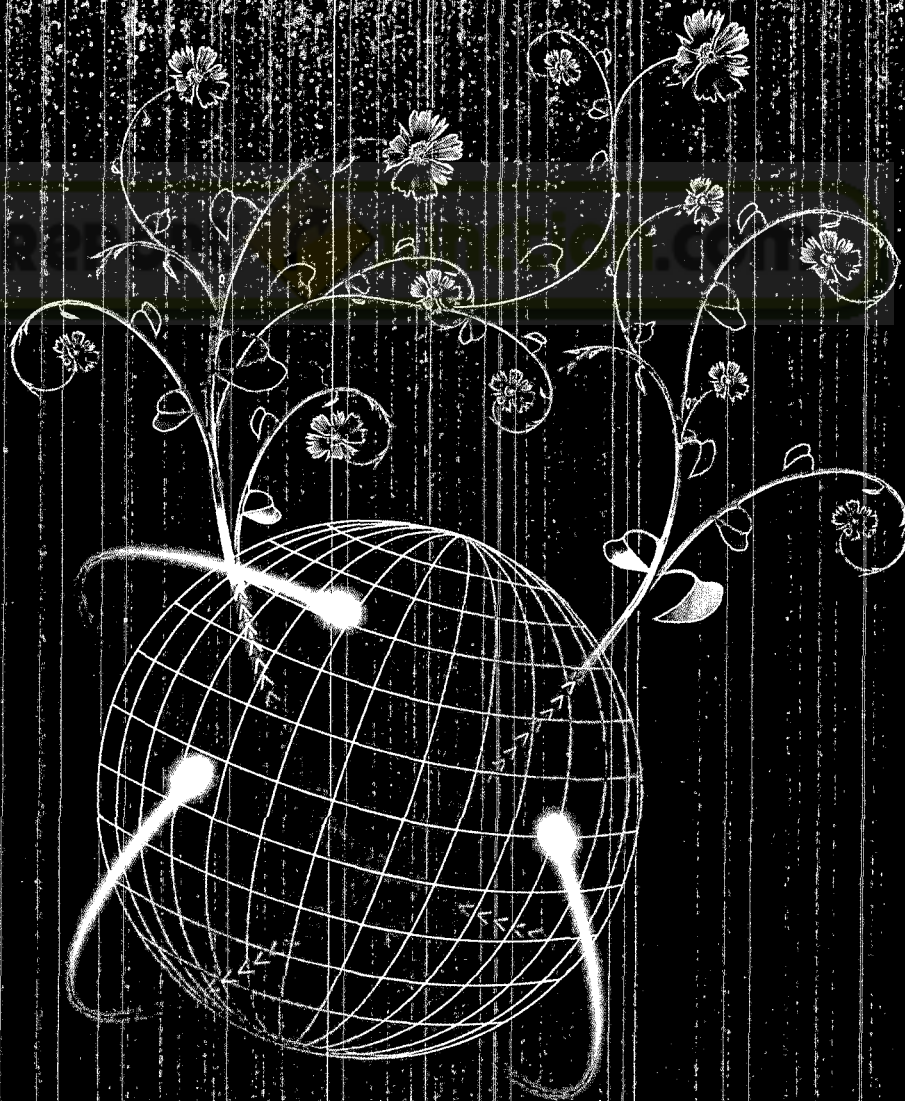




**FEDERAL BANK**  
YOUR PERFECT BANKING PARTNER

**ANNUAL REPORT 2007-2008**

**Connected... Always.**







**FEDERAL BANK**  
YOUR PERFECT BANKING PARTNER

**ANNUAL REPORT 2007-2008**

For over 75 years, we have believed in the power of staying connected. Connected with the times, with progress, with dynamism, with knowledge, with opportunities and most importantly with you and your dreams.

It is the perfect sync between technology and service that makes all the difference. Our customers, our shareholders and our employees - each one of you is a pivotal link in the Federal Bank network. A link that has to stay connected with others to become a relationship that stands the test of time. Let's stay connected... always.



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## Chairman's Message

Dear Shareholders,

It is my privilege to place your Bank's Annual Report for the year 2007-08 before you for your perusal.

This moment brings me joy as our Bank has achieved reasonable bottom line and top line growth amidst turbulence in the financial markets across the world. Even though financial experts speculated on decoupling theory, Indian financial space was not totally insulated from the mayhem witnessed in the global markets. Inflation, which was under control in the first half of last financial year, showed signs of trend reversal during the second half and was on an upward journey.

As a result of adverse global conditions, Indian Banking industry also faced challenging situations requiring agile movements. At a time, when those without clear vision of the emerging situations are struggling to survive, I can, with pride and self-confidence, assure of the adaptability and resilience of your Bank in these testing times. Customer satisfaction, tailor made products and improved turn around time by streamlining product delivery processes are the main pillars of strength of any growing institution. Your Bank strives to be ahead in all the spheres with the central theme of enhancing value for all the stakeholders.

The financial results for FY 2007-08, placed before you all, have without doubt, proved the efficiency of this Bank amidst the turbulence. The book value of your share has gone up from Rs. 175.48 to Rs. 229.53. Earning Per Share has moved up to Rs. 32.42 from Rs. 28.74. Net worth has taken a quantum leap from Rs. 1,502.21 Crore to Rs. 3,925.70 Crore, consequent to the Rights Issue.

Your Bank continues its tradition of adding value to its shareholders. The increase in stature by increasing business volume, introducing new customer-friendly products, adopting technology to stay ahead and such other measures prove the commitment of the Bank in enhancing the shareholder value. Concentrating on organic growth opportunities to gain a critical mass has been an important element in our strategy for growth. Towards this end, your bank has taken significant steps, like expansion of retail business, expanding footprints across places and centres with business potential. Accordingly during the last FY, the Bank opened 65 new branches, upgraded two extension counters and opened 141 new ATMs. The total number of branches has increased from 536 to 603. As on May 29, 2008, the Bank has 606 branches, 544 ATMs, 10 extension counters and one satellite office. In tune with the strategy to further extend the reach across major centres, the Bank plans to open more new branches during the current fiscal. To cater to the growing needs of the Indian diaspora in the Middle East, the Bank opened a representative office in Abu Dhabi, U.A.E. This office will coordinate operations in the Gulf countries and will enhance the customer convenience for our Non Resident Indian clientele.

The Bank has switched over to its Core Banking Platform at a record pace and all its branches are now operating under CBS. The Bank has started leveraging the CBS and offering an array of new products with customer segmentation as the core objective. The Bank is fully prepared to meet the situations of Basel II implementation.

In the last Annual Report, I informed you that our Joint Venture in Life Insurance would be functional during the FY 2007-08. I am happy to inform you that IDBI Fortis Life Insurance Company Limited, our life Insurance J.V. has become fully operational and has started offering its products. So far, the response from the public is encouraging. Increase of fee-based income through various avenues continues to be on top of the agenda. Distribution of Life and General Insurance products and sales of Mutual Funds are expected to add revenue in good numbers.

The subsidiary of the Bank, FedBank Financial Services Limited, is acting as a channel to market asset products of the Bank. This is resulting in significant and broader penetration to various classes of customers.

It is a rare privilege to announce that your Bank has passed through the strictest standards when benchmarked against the best and results of these litmus tests are truly encouraging.

The performance of your Bank continued to win accolades from various institutions in India and abroad and these recognitions are sure to instil confidence in us to take on new challenges. The major recognitions bestowed on your Bank in 2007-08 are:

- In the annual survey conducted by Business Today in association with KPMG Consulting, Federal Bank was adjudged the most efficient Bank in the large Bank category. The Bank won this award second year in a row.
- A survey conducted by The Financial Express in association with Ernst & Young, on the basis of five key parameters, viz. strength and soundness, growth, profitability, efficiency and credit quality, adjudged Federal Bank among top three Banks in the Old Private Sector Banks category. This recognition has also been bestowed for a second time.
- Federal Bank won the 'Best Core Banking Project Award 2007' at the Asian Banker IT Implementation Awards 2008
- FITCH Ratings have upgraded the Bank's National Long-term rating to "AA- (ind)" from "A+ (ind)". FITCH has also upgraded the Bank's INR 6 Bn Subordinated debt to "AA-(ind)" from "A+ (ind)". The outlook on the ratings has been changed to 'Stable'.

Your Bank's endeavour is to be amongst the best and continue to remain in the list. This agenda will continue to guide us. Setting high level of standards and achieving them has been the hallmark of the journey so far. The Bank's solemn pledge will be to assiduously follow the set pattern in the future as well.

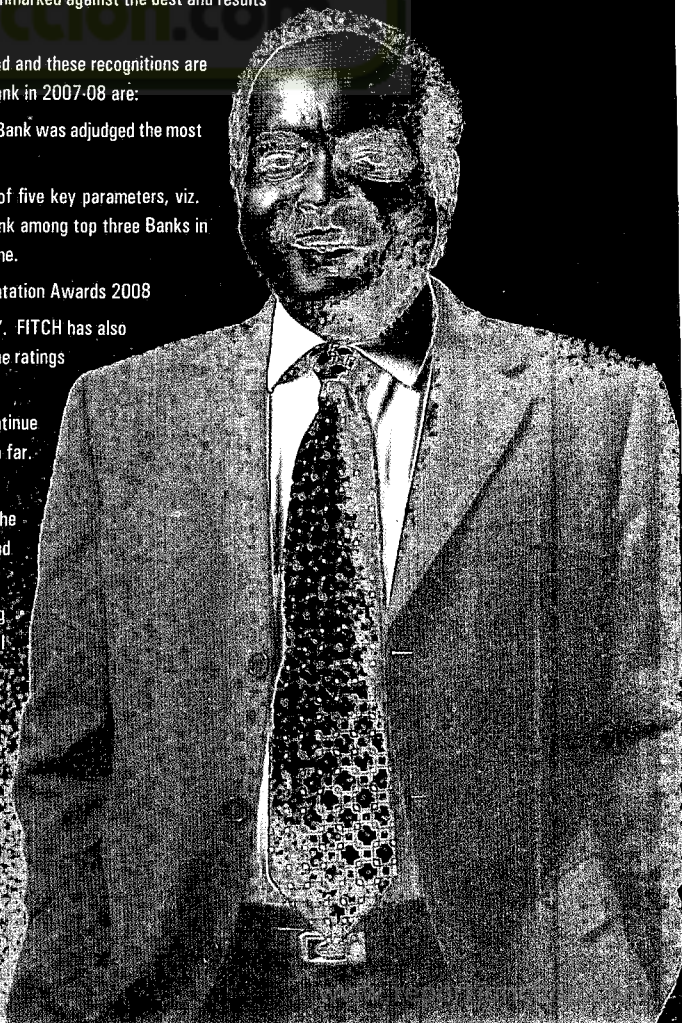
The most valuable asset that the Bank has religiously been carrying with it all through these years is the unflinching loyalty of the customers. The Bank will strive to protect the interests of our customers and other stakeholders in the present scenario of global financial uncertainties.

I, with gratitude, record our acknowledgment for the contributions, cooperation and guidance being received from all shareholders, customers and employees. In our continuing voyage to newer vistas, I humbly seek the loyalty and patronage from all the stakeholders.

With best wishes and warm regards,

Yours sincerely,

M. Venugopalan  
Chairman & CEO





## Board of Directors



Sitting: Shri. Suresh Kumar, Shri. M. Venugopalan (Chairman), Prof. A.M. Salim, CA. S. Santhanakrishnan.  
Standing: Shri. P.C. Cyriac, Prof. Abraham Koshy, Shri. P. Surendra Pai, Shri. P.H. Ravikumar, Shri. K.S. Harshan (Executive Director)

## Management Team



Shri. P.R. Kalyanaraman  
Executive Director



Shri. George John  
Chief Financial Officer  
(Chief General Manager)



Shri. P. C. John  
Chief General Manager



Shri. Abraham Thariyan  
General Manager



Shri. C. Sreekumar  
General Manager



Shri. C.V. John  
General Manager



Shri. K.J. Sebastian  
General Manager  
(On Deputation to FedFina)



Shri. K. George Varghese  
General Manager



Shri. C. Thomas Joseph  
General Manager



## The Federal Bank Limited

### To The Members

Your Directors take great pleasure in presenting the 77th Annual Report on the business and operations of your Bank together with the audited accounts for the year ended March 31, 2008.

### FINANCIAL PERFORMANCE

The financial highlights of your Bank for the financial year 2007-08 are given below:

Rs. in Crore

Financial Parameters	For the year ended	
	March 31, 2008	March 31, 2007
Net Interest Income	868.01	732.39
Fee and Other Income	394.99	286.69
Net Revenue	1,263.00	1,019.08
Operating Expenses	468.88	406.10
Profit before Depreciation and Tax	529.37	422.20
Net Profit	368.05	292.73
Profit Brought Forward	14.46	13.47
Total Profit Available for Appropriation	382.51	306.20
<b>Appropriations:</b>		
Transfer to Statutory Reserves	92.02	73.19
Transfer to Revenue Reserves	131.74	130.21
Transfer to Capital Reserves	27.68	15.64
Transfer to Special Reserves	18.00	18.00
Transfer to Investment Fluctuation Reserve	18.41	14.64
Proposed Dividend	68.41	34.24
Provision for Dividend Tax	11.63	5.82
Balance Carried Over to Balance Sheet	14.62	14.46
<b>Financial Position:</b>		
Deposits	25,913.36	21,584.44
Advances	18,904.66	14,899.10
Total Business (Deposits + Advances)	44,818.02	36,483.54
Other Borrowings	791.95	770.21
Investments	10,026.59	7,032.66
Total Assets (Balance Sheet Size)	32,506.46	25,089.93
Capital	171.03	85.60
<b>Ratios:</b>		
Return on Total Assets (%)	1.34	1.38
Return on Equity (%)	13.56	21.27
Earnings Per Share (Rs.)	32.42	28.74
Book Value Per Share (Rs.)	229.53	175.48
Operating Cost to Income (%)	37.12	39.85
Capital Adequacy Ratio (%)	22.46	13.43



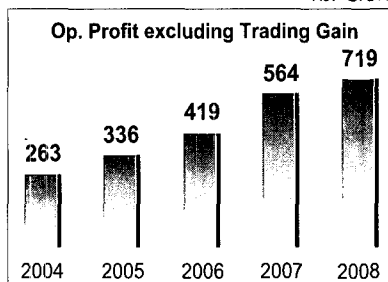
## The Federal Bank Limited

The Bank could register all-round improvement in overall performance during the fiscal 2007-08. Business volume growth was comfortable with a substantial increase in total income.

### OPERATING PROFIT

Operating Profit for the reporting period has recorded a growth of 29.55%, touching an all-time high figure of Rs. 794.12 Crore. Corresponding figure for the financial year 2006-07 was Rs. 612.98 Crore. Operating profit excluding trading profit rose to Rs. 719.07 Crore for the financial year ended March 31, 2008, an increase of Rs. 155.38 Crore, recording a growth percentage of 25.35%. 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 a rising interest rate regime. The hallmark of the business model adopted by the Bank during the year was to rely on retail deposits, minimising dependability on high cost bulk deposits and thus protecting the net interest margin. Thus the net interest income increased from Rs. 732.39 Crore to Rs. 868.01 Crore showing an increase of 18.52%.

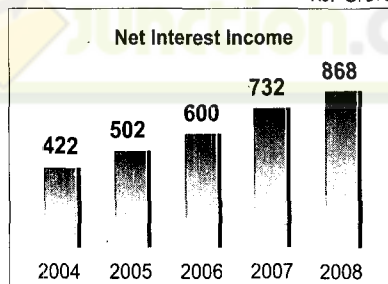
Rs. Crore



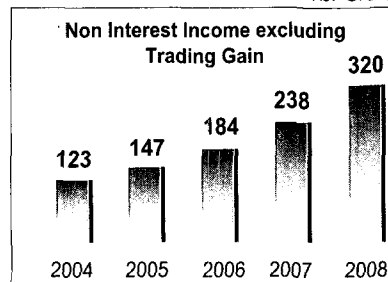
### INCOME GROWTH

Throughout the year, the Bank adhered to the policy of creating good quality high earning assets. This has improved earnings and the total income for the financial year ended March 31, 2008 was Rs. 2,910.43 Crore against the previous year's figure of Rs. 2,104.04 Crore. The increase in total income was Rs. 806.39 Crore thus clocking a growth percentage of 38.33%. Total income from advances touched Rs. 1,834.79 Crore from last year's figure of Rs. 1,293.58 Crore with an increase of 41.84%. Income from advances net of provisions for non-performing assets (Rs. 192.05 Crore) amounted to Rs. 1,642.74 Crore, an increase of 36.41% from last year's figure of Rs. 1,204.29 Crore. Other income amounted to Rs. 394.99 Crore with an increase of 37.78%. Income from investments recorded an increase of Rs. 173.97 Crore and touched Rs. 693.23 Crore. Net income from investments during the year increased to Rs. 661.71 Crore from last year's figure of Rs. 457.34 Crore. aggregate income from advances and investments recorded a growth of 39.45% and stood at Rs. 2,528.02 Crore against Rs. 1,812.84 Crore of the previous year. Yield on advances increased to 11.46% from 10.16%. Return on advances plus investments improved to 10.37% from 9.49%. In spite of the adverse movement in the cost of deposits, net interest margin has shown a marginal increase to 3.49% during the year from 3.47% of the previous year.

Rs. Crore



Rs. Crore



The net revenue, that is the net interest income plus other income, of the Bank increased by Rs. 243.92 Crore to Rs. 1,263 Crore as on March 31, 2008 from Rs. 1,019.08 Crore as on March 31, 2007, registering a growth of 23.94%. The Bank made special efforts to improve the fee-based activities to increase earnings from the segment. The realisations from written





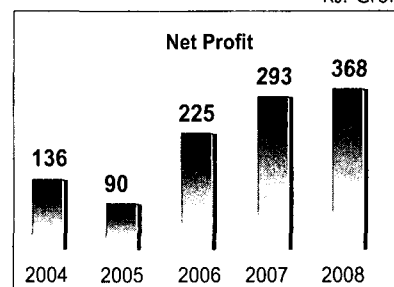
## The Federal Bank Limited

off advance accounts amounted to Rs. 101.32 Crore during the year. The Bank continued to be a major player in remittances business and the total remittances through Vostro accounts increased from Rs. 6,969 Crore during 2006-07 to Rs. 7,954 Crore in 2007-08.

### EXPENDITURE ANALYSIS

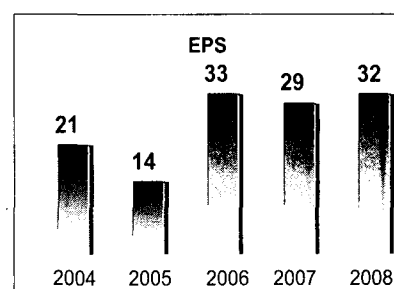
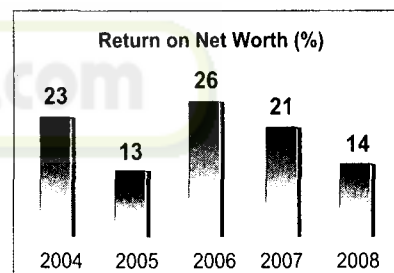
Total expenses for the financial year 2007-08 increased to Rs. 2,116.31 Crore from Rs. 1,491.06 Crore, registering an increase of 41.93%. Cost of deposits has gone up by 117 bps to touch 6.72%. In spite of the general increase in the interest rate of deposits in various time buckets, which was very sharp during the last quarter due to tight liquidity conditions that prevailed, we could contain the cost at 6.72%. Operating expenses increased by Rs. 62.78 Crore and amounted to Rs. 468.88 Crore. Employee costs came to Rs. 271.23 Crore during the year compared to last year's figure of Rs. 260.45 Crore. Other expenses came to Rs. 197.65 Crore. Employee costs as percentage to total income has come down to 9.32% for the year ended March 31, 2008 from 12.38% for the year ended March 31, 2007.

Rs. Crore



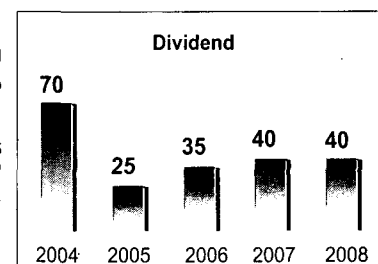
### NET PROFIT ANALYSIS

Net profit of the Bank has further improved for the second year in succession. The net profit for the year increased to Rs. 368.05 Crore as on March 31, 2008, an increase of Rs. 75.32 Crore from Rs. 292.73 of financial year 2006-07. The percentage increase was 25.73. Total provisions touched Rs. 426.07 Crore, an increase of Rs. 105.82 Crore from Rs. 320.25 Crore of the last financial year. Provision for investment losses has decreased by Rs. 30.40 Crore to Rs. 31.52 Crore. Fresh provision for loan losses for the financial year 2007-08 was Rs. 192.05 Crore compared to Rs. 89.29 Crore for the financial year ended March 31, 2007. Provision for taxes at Rs. 132.10 Crore compared to Rs. 105.50 Crore during the last financial year. Return on equity has decreased to 13.56% from 21.27%, because of increase in net worth. Earnings per share stood at Rs. 32.42 as against Rs. 28.74 of the last financial year. The return on assets was at 1.34%. Book value has improved substantially touching Rs. 229.53 from Rs. 175.48 as of March 31, 2007.



### DIVIDEND

Your Bank aims to balance the multiple objectives of rewarding shareholders with cash dividends and of retaining capital to support future growth and to add further value to the shareholders. In view of the satisfactory performance, the Board of Directors recommends dividend of 40 % on the increased paid up capital of the Bank, thus maintaining the same percentage of dividend as that of previous fiscal.







## The Federal Bank Limited

### GROWTH IN BUSINESS

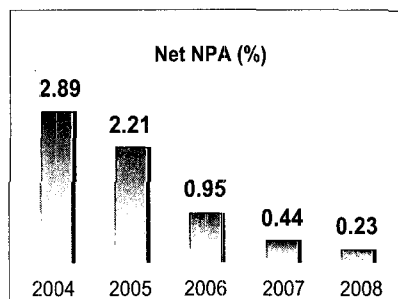
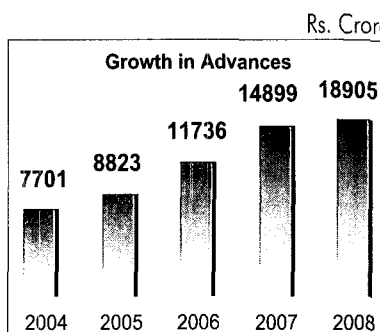
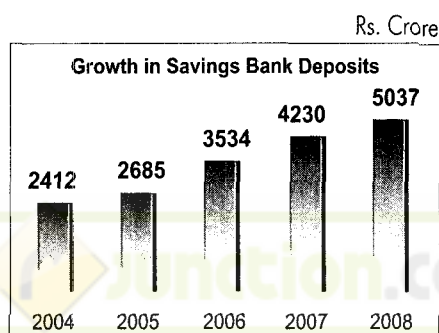
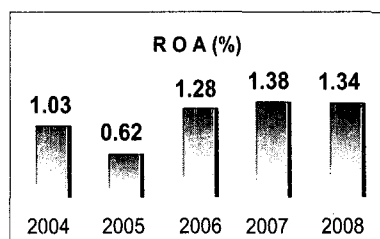
The Bank has been following prudent business policy throughout the year. The underlying principles of this policy are efficient cost structure, competitive pricing, asset quality, retention of existing customer base and expanding our reach to new areas and new customer segments. The policy on deposits was to increase low cost retail term deposits and to reduce dependence on high cost bulk deposits. Advances plus deposits of the Bank grew to Rs. 44,818.02 Crore during the year from Rs. 36,483.54 Crore as on March 31, 2007, recording a growth of 22.84%.

Deposits registered a growth rate of 20.06% and touched a figure of Rs. 25,913.36 Crore against last year's figure of Rs. 21,584.44 Crore. In Savings Bank deposits, the Bank could attain a quantum increase of Rs. 806.93 Crore and the figure stood at Rs. 5,036.60 Crore compared to last year's figure of Rs. 4,229.67 Crore, registering an increase of 19.08%. The interest differential between savings Bank deposits and Term Deposits widened and this hampered the efforts to increase the Savings Bank. In current deposits, the Bank did well and improved the figure to Rs. 1,321.17 Crore from a base of Rs. 1,108.80 Crore. The NRI deposits of the Bank stood at Rs. 5,163.56

Crore, showing a decrease of Rs. 351.34 Crore from the previous financial year. Advances increased by 26.88% to move to Rs. 18,904.66 Crore from a base of Rs. 14,899.10 Crore. Net investments have grown to Rs. 10,026.59 crore from a base of Rs. 7,032.66 Crore, registering a growth rate of 42.57%. The size of the balance sheet for the year was Rs. 32,506.46 Crore against Rs. 25,089.92 Crore as on March 31, 2007 with a growth rate of 29.56%.

### ASSET QUALITY

Performance of the Bank in NPA management during the FY ended on 31.03.2008 was commendable. Gross NPAs as on 31.03.2008 stand at Rs. 468.58 Crore as against Rs. 450.80 Crore in the previous year. Gross NPAs as percentage to Gross Advances came down to 2.43 % from 2.95% in the previous year. Net NPAs were reduced to Rs. 43.20 Crore (0.23% of Net Advances) from Rs. 65.05 Crore (0.44% of Net Advances) in the previous financial year. The Bank held Total Provision of Rs. 422.57 Crore as on 31.03.2008 as against Rs. 377.51 Crore in the previous year. Total provision coverage for NPAs increased to 90.18% from 83.74% of the previous financial year. Recovery tools like Recovery Camps, Lok Adalaths and Negotiated Settlement with the delinquent borrowers supplemented in maximising recoveries. Provisions of 'SARFAESI' Act were invoked to boost recovery in appropriate cases.





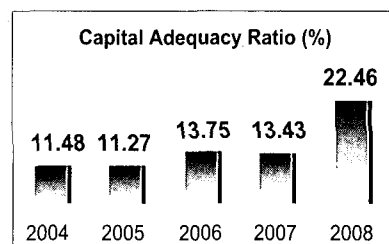
## The Federal Bank Limited

### EXPANSION OF NETWORK

During the financial year, the Bank added 67 new branches crossing the 600 mark and opened 141 new ATM centres. As on March 31, 2008, the total number of branches and ATM centres of the Bank increased to 603 and 532 respectively, as against 536 and 391 of last financial year.

### CAPITAL ADEQUACY

The Capital to Risk-weighted Assets Ratio (CRAR) as on March 31, 2008 stood at 22.46%. Tier-1 CRAR (core CRAR) is 19.09%.



### BUSINESS PRODUCTIVITY

The business per employee and profit per employee increased to Rs. 6.40 Crore and Rs. 5.30 lakh respectively as on March 31, 2008 as against Rs. 5.44 Crore and Rs. 4.43 lakh respectively of March 2007.

### EXTERNAL RATING

The certificate of deposits and short-term deposits of the Bank are rated 'P1+' by Crisil. Tier II subordinated debts issued by the Bank during December 2006 are rated 'AA' by Care and 'AA-(ind)' by Fitch.

### CORPORATE GOVERNANCE

Pursuing its continued commitment to maintain highest levels of ethical standards, professional integrity and regulatory compliance in corporate governance, the Bank followed sound corporate governance practices, which are detailed in the annexure.

### BOARD OF DIRECTORS

The Board consists of nine members, of which Chairman & Chief Executive Officer (Shri. M. Venugopalan) and Executive Director (Mr. K. S. Harshan) are whole time directors and all others are Non-Executive and Independent Directors.

CA S. Santhanakrishnan and Prof. A. M. Salim, Directors, are due to retire by rotation at the forthcoming Annual General Meeting (AGM). As per the Articles of Association of the Bank and the provision of the Companies Act, 1956, CA S. Santhanakrishnan and Prof. A. M. Salim, Directors, being eligible, offer themselves for re-appointment.

### SUBSIDIARY

FedBank Financial Services Ltd. is a fully owned subsidiary of the Bank. As required under Section 212 of the Companies Act, 1956, the financial statements relating to this company, the sole subsidiary of the Bank, for FY 2008 are attached. FedBank Financial Services Ltd. acts as the marketing arm of the Bank.

### ANNUAL FINANCIAL STATEMENTS AND AUDIT REPORT

As required by Section 212 of the Companies Act, 1956, the Bank's Balance Sheet as on 31 March 2008, its profit and loss account for the financial year 2007-08, and the statutory auditors' report and statements required under the section, are attached.

### AUDITORS

M/s Sundaram & Srinivasan, Chartered Accountants, Chennai, together with M/s Brahmayya & Co., Chartered Accountants, Chennai are the retiring Joint Central Statutory Auditors of the Bank who have been functioning in