

THE SPIRIT OF BLUE

ANNUAL REPORT 2010 - 2011

The Spirit of Blue

Driven by a common vision, we Federals believe in the spirit of blue. A force that triggers our goals, passion that propels us ahead, and trust that binds us as one team. And it is this spirit that makes us more than just a bank to our customers.

Our constant effort to deliver the best of banking solutions has helped us win their trust and support. Understanding their world and believing in their dreams, our vision has always been to remain committed to their ever-evolving needs. And together, as one team, we Federals are on a mission to innovate and improve.

Looking back at the year that's passed, Federal Bank has crossed many a milestone. Be it with the launch of new products or by reaching out to our rural markets in the most innovative way, we've ensured that no opportunity to serve our customers has gone untapped.

As a bank that constantly creates and delivers value to everybody who is part of it, we're proud to be where we are today. We look forward to every possibility and every opportunity that'll lead us to a new era of banking. Which we know, with the support of our customers, shareholders and the spirit we unanimously believe in, is not too far.

We at Federal Bank present to you, in the pages to come, the spirit of blue.

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Message from the Chairman



Global economy witnessed its own challenges in the year 2011 due to various macroeconomic environment factors. The economy in fact has shown signs of recovery from the unprecedented financial crisis and the recovery is likely to mature over the coming years.

While the dynamics of recovery shows stability, the lead indicators suggest that global growth may remain moderated under the impact of high oil and other commodity prices and also due to the monetary tightening in Emerging Market Economies to contain the inflationary pressures. Uncertainty about the resolution of the sovereign debt problem in the Euro area is also a matter of concern for the economy. These developments increase downside risks to global growth prospects.

Every year has its own challenges for the financial sector and more specifically for the banking sector which is the major financial intermediary between savers and investors. The immediate issue which the policy makers are trying to address is the problem of inflation which is nothing but a global phenomenon. RBI is closely monitoring and implementing effective measures to abate the inflationary pressures.

The monetary policy stance of RBI in 2010-11 was calibrated on the basis of domestic growth inflation dynamics amidst persistent global uncertainties. We are closely analyzing the impact of the policies of the government and RBI on our balance sheet and adopting strategies to ensure that its projected goals remain achieved.

Amidst these risks, India continues to be in the fast track and forecasted to achieve robust economic growth. Growth of the agro based rural economy, financial inclusion and investment in infrastructure will be the key factors that will drive the economy to the targeted level of growth.

The challenge for the Indian economy is to make its promising growth more inclusive. At the grass root level India still continues to be less developed. The benefit of the growth has to percolate to the lowest stratum living in the rural areas. There should be equitable distribution of the benefits of growth to the less privileged segments of the society.

RBI expects the Banks to play a vital role in the financial inclusion whereby banking facilities should be available at affordable cost to each and every person in the country. Improving the banking penetration and financial inclusion and reaching out to the unbanked villages is a social responsibility cast on the banks. And our Bank intends to convert this into a profitable venture by leveraging on its technology

I am glad to inform you that in the structural reorganization we have implemented recently our Bank has started an exclusive Department to take care of the financial inclusion and to develop specific products designed to cater to the hitherto financially excluded segments.

Agriculture is still the back bone of the Indian economy and penetrating more into this segment is indeed an attractive proposition for the Bank as mobilizing the rural savings which is comparatively of low cost, will contribute in a larger measure to the sustained growth in our business figures and profitability.

Our Bank is continuously upgrading its technology platform and leveraging on it to offer innovative products in tune with the customer demand. A range of initiatives is taken by us to reduce the cost of banking especially to the unbanked segments of the country.

Federal Bank is a leading private sector bank with dominance in Kerala and plans to enhance its presence in Kerala apart from making its role more prominent at the national level. Recently a few new executives with in depth knowledge in specialized areas and international exposure and experience, have joined our top team. The skill levels of all the other executives and staff are continuously getting upgraded.

With the reorganization of the way we do our work and the ushering in of well designed new strategies to suit the ever-changing scenario, we feel confident about achievement of our corporate goals. Our new MD & CEO Shri. Shyam Srinivasan has settled down nicely into our environment and we are confident that he would lead our top management team successfully into the second decade of this century, with your support. The unstinted support of the stakeholders of the Bank is of course the key to our success and with your wholehearted support and co-operation we will steer the Bank to better heights and glory in the days to come.

P. C. Cyriac

Letter from the Managing Director & CEO



Dear Shareholders,

I have been with Federal Bank for almost a year now and am proud to say that I am fortunate to lead a bank that has been built on strong values, the strength that helped the Bank compete through all external challenges and establish its own niche in the financial sector in India.

I have joined this esteemed organization after leading Standard Chartered Bank as the Country Head of its Consumer Banking in India as well as Malaysia.

Over the last two decades I have had the opportunity to work in different markets both India and overseas and it is my firm resolve to bring the best practices to our Bank as we set ourselves on the journey of both quality and inclusive growth in the coming years.

As I settle into my role, I am confident that our cherished dream of making our Bank as one that delivers quality and consistency in results, exceeds the customer expectations, rewards its stake holders profusely and makes its competitors feel that here is a bank worth reckoning will be a reality not far from now.

I believe in building a strong and beneficial relationship with our stakeholders; the share holders who have invested their money and trust in the Bank, the customers who bring us income and resources and the employees, our brand ambassadors, whose dedication, service and sincerity has helped the Bank achieve its aspirations.

The key to consistent performance and meeting the expectations of the stakeholders depends on this relationship. Our business strength lies mainly in the SME sector where the risk is more diversified and the returns are better and in the NRI segment where we have already a strong foothold. These segments have ample potential and we intend to capture a substantially bigger share in these segments.

The Bank has capabilities in other areas as well and we are offering a wide range of banking products through our retail products to meet our customers' demands. We are also leveraging on our technology to offer best payment solutions to the national and international markets.

Our Bank has a strong presence in semi urban and rural Kerala and we would be capitalizing on its technological capabilities to reach out to the agriculturists and weaker section of the society by offering them banking services at an affordable cost and convenience. The rural segment not only of Kerala but also of other states will be made a core business segment of the Bank and a platform to deliver the Bank's Corporate Social Responsibility.

A committed team is the most important factor for sustainable growth and we are in the process of implementing best of breed Human Resource Practices. The Bank intends to enhance employee productivity and also ensure that employees reap the benefit of their contribution to the business growth of the Bank. We thus have to create a common vision for our employees, which combines business goals with values we hold important. Federal Bank is known for its customer centricity, team work and transparency, the pillars on which we have built our business and will continue to do so.

Global Economy to an extent recovered from the financial crisis that swept the economy and financial systems across the world during the last three years. Though the recovery is expected to mature in the ensuing years, apprehensions are reported stating it to be fragile and uneven across the countries.

Financial Stability is the catchword of all policy makers and it is viewed as utmost important to deliver the growth with inflation at accepted levels.

Domestic and global financial stability are not mutually exclusive domains. With increasing financial globalization our regulators have introduced various measures aimed at financial stability in the face of evolving global uncertainties and domestic vulnerabilities such as high level of inflation, slow progress in fiscal consolidation and the structural rigidities in the economy. The extent of transmission of disruptions in the global market is experienced by us through different channels of finance, trade and confidence.

Reserve Bank of India, by the continuous hike in the policy rate to contain the inflation and inflationary tendencies



even at the risk of moderate growth during the short period, aims at the adjustment of short term interest rates in the expectation that it will transmit to interest rates at the long end and thereby influence aggregate demand and inflation.

Underlining the importance of inclusive growth, RBI views that high growth that exists with rising inequality may become unsustainable at some point and that financial inclusion is the foundation for inclusive growth.

RBI's policy for the current year is stated to be to check inflation by restraining demand, navigate soft landing and foster conditions for sustained growth in an environment of price stability.

Now let me present in a nut shell our performance for the fiscal 2011.

The year 2010 -11 presented its own challenges to the banking sector and we could deliver strong financials especially on the profit front.

Today, I have the pleasure to share with you the financial performance of our bank in the key areas in the fiscal 2011.

Our bank's Net Advances have gone up to ₹ 31953.23 crore. The major contribution in the growth was from the corporate credit sector followed by SME and Retail respectively. Our Total Deposits reached ₹ 43014.78 crore, thus we could achieve a Total Business of ₹ 74968.01 crore.

The net profit after tax for the financial 2011 reached ₹ 587.08 compared to ₹ 464.55 during the previous year. The return on assets improved from 1.15 to 1.34. We could achieve this level of profit even after absorbing an increase of 31.24% in staff cost due to wage revision and second option for pension for employees. The strong results in the profits enabled us to propose a dividend of ₹ 8.50 per share from ₹ 5.00 per share of the previous year.

We could reduce the cost of deposits and increase the net interest margin from 3.82% to 4.22% in the fiscal 2011. In the NPA position there is some deterioration due to fresh accretion but recovery has shown improvement. We are addressing this issue by reorganizing the structure of the bank and closer credit monitoring. Our provision coverage on non performing assets is 82.06% as against the RBI stipulation of 70%. The capital adequacy ratio of the bank is 16.79% as against the 9% stipulated by RBI.

RBI has emphasized the need for financial inclusion. We have opened the first ever Financial Inclusion Bank Branch

'Grama Jeevan' at Thuruthy in the state of Kerala and Dr. D Subbarao, Honourable Governor of the Reserve Bank of India visited the branch and appreciated our efforts in financial inclusion.

The year 2011 for us was about preparing ourselves for growth in overseas markets, SME segment and streamlining greater risk management practices.

Looking forward to fiscal 2012, inflation, current account deficit, volatility in capital inflows, raising of policy rates by RBI and impending deregulation of Savings Deposit interest rate are some of the challenges we will be facing. This can result in the upward movement of interest rates with its own impact by way of increased cost of funds to the manufacturing and business community and posing a real challenge to our bank to maintain the high interest spread and larger interest income which boosted our profits in FY 2011.

There is still general consensus that the growth of our economy for the coming year will also be good and the forecast of GDP for 2011-12 is 8% and above. So there will be ample opportunities for us to achieve sustainable growth in business, and generate high profits. I am sure that our inherent strength coupled with the business strategy we adopt in tune with the changing banking scenario will result in the fulfillment of our expectations and bring in better value to the stakeholders

We look forward to your continued patronage, support and goodwill as we move ahead.

With best wishes,
Shyam Srinivasan

Board of Directors



Shri. Suresh Kumar, Shri. P. C. Cyriac (Chairman of the Board), Shri. Shyam Srinivasan (MD & CEO), Dr. M.Y.Khan.
Standing: Shri. P. C. John, Shri. T. C. Nair, Shri. P. H. Ravikumar and Prof. Abraham Koshy.

Management Team



Shri. P. C. John
Executive Director & CFO



Shri. Abraham Chacko
Executive Director
(Joined on 21st May 2011)



Shri. T. S. Jagadeesan
Chief General Manager



Shri. C. Thomas Joseph
General Manager



Shri. C. P. John
General Manager



Shri. P. K. Jimmy
General Manager



Shri. K. George Varghese
General Manager



Shri. C. Sreekumar
General Manager

Financial Highlights

	FY 2011 (Amount as on 31.03.2011 ₹ in Cr.)	FY 2011 (YoY growth %)
Net Interest Income	● 1746.58	▲ 23.80
Total Income	● 4568.84	▲ 8.67
Net Profit	● 587.08	▲ 26.38
Interest Income	● 4052.03	▲ 10.31
Total Deposits	● 43014.78	▲ 19.29
Total Advance	● 31953.23	▲ 18.56
Total Investments	● 14537.68	▲ 11.36

