

A journey to conquer
new horizons



Presence
to Prominence

Prominence
to **Dominance**

FEDERAL BANK

YOUR PERFECT BANKING PARTNER
ANNUAL REPORT 2018-2019

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 beginning of a new journey

Last year's all women motorbike expedition organised by Federal Bank attracted much media attention. Six women employees of Federal Bank rode all the way from Kerala to Delhi, championing the cause of diversity and women empowerment at the workplace and in society at large. This year's Annual Report Cover captures a moment from that historic expedition. While the rally primarily symbolised the Bank's commitment to women empowerment, it was also a metaphor for the Bank's ambitious forays into the vast vistas of opportunities that our country presents.

Prominence to Dominance

Federal Bank has materially consolidated its leadership position in its home state and is dominating the banking landscape in Kerala. The Bank has fast evolved from being 'prominent' to being 'dominant' in Kerala.

Presence to Prominence

Over the years, Federal Bank could carve out a conspicuous presence pan India. By investing and redoubling its efforts in these markets, the Bank is swiftly transiting from conspicuous to commanding presence.

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 on July 20, 1970. Today the bank is present in 25 States, Delhi NCT and 4 Union Territories and the bank is listed in BSE, NSE and London Stock Exchange.

Our Vision

To be **the 'Most Admired Bank' which is Digitally enabled with a sharp focus on Micro, Medium and Middle market enterprises.**

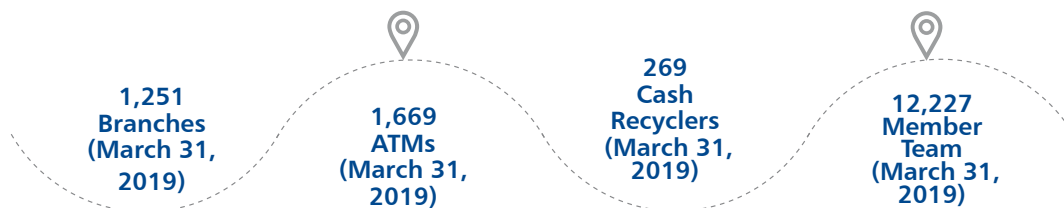
Our Mission

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, guided by our principle of being 'Digital at the fore, human at the core'.



PERFORMANCE DASHBOARD

VOLUME GROWTH

Retail Advances
grew from
₹ 25437 Cr to
₹ 31742 Cr
(up by 25%)

Home Loans
grew from
₹ 11648 Cr to
₹ 15394 Cr
(up by 32%)

Business Banking
Advances grew
from ₹ 8130 Cr to
₹ 9552 Cr
(up by 17%)

Agri Advances
grew from ₹ 9382 Cr
to ₹ 11440 Cr
(up by 22%)

Corporate
Advances grew
from ₹ 39509 Cr to
₹ 47548 Cr
(up by 20%)

NRI deposits
grew from
₹ 45072 Cr to
₹ 53159 Cr
(up by 18%)

CASA deposits
grew from
₹ 37252 Cr to
₹ 43388 Cr
(up by 16%)

INCOME GROWTH

Total Income
grew from
₹ 10912 Cr to
₹ 12770 Cr
(up by 17%)

Net Interest
Income grew from
₹ 3583 Cr to
₹ 4176 Cr
(up by 17%)

Fee Income
grew from ₹ 807 Cr
to ₹ 1037 Cr
(up by 29%)

Interest earned
grew from ₹ 9753 Cr
to ₹ 11419 Cr
(up by 17%)

KEY RATIOS

Return on
Assets:
0.88%

Return on
Equity:
9.81%

CRAR
BASEL III :
14.14%

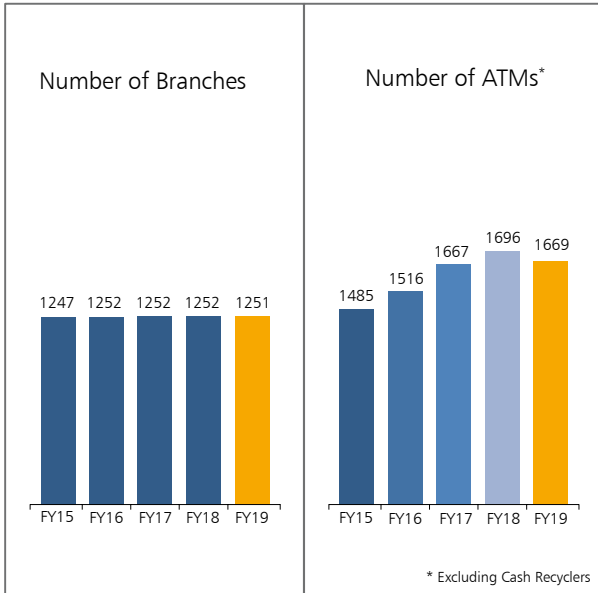
Earnings
Per Share :
₹ 6.28

Provision
Coverage Ratio:
67.16%

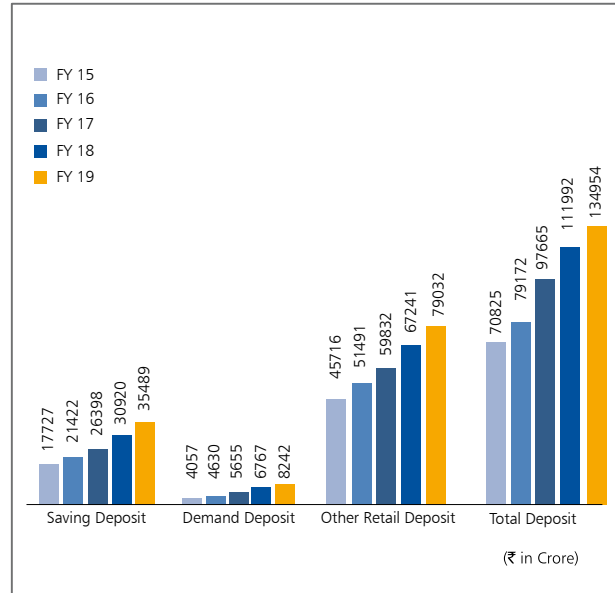
Net NPA:
1.48%

Performance Dashboard

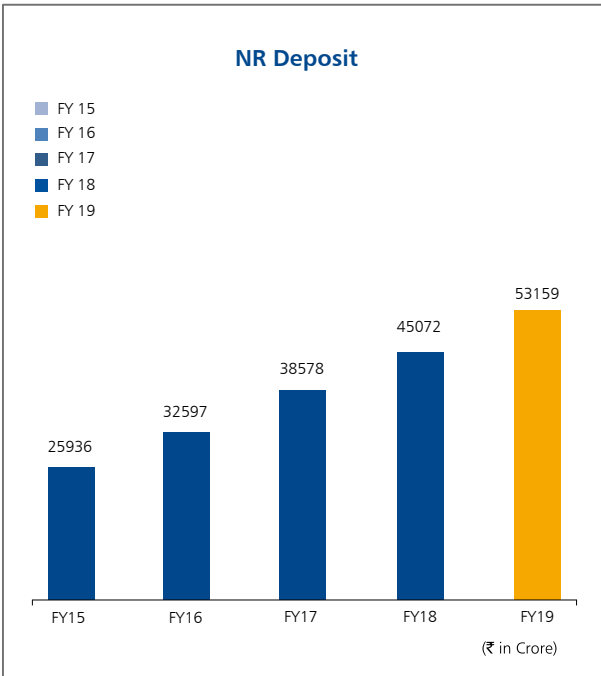
Footprint Coverage



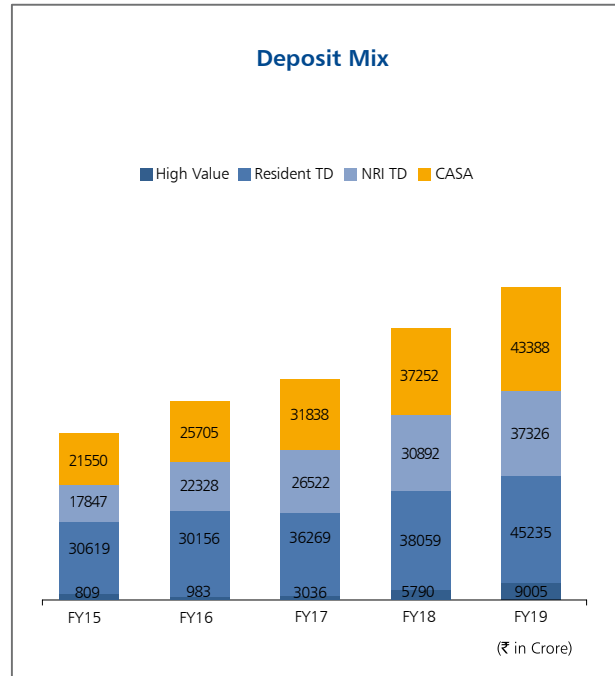
Retail Deposit



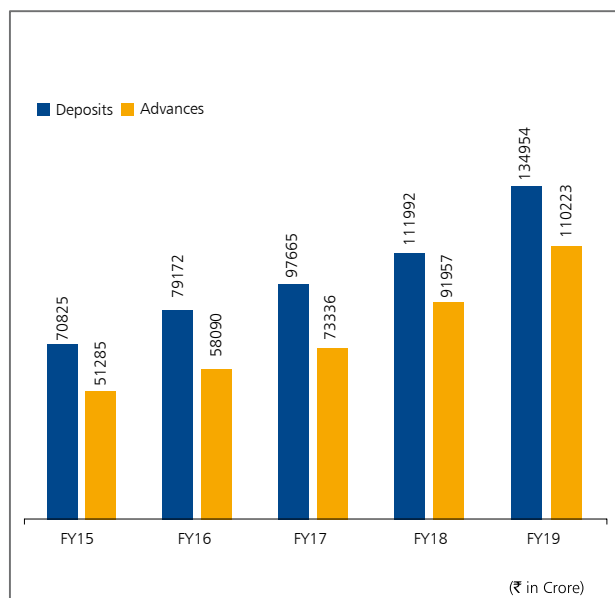
NR Deposit



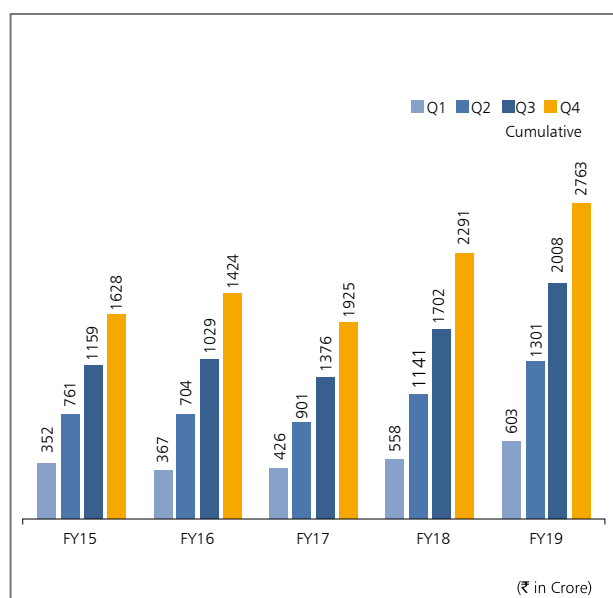
Deposit Mix



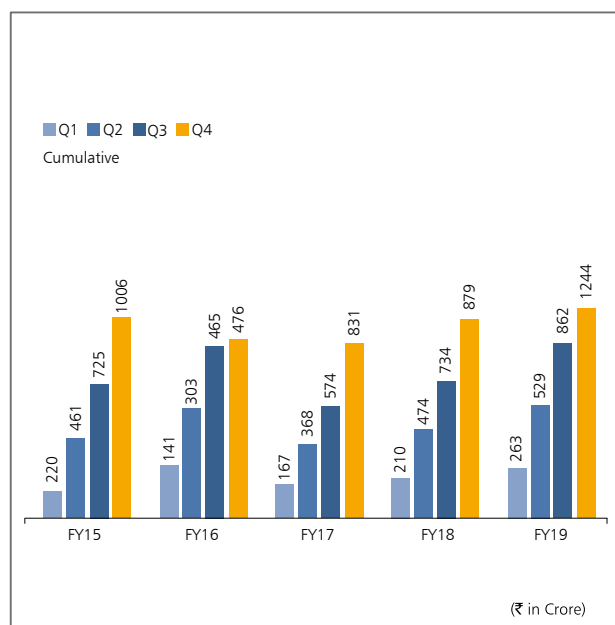
Business



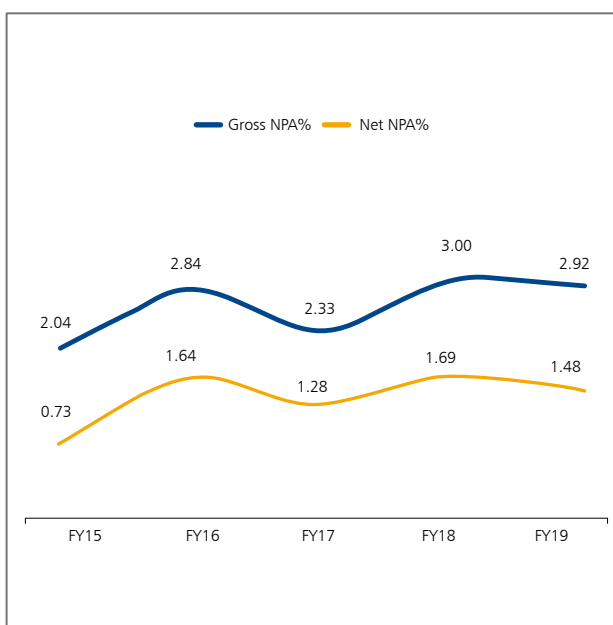
Operating Profit



Net Profit



Asset Quality



MESSAGE FROM THE

CHAIRMAN

Dear Shareholders,

'Our greatest transformation happens through our toughest times'. It's a thought provoking axiom that neatly sums up the times we live in. Probably, no other period in human history witnessed such a rapid surge of transformational ideas. One after the other, these new ideas are affecting and altering the destiny of humanity in unprecedented ways. Banking and finance too were and are being buffeted by wave after wave of game changing developments. With commendable foresight and nimbleness, your bank navigated through this disruptive whirlwind of currents and undercurrents, triumphantly emerging to share with you some impressive results. So, it's with considerable pride and delight that I am addressing you all.

By and large, the passing year was a year of tumult and turmoil for the Indian economy, with many bright spots of growth and glory. Sector after sector, from telecom to aviation, came under great stress and the cascading effect was felt by others too. The country was confronted with the cumulative impact of a strengthening US Dollar and rising crude oil prices until early October 2018.

On the positive side, the microstructure of the Indian economy continued to flourish with noticeable and transformational changes. It is heartening to note that India has leapfrogged to secure a rank of 77 in World Bank's Doing Business Assessment Report, from 100 earlier, thereby making it one of the fastest improvers globally on the metric of 'ease of doing business'. Further, the IBC (Insolvency and Bankruptcy Code) and the GST (Goods and Services tax) have started to transform the structural 'way of doing business' in India by altering the incentive structures and bringing about a paradigm shift in commercial and economic behaviour of all key stakeholders. The country saw unprecedented social and behavioural changes through massive programs for improving the basic needs of people's needs in areas of sanitation, cleanliness, medical assurance etc.

So, in this fluid scenario, it's gratifying to note that your bank has come out with impressive results. On many key parameters such

as EPS, Profitability and a few key qualitative metrics, your bank could register impressive results. Total income grew by 17.03% from ₹10911.98 Cr to ₹12770.05 Cr, while Operating Profit grew from ₹ 2291.03 Cr to ₹2763.10 Cr. The Capital Adequacy Ratio (CRAR) of the Bank stands at a comfortable level of 14.14% as on 31st March, 2019.

During the unprecedented Kerala floods, your bank exhibited tell-tale signs of resilience with the support of a well laid down Business Continuity Plan, which enabled the bank to come through this terrible trial with flying colours. The continued goodwill and patronage of stakeholders enabled your bank to come out with historic performance during the year.

To be able to compete and grow where margins are thin, competition is fierce, regulations are changing and technology has an increasing impact, financial institutions must place innovation as a top priority. Banks must anticipate consumer needs and innovate in ways that will prioritize the most effective mix of capabilities, processes and people. At Federal Bank, we are actively encouraging a culture of 'Nayi Soch'. This passion for "New Thinking" is manifest in everything we do now. Whether it is our forays into Blockchain Technology through a tie up, or the introduction of a slew of pioneering digital products such as Fed E Biz, we are consistently pushing the envelope and is redefining the customer experience in myriad ways.

As the cover of this year's annual report suggests, your bank is now on the threshold of a more ambitious leap. Having secured leadership position in the Kerala market, the bank is now poised to fly higher and capture more mindshare and market share across India. With a missionary zeal, your bank is determined to make this vision a reality and has christened this pan India thrust as "from Presence to Prominence". This resetting of targets will naturally open up new vistas of growth and opportunities for the bank.

Increased commitment to innovation in response to consumer expectations and increased fear of non-traditional players are two of the primary impulses seen across the banking spectrum. The

last few years have seen several non-banking companies such as technology majors, digital upstarts and FinTechs steadily expand their foothold in the financial services space. A recent study revealed that FinTechs now constitute about 33% of the financial services revenue globally. The recent Infosys Efma study found that non-banking players are perceived as drivers of innovation in the industry. The bank has taken cognizance of this emerging new competitive framework and is busy devising strategies to address it.

At Federal Bank, we aspire to mould a well-rounded workforce that combines knowledge of business, industry, customer and organizational issues. We realise that we will have to accommodate a multigenerational workforce of GenZ, millennials, and older representatives. We will have to embrace diversity, and we will hire talent from different industries and disciplines. The new culture will value continuous learning and customer-centricity more than ever. Training programs will become more accessible on mobile devices. The trend will be to use real-time feedback to align banking practices with organizational objectives and increase customer-centricity.

While concluding, I wish to quote Alexander Graham Bell who famously said “the achievement of one goal should be the starting point of another”. Your bank has crossed many significant milestones in the recent past. But, we can’t rest on our laurels. We need to soldier on to conquer new horizons. As I mentioned earlier, our new goal is to spread our wings and to put our stamp of excellence in more villages and towns across India. And I am sure that with surefooted confidence your bank will move from Presence to Prominence to Dominance.

On behalf of the board of directors, I wish to express my sincere gratitude to all the shareholders, customers, employees and all stakeholders. Your unstinted support has made our journey a lot more fulfilling and delightful. We look forward to your continued co-operation as we enter even more exciting times.

A portrait of Shri. Dilip Sadarangani, an elderly man with white hair and glasses, wearing a dark suit, white shirt, and a patterned tie. He is smiling slightly and looking towards the camera.
Shri. Dilip Sadarangani

MESSAGE FROM THE

MANAGING DIRECTOR & CEO

Dear Shareholders,

I am privileged to present yet another Annual Report to you, our esteemed Shareholders. Thank you!

When our six lady colleagues in the Bank (we call them, *Federal Angels*) embarked on a motorcycle ride, in early August 2018 from Kochi on their mission to ride over 3000 KMs, it was much more than an adventure trip; it signalled something more profound. It was an expression of invoking the '*Nari Shakthi*' in all of us, Federals! As we flagged off this unique expedition, our aim was not just to communicate empowerment and break traditional norms, but to indicate our journey in charting out new horizons!

In the same breath, it is also worthy to note that '*Speak for India*', the Bank's much-admired debating competition, launched as a state-wide initiative in 2014, is now truly national and is now conducted in four states across India (two more states being added in FY 2020), participated by nearly two lakh students, last year. More than its indubitable social relevance, it illustrates the Federal Journey from **Presence to Prominence**, in the various geographies of India!

Around the same time, when Federal Angels were hoisting our 'Flag' across the country, closer home, in Kerala, the unforeseen south-west monsoons led the state into the most frenzied and unprecedented deluge of this century, impacting people and businesses, gravely. Amidst the catastrophe, the Bank did outstandingly well in fighting this calamity and bouncing back to performance mode. In a very short span of time, the Bank could ensure safety of people, restore operations, handhold the state reconstruction and remarkably up the ante, to deliver on promises. All credit and gratitude to our team for their selfless and tireless restoration efforts. It brought to the fore our resilience and commendable strength of the franchise in our home market, which we define as our move from being **Prominent to Dominant!**

As pointed out in our Chairman's message, Globally, ensuing financial volatility, trade tensions and rise in oil prices, convulsed the economic landscape of economies that resulted in a moderated growth rate. In India and for Banks here, the year unfurled a heady mix of challenges as well as opportunities! What is encouraging is that structural reforms such as the GST and Insolvency and Bankruptcy Code (IBC) have settled in and are providing impetus to the disciplined business momentum. Though, for some parts, it is challenging, I believe in a few more quarters, India will move to a high growth mode! But, it's in times like this the fit and ambitious make their presence count and that's why we at Federal are excited.

Staying true to our commitment made in my last year's message, we have built on our theme of '**Strong Fundamentals and Soaring Ambitions**' and delivered a landmark year for the Bank, both in terms of financial and operating performance. With a sharp focus on execution, guided by the philosophy of '*Nayi Soch*', the bank could surpass the budgeted numbers across all parameters and as

committed, **delivered a 1.02% RoA for the exit quarter FY'19.**

You may recall in my note in 2015, I referred to our guidance along the '4-D' principle. The first two 'D's from the '4-D' theme encompasses:

- **D-Dominate our Home Market**
- **D- Double our operating run rate in our chosen markets**

Over the years, we have been guided by these principles and we stayed committed to strengthen our focus and diligently implement it. The present position of the Bank as also the strong performance that we delivered is testimony to the fact that our efforts have been well served and which has inspired us to introduce to you, the theme of **Presence to Prominence**; and **Prominence to Dominance**.

Focused on the first 'D', to dominate in our home market, we have further strengthened the franchise and as an outcome, we command an incremental share of nearly a fifth of all the new banking business originated in the state. Despite the headwinds including the natural calamity, our fundamentals held us in good stead and the Bank continued to grow good quality business, gain share and ensure we have low slippages. Increasing share of NR business (36.6% of the total NR deposits from the state) and higher engagement with the State Government are pillars to our dominance in the market. Being the **Numero-Uno** player among all Private Sector Banks in the state, the bank will continue to dominate and expand our share, materially.

In our chosen geographies, we have had meaningful growth in market share and as on 31st March 2019, we command 1.09% of the incremental Banking Business across India, other than the home market. Also, with capability enhancements including expertise on Wealth Management through a partnership with Equirus Capital, the Bank could reach out to a large number of 'New-to-Bank' customers, across the country. Enhanced digital footprint, an improved distribution architecture, foray into new business are all coming together to position us as a prominent player, well-poised to take on the competition. It is well upon us, to replicate the art of dominance across the country that would take us where we want to be!

Let me now elaborate on the performance of the Bank for the Financial Year 19, through the following:

- The operating performance continues to be robust and the Bank reported the highest ever Operating Profit of ₹ 2763.10 Cr. **Net Profit for the full year saw a robust growth of 41.5% to reach ₹1243.89 Cr.** The total business of the Bank stood at ₹ 2,45,177 Cr for the year ended 31st March 2019. The granularity of the liability profile (91% - Retail) continue to be the strength for the franchise and the core deposit currently forms 97.6% of the total deposits of the Bank. The bank could also clock highest ever Net Interest Income, at ₹ 4176.35 Cr, improved by 16.6% Y-o-Y. Our Bank is well capitalized with an overall CRAR of 14.14% as on 31.03.2019.