

GROWING TOGETHER IS
PARTNERSHIP



ANNUAL REPORT 2013-14

Content

Safe Harbour

This document contains certain forward-looking statements based on current expectations of The Federal Bank Limited management. Actual results may vary significantly from the forward-looking statements contained in this document due to various risks and political conditions in India and outside India, volatility in interest rates and in the securities market, new regulations and Government policies that may impact the businesses of The Federal Bank Limited as well as its ability to implement the strategy. The Federal Bank Limited does not undertake to update these statements. This document does not constitute an offer or recommendation to buy or sell any securities of The Federal Bank Limited or any of its subsidiaries and associate companies. This document also does not constitute an offer or recommendation to buy or sell any financial products offered by The Federal Bank Limited. Figures for the previous year have been regrouped wherever necessary to conform to current year's presentation.

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Partnership for growth

The convergence of two streams of ideas, dreams and aspirations, bound together by a common goal. That's partnership. Be it in life, business or even in science, the whole is greater than the sum of its parts. A true partnership will raise the benchmark of growth and productivity for all the stakeholders.

At Federal Bank, our focus has always been on building and cultivating successful partnerships. Across the entire spectrum of businesses, be it NRI, Retail, SME, Agriculture or Large corporate, we have tried and succeeded in forging enduring partnerships.

The last financial year too echoed this core philosophy of partnership in its multifarious splendor. The following pages will take you through this absorbing story of harmonious growth. Showcasing a saga of consolidation and growth...all the while preparing for a future full of promise.



About the Bank

What we are

The Federal Bank Limited (erstwhile Travancore Federal Bank Limited) was incorporated with an authorised capital of ₹5,000 at Nedumpuram near Tiruvalla in Central Travancore in 1931 under the Travancore Companies Act. Registered Office of the Bank shifted to Alua on May 18th, 1945. Today, the Bank is listed on the Bombay, Cochin, National and London Stock Exchanges.

Vision

- ▶ Be a "customer-centric" organisation setting standards for customer experience.
- ▶ Be the 'trusted' partner of choice for target (SME, Retail, NRI) customers.
- ▶ Become the numero uno bank in Kerala and a leading player in our chosen segments/markets.
- ▶ Offer innovative yet simple products supported by state-of-the-art technology.
- ▶ Have a dynamic and energised workforce with a strong sense of belonging.
- ▶ Deliver top tier financial performance and superior value to stakeholders.
- ▶ Be a role model for corporate governance and social responsibility.

Our Mission

Devote balanced attention to the interests and expectations of stakeholders, and in particular:

Shareholders: Achieve a consistent annual post-tax return of at least 20% on net worth.

Employees: Develop in every employee a high degree of pride and loyalty in serving the Bank.

Customers: Meet and even exceed expectations of target customers by delivering appropriate products and services, employing, as far as feasible, single window and 24-hour-seven-day-week concepts, leveraging a strengthened branch infrastructure, ATMs, other alternative distribution channels, cross-selling a range of products and services to meet customer needs varying over time, and ensuring the highest standards of service at all times.

1,174

Branches (March 31, 2014)

1,359

ATMs (March 31, 2014)

10,467

Team (March 31, 2014)



Performance dashboard

Volume growth

SME Advances
grew from
₹ 8,119 Cr to
₹11,021 Cr
(Up by 37%)

NRI Deposits
grew from
₹15266 Cr to
₹20659 Cr
(Up by 35%)

CASA Deposits
grew from
₹15519 Cr to
₹18401 Cr
(Up by 19%)

Retail Advances
grew from
₹13,328 Cr to
₹14,124 Cr
(Up by 5.97%)

Priority Sector
Advances grew
from ₹11795 Cr to
₹16141 Cr
(Up by 37%)

Income growth

Total Income
grew from
₹ 6832 Cr to
₹ 7640 Cr
(Up by 12%)

Net Interest
Income grew from
₹ 1975 Cr to
₹ 2229 Cr
(Up by 13%)

Other Income
grew from
₹ 665 Cr to
₹ 694 Cr
(Up by 4%)

Key Ratios

Earnings Per
Share

₹ 9.81

CRAR
(Basel – III)

15.14%

Return on
Equity

12.80%

Net NPA

0.74%

Provision
Coverage Ratio

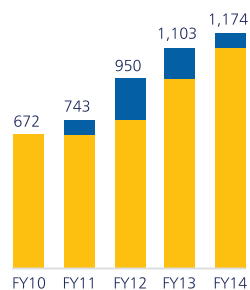
84.16%



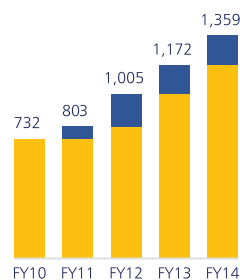
Performance dashboard

Footprint Expansion

Number of Branches

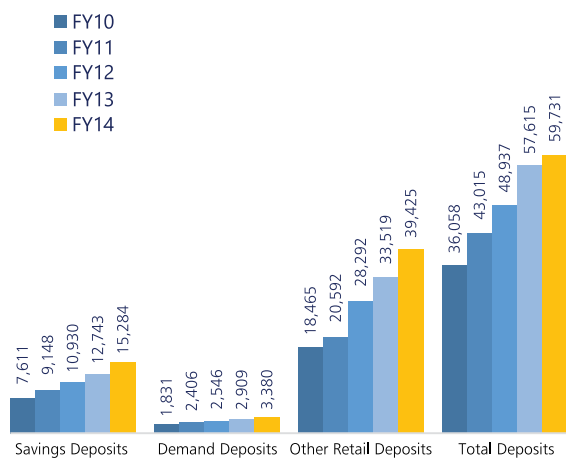


Number of ATMs



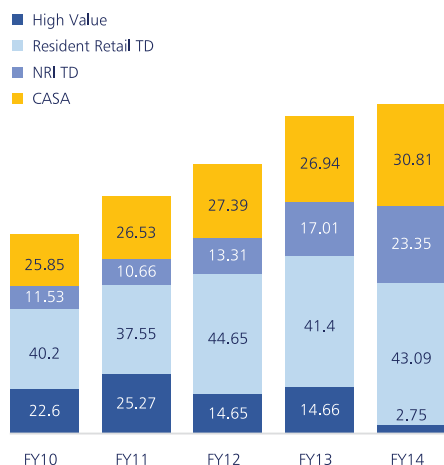
Retail Deposit

(₹ in Crore)



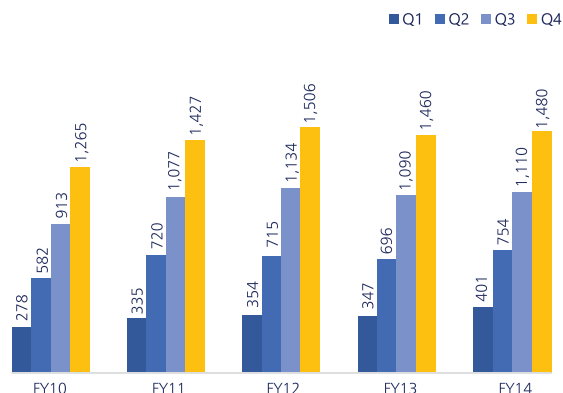
Deposit Mix

(%)



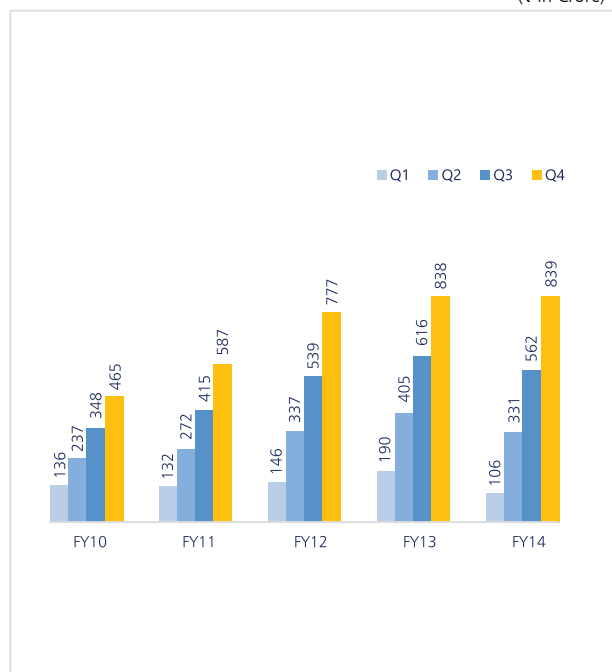
Operating Profit

(₹ in Crore)



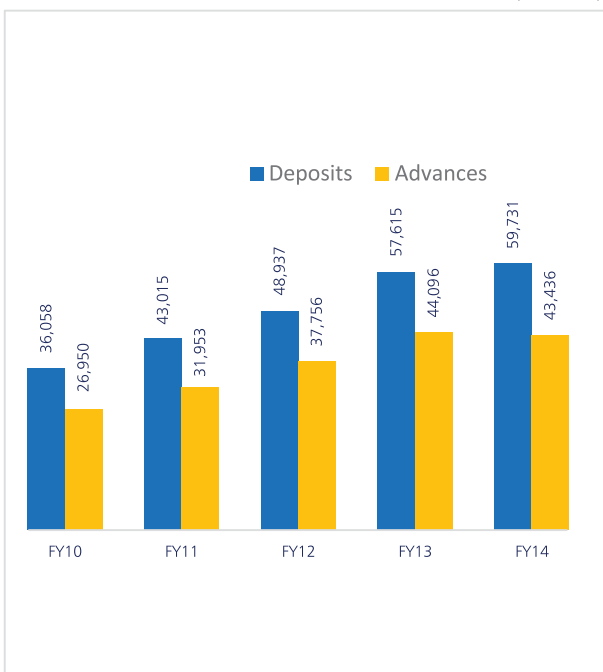
Net Profit

(₹ in Crore)



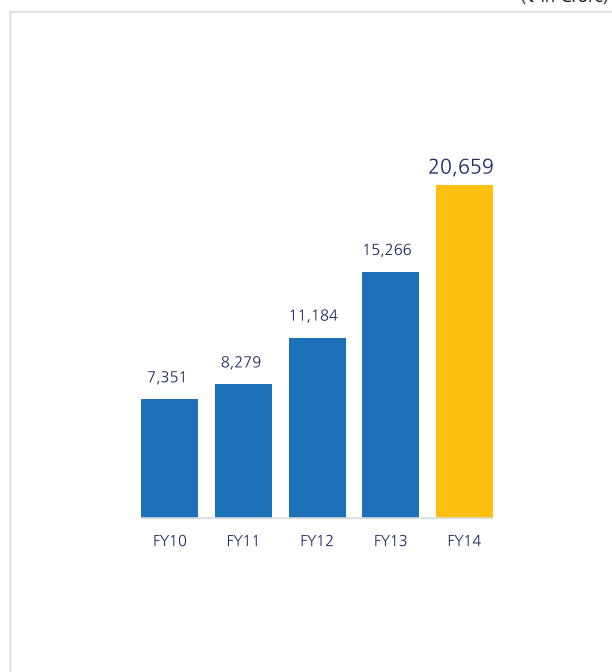
Business

(₹ in Crore)

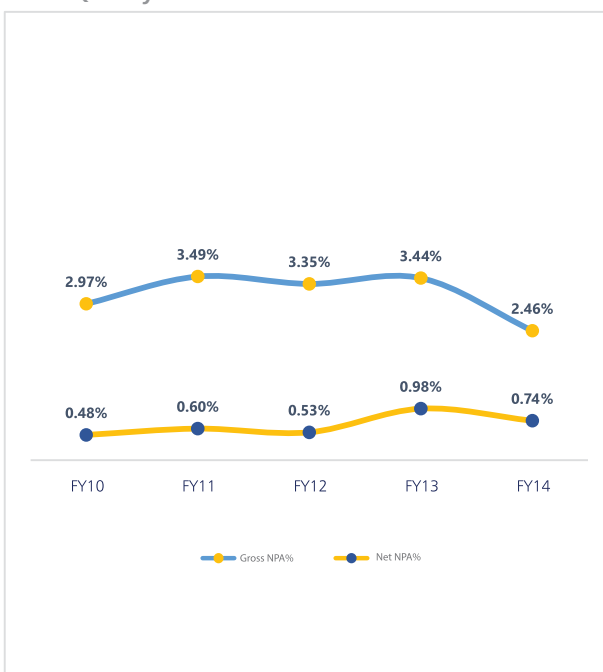


NR Deposits

(₹ in Crore)



Asset Quality



Message from the Chairman



Dear Shareholders,

The Banking sector is entering a period of dynamic transformation. The economic scenario has created a set of tough challenges, while the regulatory and prudential obligations are making our job even tougher. The financial results for 2013-14 are to be viewed in this context. Building on the core theme of partnership, Federal Bank could confidently tackle the challenges and could register good growth and post a satisfactory result. It is my privilege to present before you the annual report of Federal Bank for the year ended March 31, 2014.

Financial year 2013 – 14 was a year of mixed fortunes for the Indian economy. With annual growth rate hovering below 5%, Asia's third largest economy was battling high inflation, a weak currency and a drop in foreign investment. But with the global economy gradually entering a recovery phase and with a good monsoon, we can confidently expect that our economy will soon enter a growth phase. Since the fundamentals of the Indian economy are strong and with some degree of course correction, the economy should achieve a growth rate of 8% in near term.

For banks across the spectrum, the general economic downturn meant poor credit take off and slower repayments. However RBI intervened at the appropriate intervals by easing

interest rates and by allowing the banks to avail Marginal Liquidity Facility and other supportive arrangements. These measures, coupled with our own spirited and committed efforts have yielded positive results. It is heartening to note that on all performance parameters such as profitability, EPS, dividend and the number of branches, your Bank could achieve impressive figures.

In challenging economic conditions, your Bank could register a sustained growth during the financial year 2013-14. Total Income grew by 11.83% from ₹ 6832 Crore to ₹ 7640 Crore, while Operating Profit grew from ₹ 1455 Crore to ₹ 1480 Crore. Your Bank also showed significant improvement in the Asset quality during the year. On a year on year basis the Gross NPA of the Bank came down from ₹ 1554 Crore to ₹ 1087 Crore, while Net NPA reduced from ₹ 432 Crore to ₹ 322 Crore, a decrease from 0.98% to 0.74%.

Provision Coverage Ratio (PCR) including written off assets increased year on year from 80.96% to 84.12%.

Your Bank continued to build on its strong Retail/NRI franchise that had helped it to improve its low cost deposit (CASA) by 19% from ₹ 15519 Crore as on 31 March 2013 to ₹ 18401 Crore as on 31 March 2014.

The number of branches of your Bank was 1174 and your Bank had 1359 ATMs as on 31 March 2014.



A set of progressive policy steps, being set in motion by the Finance Ministry and RBI is expected to transform the banking sector in a substantive way. For instance, the New Companies Act 2013, with its thrust on governance, transparency, investor protection and enforcement will hopefully have a strong positive bearing on all stakeholders. Your Bank has already instituted several measures and mechanisms to comply with the new Company Law, including the formation of a Board level CSR committee to impart added momentum to the CSR initiatives of the Bank. Your Bank is responsive to the potential and possibilities of the unfolding scenario.

With a series of new initiatives on the products/services front, your Bank is also getting future ready. By incorporating state of the art technology into our products and services, we are ensuring that Federal Bank is among the best in terms of speed, efficiency and customer delight. Your Bank is also proud to have a set of competent and dedicated team of employees.

The most important component in the corporate governance structure is the top management, particularly the Board of Directors and the senior level management of an enterprise. Your Bank is privileged to have an

inspiring and value-driven Board of Directors, comprising of 10 directors, out of which there are 8 independent Directors of outstanding caliber and credentials in the various economic segments of relevance to the Bank – such as banking, marketing, accountancy, SME, agriculture and IT. Your Bank has its first Lady Director in

and have persons who have achieved success over the years.

While concluding, it gives me great satisfaction to note that our customers continued to extend their overwhelming support to the Bank during the year, enabling us to retain the number one position in Kerala in terms of Net Profit amongst Kerala based Banks. The steady growth in the customer base of the Bank, both domestic and NRI, once again reflects the unshakeable trust reposed by generation after generation of customers in Federal Bank. I take this opportunity to wholeheartedly thank all our customers, associates and well wishers for extending their patronage and support.

“I wish to extend my personal and collective thanks to each and every shareholder of the Bank,

for all their support and confidence placed in us. In return we assure you the highest standards of governance and performance.”

I also wish to extend my personal and collective gratitude to all the regulators and authorities, for their support and guidance in our endeavours. Thanks is also due to the valuable Customers of the Bank, the entire team of your Bank's staff members, i.e the Federal Family.

“**By incorporating state of the art technology into our products and services, we are ensuring that Federal Bank is among the best in terms of speed, efficiency and customer delight.**”

its history. Smt. Grace Elizabeth Koshie, who was inducted on the Board in financial year 2013- 2014. Shri. Harish Engineer, who is an experienced banker was also inducted on the Board during the same financial year . The Board has also inducted the second Lady Director, Smt. Shubhalakshmi Panse, former Chairman and Managing Director of Allahabad Bank, and who has over 38 years experience as a banker. The entire Board of your Bank, consists of leaders of exceptional calibre and character



Message from the MD



Dear Shareholders,

I am honoured to present to you our results for the financial year 2013-14. Considering the daunting challenges and the adverse market conditions that prevailed in the macro-economic environment, it is indeed gratifying to note that your bank could keep up the growth momentum and post encouraging results.

The recovery from the global crisis of 2008-09 in the advanced economies has been uneven and fragile. Apart from this, a number of unique domestic issues too have had a dampening effect on growth and business confidence in India over the last two to three years. The banking industry, a direct reflection of the economy, has seen material challenges in the recent past, on the back of a struggling economy and spiraling current account and fiscal deficits. The environment, while not very growth friendly has seen many large banks soliciting additional capital as they battle the large ballooning of non-performing assets. Yet, Federal bank reaffirmed its position as a consistent performer and has delivered healthy numbers in this Financial Year also. It's the balanced trade-off between growth and quality which helped the bank to confidently navigate through tough

macro-economic headwinds and record growth with improved asset quality, both sequentially and on a Year-on-Year basis.

The bank's robust performance is reflected in all the key parameters. For your consideration, let me sum up a few of the important facts and figures.

- The bank has continued to build on its strong retail/NRI franchise. The NRE Deposits grew by 44.21% which shows the continued patronage of our Non Resident customers.
- The bank continued its focused efforts on improving asset quality. In tough macro-economic conditions, the bank could reduce Gross NPAs by 98 bps to 2.46% and net NPAs decreased by 24 bps to 0.74%
- The Bank's robust SME franchise is becoming an important growth driver and is delivering top quartile performance. Advances to SMEs increased 35.75% y-o-y as a result of our specific focus on SME.
- Our focus on Retail customer deposits is showing encouraging results. Savings grew by 20%, CASA grew by 19% and the share

