

The Federal Pie



FEDERAL BANK
YOUR PERFECT BANKING PARTNER

ANNUAL REPORT 2015-2016

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 for 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 documents 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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THE DELECTABLE FEDERAL PIE



The Federal Pie is a metaphor for the diverse strengths and attributes of Federal Bank. It captures the solidity as well as the agility of an organization that has withstood the vicissitudes of time with aplomb.

The bank's Home Market Dominance, robust Capital Structure, evergrowing NR business, State-of-the Art Digital Capabilities, high quality Liability Franchise and adaptive Credit Processes are the ingredients that make this pie delectable for investors and customers alike. This year's annual report cover reflects the multi-faceted personality of Federal Bank.



ABOUT THE BANK

The history of Federal Bank dates back to the pre-independence era. The Bank was incorporated on April 23, 1931 as the Travancore Federal Bank Limited, Nedumpuram under the Travancore Companies Regulation, 1916. Late K.P. Hormis, the visionary banker and founder took up the reigns in 1945 and built the bank a nationwide institution. The Bank's name was changed to The Federal Bank Limited on December 2, 1949. The Bank was licensed under the Banking Regulation Act, 1949, on July 11, 1959 and became a scheduled commercial bank under the Second Schedule of Reserve Bank of India Act, 1934 in July 20, 1970. Today the bank is present in 25 States and 5 Union Territories and the bank is listed in Bombay, Cochin, National and London Stock Exchanges.

OUR VISION

To be the **Most Admired Bank** by all stakeholders

OUR MISSION

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

Shareholders: Achieve a consistent annual post-tax return of 18% 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 time.

1,252 Branches (March 31, 2016)

1,516 ATMs (March 31, 2016)

11,735 Team (March 31, 2016)



PERFORMANCE DASHBOARD

Volume Growth

NRI deposits
grew from
₹ 25936 Cr
to ₹ 32597 Cr
(up by 25.69%)

SME Advances
grew from
₹ 12918 Cr to
₹ 15172 Cr
(up by 17.45%)

Home Loans
grew from
₹ 6852 Cr to
₹ 7876 Cr
(up by 14.95%)

NRE Savings
grew from
₹ 7154 Cr to
₹ 9091 Cr
(up by 27.08%)

Resident Savings
grew from
₹ 9679 Cr to
₹ 11224 Cr
(up by 15.97%)

Income Profile

Total Income @
₹ 8531.07 Cr

Net Interest
Income @
₹ 2504.24 Cr

Other Income @
₹ 786.38 Cr

Key Ratios

Earnings Per
Share: ₹ 2.77

CRAR BASEL III
13.93%

Return on
Equity: 6.01%

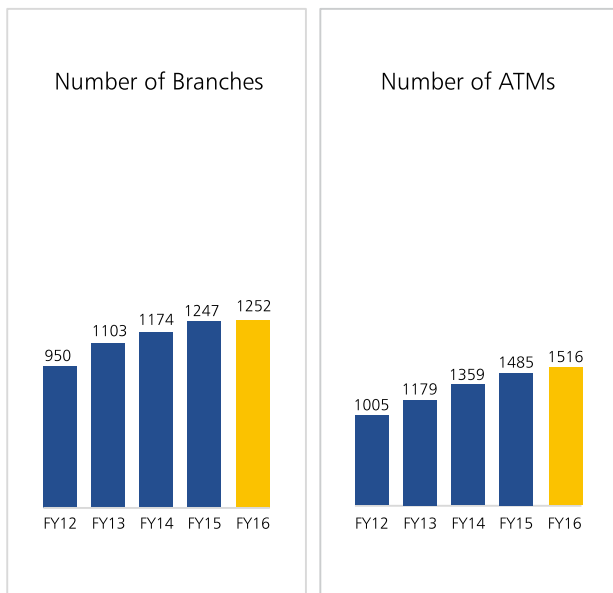
Return on
Assets: 0.57%

Provision Coverage
Ratio: 72.05%

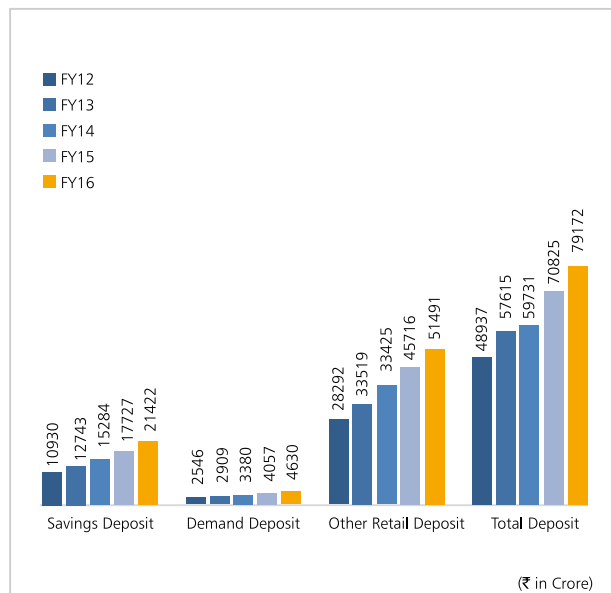
Net NPA: 1.64%

Performance Dashboard

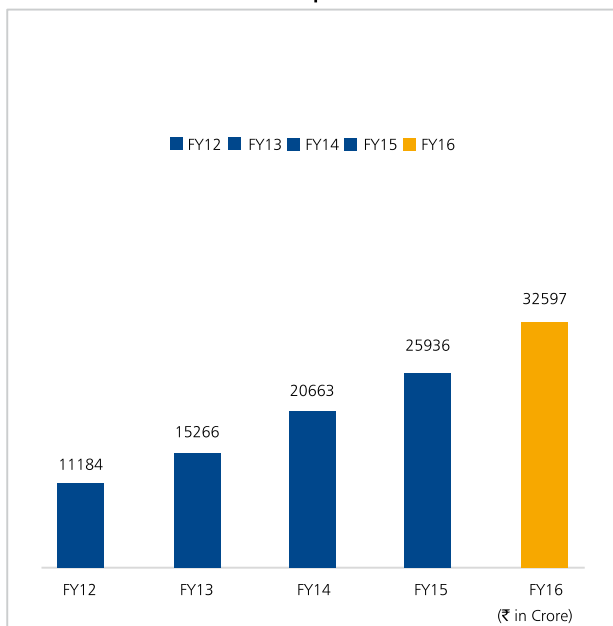
Footprint expansion



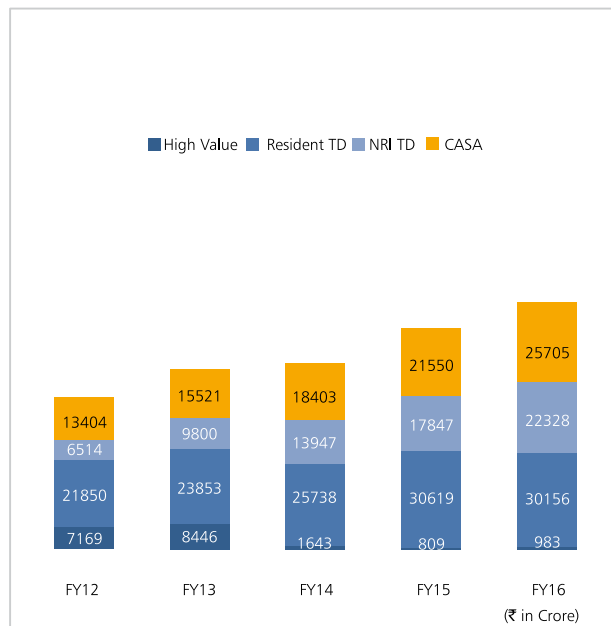
Retail Deposit



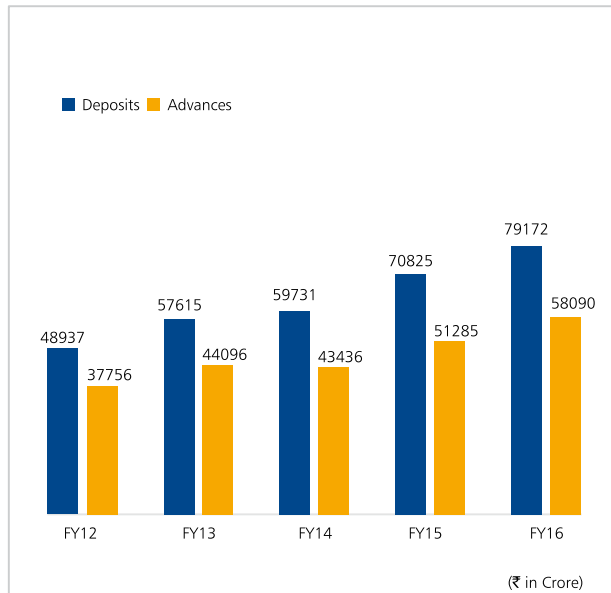
NR Deposits



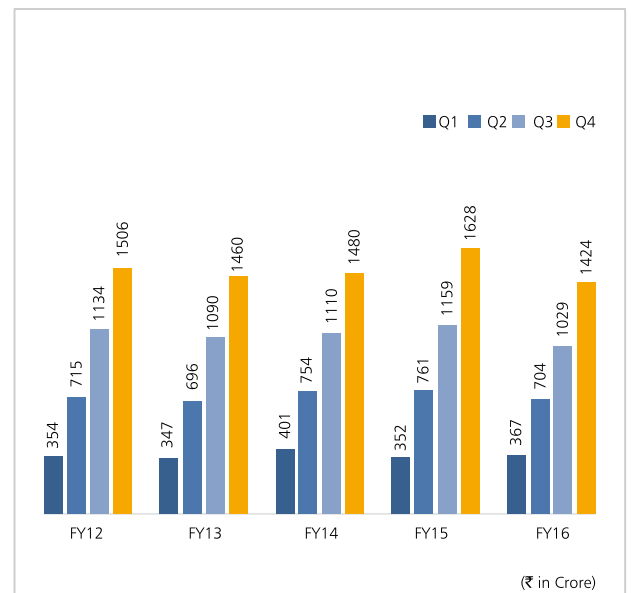
Deposit Mix



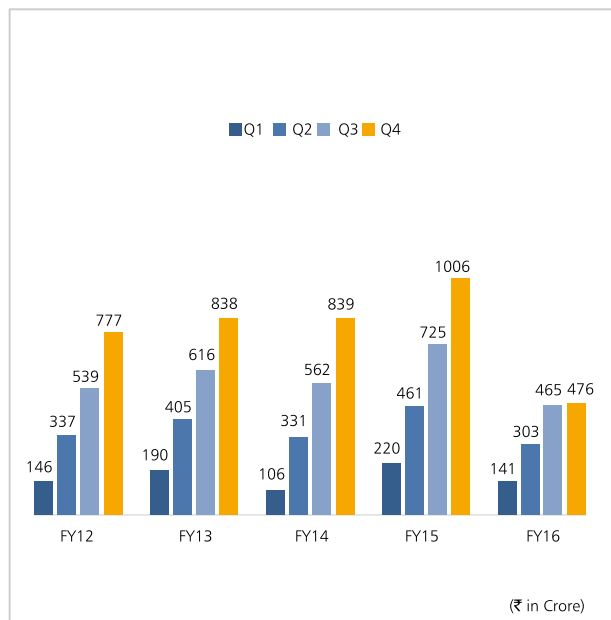
Business



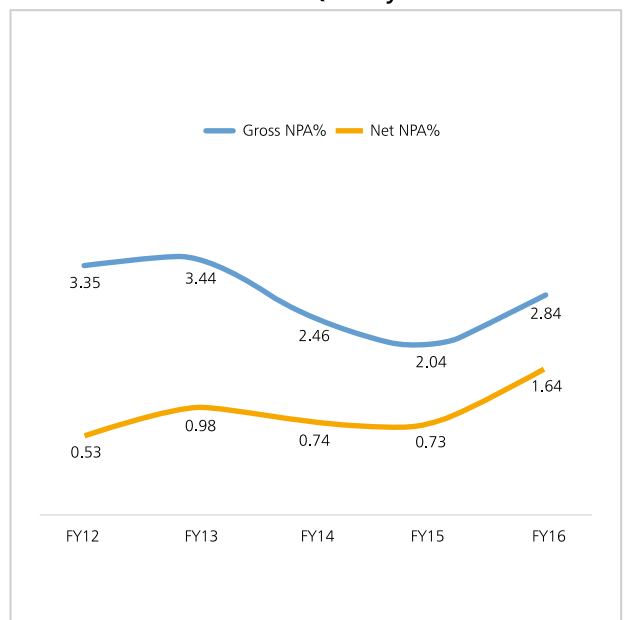
Operating Profit



Net Profit



Asset Quality



MESSAGE FROM THE CHAIRMAN

It gives me immense pleasure to present before you the Annual Report of Federal Bank for the year ended 31 March, 2016.

During my five years of association with the bank, I have seen clear signs of the bank strengthening its underlying capabilities in all areas of its functioning including business, people and franchise.

Over the years, through a continuous journey of transformation, diversification and expansion, the bank has shown robust growth and transformed itself as a national player with its branches spread pan India.

In FY 2015-2016, the global economy was negatively impacted by continuing decline in oil prices, a prolonged slowdown in China and uncertainty in Europe. The world scenario continues to be fragile and uncertain especially with regard to the impact of the Chinese slowdown and the ramifications of "BREXIT" yet being unclear. Though we cannot hazard a guess about which way the wind is going to blow, it's fairly certain that world economy is going to be in a dynamic state of flux in coming months too.

Even in such uncertain times, India's macro-economic fundamentals continued to improve in terms of growth, inflation etc through a host of initiatives from Government like Start up India, Digital India, Make in India and it provided a reasonable degree of resilience to the Indian financial system. The Reserve Bank of India has responded to these macro-economic conditions by cutting the benchmark repo rate by 75 bps during FY 2015-2016.

When the going gets tough, the tough get going' is a truism that accurately reflected the state of the banking industry in the year 2015-16. The current weakness in economic activity has muted credit demand for banks. In addition, alternative sources of financing, both domestic and offshore are a challenge to credit growth of banks. As we turn our gaze towards banking in FY 2016-2017, there are conflicting signs of both hope and despair at play. On the positive side, the domestic and international

uncertainties that engulfed our industry in the past year had been an eye opener, as well as an opportunity to correct, excel and exceed on business and recovery fronts.

As an organization, your Bank continues to be driven by a strong performance ethic and a strong set of values and we are



Shri NILESH SHIVJI VIKAMSEY

committed to delivering excellence to our stakeholders. Your Bank's investments in people, capabilities, technology and infrastructure ensured that the Bank remains relevant to our customers and is constantly focused on offering tailor made solutions.

The board of the bank is blessed with exemplary individuals with successful track record of performance and integrity from a variety of sectors. The diverse experience of the board has enabled the management shape and put into practice the goals and strategies of the bank in a disciplined manner.

One of the priorities of our board is to ensure a credible and high quality senior management team. We have this year strengthened the senior management team with the infuse of a blend of senior talent from the market with our home grown seniors taking on strong and significant responsibilities. We are confident that this senior team under stewardship of the MD who has now completed almost six successful years, is well positioned to lead the bank to high quality performance on the year ahead.

The corporate governance followed by the Board of the Bank is well recognized. Your bank is one among the eight companies that have managed to score 100 per cent on a Composite Disclosure Index 2016, (published by FTI Consulting) which has been prepared after taking into account both mandatory and voluntary disclosure parameters. The composite index measured firms on a scale of 1 to 10 and a score of 10 indicates that all 12 mandatory and voluntary disclosure parameters are publicly and readily available.

Turning to the business highlights of your bank's performance in FY 2015-16, the strength of your bank has always been an exceptionally good liability profile, both in terms of granularity and the mix of the portfolio. The strong liability profile enabled the bank to ensure stable NIM. The credit book is well diversified between Wholesale, SME and Retail. The credit growth and deposit growth showed uniform upsurge during FY 2015-16. Market share dominance in Network-I which is our home market is increasing and the bank has started seeing share gains in Network-II which is all the rest of non-Kerala markets. The Bank posted a net profit of ₹ 475.65 Cr. The Net worth of the bank increased to ₹ 8091.22 Cr as on 31.3.2016. The Capital Adequacy Ratio (CRAR) of the bank computed as per Basel III guidelines, stands at a comfortable level of 13.93% as on 31st March 2016. The Bank has 1252 branches and 1516 ATMs as on 31st March 2016. The key messages from a point of view of FY 2015-16 is that our Credit momentum growth focus is back, most of the provisioning related issues have been addressed, market share gain is visible and we

are strengthening our franchise to ensure that we have fortified to deal with FY 2016-17 and beyond.

In the fast changing milieu of banking, we aspire to remain relevant always. We will continue to adopt cutting edge technology and platforms in digital banking, introducing new products and enriching the existing ones. We will endeavor to adapt these exciting new technologies to our business environment with caution and prudence, since a significant chunk of our customers still prefer the more familiar world of conventional banking. And finally, with constant training and learning, we should become adept at harnessing the strengths of digital banking. Through various initiatives taken by your Bank in last FY and with the vibrant talent pool we have, I am sure that it should be easy for us to walk the digital talk. We are anticipating scalable returns through our digital leap and I am confident that substantial progress would be ensured through our ongoing endeavor on this front.

We are conscious of the fact that we ended the year on a subdued note. Amidst the industry headwinds, we are hopeful in delivering an encouraging FY 2016-17. While the management is focused for growth and is completely aligned to the needs and opportunities in the market, FY 2016-17 will also be a year for all of us to ensure we deliver strong progress on the key operating metrics of the business and we have prepared an action plan for the same. There are opportunities in the market in plenty; which we aim to capitalize on and reap in results with support of digital banking and building stronger capabilities in customer service. SME and Retail are areas where we could deliver in the last FY. Your bank would continue to maintain that momentum and improve thrust through effective product and process changes. We anticipate the leverage of the bank's digital capabilities to the changing trends on retail front which would help gain remarkable share in the portfolio.

Over the years the bank has ensured professionalism in the conduct of the board and also we have one of the most respected panel of professionals on board leveraging skills from various dimensions of banking; to give us the edge when it comes to the quality of our functioning. The board is confident of the management in achieving quality results in the current FY and we look forward to our team coming out scaling new heights of glory.

In conclusion, I express my sincere thanks and gratitude to our esteemed shareholders, customers, employees (Federals) and all stake holders.

MESSAGE FROM THE MANAGING DIRECTOR & CEO

Dear Shareholders,

I would like to begin by thanking all of you for your support and confidence through what was arguably a challenging year for Banks and Bankers in India. Many have even described it as a "Perfect Storm"! We too had our share of challenges, as evidenced by lower profits on the back of higher slippages and provisioning. Exacting situations such as these often force fundamental structural changes to the Industry and therefore all its participants. However, through these volatile times emerge quality and stronger players. I believe we at Federal bank, are certainly one of them.

Launch of 7 state-of-the-art products (FedBook Selfie, Scan n Pay, Missed Call Banking as some examples), a meaningful growth in share of new business across India and a marked increase in Current Account –Saving Account (CASA) share are proof, that our team did everything in its command to navigate through this period by persevering and delivering on what is core and important to emerge as a stronger franchise.

Our Capital Adequacy Ratio as depicted by strong Capital to Risk-weighted Assets of 13.93% combined with our robust liability structure (97.94 % - Retail) are testimony. Our Focus through the year was to stay true to our '4D' principle and diligently execute on the agenda agreed with our Board.

- Dominate our Home Market
- Double our operating run rate in our chosen markets
- Develop impactful Digital solutions
- Delight our stakeholders by focusing on creating lasting values

Our priority to Dominate our Home Market has been well served. Over the past few years, we have strengthened the franchise and now command over 13.5% share (up from around 10% four years ago) of the market and what is heartening is that in FY 16, we had as much as 18% of all new business that originated in the state. Almost one out of every five client business was with us! We will

certainly seek to extend this dominance in the year ahead.

With a focus to leverage our pan India presence, we pursued to Double our share of flow of new business in the geographies outside our home market. This too has seen share gain. When the industry credit grew below 10 %, we grew over 14 %; which we will further accelerate in the year ahead. Our presence, accept-



Shri SHYAM SRINIVASAN