\_\_

F. STD Code & Telephone No. of Shareholder : \_\_\_\_\_

I/We shall not hold the Bank responsible if the ECS could not be implemented or the Bank discontinue the ECS for any reason.

Mail to

Integrated Enterprises (India) Limited

41/427, "Seema", Near Abad Metro Hotel

Rajaji Road, Ernakulam – 682 035

\_\_\_\_\_  
*Signature of the Shareholder*

Please attach the photocopy of a Cheque or a Bank cancelled Cheque issued by your Bank relating to your above account for verifying the accuracy of the nine digit code number.

In case you are holding shares in demat form, kindly advise your Depository Participant to take note of your Bank Account particulars/ECS mandate.

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## Chairman's Message

Dear Shareholder,

It gives me immense pleasure to present yet another set of impressive figures that your bank has notched up in the fiscal year 2006-07. The Indian banking scenario in these times is one of transformation, witnessing changes at a pulsating rate. Those unable to keep pace, face the risk of falling by the wayside. It is with pride and a sense of responsibility, that I can vouch for your bank's resilience in adapting to the fast changes. Your bank has taken due advantage of new avenues for growth, with alacrity, professionalism, and farsightedness. The leitmotif of our functioning happens to be the close relationship we share with our customers, based on mutual trust and benefit.

To go back, to the last Annual Report, I had shared with you my apprehension on the hardening interest rates and the consequent pressure on our margins. I am delighted to inform you, that having anticipated this change in the economy well in advance, we took measures to ease the pressure on our margins, and this has resulted in increased profits. The result is there for all to see – the book value of your share has gone up from Rs. 146.02 to Rs. 175.48, and earning per share, from Rs. 32.70 to Rs. 34.20.

Your bank has a tradition of magnanimously rewarding investors over a period of time. During the financial year under report, your bank has registered significant progress under all indices – net profit, balance sheet, size, book value, earnings per share, dividend declared, etc. This improvement in the core competencies of the bank has been reflected in the increased share price in the Indian as well as London Stock Exchanges.

In the year gone by, we opened 26 new branches, and 71 new ATMs. Six extension counters were converted into full-fledged branches. We have grown in a big way by merging the erstwhile Ganesh Bank of Kurundwad (comprising 32 branches), with us. The merger was completed smoothly, with integration of accounts, and the financial results for the year 2006-07 includes the figures of erstwhile Ganesh Bank of Kurundwad. Therefore, the total number of branches has increased from 472 to 536. As on July 31st 2007, we have 540 branches, 423 ATMs, 12 extension counters, and one satellite office. The Reserve Bank of India (RBI), has authorised us to open another 66 branches, which we hope to do so by the middle of the current fiscal year.

Necessary permissions from regulatory authorities in India and abroad are in hand, for opening a representative office in Abu Dhabi, U.A.E. The office will start functioning this year and will act as a gateway for our West Asia operations. Thus, we can better service and provide easier access to our large NRI clientele.

An important technical development is our migration from Fedsoft to Finacle Core Banking Solution (of Infosys Technologies). This is taking place at a fast clip, with more than 50% of our branches and businesses already on the Finacle platform. The migration of all our branches to Finacle solution is expected to be completed by September 2007. This move will enable us to comply with Basel 2 norms more effectively, and provide new products and services that will enhance customer convenience.

Your bank maintains a decent capital to risk assets ratio. Enhanced business operations and Basel 2 compliance demands higher capital. To this end, the bank has raised Rs. 200 crores under Tier 2 at competitive rates, in the last fiscal year. The bank has already announced a rights issue, and the resultant increase in net worth will see us poised to enter new ventures and initiatives. The continued buoyancy in the Indian economy will open new areas in the financial services sector per se, which we will be ready to capitalise upon.

Our foray into Life Insurance has received the first level of approval from the IRDA. This Life Insurance company is going to be a joint venture between us and the Industrial Development Bank of India (IDBI), and Fortis Insurance International N.V. We expect to start sale of our products by the third quarter of this fiscal.

Your bank's financial services subsidiary, Fedbank Financial Services Limited, has plans to enter the market in a big way in the near future. It is truly exhilarating to be among the best in the industry. I am proud to inform you that your bank has been benchmarked against strict standards and has come out with flying colours on more than one occasion. We have striven to realise your dream of seeing your bank in the rarified atmosphere of the absolutely first-rate. I take this opportunity to wholeheartedly thank you for your association with the bank and your contributing in our march towards excellence.

2006-07 fiscal year was a year of triumphs for us. We are elated with the many recognitions that came our way, and this will spur us to achieve greater successes in the years to come. The major recognitions bestowed on us in 2006-07 are:

- 'Most Efficient Bank' in the large bank category – the 13th Business Today-KPMG survey of Indian banks
- 'One amongst the Top 3 Banks' in the old private sector – survey of Indian banks by The Financial Express and Ernst & Young, based on the parameters of strength, soundness, growth, profitability, efficiency, and credit quality
- 'Suvarna Kerala Puraskaram' – from YMCA International, Kerala Chapter, for our contribution to the development of Kerala.

As you can see, we have been steadily improving our performance, and are geared to handle the additional responsibilities coming our way.

The secret of success in our journey so far, has been the steadfast allegiance of our valuable customers. We are conscious of all that may be required of us in the future and rededicate the services of our loyal and committed staff members to adding value to our other stakeholders. I gratefully acknowledge the cooperation and contributions of our customers, shareholders and employees. In our onward journey through hitherto uncharted territories, I with all humility, seek the continued patronage of our stakeholders including the investor community in India and abroad.

With best wishes,  
Yours sincerely,

M. Venugopalan  
Chairman & CEO



## Federal Home Loans

## Owning a dream home was never been so easy.

Housing Loans from Federal Bank. Providing you with enough reasons to convert your dream home to reality • Available for a variety of purposes like purchase of land for house construction, construction of house or flat, purchase of land and house, purchase of flat under construction, reimbursement of cost of house/flat already constructed and so on • Available at all places, through all branches, across the country • Loan amount up to Rs.3 crores • Most competitive interest rates



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*A bank account with the power to  
change every youth's future.*



Yuvamitra is a unique account from Federal Bank, designed for the youth. It gives them much more freedom and great benefits that would make their life amazingly effortless! What's more, it will even assist them in sending applications to universities abroad and win exciting scholarships!

#### **Eligibility**

Students\*/Employed/Entrepreneurs between 15 & 35 years of age.

#### **Balance Requirement**

No minimum balance for students. For others, quarterly average balance to be maintained within 6 months of opening the account.

#### **Easy Formalities for Students**

Account opening with just an introduction from principal/head of institution.

#### **Great Benefits\*\***

- Preferential treatment to account holders opting for educational loan
- Assistance in sending applications to universities abroad
- Send applications to universities abroad free of cost, saving huge courier charges
- Scholarships for selected students for studies in top 50 universities abroad for M.B.A/M.S

#### **Free Facilities\*\***

- ATM/VISA Debit Card ■ Cheque Book ■ Internet Banking
- Cash Remittance ■ Fund Transfer ■ Monthly Statements
- Mobile Banking ■ E-mail Alerts



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\*Students beyond matriculation level, including professional degree/diploma courses.  
\*\*Conditions apply

**Contact your nearest Federal Bank branch for more details. Call: 1800 425 1199**

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## Board of Directors



Sitting: Shri. P. Surendra Pai, Shri. Suresh Kumar, Shri. M. Venugopalan, Shri. T.N. Jayachandran, Prof. A.M. Salim.  
 Standing: Shri. P.H. Ravikumar, Shri. K.S. Harshan, Shri. P.C. Cyriac, Shri. S. Santanakrishnan, Prof. Abraham Koshy.

## Management Team



Shri. George John  
Chief Financial Officer



Shri. P. C. John  
General Manager



Shri. Abraham Thariyan  
General Manager



Shri. C. Sreekumar  
General Manager



Shri. C.V. John  
General Manager



Shri. K.J. Sebastian  
General Manager



Shri. K. George Varghese  
General Manager



Shri. C. Thomas Joseph  
General Manager





## The Federal Bank Limited

**To The Members**

Your Directors have great pleasure in presenting the 76th Annual Report on the business and operations of your bank together with the audited accounts for the year ended March 31, 2007.

**FINANCIAL PERFORMANCE**

The financial highlights of your bank for the financial year 2006-07 are given below:

Rs. in Crore

Financial Parameters	For the year ended	
	March 31, 2007	March 31, 2006
Net Interest Income	732.39	599.80
Fee and other Income	286.69	216.95
Net Revenue	1019.08	816.75
Operating Expenses	406.10	364.57
Profit before depreciation and Tax	422.20	306.51
Net Profit	292.73	225.21
Profit brought forward	13.47	2.30
Total Profit available for appropriation	306.20	227.51
<b>Appropriations:</b>		
Transfer to Statutory Reserves	73.19	56.31
Transfer to Revenue Reserves	130.21	100.57
Transfer to Capital Reserves	15.64	5.00
Transfer to Special Reserves	18.00	18.00
Transfer to Investment Fluctuation Reserve	14.64	0.00
Proposed Dividend	34.24	29.96
Provision for Dividend Tax	5.82	4.20
Balance carried over to balance sheet	14.46	13.47
<b>Financial Position:</b>		
Deposits	21584.44	17878.74
Advances	14899.10	11736.47
Total Business (Deposits + Advances)	36483.54	29615.21
Other Borrowings	770.21	610.50
Investments	7032.66	6272.38
Total Assets (Balance Sheet Size)	25089.93	20642.91
Capital	85.60	85.60
<b>Ratios:</b>		
Return on Total Assets (%)	1.38	1.28
Return on Equity (%)	21.27	25.75
Earnings per Share (Rs.)	34.20	32.71
Book Value per Share (Rs.)	175.48	146.02
Operating Cost to Income (%)	39.85	44.64
Capital Adequacy Ratio (%)	13.43	13.75



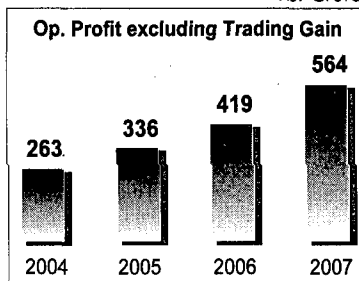
## The Federal Bank Limited

The bank could register all-round improvement in overall performance during the fiscal 2006-07; Business volume growth was comfortable with substantial increase in total income.

### OPERATING PROFIT

Operating Profit for the reporting period has recorded a growth of 35.56% touching an all-time high figure of Rs.612.98 crore. Corresponding figure for the financial year 2005-06 was Rs.452.18 crore. The operating profit excluding trading profit rose to Rs.563.69 crore for the financial year ended March 31, 2007, an increase of Rs.144.59 crore, recording a growth percentage of 34.50. During the later half of the financial year, inflation had shown an upward bias. As part of its inflation control measures, The Reserve Bank of India hiked Cash Reserve Ratio of commercial banks. This resulted in liquidity crunch ushering in an increasing interest rate regime. The hallmark of the business model adopted by the bank during the year was to rely on retail deposits, staying away from high cost bulk deposits. The net interest income increased from Rs.599.80 crore to Rs.732.39 crore showing an increase of 22.10%.

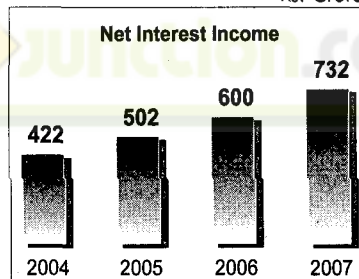
Rs. Crores



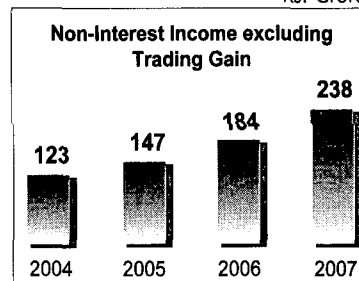
### INCOME GROWTH

Through out the year bank adhered to the policy of creating good quality high earning assets. This has improved the earnings and the total income for the financial year ended March 31, 2007 was Rs.2104.04 crore against the previous year's figure of Rs.1653.48 crore. The increase in total income was Rs.450.56 crore thus clocking a growth percentage of 27.25. Total income from advances touched Rs.1293.58 crore from last year's figure of Rs.929.99 crore with an increase of 39.10%. Income from advances net of provisions for non-performing assets (Rs.89.29 crore) amounted to Rs.1204.29 crore an increase of 44.33% from last year's figure of Rs.834.41 crore. Other income denoting fee-based income amounted to Rs.233.77 crore with an increase of 31.07%. Income from investments recorded an increase of Rs.38.57 crore and touched Rs.519.26 crore. However net income from investments during the year decreased to Rs.457.34 crore from last year's figure of Rs.469.78 crore. Cumulative income from advances and investments recorded a growth of 28.51% and stood at Rs.1812.84 crore against Rs.1410.68 crore of previous year. Yield on advances increased to 10.16% from 9.80%. Return on advances plus investments improved to 9.49% from 9.02%. In spite of the adverse movement in the cost of deposits, net interest margin has shown a marginal improvement to 3.06% during the year from 3.05% of the previous year.

Rs. Crores



Rs. Crores



The net revenue, i.e., net interest income plus other income, of the bank increased by Rs.202.33 crore to Rs.1019.08 crore as on March 31, 2007 from Rs. 816.75 crore as on March 31, 2006, registering a growth of 24.77%. Bank made special efforts to improve the fee-based activities to increase earnings from the