

Conquering heights everyday,
with the confidence of our customers.

REPORT



FEDERAL BANK
YOUR PERFECT BANKING PARTNER

Annual Report 2008-2009

Every year along with business projections and strategies Federal Bank makes a resolution.

To keep delivering the kind of services that secure the trust and confidence of every customer. Probably, the only explanation for how we've managed to do so well in these rather challenging times.

To this end, we would like to extend our infinite gratitude for trusting us with your dreams and hopes. Everyday we find inspiration in this knowledge to do better. And to keep giving you the best in banking, as we always have.

Annual Report 2008-2009

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Message from the MD & CEO

Dear Shareholders,

The year bygone was one full of anxious moments, which required apt and fast responses to challenge the ill effects of recession, which pervaded across the globe. In the difficult times, when the trust and confidence of the people were at its lowest ebb, the task of keeping the head high was a very onerous job. However, I am happy to say that the year gone by was not as painful to us as it was to many around us. Indian Banking System remained more or less unscathed because of the prudent and sound policies of the regulator and the Government. It was proved that high ethical standards and values the Banking System in India imbibed are the cornerstones of this resilience.

Your Bank with strong fundamentals and best practices could sail through turbulent waters successfully. Adequate Capital, Good Management, Efficient Employees, Loyal Customers, supported by the latest technology, ensured that your bank could be benchmarked against the best in the industry. Your bank gracefully passed through the best of standards and won recognitions from quarters, which mattered.

The financial results for FY 2008-09, placed before you, is the evidence to prove the efficiency of this Bank despite the problems surrounding Banking Industry per se. With operating profit going up by 58.64% and net profit by 35.98% and with a provision coverage of 87.34% on NPAs and a net worth of Rs.4325.87 crore, the financial results present a position of high quality and strength.

Bank enhanced its footprint to new areas as organic growth continued to be an important element in our business growth strategy. As part of continuing efforts to enhance the reach across the country, your Bank opened 9 new branches and added 85 new ATMs taking the number of branches to 612 and number of ATMs to 617 as on March 31, 2009. As on June 9, 2009, the Bank has 618 branches, 630 ATMs, 9 extension counters and one satellite office. Bank holds 64 Branch authorisations from Reserve Bank in hand. In tune with the strategy to further extend the reach in major centres, the Bank plans to open more new branches during the current FY.

Adding value to the shareholders continued to be the major focus area for your Bank. Bank has been proactive in acquiring technology and evolving new processes to keep itself ahead of peers and to showcase quality products. Core Banking platform has stabilised and this has enabled the Bank to offer tiered CASA products. These products with enhanced customer convenience is going to be among the best available products in the industry. The representative office at Abu Dhabi has become a nerve centre to Bank's NRI customers in the Middle East. The Bank has successfully met the requirements of Basel II implementation and Bank has a CRAR of 20.14% (Basel I) and 20.22% (Basel II).

I am happy to inform you that our Insurance J.V – IDBI Fortis Life Insurance Company has enhanced its visibility with superior customer-centric products. During the FY 2009, the stock market activity was subdued and there was investor apathy towards investing in Mutual Funds. This has resulted in stagnation in revenue from sales of Mutual Funds. During the current FY, in the background of renewed activity in stock markets, distribution of Life and General Insurance products and also Mutual Funds is expected to add revenue in good numbers. FedBank Financial Services Limited, the wholly owned subsidiary of the Bank, is acting as a channel to market retail asset products of the Bank and has opened hubs at 12 centres. This has resulted in significant penetration to various classes of customers at different geographic locations.

Your Bank continued to show its mettle and when evaluated vis-à-vis the best standards could win laurels from many institutions.

The recognitions on us are bound to fortify our resolve to take on challenges with renewed vigour. The major awards won by the Bank in 2008-09 are:

- Ranked Number 1 among the Old Private Sector Banks in the Business World – PWC Survey that analysed the performance of 56 scheduled commercial banks on four dimensions – Growth, Size, Sustainability and Risk.
- Adjudged as the Best Bank among Private Sector Banks for lending under Priority Sector by Dun & Bradstreet Banking Awards 2009.
- Federal Bank was the runner up for the Award – BEST CUSTOMER RELATIONSHIP ACHIEVEMENT – constituted by IBA, FINACLE & TFCI in 2009.

Boston Consulting Group (BCG) has been engaged to render services to the Bank in equipping it to meet the emerging challenges. Scope of consultancy engagement includes reviewing business strategies, operational systems, product and processes, human resources and other related areas to prepare the Bank to meet the customer expectations and to understand and react to the evolving scenarios based on the core strengths of the Bank.

Value based business and customer convenience have been the avowed policies of the Bank. It has set best practices in its journey to excel and to create a niche space in the Indian banking industry.

Your Bank could tide over the worst financial crisis with the support and trust from loyal customers. The Bank will strive to protect the interests of all the stakeholders in its onward journey to new heights.

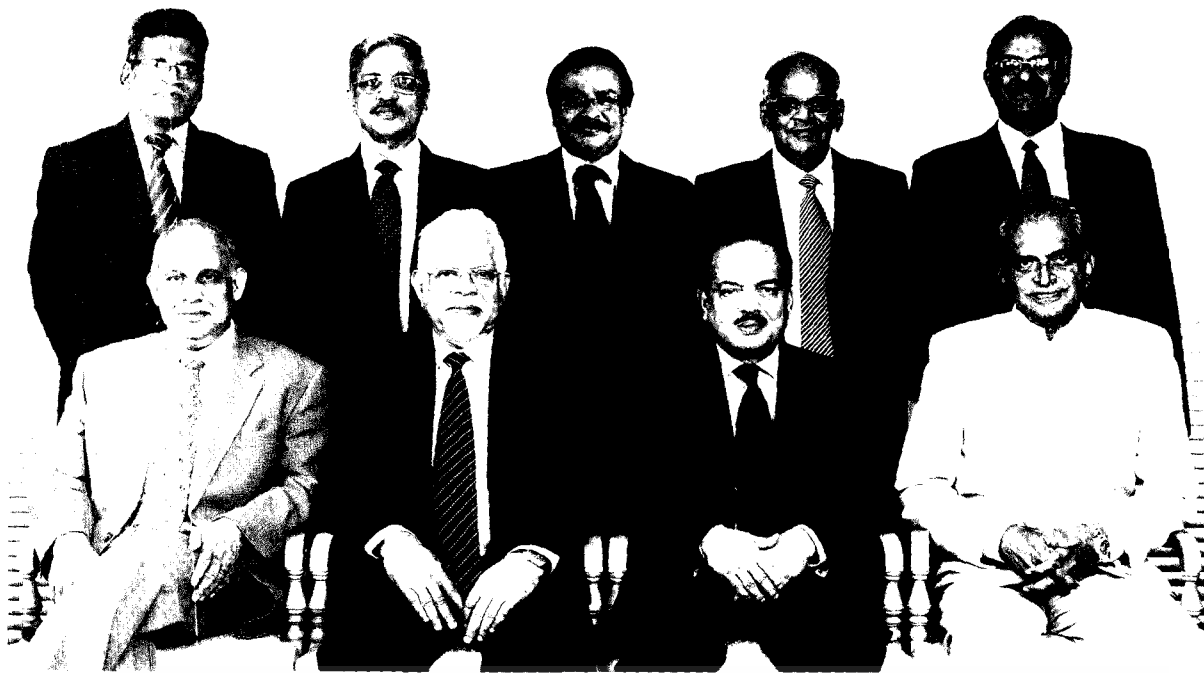
I, with all humility and gratitude, record our acknowledgment for the contributions, co-operation, support, trust and guidance from shareholders, customers and employees. I humbly seek the continued loyalty and patronage from all the stakeholders in all our future missions.

With best wishes and warm regards,

Yours sincerely,

M. Venugopalan
MD & CEO

Board of Directors



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

Management Team



Shri. K.S. Harshan
Executive Director



Shri. P.R. Kalyanaraman
Executive Director



Shri. P.C. John
Chief General Manager & CFO



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



Shri. Damodaran V.
General Manager



Shri. Abraham M Jacob
General Manager



Shri. C.P. John
General Manager



Shri. P.K. Jimmy
General Manager



Shri. T.S. Jagadeesan
General Manager



Report of the Board of Directors

The Federal Bank Limited

To The Members

Your Directors take great pleasure in presenting the 78th Annual Report on the business and operations of your Bank together with the audited accounts for the year ended March 31, 2009.

FINANCIAL PERFORMANCE

The financial highlights of your Bank for the financial year 2008-09 are given below:

Rs. in crore

Financial Parameters	For the year ended	
	March 31, 2009	March 31, 2008
Net Interest Income	1,315.46	868.01
Fee and Other Income	515.77	394.99
Net Revenue	1,831.23	1,263.00
Operating Expenses	571.45	468.88
Profit before Depreciation and Tax	835.85	529.11
Net Profit	500.49	368.05
Profit Brought Forward	14.62	14.46
Total Profit Available for Appropriation	515.11	382.51
Appropriations:		
Transfer to Statutory Reserves	125.12	92.02
Transfer to Revenue Reserves	197.25	131.74
Transfer to Capital Reserves	29.75	27.68
Transfer to Special Reserves	11.00	18.00
Transfer to Investment Fluctuation Reserve	0.00	18.41
Transfer to Contingency Reserve	30.00	0.00
Proposed Dividend	85.52	68.41
Provision for Dividend Tax	14.54	11.63
Balance Carried Over to Balance Sheet	21.93	14.62
Financial Position:		
Deposits	32,198.19	25,913.36
Advances	22,391.88	18,904.66
Total Business (Deposits + Advances)	54,590.07	44,818.02
Other Borrowings	748.94	791.95
Investments	12,118.97	10,026.59
Total Assets (Balance Sheet Size)	38,850.86	32,506.46
Net Worth	4325.88	3925.70
Ratios:		
Return on Total Assets (%)	1.48	1.34
Return on Equity (%)	12.13	13.56
Earnings Per Share (Rs.)	29.26	32.42
Book Value Per Share (Rs.)	252.93	229.53
Operating Cost to Income (%)	31.21	37.12
Capital Adequacy Ratio (%)	20.14	22.46



Report of the Board of Directors

The Federal Bank Limited

Bank had a focussed approach in business and could achieve better performance levels during the FY 2008-09. Business volume growth was comfortable and the growth in total income was substantially higher than the increase in the total expenses.

OPERATING PROFIT

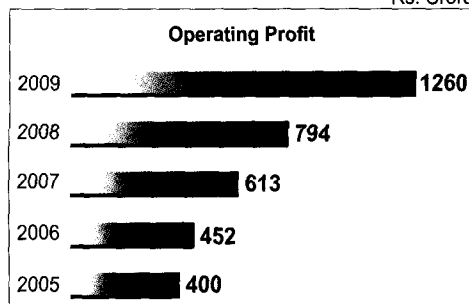
Operating Profit registered a growth of 58.64% to reach Rs. 1259.78 crore. Corresponding figure for the financial year 2007-08 was Rs. 794.12 crore. The strong growth in operating profit was aided by good increase in net interest income from Rs. 868.01 crore to Rs. 1315.46 crore and non-interest income from Rs. 394.99 crore to Rs. 515.77 crore.

INCOME GROWTH

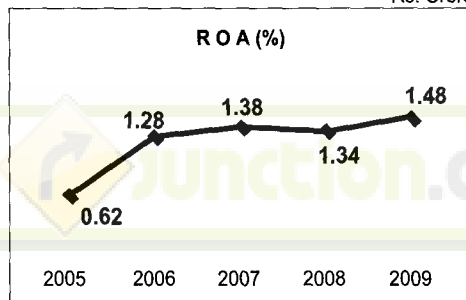
Despite the slowdown and uncertainties that prevailed throughout the year, the Bank continued with the policy of creating select good quality earning assets. Total income from advances increased from Rs. 1,834.79 crore of last year to Rs. 2,569.75 crore registering a growth of 40.06%. Bank continued to enjoy decent interest spread (5.32%) on advances. Based on the buoyant interest income, there was considerable jump in the total income for the financial year ended March 31, 2009 which went up from Rs. 2,910.43 crore of the previous financial year to Rs. 3,831.15 crore. Income from advances (interest and exchange) as percentage to total income increased from 63.04% to 67.08%. Income from investments recorded an increase of Rs. 82.81 crore and touched Rs. 776.04 crore. Cumulative income from advances and investments recorded a growth of 32.35% and stood at Rs. 3,345.79 crore against Rs. 2,528.02 crore of the previous year. Yield on advances increased to 12.30% from 11.46%. Return on advances plus investments improved to 11.00% from 10.37%. In spite of the adverse movement in the cost of deposits, net interest margin increased substantially to 4.28% during the year from 3.49% of the previous year. The growth in other income was also good with 30.58% increase and the total other income amounted to Rs. 515.77 crore. There were concerted efforts to increase revenue from the fee-based activities. Recovery from written off accounts contributed Rs. 132.77 crore during the year.

The net revenue, that is the net interest income plus other income, of the Bank increased by Rs. 568.23 crore from Rs. 1,263 crore as on March 31, 2008, to Rs. 1,831.23 crore as on March 31, 2009 crore registering a growth of 44.99%.

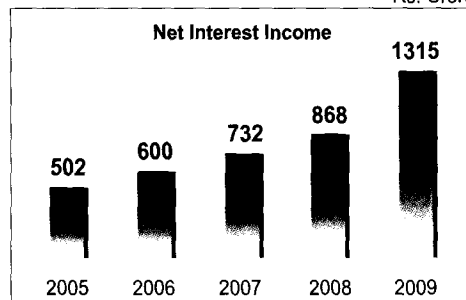
Rs. Crore



Rs. Crore



Rs. Crore



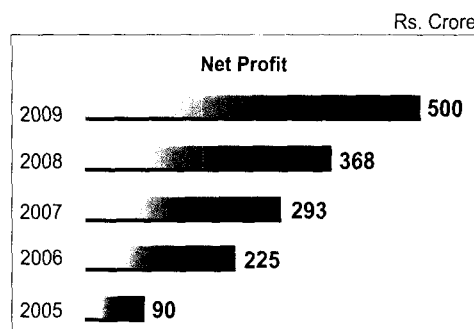


Report of the Board of Directors

The Federal Bank Limited

EXPENDITURE

Total expenses for the financial year 2008-09 increased from Rs. 2,116.31 crore, to Rs. 2571.37 crore registering an increase of 21.50%. Interest expenses increased from Rs. 1647.43 crore in FY 08 to Rs. 1999.92 crore in FY 09. Cost of all funds (deposits plus borrowings plus bonds) comes to 7.08% as against 6.83% of last financial year. Cost of deposits has gone up by 26 bps from last year's 6.72% to 6.98%. Increase in interest rates became tepid in the later half and has started showing signs of decline. Bank has also taken steps to adjust to the emerging scenarios and reduced deposit and lending interest rates. Operating expenses increased by Rs. 102.57 crore and amounted to Rs. 571.45 crore. Employee costs came to Rs. 317.45 crore during the year compared to last year's figure of Rs. 271.23 crore. Other operating expenses came to Rs. 254 crore. Employee costs as percentage to total income has come down from 9.32% for the year ended March 31, 2008 to 8.29% for the year ended March 31, 2009. Cost to income ratio is 31.21% (37.12% in FY 2007-08).



NET PROFIT

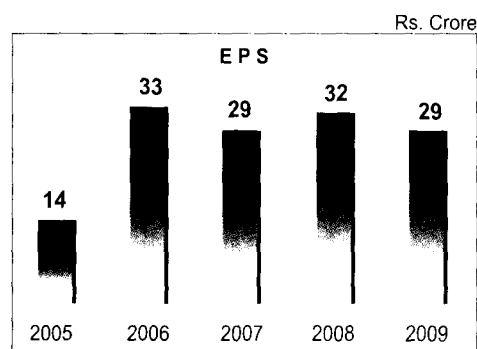
The net profit for the year after making all provisions, was Rs. 500.49 crore as on March 31, 2009 showing an increase of 35.98%. Total provisions amounted to Rs. 759.29 crore, comprising of Rs. 346.50 crore for loan losses, Rs. 23.52 crore towards investments, Rs. 96.75 crore for other purposes and Income Tax provisions amounting to Rs. 292.52 crore. The profit margin increased from 12.65% to 13.07%. Return on average equity stood at 12.13% on enhanced average net worth. Earnings per share was at Rs. 29.26 and the return on average total assets at 1.48%. Book value increased from Rs. 229.53 as on March 31, 2008 to Rs. 252.93 as on March 31, 2009.

DIVIDEND

Rewarding shareholders through cash dividends as well as ploughing back profits to support future growth used to be the twin objectives of the Bank. Retained profits have multiplier effect while adding value to the stake of the shareholders. In view of the satisfactory performance, the Board of Directors recommends a dividend of 50% on the paid up capital of the Bank (40% in the previous year).

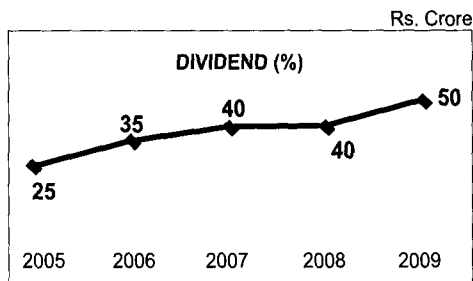
GROWTH IN BUSINESS

The Bank has continued its prudent business philosophy of creating loyal customer base. Customer convenience, competitive pricing, personalised service, lower costs etc. are the hallmarks of this time tested approach. The Bank continued its efforts to grow to new geographical areas and new business segments. Tiered Current and Savings Bank Account products were introduced. Processes like account opening, cheque book issue, clearing (at select places) etc., were centralised. Deposits grew to Rs. 32,198.19 crore clocking 24.25% growth. Advances registered 18.45% growth touching a figure of Rs. 22,391.88



The Federal Bank Limited

crore. Savings Bank Deposits has grown from a base of Rs. 5,037 crore to Rs. 6,446 crore. The NRI deposits of the Bank stood at Rs. 5,671 crore, showing an increase of Rs. 508 crore from the previous financial year. Investments grew to Rs. 12,118.97 crore from Rs. 10,026.59 crore. The size of the Balance Sheet for the year was Rs. 38,850.86 crore against Rs. 32,506.46 crore as on March 31, 2008 with a growth rate of 19.52%.

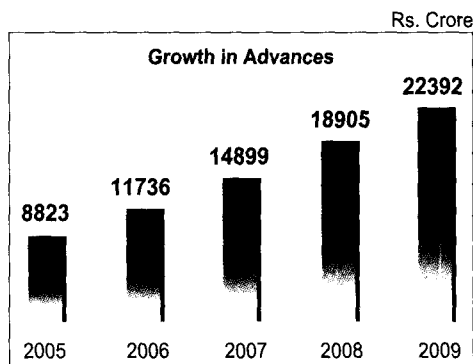
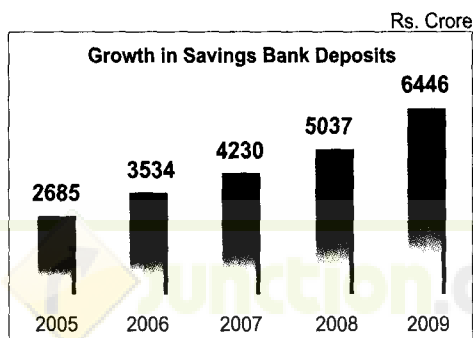


LOAN ASSET QUALITY

Gross NPA as on March 31, 2009 stood at Rs. 589.54 crore as against Rs. 468.59 crore in the previous year. Gross NPAs as percentage to Gross Advance is 2.57% as against 2.42 % in the previous year. Net NPAs stood at Rs. 68.12 crore (0.30% of Net Advances) as against Rs. 43.20 crore (0.23% of Net Advances) in the previous financial year.

The Bank held account specific mandatory provision of Rs. 141.76 crore as per the Reserve Bank of India stipulation and additional account specific provision of Rs. 193.65 crore in excess of the mandatory requirements. The bank also held a Floating Provision of Rs. 179.52 Crore in excess of the accounts specific provisions. The Bank thus held a total provision of Rs. 514.93 crore as on March 31, 2009 as against Rs. 422.57 crore in the previous year. The total provision coverage for NPAs as on March 31, 2009 is 87.34 %.

To contain the NPA, maximum thrust is given for recovery through SARFAESI Act proceedings. Strict adherence to Codes of Conduct prescribed by RBI is complied with where service of Recovery Agents are used in the recovery proceedings. During the financial year a good number of recovery camps were held at different centers and the results were overwhelming. We plan to conduct more such Recovery Camps, Lok-Adalats etc. for reaching amicable settlement through compromises and there by augmenting maximum recovery.



EXPANSION OF NETWORK

During the financial year, the Bank opened 9 new branches and 85 new ATM centres. As on March 31, 2009, the total number of branches and ATM centres of the Bank increased to 612 and 617 respectively, as against 603 and 532 of last financial year.

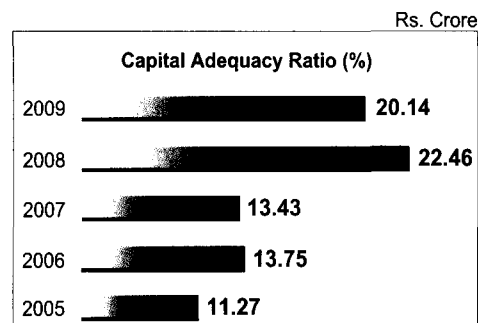


Report of the Board of Directors

The Federal Bank Limited

CAPITAL ADEQUACY

The Capital to Risk-Weighted Assets Ratio (CRAR) as per BASEL I as on March 31, 2009 stood at 20.14%. As per BASEL II CRAR comes to 20.22%. As per RBI guidelines lower of the two shall be reckoned and accordingly CRAR is 20.14%. Tier-1 CRAR (core CRAR) is 17.52%.



BUSINESS PRODUCTIVITY

The business per average employee and profit per average employee increased to Rs. 7.50 crore and Rs. 6.90 lakh respectively as on March 31, 2009 as against Rs. 6.55 crore and Rs. 5.43 lakh respectively on of March 31, 2008.

EXTERNAL RATING

The certificate of deposit for Rs. 4000 crore and short term fixed deposits (with a contracted maturity upto one year) of the bank are rated "P1+" by Crisil. Tier II subordinated debts issued by the bank aggregating to Rs. 470 crore is rated "CARE AA" by Care and "AA - (Ind)" by Fitch.

CORPORATE GOVERNANCE

Your Bank is committed to achieving highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance. The corporate governance practices followed by the Bank are given in the annexure.

BOARD OF DIRECTORS

The Board consists of nine members as on 31 March 2009, including Managing Director and Chief Executive Officer and two Executive Directors, and all other members are Non-Executive & Independent Directors.

The Bank had altered certain clauses contained in its Memorandum and Articles of Association, with the approval of the shareholders, mainly to conform with the directives of Reserve Bank of India as per the recommendations of Consultative Group of Directors of Banks/Financial Institutions (Dr. Ganguly Group) on Corporate Governance. One of the important directives being that all large sized banks in private sector are required to have a Part Time Chairman of the Board of Directors and a separate Chief Executive Officer & Managing Director, who would be responsible for day-to-day management of the Bank. The Reserve Bank of India has approved, based on recommendation of the Board of Directors, the appointment of Shri M Venugopalan as Managing Director & Chief Executive Officer upto April 30, 2010 and Prof. A.M.Salim as Part Time Chairman of the Board for a period of one year from July 31, 2008.

The Board of Directors in terms of Article 63(b) (earlier 84A) of the Articles of Association of the Bank had co-opted Shri. P.R. Kalyanaraman, Executive Director of the Bank, as a Director for a period of 3 years w.e.f. 3rd January 2008 as approved by Reserve Bank of India.

CA S. Santhanakrishnan, resigned from the Board of Directors of the Bank, w.e.f. January 16, 2009. He was a member of the Board of Directors of the Bank since January, 2002. He was also the Chairman of the Audit Committee of the Board. The Board places on record its appreciation for the contributions rendered by him for the overall growth of the Bank. Shri. P.H. Ravikumar, Director was appointed as Chairman of the