

There aren't many words that can sum up our growth.  
Leap, however, is one.



**FEDERAL BANK**  
YOUR PERFECT BANKING PARTNER

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## Message from the Chairman

I am happy to address you all on the occasion of this 81st Annual General Meeting of your Bank. 2011-12 has been another excellent year in the history of Federal Bank. I would like to congratulate the MD & CEO and his able team. As you are aware, this performance has been achieved in a very tough business environment. So far, we were under the impression that India's GDP growth would continue at a higher rate of 8 plus %, in spite of the Euro zone crisis and the very slow recovery in the US, since our domestic market is huge. But the continuous raising of the bank rate on 13 consecutive occasions over a period of 24 months, obviously with a view to curb inflation, has had an impact on industrial production. This combined with the delays in key policy initiatives that focus on the supply side has had its toll on the overall business environment.

The macro economic environment of the country exhibits moderation in private consumption and deceleration in investment growth. Moderation in the core level inflation has not transmitted to the retail level. Depreciation in rupee on account of the global factors like Euro zone uncertainty and the domestic factors like higher current account deficit and the slow down in capital inflows are part of the concerns facing the economy. Growing fiscal and current account deficits are lead indicators of stresses and strains building up in the system. The Indian economy is performing below its potential growth level and is encountering a decline in growth of gross fixed capital formation, adverse external environment, dampening domestic sentiment, large fiscal deficit, growing supply side constraints and persistent inflation, all of which would call for some swift and decisive action by the policy makers.

However, let me assure you that we need not despair. The Indian financial markets are more mature, diverse and deep. They have resilience to absorb shocks. Our regulatory systems and crisis response mechanisms are very robust and sophisticated.

You would agree that customer focus is the key to the success of any organization and in banking, a service industry, it is of paramount importance. It must be recognized that only the customer can bring business to the banks and contribute to their bottom lines. All other constituents such as technology, employees and infrastructure are only to act as enablers in the process.

So, any financial innovation, to result in benefits, needs to focus more on the customer. When innovations have focused on better alignment of interests between the bank and its customers, they have always resulted in win-win situations. In fact your Bank could perform well in this financial year because of the paramount importance it gave to the customer.

In my Address at the last year's AGM, I had stressed that inclusive growth alone will be sustainable. We have to harness technology for the benefit of the masses. The large sections of our population that are still excluded from the formal financial mainstreams should be provided access to faster, safer, and cheaper financial services. This alone can ensure financial and economic stability across the country.

Your Bank has always looked at Financial Inclusion as a business opportunity and is in the forefront for capturing untapped business in rural areas covering approximately 2/3rd population of the country. It is effectively utilizing the

RBI policy of simplification of branch licensing where in Domestic Scheduled Commercial Banks have been permitted to freely open branches in Tier 2 to Tier 6 centers .The Bank has also set up 14 Financial Literacy Centers especially in the rural areas to undertake Financial Literacy activities.

The financials of the Bank for the year 2012 clearly indicates that we could perform well in many of the key performance parameters such as profit, capital adequacy and asset quality. Your Bank's customer- centric strategies, with a vibrant team, would definitely take the Bank to greater heights in the days to come.

I have to admit and acknowledge that it is the support and the goodwill of the shareholders of the Bank that made our journey in the financial year 2012 and all the years past, successful. With your sincere support and cooperation, we will steer the Bank to greater glory in the years to come, adhering to the best principles enunciated and followed by the founder of the Bank, Shri.K.P.Hormis.

On this occasion when I am bidding farewell after spending 7½ years on the Board, I have to thank the top management, officers and employees, the share holders, the customers and my distinguished colleagues on the Board of the Bank for their cooperation during all these years.

With best wishes,



**P.C.Cyriac**  
Chairman



## Letter from the Managing Director & CEO

I am pleased to inform you, our esteemed shareholders, that the performance of your bank for the financial year 2012 was very encouraging, this against the backdrop of challenging global and domestic macro economic scenario. We have invested in strengthening our core platform and I can confidently say that we are making steady progress in our journey of building one of the best performing private sector banks in India.

In my inaugural letter last year, I had highlighted that our objective would be to ensure that we focus on both quality and inclusive growth in the coming years and shape our Bank as one that delivers quality, consistently while setting our sight on exceeding all stakeholder expectations.

I am happy to report to you that our Bank in FY '12 made good progress on those objectives and notably our key success has been in the area of national expansion in our footprint while we very much kept our eyes on key financial metrics of ROE and cost to income, suggesting that our teams were determined to ensure their productivity and efficiency in every sphere of work.

On two occasions last year, we set and achieved new records. On October 18th 2011 (on our founder's day) we opened 66 branches across India, only to be bested by ourselves in March of 2012, when we had a record opening of 100 branches. We had the pleasure and privilege of the then **Hon'ble Finance Minister of India, Shri. Pranab Kumar Mukherjee** inaugurating the branches in a very elegant launch function held in Delhi which was graced by champion cricketer Shri. Kapil Dev as also the entire Board of Federal Bank.

This financial year (FY '13), we are determined to leverage the benefits of this expansion as we look to grow much in our chosen markets in the coming years too, subject to business metrics meeting our agreed milestones.

A few weeks ago, a notable international bank, had come up with an analysis of the companies and stocks that have turned out to be 'Dependable' over a longish period of time (5 years or more). The analysis suggested that only 22 companies met their stringent criteria to earn the name of being a 'Dependable' Stock and I am pleased to report that your Bank is one of those stable and robust performers which have successfully navigated all market challenges. We of course, will seek to do even more in the coming years by steadfastly

focusing on the basics of banking with zeal and passion.

This year, in keeping with the focus on extending personalized and customized service we expanded our 'Fed Select' facilities to 70 branches in the country as we target to cross 100 branches by the end of FY '13. Further our product teams launched an array of value added offerings including the prepaid cards for travel and gifting. Our prepaid foreign currency denominated travel card comes in three currencies (USD, GBP and Euro).

The Bank has long cherished a strong bond and relationship with the Indian diaspora, particularly those residing in the Middle East and gulf countries. This year saw us strengthen our presence and service for our esteemed customers. Our customers rewarded us handsomely for our efforts as we were able to grow our share in the NRI business and this along with the focus on the growing SME markets will remain our key thrust areas in the coming years. We are seeking regulatory approval to open representative offices in Dubai as also an overseas branch in the DIFC, Dubai.

Let me turn to our increased focus on technology for both servicing our customers and also to increase our internal fundamentals. I am happy to inform you that we won the International ACI Excellence Award 2012 in the Payments Transformation category for two prestigious projects Visa Money Transfer (Visa Fast Funds) & Federal Bank's Aadhar (UID) Based Authentication of Payments.

These awards inspire us to retain our focus in using technology as a key differentiator in the coming years. We had identified fresh asset quality improvement and strengthening of risk management as key areas for the bank. The value of strong risk management practices can never be stated enough and that too in stressed market conditions. Our teams in risk have made good progress this year by ensuring all elements of risk management (origination, underwriting, monitoring and recovery) have been addressed and the improvement in numbers are a good testimony to the effort. We will seek to keep this focus and improve on the good start we have made. I believe we will benefit from these efforts, particularly in trying market conditions.

You may recall that I had mentioned about inclusive growth as a focus for the Bank. Through our business initiatives, aided by the exclusive focus laid by a newly established Corporate Social

Responsibility team, we were able to make good progress last year. Some of the noteworthy initiatives were:

- As part of our green initiative, 66 saplings were planted in Mookkannoor on the 66th Founders Day, with the initiatives of the employees and the public.
- A Call centre managed by the differently-abled was inaugurated on 8th November, 2011 by Dr. C. Rangarajan, Chairman of Prime Minister's Economic Advisory Council. The bank extended financial support for projects taking care of children having cerebral palsy.
- We contributed to build an old age home for the financially downtrodden group of women.
- Fedbank Hormis Memorial Foundation, a trust under the Bank is granting scholarship to Economically Backward students.
- The 12th Commemorative Lecture of our Founder Shri. K.P. Hormis was conducted on 8th November, 2011 by Dr. C. Rangarajan, Chairman of the Prime Minister's Economic Advisory Council.

The Bank was recognized for its CSR initiatives and was awarded the Global CSR Award for the Best Corporate social responsibility Practice Overall and the Golden Peacock Award for Corporate Social Responsibility for the year.

Your bank believes that recognizing and rewarding the employees is a key factor in its success. We have re modeled our HR system and have introduced a host of HR initiatives which includes Elixir a mentoring programme to groom and develop the new recruits, SANGAM - a family get-together to foster relationships and to develop and exhibit their cultural talents and Federal Ambassador - an initiative to recognize the employees for excellent customer service. The Bank also rewards the employees for their contribution towards business growth through ESOS and other incentives. We seek to harness the collective power of our employees by stoking their passion for the institution through all these efforts and tasks and thereby be 'Proud to be a Federal'.

Now let me share with you the Bank's financial performance in a few key areas.

Total business of the Bank (deposits plus advances) increased from ₹ 74968.01 Crore to ₹ 86693.11 Crore as on 31<sup>st</sup> March 2012. The Bank's deposits increased to ₹ 48937.12 Crore registering a YoY growth of 13.77% and advances touched ₹ 37755.99 Crore, registering a YoY increase of 18.16%.

As on 31<sup>st</sup> March 2012, total NRE Deposits constitute 16.27% of total deposits. The Bank could reach a figure of ₹ 7963.61

Crore compared to ₹ 5871.19 Crore in FY 2011 registering a growth of 35.64%

The Bank could achieve a net profit figure of ₹ 776.79 Crore despite the challenges in the year caused by inflationary tendencies, moderation in GDP growth and rising cost of the resources

With increased profits, return on average equity and return on average total assets followed suit, growing from 11.98% to 14.37% and 1.34% to 1.41% respectively.

Gross NPAs as percentage to Gross Advances stand as 3.35% as against 3.49% in FY 2011 and Net NPAs at 0.53% of Net Advances as against 0.60% in the previous financial year. Fresh accretion to NPAs during the period could be brought down to ₹ 695.31 crore from ₹ 875.84 crore in FY 2011 and the recovery for the year reached ₹ 358.78 crore as against ₹ 241.51 in FY 2011.

As on 31.03.2012, the Bank held a total provision of ₹ 1055.33 crore. The total provision coverage for NPAs as on March 31<sup>st</sup>, 2012 is 81.13%. As per the extant RBI directive, Banks need to hold minimum provision coverage of 70% including technically written off accounts.

We are as a management team, astutely aware that we live in challenging times and to continue to repeat the strong performance of FY '12 requires a very disciplined and robust effort. We are driven as a team, by our Vision 2015, which is our guiding post to ensure we never go off the rails and are staying the course charted out by our Board and Shareholders. Our journey is to build a Bank that is deep-rooted in its values, in its care for employees and customers, in its endeavor to deliver customers and quality shareholder value.

We remain determined and optimistic of coming back to you with more sustained and quality outcomes in the coming years and we seek your esteemed patronage and of course your custom and feedback.

I remain, 'Proud to be a Federal'.

Best Wishes,



Shyam Srinivasan

## Board of Directors



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

## Management Team



Shri. Abraham Chacko  
Executive Director



Shri. T.S. Jagadeesan  
Chief General Manager



Shri. Ashutosh Khajuria  
President - Treasury



Shri. Mohan K.S.  
General Manager



Shri. C.P. Mohandas  
General Manager

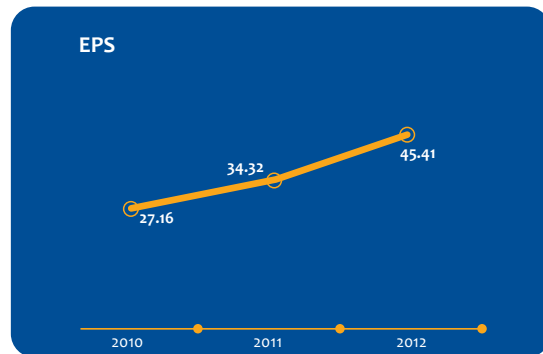
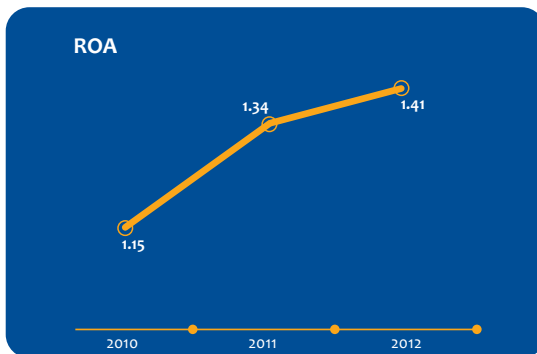
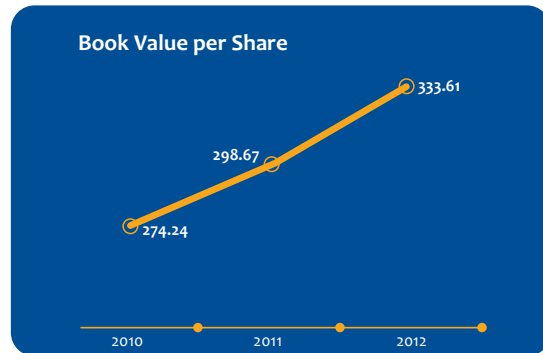
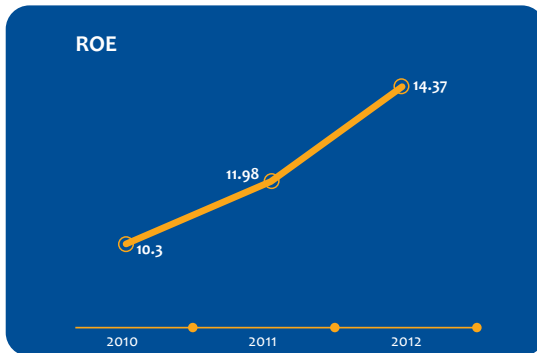


Shri. T. Oommen Benjamin  
General Manager

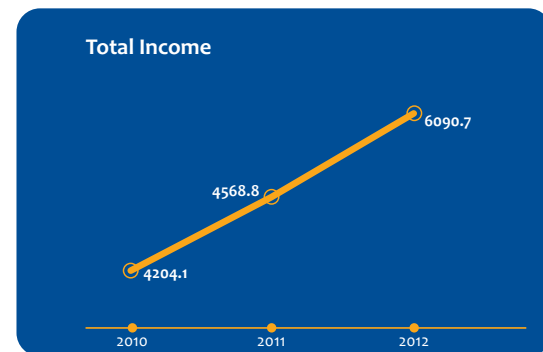
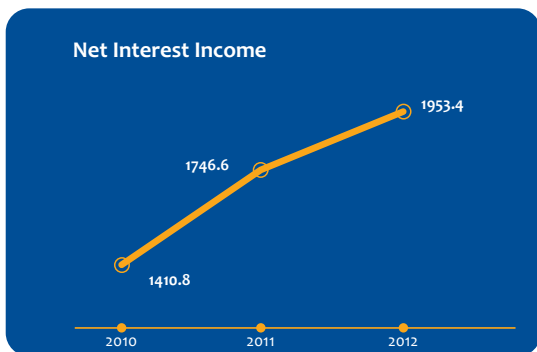


Shri. Jolly Antony  
General Manager

## Enhancing Shareholders Value



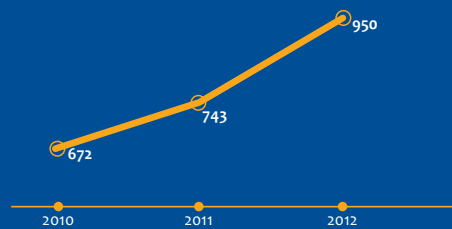
## Growing Income



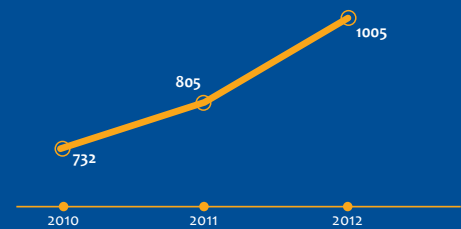


## Expanding Footprint

### Number of Branches

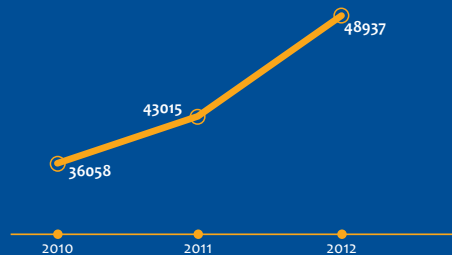


### Number of ATMs

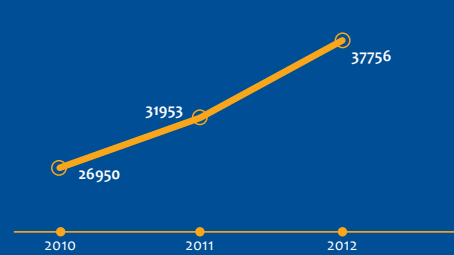


## Strengthening Business

### Total Deposits

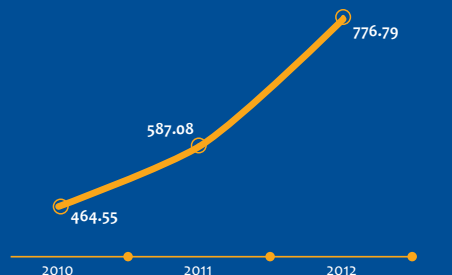


### Total Advances



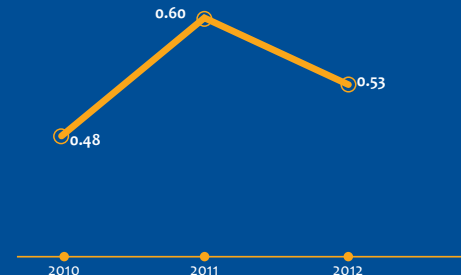
## Growing Profits

### Net Profit



## Improving asset quality

### Net NPA



## The Federal Bank Limited

## Report of the Board of Directors

**Dear Shareholders,**

Your Board of Directors has great pleasure in presenting the 81<sup>st</sup> Annual Report of The Federal Bank Limited on its business and operations front along with the audited accounts for the year ended March 31, 2012

In Financial Year 2011 - 2012 we delivered balanced and strong results attributing to year on year growth in all major parameters in the business front

Financial Parameters	For the year ended (₹ In Crores)	
	31-03-2012	31-03-2011
Net Interest Income	1,953.40	1,746.58
Fee and Other Income	532.34	516.81
Net Revenue	2,485.74	2,263.39
Operating Expense	979.27	836.14
Operating Profit	1,506.47	1,427.25
Net Profit	776.79	587.08
Profit brought forward	25.78	23.14
Total Profit Available for appropriation	802.57	610.22
<b>Appropriations:</b>		
Transfer to statutory Reserves	194.20	146.80
Transfer to Revenue Reserves	98.88	232.11
Transfer to Capital Reserves	5.40	0.00
Transfer to Special Reserves	28.50	36.56
Proposed Dividend	153.94	145.39
Provision for Dividend Tax	24.97	23.58
Balance Carried over to Balance Sheet	296.68	25.78
<b>Financial Position</b>		
Deposits	48,937.12	43,014.78
Advances	37,755.99	31,953.23
Total Business (Deposits + Advances)	86,693.11	74,968.01
Other Borrowings	4,241.03	1,888.36
Investments	17,402.49	14,537.68
Total Assets ( Balance Sheet Size)	60,626.77	51,456.36
Capital	171.05	171.05
<b>Ratios</b>		
Return on Total Assets (%)	1.41	1.34
Return on Equity (%)	14.37	11.98
Earnings Per Share (₹)	45.41	34.32
Book value per share (₹)	333.61	298.67
Operating cost to Income (%)	39.40	36.94
Capital Adequacy Ratio (%) Basel (I)	13.83	15.39
Capital Adequacy Ratio (%) Basel (II)	16.64	16.79

Your Bank could achieve this growth by addressing the challenges in macro-economic conditions, inflationary trends and stringent regulatory norms along with tight monetary measures. A focussed and defined approach in this fiscal year resulted in better performance on various strategic fronts which the Bank had identified.

In FY 12 we endeavoured to nurture Retail, NRI, SME, Agriculture and Gold through improved value propositions. Our retail portfolio grew by 21.16% annually, supported by a growth in retail deposits by 23.59 % and retail advances by 12.58 %. Your Bank took several initiatives in FY 12 to augment the advances to rural, agriculture and priority sector. Priority sector advances of the Bank scaled up by ₹ 1,551.63 Cr in the last fiscal year and stood at ₹ 1,2652.54 Cr as on 31 Mar 2012. Advances to agriculture witnessed a steady increase of 15.21 % and reached ₹ 4,318.74 Cr. During the year the Bank delivered a healthy performance in gold loan business with an increase of 80.76 % in the portfolio.

The year also witnessed an aggressive footprint expansion with a 27.86 % growth in network. Your Bank's branch strength as on 31-March-2012 stood at 950. This included a healthy addition of 207 branches during FY 12. During the year the Bank's ATM network also grew by 202 thereby crossing the 1000 milestone and reaching 1005 ATMs as on 31 Mar 2012. The Bank has systematic plans to scale up its presence across select geographies outside the state of Kerala, which include the States of Tamilnadu, Karnataka, Punjab, Gujarat and Maharashtra. The Bank will focus on Agri, SME and NRI business in these states, which are segments where the Bank has accumulated invaluable expertise through its 66 years of existence.

#### **Net Profit**

During the fiscal year ended March 31, 2012, your Bank recorded an impressive growth in Net Profit and achieved ₹ 776.79 Cr, registering an increase of 32.31 % over the previous year. Rationalised underwriting processes along with granular attention to asset management led to this healthy show in profits.

Consequent to the improvement in the asset quality of the Bank, we could curtail provisioning by a very large extent. The total provisions of the Bank during the year was ₹ 729.68 Cr, of which ₹ 34.86 Cr was for investments and ₹ 392.71 Cr was for income tax. Provisions on account of loan losses for the year were reduced by 54.63 % to reach ₹ 221.77 Cr from ₹ 488.85 Cr. and ₹ 80.34 Cr was marked for other purposes.

Return on Average Equity and Return on Average Total Assets rose up to 14.37 % and 1.41 % respectively along with the profit. Earnings per Share of the Bank, as on 31st Mar 2012, increased by 32.31 % to reach ₹ 45.41 as compared to the previous fiscal year figure of ₹ 34.32. Book value per share increased from ₹ 298.67 in the previous fiscal year to ₹ 333.61 in FY 12.

#### **Operating Profit**

Your Bank could deliver substantial growth in top line and bottom line overcoming the challenging macro environment. During the year the Bank posted an operating profit of ₹ 1,506.47 Cr.

In FY 12 Risk Adjusted Net Interest Margin of the Bank scaled up to 3.36 % compared to the previous fiscal year rate of 3.04 %. The Net Interest Margin of the Bank for the year stood at 3.79 %, despite the interest rate volatility. Net Interest Income of the Bank for the period increased from ₹ 1,746.58 Cr to reach ₹ 1,953.40 Cr registering an annual growth of 11.84 %.

For the financial year ended March 2012, the total non-interest income of the Bank stood at ₹ 532.34 Cr as against ₹ 516.81 Cr in FY 11.

#### **Expenditure**

The fiscal year ended 2012 reported an increase in the total expenses of the Bank that reached ₹ 4,584.26 Cr from ₹ 3,141.59 Cr, registering an annual increase of 45.92 %. Interest expenses increased to ₹ 3,604.99 Cr in FY 12 from ₹ 2,305.45 Cr in FY 11.

During the year the cost of deposits of Bank climbed to 7.41 % as compared to 5.99 % in the previous fiscal year. Average Cost of all funds (Deposits + Borrowings + Bonds) recorded a marginal increase and reached 7.56 %. The growth in term deposit portfolio, the general increase in rate of interest offered on term deposits

coupled with the deregulation of the rate of interest offered on NRE Term deposits (INR) by RBI contributed to increase in the interest expenses on deposits. Interest expenses as percentage to total income increased to 59.19 % from 50.46 % in FY 2011.

Your Bank in FY 12, as part of strategy, reduced the proportion of high value deposits and simultaneously increased the quantum of low cost deposits. As on 31 Mar 2012, the total high value deposits of the Bank stood at ₹ 7,169.05 Cr as compared to ₹ 9,272.42 Cr in the previous fiscal year. The share of current account and savings bank deposit account (CASA) to total deposits of the Bank improved from 26.5 % to 27.4 % as on 31 Mar 2012.

Operating Expenses of the Bank during the fiscal year grew to ₹ 979.27 Cr from ₹ 836.14 Cr. However, Employee cost of the Bank over the period has increased by 13.21 % from ₹ 480.41 Cr to reach ₹ 543.85 Cr. Wage revision, increase in Human Capital, Dearness Allowance, additional contribution towards New Pension Scheme, retirement benefits of employees etc. contributed to the increase in staff expense. Employee cost as percentage to total income declined from 10.51 % as at the end of last fiscal year to 8.93 % as at 31 Mar 2012.

The expenses on account of the opening of 207 new branches during the fiscal year have also contributed to the increase in operating expenses.

The Cost to Income ratio of the Bank stands at 39.40 % (36.94 % in FY 2011) and is by far one of the best in the Industry. This figure is maintained despite the opening of new branches and even after the spurt in recruitment during the last 2 financial years and increase in the other operating expenses.

### **Income Growth**

Despite the compounded slowdown and uncertainties that prevailed throughout the year, your Bank could stride forward with its policy of creating select good quality assets. With its strong fundamentals, the Bank could navigate through this turbulent environment with its natural pace.

Total income of the Bank during the fiscal year 2012 recorded a 33.31 % growth to reach ₹ 6,090.73 Cr from the previous fiscal year figure of ₹ 4,568.84 Cr. This growth was primarily fuelled by increase in interest income, which grew by 37.18 %.

Income from advances increased by 32.22 % to reach ₹ 4,189.76 Cr. At the same time, income from investments registered a steep rise to reach ₹ 1,315.74 Cr clocking a 51.58 % annual growth.

The yield on advances increased to 12.58 % from the previous year's rate of 11.09 % and the return on advance (net of loan loss provisions) improved to 11.91 % from 9.37 % in 2011.

The yield on investments excluding trading income increased to 7.32 % as on March 2012 from 6.95 % as on March 2011. The net interest margin for the fiscal year is at 3.79 % against 4.22 % in March 2011, mainly contributed by the general hike in the cost of deposits.

Concerted efforts to increase the Fee Based Income and Other Income of the Bank resulted in ₹ 532.34 Cr as against ₹ 516.81 Cr in the previous fiscal year.

### **Spread**

During the fiscal year the Bank's spread on advances (gross) increased to 5.17 % from 5.09 % and spread on investments (gross) stood at 0.36 %. The Spread (net of provisions) on advance grew from last year's 3.38 % to reach 4.50 %.

### **Dividend**

Adding value to shareholders continues to be one of the major objectives of the Bank. The Board of Directors recommended a dividend of ₹ 9 per share as compared to ₹ 8.5 in the previous fiscal year. The Bank has been

traditionally rewarding its shareholders through cash dividends by striking a balance between cash dividends and future growth through retained earnings.

#### **Investor Education and Protection Fund**

As per the Companies Act 1956, dividend unclaimed for more than 7 years from the date of issue is to be transferred to Investor Education And Protection Fund. On 20.10.2011, we transferred ₹ 29,23,183.00 to the Fund.

#### **Growth in Business**

Total business of your Bank has reached ₹ 86,693.11 Cr as on 31 Mar 2012 with an increase of 15.64 % on a Y-o-Y basis. Total deposits increased to ₹ 48,937.12 Cr registering a Y-o-Y growth of 13.77 %, while retail customer deposits recorded a growth of 23.59 % in FY 12. Advances increased in tandem with Deposits to ₹ 37,755.99 Cr registering a Y-o-Y increase of 18.16 %.

As mentioned earlier, the Bank reduced its bulk deposits and gave added thrust to retail/low cost deposits to bring down the overall cost of resources. The growth achieved in retail customer base helped the Bank in reducing dependence on certificate of deposits and bulk deposits. The share of high value deposits were brought down to 14.65% from 21.56% in the previous year.

The average deposits of the Bank during the period grew by 24.57 % and average advances by 15.96 %.

Savings deposits of the Bank during FY 12 moved up by 19.48 % to reach ₹ 10,929.95 Cr as compared to the base figure of ₹ 9,148.29 Cr. During the fiscal year NRE deposits clocked an increase of 35.64 % to reach ₹ 7,963.61 Cr.

Your Bank's investment portfolio increased to ₹ 17,402.49 Cr registering a growth of 19.71 % on Y-o-Y basis as compared to 11.36 % in the previous fiscal year. The average investments on Y-o-Y registered a growth of 44.31 % as compared to previous fiscal year growth of 8.99 %.

#### **Loan Asset Quality**

Your Bank could combat the delinquency levels for the year by sourcing quality proposals selectively and by continuous monitoring. The new credit hub system, succeeded in professionally isolating the sourcing and sanctioning functions of asset procurement. In the earlier system, Branches were the focal point for both credit sanctioning and dispensation. The institution of Credit Monitoring Cells (CMC) and Stressed Asset Management Cell (SMAC) (attached to various Zones/Regions) for continuous monitoring and managing the asset quality yielded the desired results.

The Bank's gross NPA and Net NPA improved to 3.35 % and 0.53 % respectively as against 3.49 % and 0.60 % as at the end of March 2011. Net NPAs of the Bank during the year marginally increased to ₹ 199.00 Cr from 190.69 Cr as on 31 Mar 2011.

The Bank had taken stringent measures to contain fresh accretion to the NPA portfolio as well as to scale down the existing portfolio. SARFAESI proceedings were effectively employed and recovery agents were judiciously deployed after complying with RBI guidelines in respect of their codes of conduct. During the year the Bank launched a special campaign which was christened "War on NPA". The campaign was successful in educating the field and motivating them to act. This has resulted in successful reining in of the NPA portfolio. In adherence to RBI guidelines, one time settlement was permitted in deserving cases. These efforts have yielded positive results.

#### **Provision Coverage**

As on 31 Mar 2012, the Bank held a total provision of ₹ 1,055.33 Cr. Provision coverage for NPAs as at 31 Mar 2012 stood at 81.13 %. As per the RBI directive, Banks should hold minimum provision coverage of

70 % including technically written off accounts. As on 31 Mar 2012, the provision coverage ratio of the Bank, including written off accounts is 88.85 %. It has been a prudent policy of the Bank to be conservative on the Provision Coverage Ratio as indicated by the figure above.

#### Capital Adequacy

Your Bank enjoys very strong capital adequacy. CRAR of the Bank calculated in line with Basel II norms stood at 16.64 % which is significantly in excess of the 9 % stipulated by RBI. Of this, Tier 1 CRAR is at 15.86 %.

#### Employee Productivity

Business Per Employee of the Bank during the period has grown to ₹ 10.11 Cr from ₹ 9.23 Cr in the previous fiscal year.

Profit Per Employee of the Bank increased by 25.48 % to reach ₹ 9.11 Lakh from ₹ 7.26 Lakh in the previous fiscal year.

#### Share Value Dimensions

Earnings Per Share of your Bank has increased from ₹ 34.32 to ₹ 45.41 registering a growth of 32.31 %. Return on Equity during the year grew by 19.88 % to reach 14.37 % from the previous fiscal year's figure of 11.98 %.

#### Employee Stock Option Scheme (ESOS)

The Bank has instituted an Employee Stock Option Scheme to enable its employees including whole time Directors to participate in the future growth and financial success of the bank. Under the Scheme 85,51,650 options can be granted to the employees. The employee stock option scheme is in accordance with the Securities and Exchange Board of India (Employee Stock Option and Employee Stock Purchase Scheme) Guidelines, 1999. The eligibility and number of options to be granted to an employee is determined on the basis of various parameters such as scale, designation, work performance, grades, period of service, annual fixed pay, Bank's performance and such other parameters as may be decided by the Compensation Committee from time to time in its sole discretion and is approved by the Board of Directors

The Bank's shareholders approved the scheme for issuance of stock options to employees including whole time Directors on December 24, 2010.

The option conversion price was set to be the closing price on the day previous to the grant date. The compensation committee granted **34,72,020** options during the year 2011 – 12. The options granted which are non transferable, with vesting period of 1, 2, and 3 & 4 years subject to standard vesting conditions, and must be exercised within five years from the date of vesting. As on 31 March 2012, **30,35,875** options were in force and none of them has been vested as first vesting date is 31st May 2012 or on completion of one year from the date of grant subject to standard vesting conditions and statutory approvals for the options granted during 2011-12.

The valuation method adopted at the time of the grant was fair value method and it has been changed to intrinsic value method as approved by the compensation committee of the Bank.

Other statutory disclosures as required by the SEBI guidelines on ESOP are given in Annexure II to this report.

#### Expansion of Network

Commemorating the 66<sup>th</sup> Founders day, 66 branches were opened in a single day on 18<sup>th</sup> October 2011. Another 100 branches were opened on 10<sup>th</sup> March 2012 across the country by the then **Hon'ble Finance Minister** of India, **Shri. Pranab Kumar Mukherjee**. The Bank was able to add 207 branches in the current fiscal year which included under-banked and un-banked centers as per RBI's guidelines. This resulted in a record

footprint expansion of 27.86 % from base. Out of the 207 Branches opened in FY 12, more than 82 % fall in select five states Tamilnadu, Punjab, Gujarat, Karnataka and Maharashtra and also in Kerala.

### Corporate Social Responsibility

Corporate Social Responsibility and Sustainable Development initiatives were incorporated in the Bank's business strategies/ policies. The Bank has a well-defined CSR Policy crafted in consultation with the stakeholders and circulated among the employees and also available in the intranet and Bank's website.

Your Bank has always stood for the assistance & upliftment of the rural/agrarian community by devising specific schemes and inculcating banking habits in them.

**Fedbank Hormis Memorial Foundation**, a public charitable trust instituted by your Bank provides scholarships to the economically needy students for pursuing professional education courses. The Trust is striving hard to inculcate better knowledge and awareness in the field of banking through training programmes, focused seminars, awards and so on.

The social & community initiatives of your Bank include setting up of Bank's own customer contact center manned by the differently abled personnel, supporting scores of NGOs/institutions with various types of assistance including building fund, sponsoring ambulances, computers, dialysis machines, elevators, offering free midday meals, supporting environmental and healthcare projects, social, cultural and educational programs etc. The mission includes partnering communities in health, family welfare, education, environment protection, providing potable water, sanitation, and empowerment of women and other marginalized groups.

The Bank has taken up credit-plus program called '**Samrudhi**' which are extended to villages through the **Community Development Societies (CDS)**.

By promoting paperless banking, blood donation, adopting small family norms, the Bank has come out successful in making employees a part of its CSR.

In consonance with RBI directives, Federal Bank has established a Trust- **Federal Ashwas Trust** – with the main objective of establishing and running the Federal Ashwas Financial Literacy and Credit Counselling Centers for providing financial education and credit counselling to the public.

In different ways, the Bank could reach out to the less privileged group such as fishermen, farmers, coolies, construction workers, rickshaw pullers, migrants at their convenience near their homes. Christened as '**Fedjyothi**', the ICT (Information & Communication Technology) model accounts which are operated using Biometric Smart Cards and Micro ATM turned out to be an effective tool in the process of implementation of the Financial Inclusion program. The Bank opened a **Grama Jeevan Branch** which aims at providing formal banking services to the entire unbanked village in a meaningful way. '**Farmers Club**' a grass root level informal forum of farmers – Organised by our rural and semi-urban branches with the support and financial assistance of NABARD stand for the benefit of the village farming community/ rural people. At Federal Bank Corporate Social Responsibility (CSR) is an embodiment of our commitment to the Society at large.

### Awards and Accolades

- Your Bank has won the International ACI Excellence Award 2012 in the Payments Transformation category for two prestigious projects – Visa Money Transfer (Visa Fast Funds) & Federal Bank's Aadhar (UID) Based Authentication of Payments.
- The Bank has also won awards in 2 categories from the Kerala Management Association in 2011 – Innovative Cost Management Measures and Excellence in House Magazine.

**The Federal Bank Limited****Report of the Board of Directors**

- The Bank has won the Blue Dart World CSR Day – Global CSR Award for Best Corporate Social Responsibility Practice Overall.
- The Bank was ranked as the Best Bank among old private sector banks in 2010, by Financial Express.
- Your bank was ranked 497<sup>th</sup> bank in the world by “The Banker”, the International Financial Affairs publication edited from London, in their July 2011 edition.
- The Golden Peacock Award, a prestigious award instituted by The Golden Peacock Awards Secretariat (GPAS), on the CSR front was awarded to us in this fiscal year.

**Corporate Governance**

The Bank has adopted a Code of Corporate Governance which while taking care of and safe guarding the interest of shareholders and all other stakeholders also provides for good management, adoption of prudent risk management techniques and compliance with required standards of capital adequacy.

The Code also aims at identifying and recognizing the Board of Directors and the Management of the Bank as the principal instruments through which good corporate governance principles are articulated and implemented, giving utmost importance to identify and recognize transparency, accountability and equality of treatment amongst all the stakeholders, which is in tune with statutory and regulatory structures. A copy of the Code is available on request.

**Board of Directors**

The composition of the Board of Directors is governed by the Banking Regulation Act, 1949, the Companies Act, 1956, Listing Agreement, and the Code of Corporate Governance adopted by the Bank. The Board comprises of 8 Directors with rich experience and specialized knowledge in various areas of relevance to the Bank, including banking, accountancy, MSME, finance, small scale industry, agriculture, and information technology.

Shri. Shyam Srinivasan MD & CEO joined the Bank on 23.09.2010. Shri. P.C. John, Executive Director (ED), is the Whole Time Director of the Bank. Excluding the MD & CEO and the ED all other members of the Board are Non-Executive and Independent Directors.

Shri. Suresh Kumar was re-elected/appointed as Director of the Bank at its last Annual General Meeting held on 3<sup>rd</sup> September 2011.

Shri. Nilesh S Vikamsey was appointed as a Director of the Bank on 24.06.2011 and was elected as a Director of the Bank at its last Annual General Meeting held on 3<sup>rd</sup> September 2011.

The other Directors who are retiring at this AGM are Prof. Abraham Koshy and Dr. M.Y.Khan. Prof. Abraham Koshy and Dr. M.Y.Khan, being eligible, have offered themselves for reappointment.

Prof. Abraham Koshy, Ph.D (Fellow, IIM Ahmedabad), MBA, is an independent Director on the Board of the Bank since May 18, 2007. He was a member of the faculty at the School of Management Studies, Cochin University and thereafter the Centre for Management Development, Trivandrum. He subsequently became a member of the faculty of the Indian Institute of Management, Ahmedabad. He currently serves there as a Professor of Marketing. He is a Visiting Professor of various European Business schools/Universities and he conducts executive training programmes for senior executives of companies in India and abroad. He also provides advisory services for various companies. Apart from publishing several research papers and case studies in reputed journals, Prof.Koshy has co-authored a book on Marketing Management with legendary marketing guru, Prof. Kotler.

Prof. Koshy is also a Director of Malayala Manorama Printing and Publishing Co. and Autoline Industries Ltd. He is Chairman of the Risk Management Committee, Customer Service & Marketing Strategy Committee



and Committee for Human Resources Policy of the Federal Bank Ltd. and also member of its Nomination, Remuneration and Ethics Committee. Prof. Abraham Koshy held 1000 shares of the Company as on March 31, 2012.

Dr. M. Y. Khan is an Independent Director on our Board since June 06, 2009. He is a professional banker with vast experience in Banking Industry. He is a Post Graduate in Science and also holds an Honorary Degree, Doctorate of Philosophy in Business Management (Ph.D) from Burkes University in U.K. He was former Chairman of Jammu & Kashmir Bank and made significant contributions for its growth. He was also heading J & K Tourism Development Corporation for 5 years as Managing Director. Dr.Khan had been nominated member of the Chattisgarh Economic Advisory Committee, Government of India, Member of the Banking and Financial Institutions Committee of FICCI and Member of the Managing Committee of Indian Banking Association Mumbai, Dr.Khan is the recipient of several prestigious awards like “Udyog Rattan” award, “Pride of India & IMM” award, for excellence as top professional manager, “Excellence Award” by Institute of Economic Studies, “Star Achievers Award” among several others. Currently he is on the Board of Zee Entertainment Enterprises Ltd, Bharath Hotels Ltd, ETA Star Health & Allied Insurance Company Ltd, United Corporate Park, Dhir Investments Plc and Unitech CIG Realty Fund.

He is the Chairman of the Audit Committee of Bharath Hotels Ltd and a member of the Audit Committee of The Federal Bank Ltd. Dr. M.Y. Khan did not hold any shares of the Company as on March 31, 2012.

#### **Subsidiary**

FedBank Financial Services Ltd. is a fully owned subsidiary of the Bank. As required under Section 212 of the Companies Act, 1956, the financial statements relating to this company, the sole subsidiary of the Bank, for FY 12 are attached.

#### **Annual Financial Statements and Audit Report**

As required by section 212 of the Companies Act, 1956, the Bank's Balance Sheet as on 31 March 2012, its profit and loss account, and the statutory auditors' report and statements required under the section, are attached.

#### **Statutory Audit**

M/s. Varma & Varma, Chartered Accountants, Kochi, and M/s. Price Patt & Co., Chartered Accountants, Chennai, jointly carried out the statutory central audit of the Bank. The statutory central/branch auditors audited all the branches and other offices of the Bank.

M/s. Price Patt & Co., one of the joint statutory central auditors of the Bank whose period was to expire at the conclusion of this Annual General Meeting, submitted their resignation vide their letter dated 14.06.2012, consequent to their appointment as statutory central auditor of Union Bank of India, a public sector bank for the year 2012-13, in view of the RBI guidelines that an audit firm cannot do the central audit of a private sector bank if they are statutory auditors in public sector banks effective from the year 2012-13. The same has been taken on record by the Audit Committee of the Board.

#### **Joint Venture in Life Insurance Business**

The Bank's joint venture Life Insurance Company, in association with IDBI Bank Limited and Fortis Insurance International N.V. (now Ageas), namely IDBI Fortis Life Insurance Company Limited, renamed as IDBI Federal Life Insurance Company Limited, commenced operations in March 2008. Currently the Bank has a total stake of ₹ 208 Cr in the equity of the company holding 26 % of the equity capital.

**Statutory Disclosure**

## Stock Exchange Information

The Bank's equity shares are listed on:

1. Bombay Stock Exchange Limited  
Phiroze Jeejeebhoy Towers  
Dalal Street, Mumbai - 400 001.
2. National Stock Exchange Ltd.  
"Exchange Plaza"  
Bandra – Kurla Complex  
Bandra East, Mumbai - 400 051.
3. Cochin Stock Exchange Ltd.  
MES, Dr. P.K. Abdul Gafoor  
Memorial Cultural Complex  
4<sup>th</sup> Fl, 36/1565, Judges Avenue,  
Kaloor, Kochi – 682 017.

The GDRs issued by the Bank are listed on the London Stock Exchange.

The annual listing fees have been paid to all the Stock Exchanges listed above.

Through its export-financing operations, the Bank supports and encourages the country's export efforts.

Considering the nature of activities of the Bank, the provisions of Section 217 (1) (e) of the Companies Act, 1956 relating to conservation of energy and technology absorption do not apply to the Bank. The Bank is, however, constantly pursuing its goal of technological upgradation in a cost-effective manner for delivering quality customer service.

**Personnel**

As required by the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of the employees are set out in the Annexure to the Directors' Report. (Annexure I).

**Director's Responsibility Statement**

As required by section 217 (2AA) of the companies act, 1956, the Directors state that:

The Bank has in place a system to ensure compliance of all laws applicable to the Bank;

In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

The directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit of the Bank for that period;

The directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities; and

The directors have prepared the annual accounts on a going concern basis.

**Acknowledgement**

The Board of Directors places on record its sincere thanks to the Government of India, Reserve Bank of India, Various State Governments and regulatory authorities in India and overseas for their valuable guidance, support and co-operation. The Directors wish to express their gratitude to investment Banks, rating agencies and stock exchanges for their excellent support.

The Directors record their sincere gratitude to the Bank's shareholders, esteemed customers and all other well-wishers for their continued patronage. The Directors express their appreciation for the contribution made by every employee of the Bank.

Aluva  
Date. 29<sup>th</sup> June 2012

**For and on behalf of the Board of Directors**

P.C. Cyriac  
**Chairman of the Board**

## Annexure I

Statement pursuant to Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, (forming part of the Director's Report for the year ended March 31, 2012) in respect of employees of the Bank.

Name, Qualification and Age (in years)	Designation	Remuneration		Experience (In years)	Date of commencement of employment	Last employment
		Gross (₹)	Net (₹) #			
Shri. Shyam Srinivasan @ B.E., P.G.D.M. (IIM, Kolkata) 50 years	Managing Director & CEO	78,61,324	56,17,324	26 years	September 23, 2010	Head (Consumer Banking-India), Standard Chartered Bank
Shri. Abraham Chacko@ Post graduate diploma in Business Management (XLRI, Jamshedpur) Bachelors in Commerce (Honours) 59 years	Executive Director	77,76,330	56,66,330	33 years	May 21, 2011	Regional Head of Business/ Sales/Trade – Asia/Middle East/Central Asia/Africa, ABN Amro Bank/RBS
Shri. Ashutosh Khajuria@ B.Sc. (Physics), LL.B, M.A. (Economics), CAIIB,DTIRM 52 YEARS	President (Treasury)	63,51,552	51,10,552	28 years	June 16, 2011	CGM &Head of Treasury, IDBI BANK LIMITED

# Net of Taxes Paid

@In addition to the above 5,13,100 stock options were granted to Shri. Shyam Srinivasan, MD & CEO, 1,00,000 stock options were granted to Shri. Abraham Chacko, Executive Director and 60,000 stock options were granted to Shri. Ashutosh Khajuria, President (Treasury) @ market rates relevant on the date of grant.

## Annexure II

Disclosure in the Directors Report as per SEBI Guidelines.

Sl. No.	Particulars	ESOP 2010 Granted On April 09, 2011	ESOP 2010 Granted On June 02, 2011	ESOP 2010 Granted On June 16, 2011
1.	No. of Options Granted	33,12,020	1,00,000	60,000
2.	No. of Options issued	Nil	Nil	Nil
3.	Pricing Formula	The exercise price considered is the closing market price as on the day preceding the date of the grant, at the stock exchange which has had the maximum trading volume of the Bank's share.		
4.	No. of Options vested	Nil	Nil	Nil
5.	No. of Options exercised	Nil	Nil	Nil
6.	No. of Shares arising as a result of exercise of Options	Nil	Nil	Nil
7.	Options Cancelled	4,36,145	0	0
8.	Variation in terms of Options	Nil	Nil	Nil
9.	Money realized by exercise of options	Nil	Nil	Nil
10.	Total Number of Options in force	28,75,875	1,00,000	60,000
11.	Employee wise details of Options granted to			
	a) Senior Managerial Personnel i.e MD & CEO	5,13,100	-	-
	ED I	10,125	-	-
	ED II	-	1,00,000	-
	b) Any other employee who receives a grant in any one year of Options amounting to 5% or more of the options granted during the year	Nil	Nil	Nil

## The Federal Bank Limited

## Report of the Board of Directors

	c) Identified employees who were granted options, during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant.	Nil	Nil	Nil
12.	Diluted Earnings Per Share (EPS) of the Bank after considering the effect of potential equity shares on account of exercise of Options.	₹ 45.41 per share		
13.	Impact of the difference between the Intrinsic Value of the Options and the Fair Value of the Options on Profits and on EPS.	Had the Bank adopted the fair value method (based on Black-Scholes pricing method) for pricing and accounting options, Net profit after tax would have been lower by ₹ 1972.46 Lakh for FY 2011-12 Basic EPS – ₹ 44.26 per share Diluted EPS – ₹ 44.16 per share		
14.	Weighted average exercise prices of options			
	i. whose exercise price equal to market price		₹ 424.93	
	ii. Exercise price is greater than Market price		Nil	
	iii. Exercise price is greater than Market price		Nil	
	Weighted average fair value of options			
	i. whose exercise price equal to market price		₹ 100.60	
	ii. Exercise price is greater than Market price		Nil	
	iii. Exercise price is greater than Market price		Nil	
15.	The Securities and Exchange Board of India ('SEBI') has prescribed two methods to account for stock grants; (i) the intrinsic value method; (ii) the fair value method. The Bank adopts the intrinsic value method to account for the stock options it grants to the employees. The Bank also calculates the fair value of options at the time of grant, using Black-Scholes pricing model with the following assumptions:			
	i. Risk Free interest rate	7.50%	8.25%	8.25%
	ii. Expected life	3 years to 4.5 years	3 years to 4 years	3 years to 4.5 years
	iii. Expected volatility	20%	20%	20%
	iv. Expected Dividends	1.50%	1.50%	1.50%
	v. The price of the underlying share in market at the time of grant of option	₹423.45	₹449.70	₹454.65

## Management Discussion And Analysis

### Global Scenario

Global growth slowed in 2011, but the world economy stayed on the path of slow recovery, reducing the likelihood of a double dip recession. Performance of the major advanced economies has been a point of concern as the economic outlook of the Euro Area continues to be grim in the shadow of a protracted sovereign debt crisis. Euro Crisis remained as a dominant global factor and a source of volatility in asset and currency markets.

Signs of better than expected recovery is shaping up in the U.S indicate that modest recovery will continue in FY 13.

Large scale liquidity infusions by the European Central Bank have significantly reduced the stress in global financial markets. However, a sustainable solution to the Euro area debt problem is yet to emerge. Recent developments, for example in Spain, indicate that the Euro area sovereign debt problem will continue to weigh on global economy.

Developing countries and economies in transition are expected to continue to stoke the engine of the world economy, growing on average by 5.6 % in 2012. Among BRICS countries, growth in China slowed from 10.4 % in 2010 to 9.3 % in 2011 and is projected to slow further to below 9 % in 2012-2013. Output growth in Brazil was already halved, to 3.7 %, in 2011 and is expected to cool further to a 2.7 % growth in 2012. The slowdown in growth was relatively modest in Russia and South Africa.

### Domestic Economic Scenario

While the rest of the world has been grappling with the after effects of the European Debt Crisis, the Indian Economy in 2011-12 has also seen a deceleration in growth. Quarterly growth rates have consistently fallen in 2011-12 since the global crisis of 2008.

The GDP growth rate in India which stood at 7.7 % in Q1 dropped significantly and reached a level at 5.3 % as on 31<sup>st</sup> March 2012. This was mainly due to deceleration in Industrial Growth. The service sector has maintained its strong performance during the fiscal year, proving it to be the most resilient sector of the economy.

During 2011-12 rupee came under strain towards the last week of August 2011 under the impact of outflow of funds by FIIs and remained continuously under pressure till December 2011. From a peak of ₹ 43.94 on 27th July 2011 rupee touched a low of ₹ 54.23 per USD on 15th December 2011. With the intervention of RBI in the Forex market and tightened regulatory measures by narrowing open position limit and other measures, speculation was discouraged in the Forex market.

### Inflation

Last two years we have witnessed high rate of inflation. The headline WPI inflation, which remained above 9 % during April-November 2011, moderated to 6.89 % by end March 2012. Inflation of Food articles continues to be high and inflation in protein items is in double digits, reflecting persistent structural demand-supply imbalances in protein foods.

After consistently high levels of inflation around 9 to 10 % for more than twenty months, the wholesale price index (WPI) dipped to a two year low of 6.55 % during the month of January 2012. Primary articles inflation which was in double digits for over two years till October 2011, moderated to 8.5 % in November 2011 and further to 2.3 % in January 2012 and has bounced back to 9.6 % as on March 2012.

Manufactured products inflation remained elevated throughout the fiscal year 12, albeit declining from 8.1% in October 2011 to 6.5% in January and further declining to 4.9% in March 2012.

Fuel inflation on other hand moderated from over 15% in November-December 2011 to 10.4% in March 2012 even as global crude oil prices had risen sharply. Non-Food manufactured products inflation decelerated significantly from 8.4% in November 2011 to 4.7% in March 2012, on the back of a slowing domestic demand and softening of global non oil commodity prices.

### Monetary and Liquidity Conditions

Liquidity conditions worsened during 2011-12, which remained on deficit mode and RBI resorted to open market operations and lowered the CRR twice to 6.0% to 5.50% and again to 4.75% which is a 125 basis point reduction. Interest rate hardened during the year 2011-12 on account of persistent high inflation and increase in repo rates by RBI five times during the fiscal year (Both Repo and reverse Repo rates were increased by 175bps from 6.75% to 8.50% and from 5.75% to 7.50%).

The money supply during the fiscal year remained subdued at 13%, lower than the RBI's indicative level of 15.5% on account of slowdown in deposits growth and currency growth. Additionally, structural changes and increase in agricultural productivity has helped in containing the food articles inflation.

In the Equity front, the market turned bearish in 2011-12 and Sensex plummeted to 17404 points as on 31 Mar 2012 from 19445 as on 31st March 2011, registering a decline of 10.5%. Rates in money market and G-Sec, market remained high due to tight liquidity situation, high inflation, increase in policy rates by RBI and higher borrowings by Government. During the year call rates went up from around 6.5% in April to about 9%-9.5% in March 2012 and the yield on benchmark 10 year government bonds also scaled up from 7.98% as of March 31, 2011 to 8.57% as of March 31, 2012.

Liquidity management remained a major challenge for Reserve Bank of India during the last fiscal year. Beginning November 2011, the liquidity deficit went beyond the comfort level. To address the same RBI injected primary liquidity of around ₹ 1.3 trillion through open market operations and ₹ 0.8 trillion through reductions in cash reserve ratio by 125 basis points.

### The Banking Scenario

Indian Banking Sector remained more or less stable despite the turbulent global environment on account of the Euro Crisis. During Q4 of 2011-12, deposit rates of Scheduled Commercial Banks remained mostly unchanged from their peak levels attained in H1 of 2011-12. Lending rates marginally notched up and seem to have plateaued in H2 of 2011-12 in line with the peaking of the policy rate cycle. Despite tight liquidity conditions, successive policy rate hikes and high cost of funds for banks, the base rate remained sticky on account of slowdown in non-food credit growth during H2 of 2011-12.

During the year aggressive reforms were introduced by the Reserve Bank of India with a view to building robust and resilient financial system. More stringent capital and liquidity measures for commercial banks were implemented and steps were taken by RBI to build provision buffers. During the year RBI adopted new prudential compensation practices for commercial banks. Various institutional mechanisms and tools for monitoring risks were adopted and put in place.

The deposit growth of the banking system remained robust upto December 2011, but subsequently it lost pace. However with large deposit accretion during the last month of the fiscal year, deposits growth during 2011-12 stood at 17.4% against 15.9% during 2010-11. Credit growth of Indian commercial banks during the fiscal year showed a decelerating trend from December 2010 on the back of elevated inflation, interest rates and



intensification of supply –side constraints. The fiscal year ended with bank credit growth of 19.3 % against 21.5 % growth during 2010-2011. The divergence between credit and deposit growth rates had narrowed during the first three quarters of FY 12, it widened during the fourth quarter due to sharper deceleration in deposit growth in Q4, FY 12.

Banks' lending to service sector grew by 14.7 % in 2011-12 compared with 23.9 % in 2010-2011. Within the services, loans to companies offering financial services and commercial real estate grew at the slowest. Credit to finance companies grew at 26.3 % in 2011-12 after growing at a sizzling pace of around 54 % the previous year. Alongside RBI recently curbed banks' exposure to companies offering gold loans to 7.5 % from 10 % earlier.

With reference to changes on the regulatory front during FY 12, interest rate on savings deposits was initially raised from 3.50 % to 4.0 % and later it was de-regulated. Provisioning norms for NPA and restructured accounts were tightened. During the year RBI had advised banks to reduce their exposure to debt oriented mutual funds, permitted banks to open branches in Tier-2 centres without prior license and modified regulations on micro finance and NBFC's

The Profit After Tax (PAT) of Indian Banks for the fourth quarter ended March 2012 stood at ₹ 20,188 Cr increased by 14.62 % Q-o-Q and 51.23 % Y-o-Y. Private Sector banks have relatively performed better than Public Sector Banks in terms of gaining market share and have displayed strong bottom line numbers.

Going forward to FY 13, RBI has projected aggregate deposits of commercial banks to grow by 16 % and non-food credit by 17.0 % in line with the overall GDP growth of 7.3 % and broad money supply growth of 15.0 %.

RBI has also instructed all banks in India to start the implementation of Basel III norms in a phased manner starting with the adoption of Capital adequacy norms by January 2013. Migration to Basel III will ensure better capital standards & tighter liquidity norms thereby absorb any shocks or systematic risk in the financial sector. Strict income recognition, asset classification and provisioning norms of RBI will ensure that banks have quality assets in its portfolio. With increased levels of competition, banks hence are giving ample thrust on the key areas of quality of assets, risk return management, liquidity management, introducing innovative products, leveraging on technology and adopting HR practices in tune with changed economic scenario.

#### Review of Business Performance

Having achieved a size of ₹ 60,627 Cr plus in the Balance Sheet and total business around ₹ 86,693 Cr at the end of March 2012 with a growth rate of 15.64 % on a Y-o-Y basis, The Bank is set for phenomenal growth through organic means and targets a total business size of over Rupees One Trillion by the end of March 2013. The financial strength of your Bank is reflected in the Bank's net worth of ₹ 5,706.33 Cr at the end of March 2012. Bank's Capital to Risk Weighted Assets Ratio (CRAR) stands at 16.64 % at the end of March-2012 as per Basel II norms.

In FY 12, your bank posted strong net profit growth of 32.31 % Y-o-Y and achieved ₹ 776.79 Cr. During the year the Bank's asset quality improved considerably with gross NPA ratio declining to 3.35 % and net NPA ratio declining (by 11.62 %) to 0.53 %. Slippages during FY 12 were reduced by ₹ 180.53 Cr to reach ₹ 695.31 Cr. With increased recovery efforts, recovery rate increased to 58.12 % in FY 12.

Advance and deposit portfolio of your Bank grew in tandem with the industry. There was a sustained increase in Advances portfolio which grew by 18.16 % Y-o-Y to ₹ 37,755.99 Cr and deposits grew by 13.77 % Y-o-Y to ₹ 48,937.12 Cr.

During the year your Bank strengthened its recovery mechanism by utilizing SARFESI Act and other tools more effectively. As a result of which the recoveries picked up significantly over the last few quarters, with

a recovery rate of 58.12 %. The Bank has strengthened its risk management systems and has now separated the two functions – credit appraisal and credit sourcing.

During the year total Income of the Bank grew by 33.31 % to reach ₹ 6,090.73 Cr. With an impressive growth of 32.31 %, your Bank registered a Net Profit of ₹ 776.79 Cr on Y-o-Y Basis. Return on average assets of your Bank improved from 1.34 % to 1.41 %. Earnings per Share improved to reach ₹ 45.41 from ₹ 34.32 from the previous fiscal year.

The business per employee and profit per employee as on March 31, 2012 increased to ₹ 10.11 Cr. and ₹ 9.11 L respectively from ₹ 9.23 Cr and ₹ 7.26 L as on 31 Mar 2011. The Cost to Income ratio increased to 39.40 % as on 31 Mar 2012 against 36.94 % as on 31 Mar 2011.

The retail advances of the Bank constituted 27.37 % of the gross advances while SME contributed 26.98 %. The advance to priority sector of your Bank stood at ₹ 12,652.54 Cr as on 31 Mar 2012. During the year Lending to Agriculture sector grew by 15.21 % and stood at ₹ 4,318.74 Cr.

### Corporate Lending

Corporate lending contributed a solid support to the loan portfolio of the Bank. To further consolidate its position, the Bank has shifted its Large Corporate Department to Mumbai, the center of Corporate Credit in India. This move aims to fortify the Bank's foothold in the Wholesale Banking market of the country.

As on 31 Mar 2012 Large Corporate advances constituted about 44 % of the total advance portfolio. The business from this segment registered a growth rate of 23.15 % in the financial year ended March 31, 2012. The Bank provides comprehensive financial and risk management solutions to clients generally with a turnover of over ₹ 500 Cr or with a credit requirement of ₹ 25 Cr and above.

The Bank aims to partner the growth of the small corporate sector and to be the most preferred banker for the mid corporate sector, while having a fair share in the large corporate sector. Under Corporate Banking, the Bank offers financial solutions to various categories including large, mid and emerging Indian Corporate Groups, Public Sector Enterprises, Government Bodies, Multinational Companies and Financial Institutions. Bank offers an array of banking products and services covering working capital, term finance, trade finance, specialized corporate finance products, structured finance, foreign exchange, syndication services and electronic banking requirements of corporate clients. The Bank is committed to provide innovative financial solutions by leveraging on superior product delivery, knowledge-based advisory, industry benchmark service levels and a strong client orientation.

New customer acquisition and relationship-strengthening constitute the two-pronged growth strategy. The Bank has endeavoured to identify prospective corporate clientele by analysis of client data obtained from all credible sources. The Bank is trying to reach out to the prospective clients that match our parameters and policies. Emphasis has been laid to fine-tune the existing relationships and increase the fee-based income of the Bank by increasing Forex and Non Fund based business. With these objectives, the Bank has set up Corporate Consultancy and Business Development Division in Mumbai.

The Bank took an active interest in recruiting specialized officers from campuses and Institute of Chartered Accountants of India (ICAI) for inducting fresh talents.

The loan policy of the Bank has put in place a matrix of industry exposure limits with a view to de-risking the portfolio through diversification. The Bank has also stipulated minimum entry-level exposure criteria based on credit rating for taking large new exposures. Prudential ceilings are prescribed for exposure in long-term assets, unsecured advances etc. Apart from subjecting each credit exposure to robust risk analysis at several

levels it is also vetted by a Credit Risk Vetting Committee consisting of senior executives of the Bank. The exposures are periodically examined for signs of stress so that early corrective actions can be initiated.

#### Micro, Small & Medium Enterprises

The focal thrust of Federal Bank has always been on the Small and medium enterprises / entrepreneurs and is built on the philosophy of sharing the trust and confidence with industrialists, traders, businessmen and agriculturists.

Our SME portfolio continues to be the spark in the business engine of the Bank over the years. During the past financial year, SME advances on a Y-o-Y basis increased to ₹ 10,471.82 Cr and Current Accounts during the year increased to ₹ 2,484.42 Cr respectively. The total priority sector advance has grown by ₹ 1,551.63 Cr and reached ₹ 12,652.54 Cr as on 31 Mar 2012. The year also saw refinement in our Federal Rent Securitization and Premises Loan schemes. We introduced the new SME loan product Fed SME LAP, with simplified credit assessment procedures and flexibility in granting finance against the security of fixed assets. We have also tied up pan India with Tata Motors and Ashok Leyland for financing their Commercial Vehicles.

Your Bank has crossed the milestone of installation of 5000 plus POS Machines within a short span of time. We are also planning to introduce Wireless POS machines (GPRS enabled) which will be deployed in the coming year. The Payment Gateway services provided by the Bank were also well accepted among the business class. Bangalore Metro Rail Corporation Limited has selected your Bank as their merchant Bank for automatic fare collection (AFC) for the 13 stations in reach 3, and to issue 2 in 1 combo travel cards.

We have signed MOU with LIC for NEFT payment accounts of LIC Divisional Offices and has been successful in reaping in the benefits. Your Bank also have a strong Collection Management System and have entered into CMS arrangements with leading Corporate Firms across the country. We could start Cash Pick up Services pan India during the financial year, which is expected to bring in substantial current account customers to our fold.

We also launched the following schemes during the year under report

- **Fed Arogya** – A Specific Current account scheme catering to the Health Sector.
- **Fed-Chit** - Exclusive current account catering to Chit Companies with tailor-made technological supplements (auto debits, customized net banking, E-Collection etc.)
- **Fed-Elite** - A current account scheme empowering the field to cater to elite fresh clients with “Zero balance – Charge Free” current account.
- **Visa Business Debit Cards:** We have added a feather to suffice the requirements of our corporate customers by offering them Business debit cards.
- **Fed + Amrita:** A Health Portal for Amrita Institute of Medical Sciences enabling card holders and our customers to book online for various services/payment of in-patient bills etc. The Bank plans to have a complete health portal and associate with leading multi speciality hospitals across the nation in the ensuing year.

#### Retail Business

The Bank posted an impressive growth of 23.59 % in resident retail deposits during the reporting period. Retail deposits peaked at ₹ 41,279.19 Cr from the base level of ₹ 33,400.47 Cr. Resident Savings Deposits grew by 15 % and reached ₹ 6,263 Cr.

As part of extending personalized and customized services to HNI customers, Bank has been providing Priority Banking Services across various branches. The premium service christened “FedSelect” is presently made available at select 70 branches and is being slated to cover another 30 branches by the end of this fiscal year. Our customers will experience a different world of banking through these special banking lounges and customized service of dedicated customer relations personnel. We also offer Home Banking services in select locations under this facility.

The bank has also introduced a bouquet of Pre Paid Cards which includes Gift Card, International Travel card for our customers etc. We also launched Utsav Rewards, an attractive Debit Card Loyalty Rewards Programme to our customers so as to make their shopping experience more delightful.

The Bank has always been pro-active in the sales of allied products and has given a huge thrust by offering Systematic Investment Plan (SIP), which acts as a vehicle for wealth creation for our customers.

Focus was given in training our officials on Mutual Fund products, so that right scheme can be offered to the right customer from the best available proposition mix. We are selling life insurance products from our Life insurance associate IDBIFEDERAL Life Insurance Co. Ltd.

A sizeable volume of Federal Pure Gold was sold through our select branches. The Bank also offers Depository Services and e-trading facilities to our investor customers. The depository services are offered through 183 designated branches across the country. The Bank has an exclusive Depository Services Division at Kochi to support the depository services offered by the Bank.

Fed- e-trade, a 3 in 1 online trading facility offered to customers in association with Geojit BNP Paribas provides customers the ease of trading in Capital Market from the comfort of their homes. The Bank has a tie up with Bajaj Allianz General Insurance Company for distribution of General Insurance products across the Bank.

The Bank has launched various programmes as part of cross selling initiatives during the reporting period. Customized products and attractive offers were made to select group of customers through this initiative. An elite personal loan scheme was launched targeting our good and loyal liability customers as a Pre-approved offer and a large number of our customers made use of this facility. The Bank also ran campaigns targeting housing loan customers with good repayment history by offering them Home plus loan products under the green channel in attractive terms and Federal Pure Gold with discounts.

The retail loan book of the Bank reached ₹ 10,623 Cr forming 28.13 % of the total advances of the Bank. Gold loan portfolio, which was one of the focus area of the Bank this year, showed a quantum growth of 127 % (excluding Agriculture gold loan) to reach a figure of ₹ 2,432 Cr even in the backdrop of intense competition from private players/NBFCs. Housing and Auto Loans also continued to be a focus area of growth. As on 31 Mar 2012, there were 20233 Educational Loans outstanding with balances totaling to ₹ 352 Cr. We have in place more refined norms in sanctioning of retail loans to improve the asset quality.

#### **Agriculture & Financial Inclusion**

The Bank has registered a Y-o-Y growth of 15.2 % in its Agricultural Credit Portfolio as on 31 Mar 2012 and reached a business figure of ₹ 4,318.74 Cr from the base of ₹ 3,748.54 Cr.

As part of the growth plan in the Agri Business Sector, the Bank has adopted an aggressive marketing strategy for new customer acquisition and for establishing linkages with major Agri Business Clients by deploying a force of agricultural credit specialists for sourcing of fresh proposals and servicing a multitude of customers.

Your Bank offers various Agri Business Products including Federal Kissan Credit Cards, Agricultural Cash Credits, Medium Term Loans, Long Term Loans etc. customized to suit the requirements of the farming community under plantation, horticulture, land development, irrigation, farm mechanization, construction

of rural godowns, cold storage, green house, floriculture, allied activities like dairy, poultry, fishery, goat rearing, agro processing, finance to Agri-input dealers etc.

The Bank is committed in increasing its credit dispensation to the agricultural segment and empowerment of the farming community through various initiatives including new products like Federal Green Plus Loan Scheme and Scheme for Financing Broiler Poultry which are already implemented. Launching of new innovative products like Financing Precision Farming, Poly House Cultivation, Financing Rubber Producers' Societies etc. are in progress.

The Bank has established co-financing tie up with National Bank for Agriculture and Rural Development (NABARD) for co-financing under Agricultural Projects/Agro and food processing, High-Tech Agriculture, rural development schemes, Agricultural Marketing Infrastructure, schemes for replanting of tea, modernization of tea factories etc.

#### **Financial Inclusion - Information & Communication Technology Model**

Federal Bank, as part of its mission to reach out to those who are deprived of banking service, has successfully implemented Biometric Smart Card and Micro ATM based FedJyothi project in 61 villages through Business Correspondent services in Kerala and Maharashtra.

#### **Award and Recognition**

As a recognition for the speedy and successful implementation of FEDJYOTHI in 13 allotted villages in Kerala, the Bank received the memento for Total Financial Inclusion Declaration of Kerala State from the **Hon'ble Chief Minister, Shri. Oommen Chandy**.

#### **Meaningful Financial Inclusion**

Federal Bank has also gone a step ahead in the field of Financial Inclusion with the implementation of Meaningful Financial Inclusion programme in our model village Thuruthy, Vengoor West in Ernakulam district by way of extending micro credit, nurturing of Self Help Groups, formation of Farmers' Clubs and engaging in development programmes to augment rural income and to ensure sustainable livelihood for the villagers through our Grama Jeevan financial inclusion branch and Business Correspondents.

#### **Financial Literacy and Credit Counselling Centers**

The Bank has also set up 12 Federal Ashwas Financial Literacy and Credit Counselling Centers with an aim to educate the public especially in the rural areas on intelligent borrowing and to save them from the debt trap by offering preventive/curative credit counseling.

#### **Institutional Tie-ups with Schools**

Understanding that education and literacy are imperative for effective Financial Inclusion, the Bank has conducted workshops in over 120 Higher Secondary Schools across Kerala for the benefit of more than 40,000 students.

#### **Adoption of Schools**

The Bank has taken the initiative to distribute refurbished computers to the students in various schools. The Bank has also adopted 10 tribal schools in Wayanad & Idukki districts to provide basic education to the tribal children in remote and far flung areas.

#### **Growth in Advance with Quality**

The Bank has initiated various measures to maintain asset quality and streamlined NPA recovery management process, particularly in view of the deteriorating asset quality concerns of the banking industry in general.

Concerted efforts have been made for recovery/up gradation of accounts which were recently slipped as NPA. Thrust was given for monitoring and timely follow-up of accounts which had shown symptoms of stress, recovery measures under SARFAESI Act and settlements through compromise were adopted and services of Recovery Agents /NPA Resolution Agents were availed of, wherever found necessary, for augmenting NPA recovery.

As a result of the aggressive measures adopted by the Bank, against the gross NPA of 3.49 % and Net NPA of 0.60 % as on 31 Mar 2011, gross NPAs could be brought down to 3.35 % and net NPA to 0.53 % as on 31 Mar 2012.

As on 31 Mar 2012, the Bank held a total provision of ₹ 1,055.33 Cr for NPAs, including a floating provision of ₹ 179.52 Cr. The total provision coverage for NPAs as on 31 Mar 2012 has been 81.13 %.

#### **NRI Business**

During the fiscal year 2012, NRI business of the Bank registered a growth of 35.09 % reaching a level of ₹ 11,184 Cr from a base of ₹ 8,279 Cr. The low cost SBNRE portfolio grew by 27 %. We were the first Bank to respond to deregulation of interest rates on NRE fixed deposits and our NRE fixed deposit portfolio grew by 91 % during FY 12. Millionaire FSF, a recurring deposit product launched by the Bank was well accepted by our NRI patrons. Our representative office and vibrant team abroad are acting as Banks gateway to Gulf Co-operation Council, offering our service and support to our NRI customers abroad. The overseas team was further strengthened during the previous FY and the present strength is 35. As a part of our strategy to focus beyond Kerala, experienced business development managers are posted in major Zones. Extending better banking convenience to our NRI customers through virtual and online banking is our immediate goal.

#### **International Banking and Cross Border Remittances**

We have a strong presence in inbound cross border remittance business. Out of the 93 exchange houses from Gulf Co-operation Council (GCC), Hong Kong and Singapore having Rupee Drawing Arrangement with Indian banks, we have got remittance tie ups with 60. In addition to this we have got inward remittance tie up with Western Union, Xpress Money, VISA Money Transfer, Remit2India as well as Cash Payout arrangements (Fed e Cash) with Banks in Saudi.

Out of the USD 63.60 billion inflow into India during the year 2011-12, our share comes to 7.09 %. We have handled 40 Lakh inward remittances during the year with an inflow of ₹ 23,000 Cr.

We have a state of the art remittance engine FedFast Plus through which money can be remitted to the beneficiaries' accounts with us in seconds and with other banks in India at hourly intervals as per the NEFT clearance schedule.

The Bank won the international ACI Excellence Awards 2012 in the Payments Transformation category for two of the projects, VISA Fast Funds using VISA debit cards and Bank's Aadhaar (UID) based Authentication for Payments.

#### **Foreign Exchange Business**

The Bank undertakes all types of foreign exchange business. As on 31 Mar 2012, the Bank had two 'A' Category branches and seventy six (76) 'B' Category branches for handling the foreign exchange business. Swift connectivity has been extended at the designated branches to facilitate faster and reliable communication with major banks all over the world.

Export credit facilities are provided both in rupee and in foreign currency for pre-shipment activities and post-shipment fund requirement of the exporters. The Bank extends export credit facilities to exporters

of cashew, seafood, garments, minerals, coir, spices, other food products, leather, rubber, pharmaceutical products, gems, jewellery and other items.

Import credit facilities are extended for import of goods including chemicals, timber, raw cashew nuts, paper and electronic goods. The Bank arranges Buyer's Credit for its import customers from various overseas banks.

The Bank conducted regular one-to-one meetings with exporters/importers to strengthen the relationship and assess the business position and credit requirements. Updates on Foreign Exchange Markets movements are sent to the clients regularly.

The Bank is giving thrust to the development of the Foreign Exchange business and is endeavouring to improve the skills of the operating personnel through meetings, interactions and training programs. This enables the officials of designated branches to improve their efficiency substantially. Simultaneously, the Bank is trying to centralize selected Foreign Exchange functions at Head Office to improve efficiency and effectiveness of the designated branches dealing in Foreign Exchange. Foreign Exchange Cell at the Bank's Treasury has already initiated a programme to codify the relevant RBI/FEDAI instructions for the conduct of the Foreign Exchange business, in the form of master circulars.

#### **Integrated Treasury Operations**

The Bank's integrated Treasury Operations involve maintenance of Statutory Reserve requirements, Balance Sheet Management, trading in Money Market, Bonds and Debentures, Equity and Foreign Exchange. The Bank has established dedicated and full-fledged dealing desks for various segments like Foreign Exchange business, Merchant Trading, Currency Futures, Money Market, Government Securities, Bonds and Debentures, Certificate of Deposits, Commercial Paper, Interest Rate Swaps and Equity at its dealing room in Mumbai. To encash the trading opportunities in Certificate of Deposit and Commercial Papers, a separate trading desk has been established under Money Market.

The Bank has commenced trading actively in Currency Futures in all approved Exchanges. The strength has been augmented by providing adequate personnel at trading desks to encash the trading opportunities. The Bank has revamped the Interest Rate Swaps (IRS) desk which undertakes activity of trading on IRS for proprietary dealings and balance sheet hedging purposes. During the fiscal year 2012, the Bank held interactive sessions with its export/import clients. A separate Marketing Team has been formed at Treasury Department for marketing of various Treasury Products.

The Bank raises resources in bulk through Certificates of Deposit, for which the Bank enjoys the highest rating of A1+ by CRISIL. The Bank has installed various trading platforms like Reuters, D2, FX Clear, BARX, AUTOBAHN, 360T and COMMERZ in the dealing room for a better and streamlined trading activity in foreign exchange business.

The Bank is represented on FIMMDA board by virtue of Head - Treasury being one of the twelve Directors of FIMMDA. The Bank has been re-nominated as a Managing Committee member of FEDAI in FY 2012.

#### **Integrated Risk Management**

The primary responsibility of laying down risk parameters and establishing an integrated risk management framework and control system rests with the Board of Directors. A Board level committee, viz. the Risk Management Committee (RMC) oversees management of Credit, Market and Operational risks. Three separate Executive level committees, viz. the Credit Risk Management Committee (CRMC), Asset Liability Management Committee (ALCO) and Operational Risk Management Committee (ORMC) ensure effective management of credit, market and operational risks respectively.

Integrated Risk Management Department (IRMD) of the Bank is headed by a Deputy General Manager. Credit, Market and Operational risk management are functionally assigned to three separate cells under IRMD.

The Bank has put in place the following policies for risk management, approved by the Board of Directors:

1. Integrated Risk Management Policy
2. Credit Risk Management Policy
3. Asset Liability Management Policy
4. Operational Risk Management Policy
5. Stress Testing Policy
6. Business Continuity Plan Policy
7. Policy on Internal Capital Adequacy Assessment Process (ICAAP)
8. Disclosure Policy and
9. Loan Policy

The Bank has established an independent on site Mid-Office in Treasury Department, reporting directly to the Head of IRMD. The Mid-Office scrutinizes the treasury deals and transactions from the point of view of market risk management.

#### **Compliance with Basel II framework**

As per the prudential guidelines issued by Reserve Bank of India, the Bank has migrated from Basel I norms to Basel II norms as on 31 Mar 2009 and Capital Adequacy Ratio under the New Capital Adequacy Framework (NCAF) is being computed on a quarterly basis.

In tune with regulatory guidelines on Pillar I of Basel II norms, Bank has computed capital charge for credit risk as per the Standardized Approach, for market risk as per the Standardized Duration Method and for operational risk as per the Basic Indicator Approach. Under Pillar II, your Bank is assessing the level of inherent risks and related capital requirements on a quarterly basis using a well defined Internal Capital Adequacy Assessment Process approved by the Board. Additional disclosures under Pillar III of Basel II are also complied with. The Bank is progressing with initiatives in meeting the requirements for adoption of the advanced approaches for credit, market and operational risk under Basel II. External consultants have been appointed for guiding the Bank through the process of migration to advanced approaches. The Bank has also procured the necessary technological platform for migration to advanced approaches. The framework of the advanced approaches is in tune with the Bank's objective of adopting best practices in risk management.

#### **Capital Adequacy Ratio**

Bank's Capital Adequacy Ratio as on 31 Mar 2012 under Basel II norms is 16.64 % with Tier I CRAR of 15.86 %, as against the minimum level of 9 % prescribed by Reserve Bank of India. Bank's comfortable capital adequacy position under Basel II norms offers a good cushion for further expansion and growth in asset portfolio.

#### **Capital Management Framework**

The philosophy of Bank's risk management framework is to 'take risks by choice and not by chance', set prudential limits for parameters for various types of risks based on regulatory stipulations and internal risk appetite, monitor operations within the set limits and ensure that returns match the risks taken. Capital management philosophy of the Bank is to operate with an optimum level of capital in relation to its internal risk profile and extant regulatory guidelines, that permits utilization of the existing and emerging market opportunities and ensure optimum level of returns on an on-going basis.

The Bank conducts ICAAP process every year as stipulated by RBI. ICAAP is aimed to ensure that the Bank maintains capital commensurate to its risk profile, and improves upon its risk management systems and



framework on an on-going basis. It involves a realistic assessment of level of risks inherent in the business operations of the Bank and setting aside capital adequate to cover all such risks. The ICAAP policy covers all material risks involved in the business operations of the Bank and establishes an organizational framework with delineated hierarchical responsibilities. The assessment considers the operational presence, activities, processes, complexity of products and overall risk profile of the Bank, including that of the wholly owned subsidiary. The sufficiency of Pillar I capital charge is assessed in relation to the risk profile of the Bank. Monitoring of the level of all material risks also forms part of ICAAP. In short, ICAAP is integrated into the management and decision making process in true letter and spirit and is reflected in the processes and business operations of the Bank.

#### **Credit Underwriting**

Rapid expansion of the credit portfolio brings in its wake various structural issues that need to be addressed promptly so as to maintain effective credit dispensation architecture. In view of this, Bank has adopted the Credit Hub mechanism to centralize credit processing and sanctions. The credit hub mechanism is introduced with the objective of business expansion, selection of quality of assets and exercising greater diligence in credit approval. Under this system, branches are acting as sourcing points for the credit facilities, whereas assessment, processing and preparation of documents are being done by Credit hubs which ensure highly qualitative asset creation. Loan origination process is made online in IT platform leveraging the technology. All the above improvements help the branches to concentrate more on sourcing and post credit follow up. Regional Credit Hubs are functioning in 18 centres and are reporting to the National Credit Hub in Corporate Office. Committee approach is being followed in credit sanction. Separate delegation has been given for Corporate Office Committees and Regional Credit Hub Committees for credit sanction. Powers beyond the delegated powers of Regional Credit Hubs are vested with Corporate Office Committees and Board of Directors are having powers beyond the delegation of Corporate Office Committees.

With the various initiatives that the Bank has taken in credit underwriting, it has been successful in driving enhanced customer service delivery and minimizing inherent risks.

#### **Business Continuity Plan**

In terms of the Business Continuity Plan Policy approved by the Board, Business Continuity Plan (BCP) Committees have been formed in Head Office, Zonal Offices and Branches. A Contingency Management Team (Task Force) has been formed at Head Office, functioning as a Central Crisis Management Team for ensuring business continuity.

#### **Information Security**

The Bank has an Information Systems security team functioning at Head Office. The team is in charge of creation and maintenance of security policies and plans. The team is responsible for the formulation and periodic review of Information systems security policies as well as creating the Information security awareness among staff and customers of the Bank. As per the RBI circular dated 29<sup>th</sup> April, 2011, on 'Working Group on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds - Implementation of Recommendations', the Bank has taken various steps towards complying with the requirements outlined.

#### **Legal and Business Compliance**

The Bank has a full fledged Legal department comprising of legal officers who are capable of rendering professional service and expert legal advice on various issues associated with the Organization. The Bank has embarked on stringent measures to attain the objective of a complaint free bank in order to mitigate the reputation risk. With a view to impart awareness on latest developments /amendments in various laws/

statutes, a Biennial Conference of Legal Officers of the Bank was conducted. Various legal luminaries such as Justice Thottathil B Radhakrishnan, Mr. Abraham Mathew, Director, Judicial Academy etc. enlightened the audience on various topics.

Compliance Cell attached to Legal Department had been monitoring and supervising the compliance functions of the Bank. A separate and independent Compliance Division has been set up with a view to further strengthen the compliance functions and to ensure effective monitoring/co-ordination of the compliance functions in our Bank. The Compliance Division is headed by an Asst. General Manager who is reporting to Chief Compliance Officer.

### Leveraging Operations & Processes

Your Bank has always been in the forefront in rolling out new technology, systems and processes. Leveraging on better processes and procedures has led to enhanced operational efficiency and service delivery. During the year we concentrated on improving the productivity flow through automation, focussed on reducing the turnaround time and ultimately enhanced customer service.

This year the Bank has won the **KMA Excellence Award-2011** for Innovative Cost Management measures implemented.

In order to ensure data quality and KYC compliance in its true spirit the Bank has implemented image based centralized account opening for Saving Bank accounts. On an average accounts are opened within a TAT of 12 hours.

The Bank centralized the following activities with a view to have more operational convenience, control and quality of data:

- Opening of Import LC, scrutiny of import bills and payment of Import Bills under LC.
- Centralization of ATM management by taking over works related to our outsourced off-site ATMs from 41 Nodal branches, pan India.
- Deployed low cost advanced Cash Dispensing machines in selected Branches to reduce counter rush.
- We have centralized the process of rephasing of EMI of retail loans and sending intimation to borrowers regarding change in EMI/interest rate.

During the year we expanded our centralised clearing operations to more MICR centres in Mumbai, Chennai, Bangalore and Pune and also introduced the process of ECS debit origination at all centres.

We initiated the process of centralization of archival of old records at outsourced locations to help branches to save space and improve the ambience of the office. The entire process will be extended to all the identified branches in a phased manner.

With a view to have more value addition to our net banking and to add customer convenience; the following features have been introduced in FedNet, our internet banking facility.

- Online FedNet Password resetting facility implemented on 02.12.2011.
- An added security feature, Two factor authentication (2FA) has been implemented in Internet Banking, which will boost the customer confidence for increased use of our net banking facility.
- Mobile Recharging facility, DTH Recharge and Data Card Recharge directly through FedNet were introduced.
- Instant Inter-bank Payment Service (IMPS) through FedNet launched on 20.03.2012.
- Online Term Deposit opening for Resident/Non-Resident customers.

### **Business Effectiveness Through Technology**

Federal Bank is a pioneer among banks in India in the area of using technology to leverage its operations and was among the first bank in India to computerize all its branches. Federal Bank offers its customers, a variety of services such as Internet banking, Mobile banking, on-line bill payment, on-line fee collection, depository services, online e trade services, Cash Management Services, merchant banking services, RTGS / NEFT facility, IMPS, EFEE (school fee management) etc. as part of its strategy in enhancing the convenience to its customers. Federal Bank has 5000 + Point of Sale (PoS) deployed at various merchant locations. A 24 hour Toll free Helpline ensures that the customers are taken care of round the clock.

- **Two Factor Authentication (2FA) for Internet Banking Transactions**

2FA will ensure more security for our internet banking customers. Customers will be benefitted with more security and he/she can choose from various available options.

- **Bangalore Metro Rail Corporation (BMRCL)**

The Bank has won the bid floated by BMRCL as a Merchant Acquirer Bank. The Bank will be deploying Point of Sale terminals at Bangalore Metro stations for issuing tickets, will be integrating POS machines with Ticket Vending Machines and also will be issuing NFC (contactless) COMBO cards which can be used as travel cards and Debit / Prepaid Cards.

- **Gift & Travel Cards**

The Bank has launched its prepaid card variants – Gift Cards and Travel Cards. Gift Card titled 'FeDelight' is issued in association with MasterCard. Bank's foreign currency denominated 'Cash Passport' Travel card is issued in three currencies viz. USD, GBP and Euro.

### **ACI Excellence Awards 2012**

The Bank has won the international ACI Excellence Awards 2012 in the Payments Transformation category for two its projects - VISA Fast Funds use VISA debit cards and Bank's Aadhaar (UID) based Authentication for Payments.

### **Customer Relation Management**

A full-fledged CRM application was rolled out during the last financial year with a comprehensive 360 degree view of the customer and analyse the relationship with the Bank uniformly across the various touch points like branches, contact center and officials stationed at the overseas representative office of the Bank. CRM integration will offer each customer an added advantage of availing uniform services through multiple channels/locations that were hitherto restricted to the base branch.

SAS –Data Flux solution, a Data cleansing tool has also been procured to help the Bank develop and execute an end to end data management strategy. The Bank is planning to set up a data governance unit to manage and correct the customer related data and to assign unique customer identification number making use of the de duplication facility.

### **Online Account Opening for NRIs**

Bank is providing the facility for Online account Opening for our NRI customers at our Website. Customers can key in required details online, take a printout and send it along with the mandatory documents to our NRI division to get the account opened.

**Mobile Banking**

Considering the high penetration of mobile phones in the country, Bank has taken various initiatives in popularizing mobile banking through numerous awareness campaigns. The Bank is currently providing various facilities like balance enquiries, account statement and transaction services through its mobile banking platform – Fed Mobile.

The Bank has an active alliance with National Payment Corporation of India (NPCI) in enabling Interbank Mobile Payment Service (IMPS) and is the first mover in introducing this facility through Internet Banking. Mobile Banking is also extended to making merchant payments like mobile top ups and ticket booking. The Bank is poised to provide native applications for all popular Smart phones, which will take the convenience of mobile banking to the next level.

**Internet Banking**

Bank's Internet Banking platform – FEDNet is already popular among its retail and corporate customers. After considering various customer needs and requirements, we have further enhanced in its security, convenience and scalability.

The Bank also enhanced customer convenience by adding more arrangements for e-commerce, and integration of mobile and DTH top up directly from FEDNet. The system was also scaled up to handle more number of concurrent transactions with faster response times.

**Contact Centre**

Each contact centre agent undergoes rigorous training in products, services and soft skills for about 4-6 weeks before formally starting to interact with customers. Feedback from branch managers, marketing team and customers are ploughed back to reshape the attitude of contact centre to infuse better customer experience. Quality assurance team at contact centre ensures that agent interaction with customers is on the expected lines.

**Payment Gateway**

Federal Bank's Payment Gateway facility – 'Fed-e-Gate', is an e-commerce service that enables online websites with shopping / purchase facility to accept payments from their customers on the internet in a secured manner using credit/debit cards. Our payment gateway is capable of accepting all Visa and MasterCard branded debit / credit cards including Maestro cards. Transaction processing through 'Fed-e-Gate' is secured by 128-bit SSL encryption which enable our Customers to confidently use their Credit / Debit cards online. Fed-e-Gate is compliant with Payment Card Industry Data Security Standard (PCI-DSS) Version 1.2.

**Human Resources**

At Federal Bank we value human resource as the concrete pillar in its success and growth. Your bank is very particular on the welfare front of its employees and has been offering competitive perks and benefits in the Industry.

**Human Capital Composition**

- a) Of the total human capital engaged by the Bank, 46 % comprised of graduates and more than 16 % are post graduates.

- b) Other Professionals include Engineers/ Chartered accountants / Cost Accountants /PhD's etc.
- c) During the year the Average Age of Employees of your Bank has reduced to 40 years from 41 years as compared to the previous year.

#### Staff Composition

Cadre	Male	Female	Total
Officers	3561	1303	4864
Clerk	1496	1146	2642
Sub Staff	917	25	942
Part Time Employees	30	267	297

The year also saw the formation of an Internal Talent Management Wing, to develop, monitor and nurture talent within the Bank. Specialized teams like HR Transformation team, Performance and analytics team were constituted to revamp the HR strategies and to undertake various checks and measures to ascertain the impact of HR strategies down the line.

#### Organizational Restructuring

With the increasing competition and the rising customer demand, the organizational structure was redesigned. In the new 'GO-TO-MARKET' structure, 13 regional offices were restructured to 8 Zonal offices and 31 regions with the view that a Regional Head with controllable number of Branches under him in geographical proximity can bring in better results. The reporting of 18 Regional Credit Hubs were re-assigned to the National Credit Hub head, under the administrative control of respective Zonal Heads.

#### Delegation of HR functions

The HR spread was further extended into the 8 Zones and HR specialists were placed at each Zone so as to delegate the various HR functions and to have a direct impact down the line. Disciplinary functions were also delegated through the adoption of the progressive staff accountability policy.

#### Review of Human Resource Performance Scale of Bank

##### a) Recruitment:

During the year we conducted a Pan India Recruitment through diverse channels including Campus recruitment and had a strategic focus on localizing the talents with an added thrust on linguistic and business skills in the States of Tamil Nadu, Karnataka, Punjab, Gujarat and Maharashtra.

We added 958 new heads to our rolls in FY 12. A new online recruitment window "Job Portal" was launched this year which will help us to source experienced talents into our Bank

##### b) Performance Management System (FedPMS)

Your Bank has deployed an enhanced and effective Performance Management System to track the talent pool in our Bank and thereby design strategies to foster growth and performance of each of the employees.

##### c) Employee and Industrial Relations

The industrial relations climate during the year was mostly peaceful and confronting situations were successfully managed through constructive measures. The year also saw the revamping of the staff accountability policy of the Bank where clear demarcations were drawn in terms of intentional and non intentional violations in order to develop a progressive discipline orientation in the Bank.

**d) Fed-e-HRM & Auto Push facility**

This year we brought in more automation in the internal HR systems; resulting in the speedy dispensation of various HR functions.

**e) Elixir - Our Unique Mentoring Program**

A refined mentoring program was launched to groom and develop the young inductees as well as Probationary Officers into the new culture. The program is intended to mould and guide the young talents along the right trajectory and to ensure a smooth cross over into the new environment. Online module for mentoring has been launched and this will enable free flow of communication between mentor and mentee.

**f) SANGAM - Multi generation Engagement Model**

The Bank also charted and implemented various engagement programs with a focus on strengthening relationships between team members. During the year we launched "SANGAM" an event to showcase the hidden and cultural talents among the employees and their families and make each of the members understand the Federal Culture and spirit.

**g) Recognition Programs**

A reward and recognition system was started in the Bank to motivate performance. Long term and short term recognition programs were designed to cater to the different recognition needs of the employees. Various recognition programs were also rolled out to recognize and reward individual and collective performance which includes;

- i) **Federal Ambassador** – Through this unique program we aimed to motivate the levels of customer service at customer interface points at branches / regions and the results were published online.
- ii) **Federal Elite Trophy** - This award is meant for the best performing business Unit.
- iii) **Federal Falcon** – This award will be given to the best unit supporting business.
- vi) **Appreciation Forum** – This forum has been designed to give real time appreciation to an individual for a job well done. The forum has been already launched and has become an instant hit among the Federals.

**Enhancement in Staff welfare and allowances**

During the year Bank has substantially increased various allowances and benefits to its staff, and continues to be one among the best in the Industry.

**Training and Development**

On the training front, we introduced innovations and refined the pedagogy. Pedagogy was re-oriented into experimental in nature with live case studies and group presentations by the participants;

- Fed Campus – Online Quizzes for the Employees of the Bank in different cadres was a significant initiative in enhancing the knowledge level of Employees. We conducted 36 online Quizzes and on an average 238 Employee participated in one quiz.
- During the Fiscal year 12, the Bank conducted 94 training programmes covering 3,016 personnel. In addition we also nominated 408 personnel for 147 programmes at outside institutions.
- The learning programmes could be broadly classified into; Programmes imparting skill in orienting the new entrants with the culture, ethos, values etc. about the Bank and a hassle free induction on the new entrants into the Bank and programs imparting technology skills including FINACLE and technology

● SPARK – A programme conducted for Senior Management team of the Bank and ICE (Ideate for Excellence in Customer Service) was three major initiatives on the learning front. We also launched a platform titled “FLAIR” to promote creativity and talents of the Bank’s employees.

#### **Best Employer Award**

“We received the *“Best Employer Award”* in the banking sector from Indira group of institutes, Pune, a reputed educational institute. The award was conferred on us for generating employment in spite of adverse global and economic circumstances.

#### **Employee Stock Option Scheme (ESOS)**

In the FY 12, Bank introduced Employees Stock Option Scheme (ESOS 2010) for the employees of the Bank as long term incentive linked to performance. Accordingly options were granted to all permanent employees of the Bank as on 8th April 2011. The options granted will start vesting this year according to the vesting conditions which have been set.

#### **Marketing Initiatives**

Marketing Department in the Bank was created with a view to streamline operations in the following area:

- a) Branding & Standardization
- b) Advertising
- c) Public/ Media Relations

The Department has successfully added the visibility of the ‘Federal Bank’ brand.

Your Bank went for a major network expansion during the last fiscal year and keeping pace with the geographic expansion, the branding and visibility of the Bank reached the nook and corner of the country. In order to match steps with the changing world, the Bank ushered in a change in terms of branding and positioning of the ‘Federal Bank’ brand. The welcome screens at ATMs were also changed and the screens carried messages in regional languages, based on the locations of the ATMs.

#### **Internal and External Branding**

The Bank used every opportunity to generate mileage and could reap significant benefits during the concurrent launch of 66 branches and 100 branches during the year. A sense of pride and ownership was instilled in every ‘Federal’ with the help of internal marketing collaterals.

#### **Cross Selling and Marketing Initiatives**

The Bank used ‘Search Engine Marketing’ and ‘Search Engine Optimization’ to generate customer leads. The leads were followed up by the sales team of the Bank spread across the country and beyond and the leads were converted into sales. The CRM tool deployed by the Bank was used to track the leads.

#### **Exploring Social Marketing**

The year also marked the entry of the Bank in ‘Social Media Marketing’ space and started leveraging the marketing prowess of various social media sites that are popular amongst the youth of the country. The current year should see a significant ramp up in terms of additions of customers on the Bank’s social pages and should help the Bank have its ears to the ground and use the platform for constant interaction with the users - present and potential.

### Customer Grievance

Statistics of the complaints received during the financial year ended 31 Mar 2012

Complaints outstanding at the beginning of the year	Complaints received during the year	Complaints settled during the year	Complaints outstanding at the end of the year
28	1588	1571	45

### Vigilance

The Bank has put in place an effective vigilance mechanism to safeguard the Bank and its customers from fraud risk. We have formulated a comprehensive Fraud Risk Management Policy and Whistle Blower Policy which is reviewed and updated from time to time, in line with RBI instructions. The vigilance function includes a thorough investigation of frauds including attempted frauds and pursuing of various preventive measures, such as preventive vigilance audits, vigilance workshops etc. to promote compliance culture and enhance the awareness of fraud risk among employees for its effective management. We are promoting customer awareness on frauds, especially cyber frauds as an effective tool in preventing frauds.

### KYC And Anti-Money Laundering

The KYC-AML Cell of your Bank has taken sufficient steps for the strict compliance of the “Know Your Customer” and “Anti Money Laundering” (KYC/AML) guidelines by maintaining a comprehensive policy framework and updating it in tune with the guidelines issued by Reserve Bank of India from time to time. The KYC policy of the Bank incorporates customer acceptance policy, identification procedures, monitoring transactions and risk management. We have centrally installed Anti Money Laundering software to ensure the regulatory compliance. The monitoring of transactions against a range of risk variables forms an integral part of the KYC compliance mandate. The alerts generated in the software on the basis of pre-defined benchmarks and scenarios help us to monitor the daily transactions enabling to identify any suspicious transactions undertaken by money launderers and financiers of terrorism.

### Inspection & Audit

The Bank has a well established Inspection & Audit Department ensuring adherence to systems, policies and procedures of the Bank. Guidelines received from regulators like Reserve Bank of India, Government of India etc. and those from the Board of Directors, Audit Committee of the Board and Inspection Review Committee on various issues of control have become part of the Internal Control System for better compliance at all levels.

Audits and Inspections are carried out in the Bank as per the Board approved Audit Policy. All the branches are covered under Risk Based Internal Audit (RBIA). This is being conducted by the Bank’s own inspection team. The assessment of level of risk and its direction is done as per the Risk Matrix prescribed by the Reserve Bank of India which helps the Management in identifying areas of high risk requiring attention on priority basis. The position of the risk categorization of the branches is reviewed by the Audit Committee of the Board on a quarterly basis.

As of 31 Mar 2012, 195 branches, Treasury Department, International Banking Department (IBD), DP Division and Gold Sale business of RBD were subjected to Concurrent Audit covering 65.91 % of the total business of the Bank (57.18 % of deposits and 75.57 % of advances), as against the minimum requirement of 50 % of deposits and advances separately, stipulated by RBI.



The Department also covers the Credit Audit function as part of Loan Review Mechanism, which examines compliance with sanction and post-sanction processes / procedures laid down by the Bank from time to time, as per the RBI guidelines. The objectives of Credit Audit are as follows.

- Improvement in the quality of credit.
- Review of sanction process and compliance status of large loans.
- Feedback on regulatory compliance.
- Independent review of Credit Risk Assessment.
- Pick up early warning signals and suggest remedial measures.
- Recommend corrective action to improve credit quality, credit administration and credit skills of staff, etc.

The Information Systems Audit is also conducted as per the IS Audit Policy approved by the Board of Directors. During the FY 12, 444 branches and key HO Departments like Treasury and IT Department (Data Center) were subjected to IS Audit. A few of them were done by our own CISA qualified inspecting officers and the remaining by external audit firms.

Various other inspections are also carried out in the Bank such as Management Audit of Zonal offices including Credit Hubs, Credit Monitoring Cells and HO Departments, Forex Audit, Gold Loans Audit, Revenue Audit, Registration Authority Audit, Vulnerability Analysis & Penetration Testing, Quarterly concurrent basis certification of Internet Payment Intermediaries' Accounts etc. During FY 12, all audits required to be done as per the approved Audit Plan were completed. Under Risk Based Internal Audits (RBIA), 535 audits were completed as against 505 targeted. All the Regional Credit Hubs and National Credit Hubs were subjected to Management Audit twice during the year. Six Fedfina Retail Credit Hubs were also subjected to Management Audit. Management Audits of Zonal offices were completed in 2 eligible cases. Management Audits of 18 HO Departments/Divisions were also conducted. Forex Audit was done in all the targeted 60 branches. Revenue Audit was covered in all the 339 targeted branches. Gold Loan Audit was conducted in 336 branches as against a target of 325 branches. Credit Audit was completed in 170 large borrowing accounts.

The Bank has an in-house fully automated Audit Management System which covers all audits with dedicated servers, systems and databases which are managed under secure environments and by adequately trained personnel. This has contributed in a major way to the Bank going green, by doing away with paper reports shuttling back and forth.

As a new initiative, the Bank is gradually moving towards more Centralization of Audit works. Revenue Audit which was previously done visiting branches has now been changed into Off-site Audit without requiring a visit at the audited branch. Document Management System (DMS) has been introduced for scanning, saving and archiving loan documents and other related papers so that they can be viewed and verified centrally and this has been successfully implemented in 58 branches and is in the process of implementation in other branches too. A regular off-site surveillance system has also been set up at Inspection & Audit Department for monitoring exceptional transactions and irregularities in the conduct of business at branches. With these steps, Bank has been able to improve the quality of compliance at various units and also reduce the cost of audits.

#### **Report on Corporate Social Responsibility through Sustainable Development**

A Policy on Corporate Social Responsibility (CSR) was adopted and a CSR CELL was formed during the year. States of Kerala, Tamil Nadu, Gujarat and Maharashtra are selected as areas for CSR activities for the time being. The policy lays emphasis and extends help and support to the following focus areas

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## Management Discussion and Analysis

- Education
- Medical Treatment (Health care)
- Support to Agricultural infrastructure Project.

The Bank encompasses a Triple Bottom Line approach (Social dimensional features, economic features, environmental features) in its CSR initiatives.

The Bank has always been in the forefront to support socially beneficial initiatives of responsible organisations. A few activities the Bank associated with, during the FY 2012 are:

- As a commitment to the greener planet, we planted 66 saplings at Mookkannoor, the birth place of our Founder Shri. K. P. Hormis, on our 66th Founders Day – 18<sup>th</sup> October 2011.
- A Call center managed by differently-abled people was inaugurated on 8<sup>th</sup> November 2011 by Dr. C Rangarajan, Chairman of Prime Minister's Economic Advisory Council. The interiors of our 'Call Center' have been meticulously designed to inspire the executives working there.
- During the year 2011, the Bank Sponsored the Haemophilia Department at MAGJ Hospital Kerala. In a joint venture with the People's Council for Social Justice, a Mela was organized for exhibition and sale of products made by physically challenged people. The Mela aimed at providing an exposure to their products and extending them a dignified and independent life.
- Sponsored an Ambulance for St. John's Health Service, Trivandrum for the use of patients suffering from HIV/AIDS.
- The Bank extended Support in building –'Deivdan Centre', an old age home for the financially downtrodden group of women.
- The Bank sponsored project 'Sparkle' a month long intensive finishing programme for 30 new Financially Deserving Teacher Graduates.
- The Bank extended support in building 'Animation and Renewal Centre' under Santhome Charitable Trust of Kalyan, Mumbai. The center is used for conducting residential programmes for the Trust's focus & Target group including SHGs, NGOs, CBOs, and Children Groups.
- The Bank generously contributed to the Collector's Corpus Fund for Endosulfan victims at Kasargod, Kerala in 2011.
- The Bank extended financial support for the building project for Jyothis- a Developmental Training School for children having cerebral palsy.
- The Bank offered financial support to the Kerala Blind School Society to build a visually challenged friendly hostel at Kizhmad, Aluva.
- The Bank supported financially in setting up a Vocational Training Centre for rehabilitating patients with Cerebral Palsy and other disabilities at the Adarsh Charitable Trust at Kureekad, Vyttila.

### **Fedbank Hormis Memorial Foundation**

Federal Bank has instituted a public charitable trust by name Fedbank Hormis Memorial Foundation in 1996

## Management Discussion and Analysis

to perpetuate the fond memory of late Shri. K. P. Hormis, the Founder of the Bank. The Trust is striving hard to inculcate better knowledge and awareness in the field of banking through training programmes, focused seminars, awards and so on. The activities include:

- **Scholarship to Economically Backward students**

Fedbank Hormis Memorial Foundation has been granting scholarships to economically backward professional college students. From the year 2011, it has been decided to increase the number of scholarships from 25 to 50.

- **Commemorative Lecture Series**

The 12<sup>th</sup> Commemorative Lecture organised by Hormis Memorial Foundation was conducted on 8<sup>th</sup> November 2011. This year **Dr. C. Rangarajan**, Chairman of the Prime Minister's Economic Advisory Council delivered the commemorative lecture on the Topic "The Indian Economy – Prospects and Constraints".

The Bank was honoured with two Global awards on the CSR front - Award for 'Best Corporate social responsibility Practice Overall' and 'Golden Peacock Award' for Corporate Social Responsibility for the year. These awards are the reflection of Bank's initiatives to treat the society as an integral stakeholder and is a testimony of the various steps taken by the Bank as a responsible Corporate Citizen in the fields of healthcare and education development.

## Corporate Governance

The Bank has adopted a Code of Corporate Governance which while taking care of and safeguarding the interest of shareholders and all other stakeholders also provides for good management, adoption of prudent risk management techniques and compliance with required standards of capital adequacy.

The Code also aims at identifying and recognizing the Board of Directors and the Management of the Bank as the principal instruments through which good corporate governance principles are articulated and implemented, giving utmost importance to identify and recognize transparency, accountability and equality of treatment amongst all the stakeholders, which is in tune with statutory and regulatory structures. A copy of the Code is available on request.

### Board of Directors

The composition of the Board of Directors is governed by the Banking Regulation Act, 1949, the Companies Act, 1956, Listing Agreement, and the Code of Corporate Governance adopted by the Bank. The Board comprises of 8 Directors with rich experience and specialized knowledge in various areas of relevance to the Bank, including banking, accountancy, MSME, finance, small scale industry, agriculture, and information technology.

Shri. P.C. John, Executive Director (ED), is the Whole Time Director of the Bank. Excluding the MD & CEO and the ED all other members of the Board are Non-Executive and Independent Directors.

Shri. Suresh Kumar was re-elected/appointed as Director of the Bank at its last Annual General Meeting held on 3rd September 2011.

Shri. Nilesh. S.Vikamsey was appointed as a Director of the Bank on 24.06.2011 and was elected as a Director of the Bank at its last Annual General Meeting held on 3rd September 2011.

The other Directors who are retiring at this AGM are Prof. Abraham Koshy and Dr. M. Y. Khan. Prof. Abraham Koshy and Dr. M. Y. Khan, being eligible have offered themselves for reappointment.

Nine Board Meetings were held during the Financial Year ended March 31, 2012.

Attendance Details are given below.

Name of Director	No of meetings attended.	Attendance at Last AGM
Shri. P. C. Cyriac	9	Present
Shri. Suresh Kumar	8	Present
Dr. T. C. Nair	8	Present
Dr. M. Y. Khan	5	Absent
Prof. Abraham Koshy	7	Present
Shri. Nilesh Vikamsey	6	Present
Shri. Shyam Srinivasan	9	Present
Shri. P. C. John	9	Present
Shri. P. H. Ravikumar*	3	Absent

\*Shri. P. H. Ravikumar ceased to be a Director w.e.f 03.09.2011

### Board Procedure

All the major issues included in the Agenda for discussion in the Board/Committees of Board are backed by comprehensive background information to enable the Board/Committee to take informed decisions. Agenda papers are generally circulated in advance prior to the meeting of the Board/Committee. Also the

Board/Committee agenda contains the Compliance Report of the directions taken at previous meeting. The members of the Board exercise due diligence in performance of the functions as Directors of the Bank and follow highest degree of business ethics, transparent practices and code of good governance amidst cordial environment.

#### Remuneration to Directors

Shri. Shyam Srinivasan, MD & CEO, was paid ₹ 78, 61,324.26 (gross), Shri. P. C. John (Executive Director) was paid ₹ 29, 99,475.07 (gross) as remuneration for the year in accordance with the terms and conditions approved by Reserve Bank of India and the shareholders. The details of remuneration are as under.

	Shri. Shyam Srinivasan MD & CEO	Shri. P C John Executive Director
Basic Pay	69,99,960.00	20,74,000.00
House Rent Allowance	Nil	3,83,000.00
Provident Fund (Employer Contribution)	6,99,996.00	2,04,750.00
Servant Wages	60,000.00	36,000.00
Drivers Wages	Nil	90,000.00
Subscription to periodicals	Nil	Nil
Medical Expenses	101368.26	37,768.00
Premium on Mediclaim Policy	Nil	Nil
Leave Travel Concession	Nil	1,42,690.00
Bonus/Ex-gratia/Others	Nil	31,267.07
Total	78,61,324.26	29,99,475.07

Reserve Bank of India has approved payment of variable pay of ₹ 10.08 Lakh to Shri. Shyam Srinivasan, MD & CEO and ₹ 4.97 Lakh to Shri. P. C. John (Executive Director) for the financial year 2010-11.

Reserve Bank of India has approved grant of 5, 13,100 options under ESOS 2010 to Shri. Shyam Srinivasan, MD & CEO and 10125 options to Shri. P. C. John (Executive Director)

The other Independent Directors were paid ₹ 20, 000/- each as sitting fees for attending Board meeting and Audit, Finance, Nomination, Ethics and Remuneration Committee & Risk Management Committee meetings and ₹ 10, 000/- each for attending other Committee meetings of the Board. The sitting fee paid to the Directors is within the limits prescribed under the Companies Act, 1956.

#### Directors' Shareholding

Name of the Director	No. of Shares held as on 31-03-2012
Shri. P. C. John	1231
Shri. Abraham Koshy	1000

#### Audit Committee

The Audit Committee consists of three non-executive, independent Directors, and is chaired by Shri. Nilesh Vikamsey, a Non-Executive Independent Director, since 24<sup>th</sup> June, 2011, on reconstitution of the Committee.

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## Corporate Governance

The other members of the Committee are Dr. M. Y. Khan and Dr.T.C Nair, who are Non-Executive Independent Directors. Shri. Suresh Kumar and Shri.P.C.Cyriac were members of the Committee and they ceased to be members w.e.f 24.06.2011 and 29.07.2011 respectively on reconstitution of the Committee. Dr. M. Y. Khan was inducted as a member w.e.f 29.07.2011. The term of reference of the Audit Committee, incorporated in the Bank's Code of Corporate Governance, are in accordance with the listing agreements entered into by the Bank with stock exchanges where the Bank's shares are listed, as well as RBI guidelines. The Committee is expected to:

- a. Review the Bank's financial policies, and where necessary, recommend changes for the Board's approval;
- b. Review periodically the adequacy of internal control systems (including the asset-liability management and risk-assessment and management systems) with the management and external and internal auditors, assure itself that the systems are being effectively observed and monitored, and, where necessary, approve changes or recommend changes for the Board's approval;
- c. Review the adequacy of the internal audit function, including the structure of the internal audit department, staffing, and the suitability and seniority of the official heading it, reporting structure coverage, and the frequency of internal audit, and, where necessary, approve changes;
- d. Review the findings of any investigations by internal auditors or vigilance officials into actual or suspected fraud or irregularity or a failure of internal control systems of a material nature, and convey to the Board any comments of the Committee or action initiated by it on the findings;
- e. Oversee the Bank's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient, and credible, and present a true and fair view of the state of affairs and of the profit or loss of the Bank for the relevant financial year or other period as the case may be;
- f. Recommend, for shareholders' approval, the appointment, reappointment, removal, or replacement of the external auditors, and the fee payable to them for the audit, taking into consideration any relationship between the auditors and the Bank that may impact on the independence of the auditors in carrying out the audit;
- g. Discuss with the external auditors, before they commence the audit, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is employed;
- h. Review the draft quarterly and annual financial statements with the external auditors and the management before submission to the Board for approval; and
- i. Discuss with the management the auditors' report and assessment, their qualifications and concerns, if any, and the management's response to the auditors' management letter and long-form audit report.

The Audit Committee met 7 (Seven) times during the year in due compliance with RBI and Listing Agreement requirements.

Attendance Details are given below.

Name of the members	No of meetings attended.
Shri. Nilesh Vikamsey	4
Dr. M. Y. Khan	3
Dr. T. C. Nair	6
Shri. P. C. Cyriac	3
Shri. Suresh Kumar	3

### Nomination, Ethics and Remuneration Committee

The Committee is chaired by Shri. P.C. Cyriac and have two other members viz: Prof. Abraham Koshy and Shri. Suresh Kumar. All of them are Non Executive and Independent Directors. Shri. P. H. Ravikumar was a member of the Committee and ceased to be a member w.e.f 24.06.2011 on reconstitution of the Committee.

The terms of reference of the Committee are:

- a. Develop, for Board approval, a policy on the size and composition of the Board taking into account the available and needed diversity and balance in terms of experience, knowledge, skills, and judgment of the Directors.
- b. Review, from time to time, possible candidates for current or potential Board vacancies, including Directors who are to retire and are eligible for reappointment or re-election and other persons who may be recommended by the Chairman or other Directors, shareholders, senior officers of the Bank, or others; and
- c. Recommend to the Board candidates for election (including re-election) or appointment (including reappointment) to the Board.
- d. To look into the complaints and allegations against the top management of the Bank.
- e. To review the compensation package for the MD & CEO and the Executive Directors, and recommend revisions for Board approval.

The Committee met 8 (Eight) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended.
Shri. P. C. Cyriac	8
Shri. Abraham Koshy	6
Shri. Suresh Kumar	8
Shri. P. H. Ravikumar*	4

\*Shri. P. H. Ravikumar ceased to be a Director w.e.f 03.09.2011

### Shareholders'/Investors' Grievances and Share Transfer Committee

The Committee is chaired by Shri. P.C. Cyriac and consists of Shri Nilesh Vikamsey, Shri. Shyam Srinivasan, MD & CEO of the Bank & Shri. P.C. John (Executive Director), as members. Shri Nilesh Vikamsey was inducted as a member w.e.f 29.07.2011. Shri Girish Kumar. G, Company Secretary, functions as the Compliance Officer.

The terms of reference of the Committee are:

- a. To approve or reject applications for transfer of shares referred to the Committee by the Bank's Registrar and Share Transfer Agents in terms of such criteria as may be determined by the Committee and conveyed to the Agents.
- b. To initiate further actions on the complaints as is considered necessary or desirable by way of redressal or to prevent similar complaints arising in the future; and
- c. To review, where necessary, complaints received from shareholders or others regarding transfer of shares, non-receipt of declared dividends, non-receipt of annual accounts or reports, or other matters relating to shareholding in the Bank, and any action taken by the Bank on such complaints;

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The Committee met 8 (Eight) times during the year and reviewed and redressed 240 complaints out of 240 complaints received from shareholders. The Bank attended to the complaints promptly and to the satisfaction of the shareholders. All the share-transfer applications received up to 31 March 2012 have been processed.

Attendance Details are given below.

Name of the members	No of meetings attended
Shri. P. C. Cyriac	8
Shri. Nilesh Vikamsey	5
Shri. Shyam Srinivasan	8
Shri. P. C. John	8

**Finance Committee**

The Committee is chaired by Shri Suresh Kumar since 24th June, 2011, on reconstitution of the Committee and consists of Shri. P.C. Cyriac, Shri. Shyam Srinivasan, MD & CEO of the Bank and Shri. P. C. John, (Executive Director) as members. Shri. P.C. Cyriac was inducted as a member w.e.f. 29.07.2011. Shri. P. H. Ravikumar and Dr. M. Y. Khan were members of the Committee and they ceased to be members w.e.f 24.06.2011 and 29.07.2011 respectively on reconstitution of the Committee.

The terms of reference of the Committee are:

- To consider proposals for approval, renewal, or modification of various types of funded and non-funded credit facilities to clients within such authority as is delegated to the Committee by the Board from time to time.
- Review of top 100 borrowal accounts of below ₹ 5 Cr in each category of NPA i.e. substandard/doubtful/loss.
- Credit proposals sanctioned by MD & CEO/Executive Director/General Manager(s).
- Compromise proposals/bad debts written off with the approval of MD & CEO/Executive Director.

The Finance Committee met 9 (Nine) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended
Shri. Suresh Kumar	5
Shri. P. C. Cyriac	5
Shri. Shyam Srinivasan	9
Shri. P. C. John	9
Dr. M. Y. Khan	3
Shri. P. H. Ravikumar*	4

\*Shri. P. H. Ravikumar ceased to be a Director w. e. f. 03.09.2011



### Risk Management Committee

The Committee is chaired by Prof. Abraham Koshy and consists of, Dr.T.C. Nair, Shri. Shyam Srinivasan, MD & CEO of the Bank, and Shri. P.C John, (Executive Director) as members. Dr. M. Y. Khan was a member of the Committee and he ceased to be a member w.e.f 29.07.2011 on reconstitution of the Committee. The terms of reference of the Committee are:

- a. Devise the policy and strategy for integrated risk management containing various risk exposure of the Bank.
- b. Effectively coordinate between the Credit Risk Management Committee (CRMC), Asset Liability Management Committee (ALCO) and Operation Risk Management Committee (ORMC).
- c. Setting policies and guidelines for credit risk measurement, management and reporting.
- d. Ensuring that the credit risk management processes satisfy the Bank's policy.
- e. Set risk parameters and prudential limits for credit exposure.
- f. Appointment of qualified and competent staff; ensuring posting of qualified and competent staff, independent credit risk managers, etc.
- g. Ensure that adequate training is made available to the staff in the Credit Risk Management Department, which handles this complex function.
- h. Ensuring that market risk management processes (including people, systems, operations, limits and controls) satisfy bank's policy.
- i. Reviewing and approving market risk limits, including triggers or stop-losses for traded and accrual portfolios
- j. Ensuring robustness of financial models, and the effectiveness of all systems used to calculate market risk.
- k. Setting policies and guidelines of operational risk measurement, management and reporting.
- l. Ensure that adequate training is made available to the staff handling Operational Risk Management functions, which is of great importance to the Bank.

The Risk Management Committee met 4 (Four) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended
Shri. Abraham Koshy	4
Dr. T. C. Nair	4
Shri. Shyam Srinivasan	4
Shri. P. C. John	3

### Customer Service Committee

The Committee is chaired by Prof. Abraham Koshy and consists of, Shri. Nilesh Vikamsey, Shri. Shyam Srinivasan, MD & CEO of the Bank and Shri. P. C John, (Executive Director) as members. Shri. P.C. Cyriac

## The Federal Bank Limited

## Corporate Governance

was a member of the Committee and he ceased to be a member w.e.f 29.07.2011 on reconstitution of the Committee. Shri. Nilesh Vikamsey was inducted as a member w.e.f 24.06.2011. The terms of reference of the Committee are:

- Addressing the formulation of a comprehensive Deposit Policy, incorporating the issues such as the treatment of death of a depositor for operations of his account, the product approval process, the annual survey of depositor satisfaction and the triennial audit of such services. Besides, the Committee also examines any other issues having a bearing on the quality of customer service rendered.

The Committee met 3 (Three) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended
Shri. Abraham Koshy	3
Shri. Nilesh Vikamsey	2
Shri. Shyam Srinivasan	3
Shri. P. C. John	2
Shri. P. C. Cyriac	1

#### Committee for Review of Fraud Cases of Rs.1 Cr. & Above

The Committee is chaired by Shri. Shyam Srinivasan, MD & CEO of the Bank, and consists of Dr. T.C. Nair, Shri. Nilesh Vikamsey and Shri. P.C John (Executive Director) as members. Dr. M.Y. Khan and Shri. P.C. Cyriac were members of the Committee and they ceased to be members w.e.f.24.06.2011 and Shri. Nilesh Vikamsey was inducted as a member w.e.f.29.07.2011 on reconstitution of the Committee. The Committee met 2 (Two) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended
Shri. Shyam Srinivasan	2
Dr. T. C. Nair	2
Shri. Nilesh Vikamsey	1
Shri. P. C. John	2
Shri. P. C. Cyriac	1

#### Committee for Investment and Raising of Capital

The Committee is chaired by Shri. Suresh Kumar and consists of Shri. Shyam Srinivasan, MD & CEO, Shri. Nilesh Vikamsey and Dr.T.C Nair as members with an objective to look into the various avenue for strategic & non-strategic investment within the overall policy of the Bank for its organic and inorganic growth. The Committee also looks after the various options for raising of resources to achieve the tasks. Shri. P. H. Ravikumar and Dr. M.Y. Khan were members of the Committee and they ceased to be members w.e.f 24.06.2011. Shri. Nilesh Vikamsey was inducted as a member w.e.f. 24.06.2011 on reconstitution of the Committee

The Committee met 2 (Two) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended
Shri. Suresh Kumar	2
Shri. Shyam Srinivasan	2
Shri. Nilesh Vikamsey	1
Dr. T. C. Nair	2
Shri. P. H. Ravikumar*	1

\*Shri. P. H. Ravikumar ceased to be a Director w. e. f. 03.09.2011

#### Committee for Human Resources Policy

The Committee is chaired by Prof. Abraham Koshy, and consists of Shri. Nilesh Vikamsey, Shri. Shyam Srinivasan, MD & CEO and Shri. P. C John (Executive Director) as members. Shri. P.C. Cyriac was a member of the Committee and he ceased to be a member w.e.f 29.07.2011 and Shri. Nilesh Vikamsey was inducted as a member w.e.f 29.07.2011 on reconstitution of the Committee.

The terms of reference of the Committee are:

- a. To review the existing HR policy of the Bank.
- b. Finalize the organizational structure
- c. Address concerns expressed by various quarters like Union, Association etc.
- d. To identify the areas of motivation
- e. Review recruitment policies
- f. Review compensation policies
- g. Make industry comparison
- h. Review existing agreements and suggest methods to make them mutually beneficial
- i. Introduction of performance management/measurement and compensation packages.

The Committee met 3 (Three) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended
Shri. Abraham Koshy	3
Shri. Nilesh Vikamsey	2
Shri. Shyam Srinivasan	3
Shri.P.C.John	3
Shri. P. C. Cyriac	1

#### Committee for Marketing Strategies

The Committee is chaired by Prof. Abraham Koshy and consists of Shri. Nilesh Vikamsey, Shri. Shyam Srinivasan, MD & CEO and Shri. P.C John (Executive Director) as members to evolve and formulate the strategies for marketing of its various products. Shri. P.C.Cyriac was a member of the Committee and he ceased to be a member w.e.f 29.07.2011 and Shri. Nilesh Vikamsey was inducted as a member w.e.f 24.06.2011 on reconstitution of the Committee.

## The Federal Bank Limited

## Corporate Governance

The Committee draws plan & programme to achieve the target in the competitive scenario.

The Committee met 3 (Three) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended
Shri. Abraham Koshy	3
Shri. Nilesh Vikamsey	2
Shri. Shyam Srinivasan	3
Shri. P. C. John	2
Shri. P. C. Cyriac	1

**DETAILS OF BOARD, AUDIT COMMITTEE, FINANCE COMMITTEE, RISK MANAGEMENT COMMITTEE AND SHARE TRANSFER COMMITTEE MEETINGS HELD DURING THE FINANCIAL YEAR ENDED MARCH 31, 2012.**

SL. No.	Board Meeting	Audit Committee	Finance Committee	Risk Management Committee (RMC)	Share transfer Committee
1.	06.05.2011	06.05.2011	28.04.2011	23.06.2011	06.05.2011
2.	24.06.2011	23.06.2011	08.06.2011	12.10.2011	24.06.2011
3.	29.07.2011	29.07.2011	22.06.2011	15.02.2012	29.07.2011
4.	20.08.2011	21.10.2011	21.07.2011	29.03.2012	03.09.2011
5.	03.09.2011	10.11.2011	02.09.2011		21.10.2011
6.	21.10.2011	14.12.2011	20.10.2011		14.12.2011
7.	14.12.2011	22.01.2012	02.12.2011		23.01.2012
8.	23.01.2012		15.02.2012		19.03.2012
9.	19.03.2012		10.03.2012		

**Information Relating to Last Three General Body Meetings is Furnished Below:**

Name of Meeting	Day, Date and Time of Meeting	Venue	Special Resolution Transacted
78th Annual General Meeting	Monday, 17th August 2009 at 10 A.M.	Mahatma Gandhi Municipal Town Hall, Aluva	No Special Resolution
79th Annual General Meeting	Monday, 13 <sup>th</sup> September 2010 at 10 A.M.	Mahatma Gandhi Municipal Town Hall, Aluva	No Special Resolution
80th Annual General Meeting	Saturday, 3rd September 2011 at 10 A.M.	Mahatma Gandhi Municipal Town Hall, Aluva	No Special Resolution

**Disclosures**

There were no material transactions between the Bank and its Directors or management having potential conflict with the larger interests of the Bank. The Bank complied with the directives issued by the stock exchanges on which the Bank's shares are listed, SEBI, and other regulatory authorities. No penalties or

strictures have been imposed on the Bank by SEBI or any of the Stock Exchanges for any non-compliance on any matter relating to capital markets during the last three years.

**Insider Trading Code:**

The Bank has formulated a code for prevention of Insider Trading pursuant to Securities and Exchange Board of India (Insider Trading) (Amendment) Regulation 2002 to prevent the practices of Insider Trading. Shri. Girish Kumar Ganapathy, Company Secretary has been designated as Compliance Officer for this purpose. Senior Management of the Bank has affirmed compliance with the Code of Conduct.

**Adherence of Code of Corporate Governance:**

The Board of Directors of the Bank has adopted the Code of Corporate Governance. All the Board members and the senior management of the Bank have affirmed compliance to the Bank's Code of Corporate Governance

**Training of Board Members:**

The Bank has initiated steps for meeting the training needs of the directors. An interactive session with Shri P J Nayak, Chief Executive of Morgan Stanley India and Ex Chairman of Axis Bank, and the Board of Directors was conducted as a part of the training programme.

**Mechanism for Evaluating Non-executive Board Members:**

The Bank has initiated a mechanism for the performance evaluation of non-executive directors.

**Whistle Blower Policy:**

The Bank affirms that no employee has been denied access to the Audit Committee of the Board under the Whistle Blower Policy adopted by the Bank

**The Bank has adopted the non-mandatory items like Constitution of Board Remuneration Committee, Whistle Blower mechanism, Training of Board members etc.**

**Ethical Standards Employed by the Bank:**

The Bank has formulated service manual for its employees. This manual contains comprehensive regulations on ethical standards to be mandatorily observed by all the employees of the Bank.

**Outstanding GDRs/ADRs/Warrants or any Convertible Instruments, Conversion Date and Likely Impact on Equity:**

The Bank has 4140841 GDRs (equivalent to equity shares) outstanding, which constituted 2.42 % of the Bank's total equity capital as at 31 March 2012. No convertible debenture is outstanding.

**CEO/CFO Certification:**

In terms of Clause 49 of the Listing Agreement, the certification by MD & CEO and Chief Financial Officer on the financial statements and internal controls relating to financial reporting has been obtained.

**Means of Communication:**

The quarterly, unaudited and annual audited financial results were published in nationally circulated newspapers in English, such as, Business Line, Business Standard and Financial Express, and in the regionally circulated Malayalam daily Deepika. The results were also displayed on the Bank's website - [www.federalbank.co.in](http://www.federalbank.co.in)

## The Federal Bank Limited

## Corporate Governance

**General Information for Shareholders****Annual General Meeting**

Date	: 02.08. 2012
Time	: 10 AM
Venue	: Priyadarshini Town Hall, Thottakkattukara, Aluva-683108
Financial year	: 01 April 2011 to 31 March 2012
Period of book closure	: 24.07.2012 to 02.08.2012
Dividend payment date	: Will be within the prescribed time limit

**Financial Calendar**

Approval of quarterly results for the period ending:

❖ 30 June 2011	29 July 2011
❖ 30 September 2011	21 October 2011
❖ 31 December 2011	23 January 2012
❖ 31 March 2012	11 May 2012

**Listing on Stock Exchanges**

The Bank's shares are listed on the stock exchanges in Mumbai, Kochi and on the National Stock Exchange of India Ltd, Mumbai. The GDRs issued by the Bank in 2006 have been listed on the London Stock Exchange.

BSE Scrip Code	: 500469	Script ID : <b>FEDBANK</b>
NSE Symbol	: FEDERALBNK	
Demat ISIN Code	: INE171A01011	

The annual listing fees for 2011-12 have been paid to all the Stock Exchanges where the shares are listed.

Movements in the Market Price of the Bank's Shares on the National Stock Exchange:

Month	High	Low
Apr-11	457.35	410.00
May-11	446.80	395.25
Jun-11	465.00	417.30
Jul-11	476.40	423.00
Aug-11	433.00	327.00
Sep-11	397.60	350.30
Oct-11	417.00	340.40
Nov-11	422.25	332.15
Dec-11	405.95	322.25
Jan-12	417.80	332.00
Feb-12	474.90	391.60
Mar-12	436.70	388.00

**The Federal Bank Limited****Corporate Governance**

Registrars and Share Transfer agent  
 Integrated Enterprises (India) Ltd.  
 2nd Floor, Kences Towers,  
 No.1, Ramakrishna Street,  
 Off : North Usman Road  
 T. Nagar, Chennai-600017  
 Phone No: 044-28140801-03  
 Fax: 044-28142479  
 Email: corpseiv@integratedindia.in

**Share Transfer**

The share transfer instruments, as and when received, are duly processed and shares in respect of valid share transfer instruments are transferred in the names of transferees complying with rules in force.

The Bank obtains from a Company Secretary in practice, half yearly certificate of compliance with the share transfer formalities as required under Clause 47(c) of the Listing Agreement with Stock Exchanges and files a copy of the certificate with the Stock Exchanges.

As required by SEBI, a Reconciliation of Share Capital Audit is conducted on a quarterly basis by a Practicing Company Secretary and Certificate issued in this regard is forwarded to the Stock Exchanges

**Dematerialisation of the Bank's Shares**

Of the total listed equity shares of the Bank, 97.01 % are held in dematerialized form and 2.99 % in physical form. Under agreements with National Securities Depository Services Ltd (NSDL) and Central Depository Services Ltd (CDSL), the Bank's shares can be and are traded in electronic form. Shares remaining in physical form can be dematerialized for which the shareholders are requested to open a Depository Account with the Depository Participants (DP) and to lodge the share certificates along with Demat Request Form with them.

**Unclaimed Dividends**

Under the Transfer of Unclaimed Dividend Rules, it would not be possible to claim the dividend amount once deposited in Investors' Education & Protection Fund (IEPF). Therefore, shareholders are again requested to claim their unpaid dividend, if not already claimed.

The details of unclaimed dividend of the last three years are as under:

(As on 31 Mar 2012)

Sl. No.	Financial Year	Amount of unclaimed Dividend (In ₹)
1	2008-09	8419185.00
2	2009-10	8053110.00
3	2010-11	13856462.00
	Total	30328757.00

## The Federal Bank Limited

## Corporate Governance

SHARE HOLDING PATTERN AS ON MARCH 31, 2012		
Share holder Category	Shares	% Holding
Shares held by Custodians and others against which Depository Receipts have been issued	4140841	2.42
Mutual Funds/UTI	23480939	13.73
Financial Institutions/Bank/Insurance Companies	12144460	7.10
Foreign Institutional Investors	72271411	42.25
Bodies Corporate	21904814	12.81
NRI, Trust, Overseas Corporate Bodies, Foreign National, Foreign Body Corporate, Clearing Member	9986607	5.83
Individual	27118429	15.86
<b>Total</b>	<b>171047501</b>	<b>100.00</b>

## Details of Shareholders Holding more than 1% of the Shares as on 31.03.2012

SL.NO.	NAME	SHARES	PERCENTAGE
1	INTERNATIONAL FINANCE CORPORATION	8533442	4.99
2	HSBC BANK (MAURITIUS) LIMITED A/C HSBC IRIS INVESTMENTS (MAURITIUS) LIMITED	8516310	4.98
3	LIFE INSURANCE CORPORATION OF INDIA	8348284	4.88
4	L & T CAPITAL HOLDINGS LIMITED	7995619	4.67
5	EMIRATES FINANCIAL SERVICES PSC	7123395	4.16
6	MORGAN STANLEY MAURITIUS COMPANY LIMITED	5862934	3.43
7	FID FUNDS (MAURITIUS) LIMITED	4691248	2.74
8	DEUTSCHE BANK TRUST COMPANY AMERICAS	4140841	2.42
9	EQUINOX PARTNERS LP	4099402	2.40
10	GENERAL INSURANCE CORPORATION OF INDIA	3749996	2.19
11	BAJAJ ALLIANZ LIFE INSURANCE COMPANY LTD	3641317	2.13
12	ACACIA PARTNERS, LP	3500000	2.05
13	M/S NAPEAN TRADING AND INVESTMENT CO PVT LTD	3348691	1.96
14	RELIANCE CAPITAL TRUSTEE COMPANY LIMITED A/C RELIANCE GROWTH FUND	3301300	1.93
15	PRUDENTIAL ASSET MANAGEMENT (SINGAPORE) LIMITED A/C THE PRUDENTIAL ASSURANCE COMPANY LIMITED	3270789	1.91
16	FRANKLIN TEMPLETON INVESTMENT FUNDS	2396064	1.40
17	RELIANCE CAPITAL TRUSTEE CO. LTD A/C RELIANCE BANKING FUND	2379033	1.39
18	DIMENSIONAL EMERGING MARKETS VALUE FUND	1716368	1.00
19	RELIANCE CAPITAL TRUSTEE CO LTD A/C RELIANCE REGULAR SAVINGS FUND-EQUITY OPTION	1705125	1.00



**Distribution of Holdings as on March 31, 2012**

No. of shares held	Holders		Amount	
	No.	%	₹	%
Up to 500	62205	98.74	186949840	10.93
501 - 1000	356	0.57	25217870	1.47
1001 - 2000	121	0.19	16842150	0.99
2001 - 3000	60	0.10	14955510	0.87
3001 - 4000	21	0.03	7535400	0.44
4001 - 5000	21	0.03	9720910	0.57
5001 - 10000	61	0.10	44801810	2.62
ABOVE 10001	151	0.24	1404451520	82.11
	62996	100.00	1710475010	100.00

\*Out of the issued capital and paid up capital of the Bank, 82788 equity shares (only bonus shares) are kept in abeyance due to litigation.

**Locations**

With its Head Office at Aluva, the Bank has a network of 950 Branches across India.

Address for correspondence: The Federal Bank Ltd.  
Secretarial Department,  
PB No. 103, Federal Towers,  
Head Office, Aluva – 683 101,  
Kerala State, India.  
E-mail – [secretarial@federalbank.co.in](mailto:secretarial@federalbank.co.in)

Company Secretary Shri. Girish Kumar Ganapathy

Auditors M/s. Varma & Varma, Kochi and  
M/s. Price Patt & Co., Chennai.

## The Federal Bank Limited

## Balance Sheet as at 31 March 2012

		हजार रूपयों में (In thousands of ₹)	
31 मार्च 2012 का तुलनपत्र	अनुसूची Schedule No.	As at	As at
		31 March 2012	31 March 2011
<b>पूँजी और देयताएँ</b>	<b>CAPITAL AND LIABILITIES</b>		
पूँजी	Capital	171,04,71	171,04,71
आरक्षितियाँ और अधिशेष	Reserves & Surplus	5535,27,98	4937,61,46
निकषेप	Deposits	48937,12,21	43014,78,06
उधार	Borrowings	4241,03,41	1888,36,26
अन्य दायिताएँ तथा प्रावधान	Other Liabilities & Provisions	1742,28,90	1444,55,93
<b>जोड़</b>	<b>Total</b>	<b>60626,77,21</b>	<b>51456,36,42</b>
<b>आस्तियाँ</b>	<b>ASSETS</b>		
भारतीय रिज़र्व बैंक में नकदी अधिशेष	Cash & Balances with Reserve Bank of India	2424,14,66	2935,05,31
बैंकों में अतिशेष और मांग पर तथा अल्प सूचना पर प्रप्यधन	Balances with banks & money at call and short notice	1108,40,48	813,25,04
विनिधान	Investments	17402,48,77	14537,67,50
अग्रिम	Advances	37755,98,59	31953,23,37
स्थिर आस्तियाँ	Fixed assets	326,13,92	289,81,68
अन्य आस्तियाँ	Other assets	1609,60,79	927,33,52
<b>जोड़</b>	<b>Total</b>	<b>60626,77,21</b>	<b>51456,36,42</b>
आकस्मिक दायिताएँ	Contingent liabilities	35849,40,40	22112,74,97
संग्राहण के लिए बिल	Bills for collection	1189,31,40	912,52,04
प्रमुख लेखा नीतियाँ	Principal Accounting Policies		
लेखा संबन्धी टिप्पणियाँ	Notes on Accounts		

K. Krishnakumar  
Asst. General ManagerP. C. John  
Executive Director & CFOShyam Srinivasan  
Managing Director & CEOP. C. Cyriac  
Chairman

## DIRECTORS

Suresh Kumar

Abraham Koshy

Nilesh S Vikamsey

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered AccountantsFor Price Patt & Co.,  
FRN: 02783S  
Chartered AccountantsKochi  
11-May-2012R. Rajasekharan  
Partner, Membership No. 22703S. Ramaswamy  
Partner, Membership No. 025918

## The Federal Bank Limited

## Profit and Loss Account for the year ended 31 March 2012

		हजार रूपयों में (In thousands of ₹)	
31 मार्च 2012 को समाप्त वर्ष के लिए लाभ-हानि लेख	अनुसूची Schedule No.	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>आय</b>	<b>I. INCOME</b>		
आर्जित ब्याज	Interest earned	5558,39,24	4052,02,83
अन्य आय	Other income	532,34,32	516,81,41
<b>जोड़</b>	<b>Total</b>	<b>6090,73,56</b>	<b>4568,84,24</b>
<b>व्यय</b>	<b>II. EXPENDITURE</b>		
व्यय किया गया ब्याज	Interest expended	3604,98,51	2305,44,96
परिचालन व्यय	Operating expenses	979,27,31	836,13,91
उपबंध और आकस्मिक व्यय	Provisions & contingencies	729,67,79	840,17,05
<b>जोड़</b>	<b>Total</b>	<b>5313,93,61</b>	<b>3981,75,92</b>
<b>लाभ/हानि</b>	<b>III. PROFIT/LOSS</b>		
वर्ष के शुद्ध लाभ	Net profit for the year	776,79,95	587,08,32
जोड़े: पिछले वर्ष के अग्रनीत लाभ	Add Profit b/f from Previous Year	25,77,66	23,13,93
		<b>802,57,61</b>	<b>610,22,25</b>
<b>विनियोजन</b>	<b>IV. APPROPRIATIONS</b>		
राजस्व आरक्षितियों को अंतरण	Transfer to Revenue Reserve	98,88,00	232,11,00
कानूनी आरक्षितियों को अंतरण	Transfer to Statutory Reserve	194,20,00	146,80,00
पूँजीगत आरक्षितियों को अंतरण	Transfer to Capital Reserve	5,40,17	-
इआयकर एक्ट सेक्शन 36 (1) (viii)]	Transfer to Special Reserve (sec 36(1)(viii) of IT Act)	28,50,00	36,56,00
प्रस्तावित लाभांशों को प्रावधान	Provision for proposed dividend	153,94,24	145,39,00
लाभांश करे को प्रावधान	Provision for Dividend Tax	24,97,33	23,58,59
अतिशेष जो आगे तुलन पत्र में ले जाया गया है।	Balance carried over to Balance Sheet	296,67,87	25,77,66
<b>जोड़</b>	<b>Total</b>	<b>802,57,61</b>	<b>610,22,25</b>
प्रति शेयर अर्जन (₹)	Earnings per Share (Basic) (₹)	45.41	34.32
प्रमुख लेखा नीतियाँ	Principal Accounting Policies		
लेखा संबन्धी टिप्पणियाँ	Notes on Accounts		

K. Krishnakumar  
Asst. General ManagerP. C. John  
Executive Director & CFOShyam Srinivasan  
Managing Director & CEOP. C. Cyriac  
Chairman

## DIRECTORS

Suresh Kumar

Abraham Koshy

Nilesh S Vikamsey

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered AccountantsFor Price Patt & Co.,  
FRN: 02783S  
Chartered AccountantsKochi  
11-May-2012R. Rajasekharan  
Partner, Membership No. 22703S. Ramaswamy  
Partner, Membership No. 025918

## The Federal Bank Limited

## Schedules forming part of Balance Sheet

	(In thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
<b>SCHEDULE 1. CAPITAL</b>		
Authorised Capital [20,00,00,000 (Previous year 20,00,00,000) equity shares of ₹ 10 each]	200,00,00	200,00,00
Issued Capital [17,13,17,910 (Previous year 17,13,17,910) equity shares of ₹ 10/- each]	17,13,179	171,31,79
Subscribed & Called up Capital [17,10,47,501 (Previous year 17,10,47,501) equity shares of ₹10/- each, which includes 3318 shares (Previous year 3318) of ₹ 10/- each issued for consideration other than cash and 4,37,35,378 shares (previous year 4,37,35,378) issued as Bonus shares and 2,00,00,000 underlying equity shares (previous year 2,00,00,000) of ₹ 10/- each issued towards Global Depository Receipts (including over allotment option of 20,00,000 equity shares) and 8,54,29,763 equity shares of ₹ 10/- each allotted on Rights basis during the financial year 2007-08] (Allotment of 1306 Shares (Previous year 1306) of ₹ 10/- each pertaining to the Rights Issue of 1993 issued at a premium of ₹ 25/- per share and 52,420 shares (previous year 52,420) of ₹ 10/- each pertaining to the Rights Issue of 1996 issued at a premium of ₹ 140/- per Share and 2,16,683 equity shares (Previous year 2,16,683) of ₹ 10/- each at a premium of ₹ 240/- per share pertaining to Rights issue of 2007 are kept pending following orders from various courts) (Issue of certificates/credit in demat account in respect of 82,788 shares (previous year 82,788) of ₹ 10/- each out of the Bonus issue of 2004 are kept in abeyance consequent to injunction orders from various courts).	171,04,75	171,04,75
Less: Calls in arrears	4	4
Add: Forfeited shares	-	-
<b>Total</b>	<b>171,04,71</b>	<b>171,04,71</b>
<b>SCHEDULE 2. RESERVES &amp; SURPLUS</b>		
I. Statutory Reserves		
Opening balance	875,26,76	728,46,76
Additions during the year	194,20,00	146,80,00
	<b>1069,46,76</b>	<b>875,26,76</b>
II. Capital Reserves		
(a) Revaluation Reserve		
Opening balance	5,63,28	5,86,30
Deductions during the year	21,86	23,02
	<b>5,41,42</b>	<b>5,63,28</b>
(b) Others		
Opening balance	160,21,76	160,21,76
Additions during the year	5,40,17	-
	<b>165,61,93</b>	<b>160,21,76</b>
	<b>171,03,35</b>	<b>165,85,04</b>

## The Federal Bank Limited

## Schedules forming part of Balance Sheet

	(In thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
III. Share premium		
Opening balance	2475,58,56	2475,26,36
Additions during the year	-	32,20
	2475,58,56	2475,58,56
IV. Revenue & Other Reserves		
a) Revenue Reserve		
Opening Balance	1021,75,41	789,64,41
Additions during the year	98,88,00	232,11,00
	1120,63,41	1021,75,41
b) Other Reserves		
Investment Fluctuation Reserve		
Opening Balance	189,72,00	189,72,00
Additions during the year	-	-
	189,72,00	189,72,00
c) Special Reserve(As per section 36(1)(viii) of IT Act)		
Opening balance	153,56,00	117,00,00
Addition during the year	28,50,00	36,56,00
	182,06,00	153,56,00
V. Contingency Reserve		
Opening balance	30,10,03	30,10,03
Addition during the year	-	-
	30,10,03	30,10,03
VI. Balance in Profit & Loss a/c	296,67,87	25,77,66
<b>Total</b>	<b>5535,27,98</b>	<b>4937,61,46</b>
<b>SCHEDULE 3. DEPOSITS</b>		
A. I. Demand Deposits	12,69,97	142,68,91
ii. From Others	2533,20,98	2263,11,94
	2545,90,95	2405,80,85
II. Savings Bank Deposits	10929,94,57	9148,29,02
III. Term Deposits		
i. From Banks	476,20,50	199,20,23
ii. From Others	34985,06,19	31261,47,96
	35461,26,69	31460,68,19
<b>Total</b>	<b>48937,12,21</b>	<b>43014,78,06</b>
B. i. Deposits of branches in India	48937,12,21	43014,78,06
ii. Deposits of branches outside India	Nil	Nil
<b>Total</b>	<b>48937,12,21</b>	<b>43014,78,06</b>

## The Federal Bank Limited

## Schedules forming part of Balance Sheet

	(In thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
<b>SCHEDULE 4. BORROWINGS</b>		
I. Borrowings in India		
i. Reserve Bank of India	90,00,00	100,00,00
ii. Other Banks	-	-
iii. Other institutions and agencies	2516,17,33	1417,29,17
iv. Subordinated debt	306,00,00	306,00,00
	<u>2912,17,33</u>	<u>1823,29,17</u>
II. Borrowings outside India	1328,86,08	65,07,09
<b>Total</b>	<b>4241,03,41</b>	<b>1888,36,26</b>
Secured borrowings in the above	299,81,45	-
<b>SCHEDULE 5. OTHER LIABILITIES AND PROVISIONS</b>		
I. Bills Payable	20,51,90	24,29,70
II. Interoffice adjustments (Net)	163,68,47	182,36,54
III. Interest accrued	265,85,32	149,23,10
IV. Deferred Tax Liability (Net)	64,19,00	-
V. Others (including provisions)*	1228,04,21	1088,66,59
<b>Total</b>	<b>1742,28,90</b>	<b>1444,55,93</b>
*Includes Contingent provisions against standard assets	196,03,81	159,58,81
<b>SCHEDULE 6. CASH &amp; BALANCES WITH RESERVE BANK OF INDIA</b>		
I. Cash in hand (including foreign currency notes)	395,84,43	332,66,89
II. Balance with R B I in Current Account	2028,30,23	2602,38,42
<b>Total</b>	<b>2424,14,66</b>	<b>2935,05,31</b>
<b>SCHEDULE 7. BALANCES WITH BANKS &amp; MONEY AT CALL &amp; SHORT NOTICE</b>		
I. In India		
i. Balances with banks		
a. in Current Accounts	40,09,02	40,16,13
b. in Other Deposit Accounts	423,18,00	273,67,20
ii. Money at call & short notice		
a. With Banks	100,00,00	399,72,13
b. With other institutions	404,57,07	-
<b>Total</b>	<b>967,84,09</b>	<b>713,55,46</b>
II. Outside India		
i. in Current Accounts	13,37,64	32,80,33
ii. in Other Deposit Accounts	127,18,75	66,89,25

## The Federal Bank Limited

## Schedules forming part of Balance Sheet

	(In thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
iii. Money at call & short notice	-	-
<b>Total</b>	<b>140,56,39</b>	<b>99,69,58</b>
<b>Grand Total</b>	<b>1108,40,48</b>	<b>813,25,04</b>
<b>SCHEDULE 8. INVESTMENTS</b>		
I. Investments in India (Gross)	17453,85,45	14554,17,96
Less Provision for Depreciation	51,36,68	16,50,46
Net Investments	17402,48,77	14537,67,50
<b>Break up of Investments in India</b>		
i. Govt. Securities	11531,24,13	9964,52,93
ii. Other approved Securities	-	35,74
iii. Shares	190,72,92	168,06,61
iv. Debentures & Bonds	960,35,02	605,34,48
v. Subsidiaries & Joint Ventures	395,92,00	217,00,00
vi. Others ( Mutual Funds, Commercial Paper etc.)	4324,24,70	3582,37,74
<b>Total</b>	<b>17402,48,77</b>	<b>14537,67,50</b>
II. Investments outside India	Nil	Nil
<b>SCHEDULE 9. ADVANCES</b>		
A.		
i. Bills purchased & discounted	1853,81,17	898,60,67
ii. Cash credits, overdrafts and loans repayable on demand	21683,22,98	17411,48,48
iii. Term loans	14218,94,44	13643,14,22
<b>Total</b>	<b>37755,98,59</b>	<b>31953,23,37</b>
B.		
i. Secured by tangible assets (includes advances against Book Debts)	26278,13,89	23508,51,56
ii. Covered by Bank/Government guarantees	2864,11,38	1671,22,62
iii. Unsecured	8613,73,32	6773,49,19
<b>Total</b>	<b>37755,98,59</b>	<b>31953,23,37</b>
C.		
I. Advances in India		
i. Priority Sector	12188,45,84	10585,79,92
ii. Public Sector	2817,58,47	1945,87,30
iii. Banks	4,46,36	4,50,44
iv. Others	22745,47,92	19417,05,71
<b>Total</b>	<b>37755,98,59</b>	<b>31953,23,37</b>

## The Federal Bank Limited

## Schedules forming part of Balance Sheet

	(In thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
II. Advances outside India	Nil	Nil
<b>SCHEDULE 10. FIXED ASSETS.</b>		
<b>I OWNED ASSETS</b>		
a. Premises		
At cost as on 31st March of the preceding year	219,27,17	218,54,14
Additions during the year	1,29,13	74,86
	<u>220,56,30</u>	<u>219,29,00</u>
Deductions during the year	-	1,83
	<u>220,56,30</u>	<u>219,27,17</u>
Depreciation to date	56,88,70	50,78,90
	<u>163,67,60</u>	<u>168,48,27</u>
b. Other fixed assets (including furniture & fixtures)		
At cost as on 31st March of the preceding year	383,85,29	337,61,75
Additions during the year	92,37,95	57,42,43
	<u>476,23,24</u>	<u>395,04,18</u>
Deductions during the year	8,58,65	11,18,89
	<u>467,64,59</u>	<u>383,85,29</u>
Depreciation to date	305,56,61	262,90,22
	<u>162,07,98</u>	<u>120,95,07</u>
II ASSETS GIVEN ON LEASE		
At cost as on 31st March of the preceding year	3,10,13	3,10,13
Additions during the year	-	-
	<u>3,10,13</u>	<u>3,10,13</u>
Deductions during the year	-	-
	<u>3,10,13</u>	<u>3,10,13</u>
Depreciation to date	2,71,79	2,71,79
	<u>38,34</u>	<u>38,34</u>
<b>Total (I &amp; II)</b>	<b><u>326,13,92</u></b>	<b><u>289,81,68</u></b>
<b>SCHEDULE 11. OTHER ASSETS</b>		
I. Inter office adjustments (net)	-	-
II. Interest accrued	399,50,24	280,41,36
III. Tax paid in advance/tax deducted at source (Net of provision)	620,48,86	338,48,01
IV. Stationery & Stamps	2,69,18	2,62,69
V. Non-banking assets acquired in satisfaction of claims	3,10,61	3,05,01
VI. Deferred Tax Asset (Net)	-	1,50,00
VII. Others	583,81,90	301,26,45
<b>Total</b>	<b><u>1609,60,79</u></b>	<b><u>927,33,52</u></b>
<b>SCHEDULE 12. CONTINGENT LIABILITIES</b>		
I. Claims against the Bank not acknowledged as debts	661,14,55	613,31,98
II. Liability on account of outstanding forward exchange contracts	30431,60,64	16163,50,63
III. Guarantees given on behalf of constituents - in India	3533,64,90	3739,03,73
IV. Acceptances, endorsements and other obligations	1188,48,26	1562,27,47
V. Other items for which the Bank is contingently liable	34,52,05	34,61,16
<b>Total</b>	<b><u>35849,40,40</u></b>	<b><u>22112,74,97</u></b>



## The Federal Bank Limited

## Schedules forming part of Profit and Loss Account

	(In thousands of ₹)	
	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>SCHEDULE 13. INTEREST EARNED</b>		
I. Interest/discount on advances/bills	4189,76,37	3168,80,24
II. Income on investments	1315,73,76	868,03,04
III. Interest on balances with RBI & other inter-bank funds	34,88,36	10,59,78
IV. Others	18,00,75	4,59,77
<b>Total</b>	<b>5558,39,24</b>	<b>4052,02,83</b>
<b>SCHEDULE 14. OTHER INCOME</b>		
I. Commission, exchange and brokerage	251,56,90	250,22,42
II. Net profit/loss on sale of investments	82,07,06	45,75,89
III. Net profit/loss on revaluation of investments	-	-
IV. Net profit on sale of land, buildings & other assets	33,16	32,69
V. Net profit on foreign exchange transactions	84,20,86	57,22,90
VI. Income earned by way of dividends etc. from companies in India	5,12,46	3,52,36
VII. Miscellaneous income [Includes Recoveries in assets written off ₹ 8573.78 lakh (previous year ₹ 14607.34 lakh)]	109,03,88	159,75,15
<b>Total</b>	<b>532,34,32</b>	<b>516,81,41</b>
<b>SCHEDULE 15. INTEREST EXPENDED</b>		
I. Interest on deposits	3331,28,00	2161,98,20
II. Interest on Reserve Bank of India/Inter bank borrowings	48,54,65	9,86,75
III. Others	225,15,86	133,60,01
<b>Total</b>	<b>3604,98,51</b>	<b>2305,44,96</b>
<b>SCHEDULE 16. OPERATING EXPENSES</b>		
I. Payments to & provisions for employees	543,85,38	480,41,33
II. Rent, taxes & lighting	94,81,28	79,59,52
III. Printing & stationery	10,36,90	10,16,38
IV. Advertisement & publicity	16,05,10	18,12,37
V. Depreciation on Bank's property	568831	544858
Less: Depreciation on revaluation of Premises transferred from Revaluation Reserve	<u>2186</u>	<u>2302</u>
VI. Directors' fees, allowances and expenses	56,66,45	54,25,56
VII. Auditors' fees & expenses (including branch auditors)	69,64	70,85
VIII. Law charges	3,03,69	2,83,52
IX. Postage, Telegrams, Telephones etc	4,96,44	5,36,41
X. Repairs & maintenance	27,61,89	18,86,85
XI. Insurance	37,32,19	23,03,99
XII. Other expenditure	43,53,71	35,84,70
	140,34,64	106,92,43
<b>Total</b>	<b>979,27,31</b>	<b>836,13,91</b>
<b>SCHEDULE 17. EARNINGS PER SHARE</b>		
Net Profit for the year	776,79,95	587,08,32
Number of Shares	17,10,47	17,10,47
Earnings Per Share (₹)	45.41	34.32

**SCHEDULE 18.  
PRINCIPAL ACCOUNTING POLICIES****1. General**

The financial statements have been drawn up on historical cost convention and on accrual basis of accounting (unless otherwise stated) and conform to Generally Accepted Accounting Principles in India which comprises the statutory provisions and practices followed in the banking industry in India.

**2. Advances**

- a) Advances are classified as Performing Assets (Standard) and Non Performing assets, (Sub-standard, Doubtful, or Loss assets) and provisions required for possible losses on non performing advances are made over and above the minimum required as per the guidelines of the Reserve Bank of India (RBI) on matters relating to prudential norms.
- b) Advances shown in the Balance Sheet are net of:
  - (i) bills rediscounted,
  - (ii) provisions made for non performing advances.
- (c) Provisions are made in respect of the following as per the guideline of RBI and included under the head "Other liabilities and provisions- others" in the Balance Sheet.
  - (i) Provisions towards interest sacrifice/fair value diminution on restructured /rescheduled advances.
  - (ii) Provision for standard asset.

**3. Investments**

- (a) Investments are classified under three categories, viz 'Held for Trading' (HFT), 'Available for Sale' (AFS), and 'Held to Maturity' (HTM) as per RBI guidelines and disclosed in the Balance Sheet under six classifications viz.
  - i) Government Securities
  - ii) Other Approved Securities
  - iii) Shares
  - iv) Debentures and Bonds
  - v) Subsidiaries & Joint Ventures
  - vi) Others

Investments are also classified into performing & non performing as per the guidelines of RBI & provisions are made for possible losses as non performing investments as per the guidelines of RBI.

- b) In respect of Profit on sale of investments under 'Held to Maturity' category, an equivalent amount, net of taxes and transfer to statutory reserve, is apportioned to the Capital Reserve account.
- c) REPO & Reverse REPO transactions are accounted in accordance with the extant RBI Guidelines.
- d) Valuation
  - i) Investments classified as HFT have been marked to market and valued scrip-wise under each classification at monthly intervals, excluding equity shares which are done on a weekly basis. Within a classification net appreciation is ignored and net depreciation is provided for.
  - ii) Investments classified as AFS have also been marked to market, and valued quarterly excluding equities, which are done on a weekly basis. Within a classification net appreciation is ignored and net depreciation is provided for.

- iii) Investments classified as HTM are stated at acquisition cost except in cases where the acquisition cost is higher than the face value, in which case the excess, i.e. premium on acquisition, is amortised over the period remaining to maturity on equated basis. Any diminution in value other than temporary, in investments in subsidiaries/joint venture/associates included under HTM is provided for.
- iv) Closing stock of gold is valued at cost or market price whichever is lower.

#### 4. Derivatives

Interest rate swaps/currency swaps in respect of trading position and which are outstanding as on Balance Sheet date are marked to market and net appreciation is ignored and net depreciation is recognised in the Profit and Loss Account.

Derivative contracts which are entered for hedging purposes, the net amount receivable/payable is recognized on accrual basis. Gains or losses on termination on such contracts are deferred and recognized over the remaining contractual life of the derivatives or the remaining life of the assets/liabilities, whichever is earlier. Such derivative contracts are marked to market and the resultant gain or loss is not recognized, except where the contract is designated with an asset/ liability which is also marked to market, in which case, the resulting gain or loss is recorded as an adjustment to the market value of the underlying asset/ liability.

#### 5. Transactions Involving Foreign Exchange

- a) All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the close of the year as advised by the Foreign Exchange Dealers' Association of India (FEDAI).
- b) Income and expenditure denominated in foreign currencies have been accounted at the exchange rates prevailing on the dates of the transactions.
- c) Outstanding foreign exchange forward contracts are revalued at the rates applicable on the closing date as advised by FEDAI. The resultant profit/loss is taken into Profit and Loss account.
- d) Contingent liabilities on guarantees, letters of credit, acceptances and endorsements are reported at the rates prevailing on the Balance Sheet date.

#### 6. Fixed Assets

- a) Fixed Assets are stated at historical/revalued cost less accumulated depreciation & impairment of assets, if any. Premises which were revalued are stated at such values on revaluation and the appreciation credited to the Capital Reserve.
- b) Depreciation on assets has been provided for on the diminishing balances at the rates as per Schedule XIV to the Companies Act, 1956, except on Computers, Mobile phones & EPABX, which are depreciated under the straight line method at 33.33% per annum as per RBI guidelines.

Depreciation on assets sold/disposed off during the year is provided for the period upto the date of sale. Assets costing less than ₹ 5,000 each are fully depreciated.

- c) Depreciation on assets revalued has been charged on their written-down value including the addition made on revaluation, and an equivalent amount towards the additional depreciation provided consequent upon revaluation has been transferred from the Capital Reserve to the Profit & Loss Account.

(d) Licence fee and implementation expenditure for Core Banking Solution are amortised on the straight line basis over a period of three years, on a pro rata basis.

#### 7. Finance Leasing

Accounting Standard on Leases (AS19) issued by the Institute of Chartered Accountants of India (ICAI) is applicable to leases entered into on or after 1st April 2001. Since all the Bank's outstanding finance lease transactions were entered into prior to that date, the Bank has followed the earlier ICAI guidelines in respect of these leases.

Depreciation on non-performing leased assets (NPAs) is provided on written-down value as per the Companies Act 1956, by directly charging to Profit & Loss Account without any corresponding adjustment in the Lease Adjustment Account. In addition to depreciation, provision is also made for non-performing leased assets as per RBI guidelines.

#### 8. Employee Benefits

##### (a) Post –Employment benefit Plans

Payments to defined contribution retirement benefit schemes (other than Second option for pension) are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each Balance Sheet date.

Actuarial gains and losses are recognized in full in the Profit and Loss account for the period in which they occur. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the Balance Sheet represents the present value of the defined obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of scheme assets.

The net liability arising out of exercise of the second option for pension is fully reckoned, to be amortised in five years commencing from 2010-11 with 1/5th thereof being absorbed in the Profit and Loss Account of the year as per approval of RBI (vide letter DBOD. No.BP.BC.15896/21.04.018/2010-11 dated 08.04.2011.)

##### (b) Short-term employee benefits

The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees is recognized during the period when the employee renders the service.

(c) The provision towards sick leave benefit to staff is made based on actuarial valuation.

#### 9. Recognition of Income and Expenditure

Items of income and expenditure are accounted for on accrual basis, except as stated hereunder:

a) Income from non performing investments/advances are recognised on realisation as per the guidelines of RBI.

- b) Commission other than guarantee commission is accounted on cash basis. Guarantee commission is recognised over the period of the guarantees. Dividends are recognised as and when declared by the investee companies.
- c) Unpaid funded interest on term loans are accounted on realisation as per the guidelines of RBI.
- d) Income from consignment sale of gold is accounted as other income.

**10. Provision for Income Tax**

Provision for income tax is made for the current tax, and adjustment is made for deferred tax for the year representing the net change in the deferred tax asset or deferred tax liability, in accordance with Accounting Standard 22 issued by the Institute of Chartered Accountants of India (ICAI). Deferred tax assets are recognised on the basis of the management's judgment of reasonable certainty of future profits.

**11. Earnings per Share**

Basic Earnings per share (EPS) reported is computed by dividing net profit after tax by the weighted average number of equity shares outstanding for the year.

**12. Segment Information**

In terms of the guidelines of the RBI on enhanced disclosure of segment information, the Bank's operations are classified into four reportable business segments, viz. Treasury Operations (investment and trading in securities, shares, debentures, etc.), Wholesale Banking, Retail Banking and Other Banking Operations and segment information is reported accordingly. For this purpose, aggregate exposure to a single entity exceeding ₹5 crore is treated as wholesale banking segment and other exposures are treated as retail banking segment as per the RBI guidelines. For presentation of segment information, directly attributable income and assets are allocated as such and the other income, expenses, other assets and liabilities are apportioned on appropriate basis.

**13. Net Profit**

The net profit disclosed in the Profit and Loss Account is after:

- (a) provision for taxes;
- (b) provision for possible losses on Standard Assets, NPAs, and other contingencies;
- (c) depreciation on investments; and
- (d) other usual and necessary provisions.

**14. Use of estimates**

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates. Any revision to the accounting estimates is recognised prospectively in the current and future periods.

**15. Impairment of assets**

Impairment losses, if any, on Fixed Assets (including revalued assets) are recognised in accordance with

## The Federal Bank Limited

## Schedules

the Accounting Standard 28 “Impairment of Assets” issued by Institute of Chartered Accountants of India (ICAI) and charged to Profit and Loss Account.

#### 16. Accounting for provisions, Contingent Liabilities & Contingent Assets

As per the Accounting Standard 29, “Provisions, Contingent Liabilities and Contingent Assets”, issued by the Institute of Chartered Accountants of India (ICAI), the Bank recognises provisions only when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made. Contingent assets are not recognised in the financial statements.

#### 17. ESOS

The Bank follows the intrinsic value method to account for its stock-based employee compensation plans, as per the Guidance Note for “Accounting for Employees Share Based Payments” issued by ICAI

### SCHEDULE 19 – NOTES ON ACCOUNTS

#### 1. Reconciliation

The reconciliation of outstanding entries in inter branch/office transactions as on 31st March 2012 has been substantially completed and the effect, if any, of pending entries will not be material.

- The net liability arising on exercise of second option for Pension by employees (other than separated/retired employees) actuarially determined during FY 2010-11 at ₹ 168.43cr and 1/5th of the said liability amounting to ₹ 33.71cr. was charged to the Profit and Loss Account during last FY and balance unamortized amount of ₹.134.72 crore was carried forward to be amortised equally over the succeeding four years, as per approval of RBI (vide letter no.DBOD.No.BP.BC.15896/21.04.018/2010-11 dated 08.04.2011). Accordingly, an amount of ₹33.68 crore, being proportionate amount is charged to Profit and Loss during the year. The balance outstanding as unamortized is ₹ 101.04 crore

#### 3.1 Capital

(₹ crore)

Particulars	31 March 2012		31 March 2011	
	Basel II	Basel I	Basel II	Basel I
i) CRAR (%)	16.64	13.83	16.79	15.39
ii) CRAR - Tier I capital (%)	15.86	12.74	15.63	13.79
iii) CRAR - Tier II Capital (%)	0.78	1.09	1.16	1.60
iv) Percentage of the shareholding of the Government of India in nationalized banks	Nil		Nil	
v) Amount of subordinated Debts raised as Tier II capital during the year (₹ Crore)	Nil		Nil	
vi) Amount raised by issue of IPDI	Nil		Nil	
vii) Amount raised by issue of Upper Tier-II Instruments (₹ Crore)	Nil		Nil	

The computation of CRAR as per Basel II is compiled by the management with the information/data drawn from CBS system on which reliance is placed by the Auditors.

## The Federal Bank Limited

## Schedules

**3.2 Investments**

- 3.2.1** a) Investments under HTM (excluding specified investments as per RBI norms) account for 24.95% (previous year 21.01%) of demand and time liabilities as at the end of March 2012 as against permitted ceiling of 25% stipulated by RBI.
- b) In respect of securities held under HTM category premium of ₹ 22.13 crore (previous year ₹ 21.90 crore) has been amortised during the year and debited under interest received on Government securities.
- c) Profit on sale of securities from HTM category amounting to ₹ 10.66 crore (previous year ₹ Nil crore) has been taken to Profit and Loss Account and a sum of ₹ 5.40 crore (previous year ₹ Nil crore) being net of taxes and transfer to statutory reserve of such profit, appropriated to Capital Reserve.

**3.2.2 Investments**

(₹ crore)

Particulars	31 March 2012	31 March 2011
(1) Value of Investments		
Gross Value of Investments		
(a) In India	17453.85	14554.18
(b) Outside India,	Nil	Nil
Provisions for Depreciation		
(a) In India	51.37	16.50
(b) Outside India,	Nil	Nil
(ii) Net Value of Investments		
(a) In India	17402.48	14537.68
(b) Outside India.	Nil	Nil
(2) Movement of provisions held towards depreciation on investments.		
(i) Opening balance	16.50	16.99
(ii) Add: Provisions made during the year	51.37	16.50
(iii) Less: Write-off/ write-back of excess provisions during the year	16.50	16.99
(iv) Closing balance	51.37	16.50

## The Federal Bank Limited

## Schedules

## 3.2.3 REPO Transactions

(₹ crore)

	Outstanding during the year			Outstanding as on 31 March 2012
	Minimum	Maximum	Daily average	
A) Securities sold under REPOs				
i) Gov. Securities	- (-)	2500.00 (600.00)	356.15 (56.33)	2500.00 (-)
ii) Corp. Debt Securities	- (-)	- (-)	- (-)	- (-)
Securities purchased under REVERSE REPOs				
i) Gov. Securities	- (-)	1000.00 (750.00)	10.11 (32.44)	- (-)
ii) Corp. Debt Securities	- (-)	- (-)	- (-)	- (-)
B) Securities sold under Market REPOs				
i) Gov. Securities	- (-)	- (20.00)	- (0.11)	- (-)
ii) Corp. Debt Securities	- (-)	- (-)	- (-)	- (-)
Securities purchased under REVERSE Market REPOs				
i) Gov. Securities	- (-)	- (5.00)	- (0.01)	- (-)
ii) Corp. Debt Securities	- (-)	- (-)	- (-)	- (-)

(Previous year figures are given in brackets)



## The Federal Bank Limited

## Schedules

## 3.2.4 Non-SLR Investment Portfolio

i) Issuer Composition of Non-SLR Investments as on 31 March 2012

(₹ crore)

No. (1)	Issuer (2)	Amount (3)	Extent of private placement (4)	Extent of 'below investment grade' securities (5)	Extent of 'unrated' securities (6) **	Extent of 'unlisted' Securities (7) ***
1	PSUs	80.93 (87.54)	68.00 (84.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2	FIs	73.29 (0.50)	50.50 (0.50)	0.00 (0.00)	0.00 (0.00)	0.00 (0.50)
3	Banks	1309.82 (1964.51)	69.68 (54.68)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
4	Private corporates	1932.66 (839.75)	601.56 (423.03)	0.00 (0.00)	6.72 (0.00)	74.21 (66.13)
5	Subsidiaries/ Joint ventures	398.00 (217.00)	398.00 (217.00)	0.00 (0.00)	0.00 (0.00)	398.00 (217.00)
6	Others	2092.86 (1467.60)	46.01 (12.50)	0.00 (0.00)	0.00 (0.83)	0.00 (0.83)
7	Less: Provisions held towards depreciation	-16.31 (-4.11)	xx	xx	xx	xx
	Total	5871.25 (4572.79)	1233.75 (791.71)	0.00 (0.00)	6.72 (0.83)	472.21 (284.46)

(Previous year figures are given in brackets)

\*\* excluding investments in shares ₹ 193.42 crore (previous year ₹ 162.56 crore)

\*\*\* excluding investments in pass through certificates ₹ 0.17 crore (previous year ₹ 1.80 crore)

ii) Non-SLR investments category-wise:

(₹ crore)

Particulars	31 March 2012	31 March 2011
Shares	190.73	168.07
Debentures & Bonds	960.35	605.34
Subsidiaries/Joint Ventures	395.92	217.00
Others	4324.25	3582.38
Total	5871.25	4572.79

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## iii) Non-performing Non-SLR investments

(₹ crore)

As at 31 March 2011	0.00
Additions during the year since 01 April 2011	0.00
Reductions during the above period	0.00
As at 31 March 2012	0.00
Total Provisions held	0.00

**3.3 Sale and transfers to/ from HTM Category**

The value of sales/transfers to / from HTM category is less than 5 per cent of the book value of investments held in HTM category at the beginning of the year,

**3.4 Derivatives****3.4.1 Forward Rate Agreement/ Interest Rate Swap**

(₹ crore)

Particulars	31 March 2012	31 March 2011
i) The notional principal of swap agreements	1075.00	1250.00
ii) Losses which would be incurred if counter parties failed to fulfil their obligations under the agreements	22.80	4.76
iii) Collateral required by the bank upon entering into swaps	Nil	Nil
iv) Concentration of credit risk arising from the swaps	Nil	Nil
v) The fair value of the swap book	0.22	-0.70

**3.4.2 Exchange Traded Interest Rate Derivatives:**

(₹ crore)

Sl.No.	Particulars	31 March 2012
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)	NIL
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March 2012	NIL
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective"	NIL
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective"	NIL

**3.4.3 Disclosure on Risk exposure in Derivatives****Qualitative Disclosures****Structure, organization, scope and nature of management of risk in derivatives etc**

The organizational structure consists of Treasury Department which is segregated into three functional areas, ie, front office, mid office and back office. Derivative deals are executed for hedging and market making.

The risk in the derivatives is monitored by regularly assessing Marked to Market Position (MTM) of the entire portfolio and the impact on account of the probable market movements. Various risk limits have been put in place under different segments of the derivatives, as approved by Board. The risk profile of the outstanding portfolio is reviewed by Board at regular intervals. For own balance sheet management, hedging policies are devised to mitigate risks, lower borrowing costs and enhance yields. The current outstanding under the derivatives portfolio were executed for trading and hedging.

**Accounting:**

Board Approved Accounting Policies as per RBI guidelines have been adopted. The hedge swaps are accounted for like a hedge of the asset or liability. The hedge swaps are accounted on accrual basis except where swaps for hedging marked to market asset/liability. Such hedge swaps are marked to market on a monthly basis and the gain/losses are recorded as an adjustment to the designated asset/liability. The Non hedge swaps are marked to market every month and the MTM losses in the basket are accounted in the books while MTM profits are ignored.

**Collateral Security:**

As per market practice, no collateral security is insisted on for the contracts with counter parties like Banks/ PDs etc. For deals with Corporate Clients, appropriate collateral security/margin etc. are stipulated wherever considered necessary.

**Credit Risk Mitigation:**

Most of the deals have been contracted with Banks/ Major PDs and no default risk is anticipated on the deals with them. In the case of deals with corporate clients, the outstanding positions are closely monitored for the default risks and appropriate measures are initiated.

**Quantitative Disclosures**

(₹ crore)

Sl.No	Particulars	Currency Derivatives	Interest rate Derivatives
1	Derivatives (Notional Principal Amount)		
	a) For hedging	206.04	-
	b) For trading	-	1075
2	Marked to Market positions (1)		
	a) Asset (+)	22.93	8.59
	b) Liabilities (-)		-8.37
3	Credit Exposure (2)	23.96	10.75
4	Likely impact of one percentage change in interest rate (100*PV01)		
	a) on hedging derivatives	0.01	-
	b) on trading derivatives	-	-0.01
5	Maximum and Minimum of 100*PV01 observed during the year		
	a) on hedging	Max. 0.012 Min. 0.010	-
	b) on trading	- -	Max. 0.06 Min. -0.01

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## 3.5 Asset Quality

## 3.5.1 Non-Performing Asset

(₹ crore)

Particulars	31 March 2012	31 March 2011
(i) Net NPAs to Net Advances (%)	0.53%	0.60%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	1148.33	820.97
(b) Additions during the year	695.31	875.84
(c) Reductions during the year	542.81	548.48
(d) Closing balance	1300.83	1148.33
(iii) Movement of Net NPAs		
(a) Opening balance	190.69	128.79
(b) Additions during the year	439.26	352.54
(c) Reductions during the year	430.95	290.64
(d) Closing balance	199.00	190.69
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(a) Opening balance	942.34	684.43
(b) Provisions made during the year (net)	221.77	488.85
(c) Write-off/ write-back of excess provisions (net)	108.78	230.94
(d) Closing balance	1055.33	942.34

## 3.5.2 Sector wise NPAs

Sl No	Sector	Percentage of NPAs to Total advances in that sector
1	Agriculture and allied Activities	3.42%
2	Industry (Micro & Small, Medium and Large)	6.97%
3	Services	4.10%
4	Personal loans	14.13%

**3.5.3 Details of Loan Assets subjected to Restructuring for the year 2011-12**

(₹ Crore)

		CDR Mechanism	SME Debt Restructuring	Others
Standard advances restructured	No. of Borrowers	3	2	88
	Amount outstanding-Restructured Accounts	81.09	13.26	871.26
	Other accounts	-	3.15	72.92
	Sacrifice(diminution in the fair value)	24.16	0.02	20.23*
Sub standard advances restructured	No. of Borrowers	1	1	13
	Amount outstanding-Restructured Accounts	39.23	6.09	20.01
	Other accounts	5.66	0.35	11.73
	Sacrifice(diminution in the fair value)	10.18	0.02	4.89
Doubtful advances restructured	No. of Borrowers	-	-	-
	Amount outstanding-Restructured Accounts	-	-	-
	Other accounts	-	-	-
	Sacrifice (diminution in the fair value)	-	-	-
TOTAL	No. of Borrowers	4	3	101
	Amount outstanding-Restructured Accounts	120.32	19.35	891.27
	Other accounts	5.66	3.50	84.65
	Sacrifice (diminution in the fair value)	34.34	0.04	25.12

\*Includes ₹ 5.26 Crores being 1/8 th of the total amount of sacrifice of ₹ 42.05 crores provided in respect of one account for the current quarter and the balance amount of ₹ 36.79 crores will be provided over succeeding 7 quarters as permitted by RBI vide letter dated 15.03.2012.

**3.5.4 Details of financial assets sold to securitisation/Reconstruction Company for Asset reconstruction**

(₹ crore)

Particulars	2011-12	2010-11
(a) No of accounts	20	181
(b) Aggregate value (net of provisions) of accounts sold to SC/RC	36.43	44.37
(c) Aggregate consideration	64.95	58.43
(d) Additional consideration realised in respect of accounts transferred in earlier years	0.00	0.00
(e) Aggregate gain/(loss) over net book value	28.52	14.07

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**3.5.5 Details of non-performing financial assets purchased/sold**

A. Details of non-performing financial assets purchased:

(₹ crore)

Particulars	31st March 2012	31st March 2011
1. (a) No. of accounts purchased during the year	NIL	NIL
(b) Aggregate outstanding		
2. (a) Of these, number of accounts restructured during the year	NIL	NIL
(b) Aggregate outstanding		

B. Details of non-performing financial assets sold

(₹ crore)

Particulars	31st March 2012	31st March 2011
1.No of Accounts sold	NIL	NIL
2. Aggregate outstanding		
3.Aggregate consideration received		

**3.5.6 Movement of Provision for Standard Assets**

(₹ crore)

Particulars	2011-12	2010-11
(a) Opening Balance	159.59	145.24
(b) Addition/Adjustments during the year	36.45	14.35
(c) Deduction during the year	0.00	0.00
(d) Closing Balance	196.04	159.59

**3.6 Business Ratios**

Particulars	31 March 2012	31 March 2011
(i) Interest Income as a percentage to Working Funds	10.09	9.22
(ii) Non-interest income as a percentage to Working Funds	0.97	1.18
(iii) Operating Profit as a percentage to Working Funds	2.73	3.25
(iv) Return on Assets	1.41	1.34
(v) Business (Deposits plus advances) per employee (₹ crore)	10.11	9.23
(vi) Profit per employee (₹ crore)	0.09	0.07

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**3.7 Asset Liability Management/  
Maturity Pattern of assets and liabilities  
(As compiled by the Management)**

(₹ crore)

Maturity Pattern	Advances	Investments	Deposits	Borrowings (including Subordinated Debt)	Foreign Currency Assets	Foreign Currency Liabilities
Next day	182.31	1.88	149.76	0.00	211.82	6.87
2 -7 days	887.62	282.36	628.08	299.81	104.76	21.43
8-14 days	1246.15	68.29	349.29	0.00	129.13	29.75
15-28 days	856.93	269.02	580.22	105.00	248.10	41.35
29 days to 3 months	2814.34	1489.87	4656.61	61.00	217.87	223.24
Over 3 to 6 months	2853.46	705.58	8138.02	1569.55	242.00	216.84
Over 6 months to 1 Yr	4757.42	218.09	11070.48	240.69	35.93	423.35
Over 1 Yr to 3Yrs	17069.49	898.01	21435.66	992.76	296.50	221.84
Over 3 Yrs to 5 Yrs	3128.60	1423.90	1374.28	400.58	22.93	52.59
Over 5 Yrs	3959.67	12045.48	554.72	571.64	5.80	0.00
<b>Total</b>	<b>37755.99</b>	<b>17402.48</b>	<b>48937.12</b>	<b>4241.03</b>	<b>1514.84</b>	<b>1237.26</b>

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## 3.8 Exposures

## 3.8.1 Exposure to Real Estate Sector (As compiled by the Management)

(₹ crore)

Category	2011-12	2010-11
a) Direct exposure		
(i) Residential Mortgages –		
Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented;	5168.07	5309.07
(of which individual housing loans eligible for inclusion in Priority sector advances)	(3368.31)	(3482.54)
(ii) Commercial Real Estate –		
Lendings secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits;	526.12	537.38
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential,	31.57	1.80
b. Commercial Real Estate.	1.21	1.21
b) Indirect Exposure		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	1127.30	1037.85
<b>Total Exposure to Real Estate sector</b>	<b>6854.27</b>	<b>6887.31</b>



**3.8.2 Exposure to Capital Market (As compiled by the Management)**

(₹ crore)

Particulars	2011-12	2010-11
(i) direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	196.18	162.31
(ii) advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	12.20	9.87
(iii) advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	2.04	0.83
(iv) advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/convertible bonds/convertible debentures/units of equity oriented mutual funds does not fully cover the advances;	-	-
(v) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	152.13	120.62
(vi) loans sanctioned to corporates against the security of shares / bonds/debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	-	-
(vii) bridge loans to companies against expected equity flows/issues;	-	-
(viii) underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	-	-
(ix) financing to stockbrokers for margin trading;	-	-
(x) all exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect)	14.61	7.00
<b>Total Exposure to Capital Market</b>	<b>377.16</b>	<b>300.63</b>

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**3.8.3 Country Risk (As compiled by the Management)**

The net funded exposure of the Bank in respect of foreign exchange transactions with each country is within 1% of the total assets of the Bank and hence no provision is required to be made in respect of country risk as per the RBI circular DBOD.BP.BC.96/21.04.103/2003-04 dated 17 June 2004.

**Risk Category wise Country Exposure**

(₹ crore)

Risk Category*	Exposure (net) as at 31 March 2012	Provision held as at 31 March 2012	Exposure (net) as at 31 March 2011	Provision held as at 31 March 2011
Insignificant	613.67	0.00	787.17	0.00
Low	340.08	0.00	307.71	0.00
Moderate	28.55	0.00	21.34	0.00
High	5.76	0.00	4.70	0.00
Very High	8.43	0.00	6.43	0.00
Restricted	0.04	0.00	0.00	0.00
Off-credit	0.04	0.00	0.00	0.00
<b>Total</b>	<b>996.57</b>	<b>0.00</b>	<b>1127.35</b>	<b>0.00</b>

\* The above figures include both funded as well as non-funded exposures.

**3.8.4** Details of Single Borrower limit (SGL), Group Borrower Limit (GBL) where the bank has exceeded the prudential exposure during the year.

(₹ crore)

Borrower Name	Total Exposure	% to Capital Fund
Food credit	870.00	15.93

**3.8.5 Concentration of Deposits, Advances, Exposures and NPAs****Concentration of deposits**

(₹ crore)

Total Deposits of Twenty Large depositors	2374.51
Percentage of Deposits of twenty large depositors to total deposits of the bank	4.85%

**Concentration of advances**

(₹ crore)

Total advances of Twenty Largest Borrowers	6863.43
Percentage of advances of twenty largest Borrowers to total advances of the bank	18.17%

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**Concentration of exposures**

	(₹ crore)
Total exposures of Twenty Largest borrowers/customers	9071.20
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	13.50%

**Concentration of NPAs**

	(₹ crore)
Total exposures to top Four NPA accounts	208.07

**3.8.6 Movement of NPAs**

	(₹ crore)
Gross NPAs as on 1st April 2011	1148.33
Additions (Fresh NPAs) during the year	695.31
Sub total (A)	<b>1843.64</b>
Less:	
(i) Upgradations	75.68
(ii) Recoveries (excluding recoveries made from upgraded accounts)	358.78
(iii) Write offs	108.35
Sub-total (B)	<b>542.81</b>
Gross NPAs as on 31 March 2012	<b>1300.83</b>

**3.8.7 Details of Overseas Assets, NPAs and Revenue**

Nil

**3.8.8 Off balance Sheet SPV sponsored**

Nil

**4. Fixed Assets**

- i. During the year 1995-96, the appreciation of ₹9.65 crore in the value of land and buildings consequent upon revaluation by approved valuers was credited to Capital Reserve. Depreciation for the year on the net addition to value on such revaluation of assets at ₹0.22 crore (previous year ₹0.23 crore) has been transferred from Capital Reserve to Profit & Loss Account. There has been no revaluation of assets during this year.
- ii. Land and premises include flats ₹0.37 crore (previous year ₹0.37 crore), written down value ₹0.18 crore (previous year ₹0.19 crore), taken possession of and being used by the Bank, for which documentation/ registration formalities are to be completed.

**5. Employee Stock Option Scheme (“ESOS”):**

Shareholders of the bank has approved Employee Stock Option Scheme (ESOS) through postal ballot, the result of which was announced on Dec, 24, 2010, enabling the Board and/or the “Compensation Committee”

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to grant such number of equity shares, including options, of the Bank not exceeding 5% of the aggregate number of paid up equity shares of the Bank, in line with the guidelines of SEBI. Pursuant thereto, the Compensation Committee of the bank granted the following options:

SI No	Particulars	No. of Options granted & Accepted
1	ESOS granted on 9th April 2011 with vesting period of 1,2,3 and 4 years. Exercise period of 5 years and Exercise price of ₹ 420.65	2875875
2	ESOS granted on 2nd June 2011 with vesting period of 1,2 and 3 years. Exercise period of 5 years and Exercise price of ₹ 449.70	100000
3	ESOS granted on 16th June 2011 with Exercise period of 5 years and Exercise price of ₹ 454.65	60000
4	Total number of options granted during the year	3035875
5	Options exercised/forfeited/Lapsed during the year	Nil
6	Options outstanding at the end of the year	3035875

As per SEBI guidelines the accounting for ESOS can be done either under the ' Intrinsic value basis' or ' Fair value basis'.

The Compensation Committee in their meeting dated 10/05/2012 decided to adopt ' Intrinsic value method ' for accounting of ESOS, in terms of the power vested on them as per the resolution of EGM dated 24 December 2010

The exercise price of the options granted is the same as the market price on the date prior to grant date and hence there is no intrinsic value for the options, which has to be amortized over the vesting period.

If "Fair Value Method" had been adopted based on "Black-Scholes pricing model" for pricing and accounting of options, net profit would be lower by ₹1972.46 lacs.

The impact on Basic and Diluted Earnings per share for the year, had the company followed Fair Value Method of accounting for ESOS compensation cost is ₹ 44.26 and ₹ 44.16 respectively.

## 6 Disclosure in terms of Accounting Standard

**6.1** There is no material prior period income/expenditure requiring disclosure under AS 5 'Net Profit or Loss for the Period, Prior period items and changes in Accounting policies issued by the Institute of Chartered Accountants of India.

### 6.2 Employee Benefits (AS 15)

a) Defined Contribution Plan

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### Provident Fund

Employees who have not opted for pension plan are eligible to get benefits from provident fund, which is a defined contribution plan. Aggregate contributions along with interest thereon are paid on retirement, death, incapacitation or termination of employment. Both the employee and the Bank contribute a specified percentage of the salary to the Federal Bank Employees' Provident Fund. The Bank has no obligation other than the monthly contribution.

The Bank recognized ₹41.17 lakhs (Previous year ₹ 15.84 Cr) for provident fund contribution in the Profit and Loss account

### New Pension Scheme

As per the industry level settlement dated 27/04/2010, employees who joined the services of the Bank are not eligible for the existing pension scheme where as they will be eligible for Defined Contributory Pension Scheme in line with the New Pension Scheme introduced for employees of Central Govt. Employee shall contribute 10% of their Pay and Dearness Allowance towards defined contributory Pension Scheme and the Bank will also make a matching contribution. There is no separate Provident Fund for employees joining on or after 01/04/2010.

### (b) Defined benefit plan

#### 1) Gratuity

The Bank provides for Gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering the eligible employees. The Gratuity Plan provides a lumpsum payment to vested employees on retirement, death, incapacitation or termination of employment, of an amount based on the respective employees' salary and the tenure of employment. Vesting occurs upon completion of five years of service as per Payment of Gratuity Act, 1972 and its amendment with effect from 24.05.2010 or as per the provisions of the Federal Bank Employees' Gratuity Trust Fund Rules / Bi-partite Award provisions. Liabilities with regard to the Gratuity Plan are determined by Actuarial valuation as on the Balance Sheet date, based upon which, the Bank contributes all the ascertained liabilities to the Federal Bank Employees' Gratuity Trust Fund (the "Trust"). Trustees administer contributions made to the Trust and contributions are invested in specific investments as permitted by law.

#### 2) Superannuation / Pension

The Bank provides for monthly pension, a defined benefit retirement plan (the "pension plan") covering eligible employees. The pension plan provides a monthly pension after retirement of the employees till death and to the family after the death of the pensioner. The monthly pension is based on the respective employees' salary and the tenure of employment. Vesting occurs upon completion of ten years of service. The Bank pays the monthly pension by purchasing annuities from Life Insurance Corporation of India (LIC). Liabilities with regard to the pension plan are determined by actuarial valuation as on the Balance Sheet date, based upon which, the Bank contributes all the ascertained liabilities to the Federal Bank (Employees') Pension Fund (the "Trust"). Trustees administer contributions made to the Trust and contributions are invested in specific investments as permitted by law.

The following table as furnished by Actuary sets out the funded status of gratuity / pension plan and the amount recognized in the Bank's financial statements as at March 31, 2012.

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## i) Change in benefit obligations:

(₹ crore)

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Projected benefit obligation, beginning of the year	203.51	181.73	589.34	195.38
Service Cost	10.94	9.75	49.16	42.68
Interest cost	16.38	14.05	46.48	11.50
Actuarial gain/(loss))	15.97	10.15	(1.25)	443.03
Benefits paid	(21.55)	(12.17)	(84.97)	(103.25)
Projected benefit obligation, end of the year	<b>225.25</b>	<b>203.51</b>	<b>598.76</b>	<b>589.34</b>

## ii) Change in plan assets:

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Plan assets at beginning of the year at fair value	184.69	181.73	404.04	195.38
Expected return on plan assets	15.70	14.53	34.34	15.63
Actuarial gain/(loss)	20.04	0.60	1.31	0.92
Employer's Contributions	-	-	67.90	295.36
Benefits paid	(21.56)	(12.17)	(84.97)	(103.25)
Plan assets at end of the year, at fair value	198.87	184.69	422.62	404.04

## iii) Reconciliation of present value of the obligation and the fair value of the plan assets;

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Fair value of plan assets at the end of the year	198.87	184.69	422.62	404.04
Present value of the defined benefit obligations at the end of the period	225.25	203.51	598.76	589.34
Liability recognized in the Balance Sheet	26.38	18.82	176.14 @	185.30

@ Includes amount payable on account of transitional liability due to second option for pension ₹134.72 crore.

**iv) Gratuity/pension cost for the year ended 31st March, 2012:-**

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Service cost	10.94	9.75	49.16	42.68
Interest cost	16.38	14.05	46.48	11.50
Expected return on plan assets	15.70	14.53	34.34	15.63
Actuarial gain/(loss)	(4.06)	9.55	(2.56)	442.10
Net cost Debit to Profit and Loss account	7.56	18.82	58.74	50.58
Amount recovered employees exercising second option for pension/amount transferred to PF account of such optees *	-	-	-	295.35
Amount not debited in profit and loss account, but carried over to be amortised in future years *	-	-	101.04	134.72
Actual return on plan assets	16.91	15.13	35.66	16.55

\* see Note no. 2 of schedule 19

**v) Investment details of plan Assets :-**

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Central and state Government bonds	49.05	50.22	141.27	149.69
Other debt securities	31.14	37.64	92.49	108.08
Balance in Saving bank account with the Bank	2.10	1.53	9.17	22.75
Net current assets	2.42	2.88	6.80	8.62
Balance with LIC	114.15	92.42	172.89	114.90
Total	198.86	184.69	422.62	404.04

**vi) Assumptions:-**

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Discount rate	8.50%	8.00%	8.50%	8.00%
Annuity rate per Rupee	-	-	125.65445	125.65445
Salary escalation rate	5.50%	5.00%	5.50%	5.00%
Estimated rate of return on plan assets	8.50%	8.00%	8.50%	8.00%

**(c) Leave encashment**

The employees of the Bank are entitled to compensated absence. The employees can carry forward a portion of the unutilised accrued compensated absence and utilise it in future periods or receive cash compensation at retirement or termination of employment for the unutilized accrued compensated absence for a maximum of 240 days. The Bank records an obligation for compensated absences in the period in which the employee renders the services that increase this entitlement. The Bank measures the expected cost of compensated absence as the additional amount that the Bank expects to pay as a result of the unused entitlement that

## The Federal Bank Limited

## Schedules

has accumulated at the balance sheet date based on actuarial valuations.

**(d) Sick Leave / Leave Travel Concession / Unavailed Casual Leave**

A sum of ₹ 24.64 crore (Previous year ₹ 22.10 crore) has been provided towards the above liabilities in accordance with AS 15 (Revised) based on actuarial valuation.

**6.3 Segment Information (AS 17) (As compiled by the Management)**

In terms of the Accounting Standard 17 of ICAI, the Bank's operations are classified into four business segments (see Principal Accounting Policy no. 12) and the information on them is as under.

(₹ crore)

Business Segments	Treasury		Corporate/Whole sale Banking		Retail Banking		Other Banking Operations		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Revenue	1530.30	932.00	1992.10	1461.07	2529.04	2157.73	39.29	18.04	6090.73	4568.84
Result (net of provisions)	42.13	83.86	257.01	222.82	850.39	585.51	19.97	9.62	1169.50	901.81
Unallocated expenses									-	-
Operating profit (PBT)									1169.50	901.81
Income taxes									392.71	314.73
Extraordinary profit/loss									-	-
Net Profit									776.79	587.08
OTHER INFORMATION										
Segment Assets	20342.52	17720.83	19958.93	16306.14	18797.34	16233.73	557.58	448.32	59656.37	50709.02
Unallocated assets									970.41	747.34
Total assets									60626.78	51456.36
Segment liabilities	18304.57	15832.98	18269.58	15028.32	17576.27	14986.50	0.00	0.41	54510.42	45848.21
Unallocated liabilities									410.03	499.49
Total liabilities									54920.45	46347.70



## The Federal Bank Limited

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The Bank has only the Domestic geographic segment.

### 6.4 Related Party Disclosures

The following are the significant transactions with related parties during the year ended 31 March 2012

Name of the Party	Nature of Relationship
IDBI Federal Life Insurance Company Limited	Associate
Fed Bank Financial Services Limited	Subsidiary
Sri. Shyam Srinivasan	Key Management Personnel
Sri P C John	Key Management Personnel

(₹ crore)

Particulars	Key Management Personnel*	
	31st March 2012	31st March 2011
Remuneration	1.09	1.62

\*The normal transactions of the Bank with the above persons as constituents are not reckoned for the purpose.

Note: In accordance with the RBI Guidelines on Compliance with the Accounting Standards by the Banks, the details of transactions with associate/joint venture and subsidiary company have not been disclosed since there is only one entity in the respective category of the related party.

### 6.5 Earnings per share (AS 20)

The Bank reports basic and diluted earnings per share in accordance with the Accounting Standard -20 "Earnings per Share".

Particulars	31 March 2012	31 March 2011
Weighted average number of equity shares used in computation of basic earnings per share (in 000's)	171047	171047
Weighted average number of equity shares used in computation of diluted earnings per share (in 000's)	171047	171047
Nominal Value of share (in ₹)	10	10
Basic earnings per share (in ₹)*	45.41	34.32
Diluted earnings per share (in ₹)*	45.41	34.32
Earnings used in the computation of basic and diluted earnings per share (₹ in Lakhs)	77679.95	58708.32

\* Weighted average

### 6.6 Taxation (AS 22)

- The disputed amount of income tax demand as on 31.03.2012 amounts to ₹610.32 crore. In the opinion of the Bank no provision is considered necessary in respect of the above disputed demand in view of various judicial decisions and the same has been disclosed as contingent liability.
- The Bank has accounted for income tax in compliance with ICAI's Accounting Standard 22. Accordingly, timing differences resulting in deferred tax assets and deferred tax liabilities are recognized. The major components of deferred tax liabilities and assets as on 31 March 2012 are shown below:

## The Federal Bank Limited

## Schedules

(₹ crore)

	31st March 2012	31st March 2011
Deferred Tax Liability		
Tax effect of timing difference in the assessment of:		
(i) Interest income	102.24	63.04
(ii) Depreciation on Fixed Asset	5.73	6.10
(iii) Depreciation on Investments	243.32	173.58
(A)	351.29	242.72
Deferred tax asset		
Tax effect on timing difference in allowance of:		
(i) Interest/premium paid on purchase of securities	47.22	40.05
(ii) Provision for Standard Assets	47.00	47.00
(iii) Others	171.76	157.17
(B)	265.98	244.22
<b>Net Deferred tax liability (Asset) (A-B)</b>	<b>85.31</b>	<b>-1.50</b>

## 7. Provisions and Contingencies debited in Profit and Loss Account during the year:

(₹ crore)

	For the year ended / As at	31 March 2012	31 March 2011
i)	Provision towards NPAs (net)	221.77	488.85
ii)	Provision for Investments	34.86	11.13
iii)	Provision for Standard Assets	36.45	14.35
iv)	Provision for Taxation:		
	Current Tax	305.90	316.26
	Deferred tax	86.81	-1.53
v)	Provision towards P/V sacrifice on restructuring, other contingencies etc	43.89	11.11
	<b>Total</b>	<b>729.68</b>	<b>840.17</b>

## The Federal Bank Limited

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**8. Floating Provision**

(₹ crore)

Particulars	Standard Assets Provision		NPA Provision	
	2011-12	2010-11	2011-12	2010-11
(a) Opening Balance in the floating provisions account	38.00	38.00	179.52	179.52
(b) The quantum of floating provisions made in the accounting year	Nil	Nil	Nil	Nil
(c) Amount of draw down made during the accounting year	Nil	Nil	Nil	Nil
(d) Closing Balance in the floating provisions account	38.00	38.00	179.52	179.52

**9. Additional Disclosures:****9.1 Amount of Provisions made for Income-tax during the year**

(₹ crore)

	2011-12	2010-11
Provision for Income Tax	392.71	314.73

**9.2 Details of penalties imposed by RBI under the provision of Section 46 (4) of BR Act, 1949**  
Nil**9.3 Disclosure of customer complaints and awards passed by the Banking Ombudsman:****A. Customer Complaints**

(a)	No. of complaints pending at the beginning of the year	28
(b)	No. of complaints received during the year	1588
(c)	No. of complaints redressed during the year	1571
(d)	No. of complaints pending at the end of the year	45

**B. Awards passed by the Banking Ombudsman**

(a)	No. of unimplemented awards at the beginning of the year	2
(b)	No. of awards passed by the Banking Ombudsman	2
(c)	No. of awards implemented during the year	2*
(d)	No. of unimplemented awards at the end of the year	2§

\*One awards is implemented and appellate authority withheld the award in other case  
 § Appeal against both the awards filed

## The Federal Bank Limited

## Schedules

## 9.4.1 Income from bancassurance business

(₹ lakh)

SI No	Nature of Income	As on 31 March 2012
1	For selling life insurance policies	1298.90
2	For selling non-life insurance policies	150.22
3	For selling mutual fund products	36.02
4	Others (reimbursement of expenses)	282.51

## 9.4.2 Provision coverage ratio

Provision coverage ratio as per RBI guidelines as on 31 March 2012 stood at 88.85 %

9.4.3 Amount of advances for which intangible securities such as charge over rights, licences, authority etc has been taken as collateral security and the value of such collateral security: Nil

9.4.4 There are no dues to micro and small enterprises as at 31st March 2012. This disclosure is based on the records available with the Bank.

9.4.5 The Bank has not issued any letters of comforts coming within the Prudential Norms for Issuance of Letters of Comforts by banks regarding their subsidiaries (DBOD.No. BP.BC.65/21.04.009/2007-08 dated March 4, 2008).

9.4.6 The Bank has not made any draw down of reserves during the year.

9.5 Previous year's figures have been regrouped and recast wherever necessary.

K. Krishnakumar Asst. General Manager	P. C. John Executive Director & CFO	Shyam Srinivasan Managing Director & CEO	P. C. Cyriac Chairman
DIRECTORS			
Suresh Kumar	Abraham Koshy	Nilesh S Vikamsey	

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

For Price Patt & Co.,  
FRN: 02783S  
Chartered Accountants

Kochi  
11-May-2012

R. Rajasekharan  
Partner, Membership No. 22703

S. Ramaswamy  
Partner, Membership No. 025918

## The Federal Bank Limited

## Cash Flow Statement

	(In thousands of ₹)	
	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>A. Cash Flow from Operating Activities</b>		
<b>Net Profit Before Tax and Extra Ordinary Items/Provisions</b>	<b>1506,47,74</b>	<b>1427,25,37</b>
Adjustments for:-		
Depreciation on Fixed assets	56,88,31	54,48,58
Others	(55,02)	(55,71)
<b>Operating Profit before Working Capital Changes</b>	<b>1562,81,03</b>	<b>1481,18,24</b>
Adjustments for working capital changes:-		
Investments	(2718,67,49)	(1404,15,45)
Funds Advanced to Customers	(6024,52,16)	(5491,97,02)
Other Operating Assets	(401,76,42)	(231,57,67)
Deposits from Customers	5922,34,15	6956,82,98
Borrowings from Banks & Financial Institutions	2352,67,15	341,60,62
Other Operating Liabilities	143,28,34	53,37,81
<b>Cash Generated from Operations</b>	<b>836,14,60</b>	<b>1705,29,51</b>
Taxes Paid	(609,04,83)	(436,79,10)
<b>Cash Flow before Extraordinary items</b>	<b>227,09,77</b>	<b>1268,50,41</b>
Extraordinary items	-	-
<b>Net Cash From Operating Activities</b>	<b>227,09,77</b>	<b>1268,50,41</b>
<b>B. Cash Flow from Investing Activities</b>		
Purchase of Fixed Assets	(93,67,08)	(58,17,29)
Sale of Fixed Assets	79,69	3,96,69
Investment in Subsidiary/Joint Venture	(181,00,00)	(90,00,00)
<b>Net Cash from Investing Activities</b>	<b>(273,87,39)</b>	<b>(144,20,60)</b>
<b>C. Cash Flow from Financing Activities</b>		
Equity Capital including Premium	0	33,61
Dividend Paid	(168,97,59)	(99,71,97)
<b>Net Cash used in Financing Activities</b>	<b>(168,97,59)</b>	<b>(99,38,36)</b>
<b>Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	<b>(215,75,21)</b>	<b>(1024,91,45)</b>
<b>Cash &amp; Cash Equivalents at the beginning of year</b>	<b>3748,30,35</b>	<b>2723,38,90</b>
<b>Cash &amp; Cash Equivalents at the end of year</b>	<b>3532,55,14</b>	<b>3748,30,35</b>

K. Krishnakumar  
Asst. General ManagerP. C. John  
Executive Director & CFOShyam Srinivasan  
Managing Director & CEOP. C. Cyriac  
Chairman

## DIRECTORS

Suresh Kumar

Abraham Koshy

Nilesh S Vikamsey

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered AccountantsFor Price Patt & Co.,  
FRN: 02783S  
Chartered AccountantsKochi  
11-May-2012R. Rajasekharan  
Partner, Membership No. 22703S. Ramaswamy  
Partner, Membership No. 025918

**The Federal Bank Limited****Auditors' Report**

The Members,  
The Federal Bank Limited,  
Aluva

1. We have audited the attached Balance Sheet of THE FEDERAL BANK LIMITED, Aluva as at 31st March 2012 and also the Profit and Loss Account of the Bank and the Cash Flow Statement annexed thereto for the year ended on that date in which are incorporated the returns of 16 branches /offices audited by us and 962 branches / offices audited by other auditors. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with Section 211 of the Companies Act, 1956.
4. We report that:
  - a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
  - b) In our opinion, the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;
  - c) The returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit;
  - d) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
  - e) The Bank's Balance Sheet and Profit and Loss Account dealt with by this report, are in agreement with the books of account and the returns;
  - f) In our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books;
  - g) The reports on the accounts of the branches audited by branch auditors have been dealt with in preparing our report in the manner considered necessary by us;
  - h) As per the information and explanation given to us the Central Government has, till date, not prescribed any cess payable under Section 441A of the Companies Act, 1956;

## The Federal Bank Limited

## Auditors' Report

- i) On the basis of written representation received from the directors as on 31st March 2012 and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
5. Without qualifying our opinion, we draw attention to Note No.2 of Schedule 19 to the financial statements, which describes deferment of pension liability of the bank to the extent of Rs.101.04 crore pursuant to the approval granted by the Reserve Bank of India to the Bank vide letter no.DBOD No.BP.BC.15896/21.04.018/2010-11 dated 08.04.2011, for availing the exemption from application of the provisions of Accounting Standard (AS) 15- Employee Benefits, as provided therein.
6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the Accounting policies followed by the Bank and the notes thereon, give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 1956, in the manner so required for the banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India:
- i) in the case of the Balance Sheet, of the state of affairs of the Bank as at 31st March 2012;
- ii) in the case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date; and
- iii) in the case of the Cash Flow Statement, of the cash flows of the Bank for the year ended on that date.

For Varma and Varma  
Chartered Accountants  
FRN: 004532S

For Price Patt & Co.,  
Chartered Accountants  
FRN: 02783S

R. Rajasekharan  
Partner, Membership No. 22703

S. Ramaswamy  
Partner, Membership No. 025918

Place: Kochi  
Date: 11-05-2012

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

### I. SCOPE OF APPLICATION OF BASEL II DISCLOSURES

TABLE DF – 1: SCOPE OF APPLICATION

1.	<b>Qualitative disclosures</b>		
1.1	Name of the top Bank in the group to which the framework applies	The Federal Bank Ltd.	
1.2	Differences in the basis of consolidation for accounting and regulatory purposes: (outline with a brief description of entities within the group)		
	i) The revised capital adequacy norms (in conformity with Basel II Pillar III requirements) apply to Federal Bank at solo level.		
	ii) The Bank has one fully owned subsidiary viz. Fedbank Financial Services Ltd and an associate viz. IDBI Federal Life Insurance Company Ltd.		
	Consolidated financial statements of the group (parent and subsidiary) have been prepared on the basis of audited financial statements of Federal Bank and its subsidiary, combining and adding together the items such as assets, liabilities, income and expenses, after eliminating intra group transactions.		
1.3	That are fully consolidated: (AS 21)		
	Name	Activity	Holding %
a)	FedBank Financial Services Ltd	The wholly owned subsidiary has been registered as an NBFC. The major activities include marketing of bank's own products and business of lending against gold	100%
1.4	That are pro-rata consolidated: (AS 27)		
	Name	Activity	Holding %
a)	NIL		
1.5	That are given a deduction treatment:		
	Name	Activity	Holding %
a)	NIL		
1.6	That are neither consolidated nor deducted		
	Name	Activity	Holding %
	IDBI FEDERAL Life Insurance Company Ltd.	Sale of Insurance products	26%



## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

<b>2.</b>	<b>Quantitative disclosures</b>		
2.1	Aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation and that are deducted		
	Name of subsidiary	Activity	Amount of shortfall deducted (In ₹ Cr.)
a)	NIL	NA	NA
2.2	The aggregate amounts (e.g. current book value) of the bank's total interests in insurance entities, which are risk-weighted as well as their name, their country of incorporation or residence, the proportion of ownership interest and, if different, the proportion of voting power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using the deduction		
a)	Name	IDBI FEDERAL Life Insurance Co.Ltd.	
b)	Country of incorporation / residence	India	
c)	Proportion of ownership interest	26%	
d)	Proportion of voting power	26%	
e)	Quantitative impact on regulatory capital of using this method versus using the deduction	CRAR under deduction method is 16.16% as against 16.64% under the risk weighting method.	

## II. STRUCTURE AND ADEQUACY OF CAPITAL

TABLE DF – 2: CAPITAL STRUCTURE

<b>1.</b>	<b>Qualitative Disclosures</b>					
1.1	<i>Summary (information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instruments eligible for inclusion in Tier 1 or in Upper Tier 2.).</i>					
	Type of capital	Features				
A	Tier I	Tier I Capital includes Equity Share Capital and Reserves and surpluses comprising of Statutory Reserve, Capital Reserve – Investments, Share Premium, Revenue Reserve, Investment fluctuation Reserve, Special Reserve, Contingency Reserve and Balance in Profit & Loss A/c.				
B	Tier II	Tier II Capital includes Revaluation Reserve, Tier II Bonds – Subordinated Debt and General Provisions				
<b>2</b>	<b>Quantitative Disclosures</b>					
2.1	Details of capital instruments					
	Type of capital instrument	Date of issue	Amount in ₹ Cr	Tenure in months	Coupon (% p.a.)	Rating
A	Innovative instruments (Tier I capital)		Nil			

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

B	Other capital instruments (Tier I)		Nil			
C	Debt capital instruments eligible for inclusion in Upper Tier II capital		Nil			
D	Subordinated debt eligible for inclusion in Lower Tier II capital	Date of Issue	Amount in ₹ Cr	Tenure in Months	Coupon (% p.a.)	Rating
		30.08.03	61	104	7.10	Rating by CARE as 'CARE AA' and by Fitch as 'AA-(ind)'
		26.07.04	30	117	6.85	
		26.07.04	15	93	6.75	
16.12.06	200	120	9.25			
2.2	Capital funds					Amount in ₹ Crore
A	TIER I CAPITAL					
	Paid up share capital					171.05
	Reserves and Surplus					5,529.86
	Innovative instruments (IPDI or any other instrument that may be allowed from time to time)					0.00
	Other capital instruments					0.00
	Amounts deducted from Tier I capital, including goodwill and investments					95.00
B	TIER II CAPITAL (Total amount net of deductions from Tier II capital)					
	Debt capital instruments eligible for inclusion in Upper Tier II capital					0.00
	Total amount outstanding					0.00
	Of which, amount raised during the current year					0.00
	Amount eligible to be reckoned as capital funds					0.00
	Subordinated debt eligible for inclusion in Lower Tier II capital					306.00
	Total amount outstanding					306.00
	Of which, amount raised during the current year					0.00
	Amount eligible to be reckoned as capital funds					172.00
	Other Tier II capital					198.47
	Revaluation Reserve					2.43
	General Provisions					196.04
	Deductions from Tier II capital					95.00
C	Other deductions from capital, if any.					0.00
D	Total eligible capital					5,881.38

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

TABLE DF – 3: CAPITAL ADEQUACY

<b>1. Qualitative Disclosures</b>			
1.1	A summary discussion of the Bank's approach to assess the adequacy of its capital to support current and future activities.		
	<ol style="list-style-type: none"> <li>1. Policy on Internal Capital Adequacy Assessment Process has been put in place and the assessment of capital commensurate to the risk profile is reviewed on a quarterly basis.</li> <li>2. Capital requirement for current business levels and estimated future business levels are assessed on a periodic basis.</li> <li>3. CRAR has been worked out based on Basel- I and Basel- II guidelines and it is well above the Regulatory Minimum level of 9%.</li> </ol>		
<b>2. Quantitative Disclosures</b>			
2.1	Minimum capital requirements under Pillar I of Basel II	Amount in ₹ Crore.	
A	Capital requirements for credit risk (@ 9% CRAR)	2737.85	
	Portfolios subject to Standardized approach	2737.85	
	Securitisation exposures	0.00	
B	Capital requirements for market risk (Standardized duration approach) (@ 9% CRAR)	166.34	
	Interest rate risk	114.57	
	Foreign exchange risk (including gold)	18.00	
	Equity risk	33.77	
C	Capital requirements for operational risk (Basic Indicator Approach) (@ 9% CRAR)	277.59	
2.2	Capital Adequacy Ratio (CRAR) % for consolidated group ( <i>consolidation only for annual disclosures</i> ) and significant bank subsidiaries		
	Name of entity	Total CRAR	Tier I CRAR
	Consolidated Bank ( <i>group as a whole – applicable annually only</i> )	16.81%	15.76%
	The Federal Bank Ltd. (solo basis)	16.64%	15.86%
	Significant bank subsidiaries ( <i>wherever applicable, entity wise data</i> )		

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

### III. RISK EXPOSURE AND ASSESSMENT

#### (A) Objectives and policies

Sl. No.	
<b>1.</b>	<b>Credit risk</b>
1.1	<p>Strategies and processes:</p> <p>The Bank is exposed to credit risk in its lending operations. The Bank's strategies to manage the credit risks are as under:</p> <ol style="list-style-type: none"> <li>a) Defined segment exposures delineated into retail, small and medium enterprises and to Corporates;</li> <li>b) Industry wise segment caps on aggregate lending by Bank across Branches.</li> <li>c) Individual borrower wise caps on lending as well as borrower group wise lending caps linked as a percentage to the Bank's capital funds at the end of the previous year.</li> <li>d) Credit rating of borrowers and allowing credit exposures only to defined thresholds of risk levels; the approach also includes diversification of credit rating wise borrowers but within acceptable risk parameters.</li> <li>e) The Bank's current entire business is within India and hence there is no geographic cap on lending in India; there is also no cap on lending within a State in India. However, in respect of cross border trade which would involve exposures to banks and financial institutions located outside India, there is a geographic cap on exposures apart from cap on individual bank/institution.</li> <li>f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit accounts</li> <li>g) A clear and well defined delegation of authority within the Bank in regard to decision making linking risk and exposure amount to level of approval.</li> <li>h) Regular review of all credit structures and caps, continuously strengthening credit processes, and monitoring oversight which are regularly reviewed and duly approved by the Board of the Bank.</li> <li>i) At present all the credit facilities except agricultural loans, gold loans etc. are being sanctioned at Credit Hubs which has strengthened credit processes.</li> <li>j) All credit proposals of ₹ 5.00 crore and above are scrutinized and risk assessment is conducted by Integrated Risk Management Department, independent of the business functions.</li> </ol> <p>Oversight of the Board's sub committee on risk.</p> <p>Bank has put in place Board approved comprehensive Credit Risk Management Policy designed with added focus on credit risk management. The policy aims to provide basic framework for implementation of sound credit risk management system in the Bank. It spells out various areas of credit risk, goals to be achieved, current practices and future strategies. Bank has also operationalised required organizational structure and framework as prescribed in the policy for efficient credit risk management through proactive identification, precise measurement, fruitful monitoring and effective control of credit risk arising from its credit and investment operations. Bank has Board level sub committee, Risk Management Committee, to oversee Bank wide credit risk management and senior executive level Credit Risk Management Committee to monitor adherence to policy prescriptions and regulatory directions. CRMC of the Bank meets once in a month to take stock of Bank's credit risk profile based on the reports placed by Credit Risk Management Cell of Integrated Risk Management Department.</p> <p>Bank has put in place detailed Loan Policy spelling out various aspects of credit dispensation and credit administration. Loan policy stipulates measures for avoiding concentration risk by setting prudential limits and caps on taking sector wise, rating grade wise, and customer-constitution wise exposure. The policy gives specific instruction on valuation of collaterals .Bank has also put in place guidelines on fixing and monitoring of exposure ceilings to contain risk in credit and investment exposures. The Internal Capital Adequacy Assessment Process (ICAAP) periodically conducted by the Bank takes care of the residual risk assessment and also adequacy of capital under Basel II norms.</p>

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

1.2	<p>Scope and nature of risk reporting / measurement systems:</p> <p>Bank has developed comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. Risk rating system is drawn up in a structured manner, incorporating different factors such as borrower specific characteristics, industry specific characteristics etc. Risk rating is made applicable for loan accounts, whether funded or non-funded, with total limits above ₹ 2 lakhs. Bank uses different rating models for different types of exposures. Rating model used for infrastructure exposures and corporate exposures are comprehensive in structure whereas model used for small exposures in the range of ₹ 2 lakh to ₹ 50 lakh is relatively simple in structure. Retail advances are rated using scoring model. At present a separate scoring model is used for rating Home loans and Auto loans. Bank also uses a separate rating model for rating its investment exposures. Bank is undertaking annual validation of its rating model for exposures of ₹ 5 Crore and above and is also conducting migration and default rate analysis of all loans of ₹ 50 lakhs and above.</p> <p>Rating process and rating output are used by the Bank in sanction and pricing of its exposures. Bank also conducts annual common time point rating of its exposures and the findings are used in annual migration study and portfolio evaluation.</p> <p>Credit facilities are sanctioned at various levels in accordance with the delegation approved by the Board. The exercise of delegation and credit rating assigned by the sanctioning authority are subjected to confirmation by a different authority. Bank has also operationalised pre-sanction risk vetting of exposures of ₹ 5 Crore and above by independent Integrated Risk Management Department. Risk rating and vetting process being done independent of credit appraisal function ensure its integrity and independency.</p> <p>Credit audit is being conducted at specified intervals. Bank has made reasonably good progress in implementing all available instruments of credit risk mitigation.</p>
1.3	<p>Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:</p> <p>Bank's Credit Risk Management Policy also stipulates various tools for mitigation of credit risk and collateral management. Investment Policy of the Bank covers risk related to investment activities of the Bank and it prescribes prudential limits, methods of risk measurement, and hedges required in mitigation of risk arising in investment portfolio. Credit Risk Management Committee at senior executive level and Risk Management Committee at Board level monitor, discuss, evaluate and review risk mitigation levels and effectiveness of mitigation measures.</p> <p>Risk rating process by itself is an integral part of processes of selection of clients and sanction of credit facilities. Exercise of delegation for sanction of fresh loans or renewal/review of existing exposure by field level functionaries is permitted only for borrowers above a pre-specified rating grade. Entry-level restrictions are further tightened in certain sectors when market signals need for extra caution. Rating of an exposure is confirmed by an independent authority to ensure its integrity.</p>
2.	<b>Market risk</b>
2.1	<p>Strategies and processes:</p> <p>The Bank monitors market risk through risk limits and Middle Office in operationally intense areas. Detailed policies like Asset Liability Management Policy, Investment Policy, Derivatives Policy etc., are put in place for the conduct of business exposed to market risk and also for effective management of all market risk exposures.</p> <p>The policies and practices also take care of monitoring and controlling of liquidity risk arising out of its banking and trading book operations.</p>

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2.2	<p>Scope and nature of risk reporting / measurement systems:</p> <p>Bank has put in place regulatory/ internal limits for various products and business activities relating to trading book. Bank also subjects investment exposures to credit rating. Limits for exposures to counterparties, industries and countries are monitored and risks are controlled through Stop Loss Limits, Overnight Limit, Daylight Limit, Aggregate Gap Limit, Individual Gap Limit, Inter-Bank dealing and investment limits etc. Parameters like Modified Duration, VaR etc are also used for risk management and reporting.</p> <p>Bank has an independent Mid Office working on the floor of Treasury Department for market risk management functions like onsite monitoring of adherence to set limits, independent valuation and reporting of activities. This separate desk monitors market/operational risks in treasury/forex operations on a daily basis and reports directly to the Head of IRMD.</p> <p>Asset Liability Management Committee (ALCO), also known as Market Risk Management Committee, is primarily responsible for establishing market risk management and asset liability management in the Bank, procedures thereof, implementing risk management guidelines issued by the regulator, best risk management practices followed globally and monitoring adherence to the internal parameters, procedures, practices/policies and risk management prudential limits.</p>
2.3	<p>Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:</p> <p>Policies for hedging/ mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants are discussed in ALCO and based on the views taken by/ mandates given by ALCO, hedge deals/ mitigation steps are undertaken.</p> <p>Liquidity risk of the Bank is assessed through Statement of Structural Liquidity on static basis and statement of Short Term Dynamic Liquidity on dynamic basis. Structural liquidity position is assessed on a daily basis and dynamic liquidity position is assessed on a fortnightly basis. Additional prudential limits on liquidity risk fixed as per ALM policy of the Bank are also monitored by ALCO on a quarterly basis. Interest rate risk is analyzed from earnings perspective using Traditional Gap Analysis on a monthly basis and economic value perspective using Duration Gap Analysis on a quarterly basis. Based on the analysis, steps are taken to minimize the impact of interest rate changes.</p> <p>Advance techniques such as Stress testing, sensitivity analysis etc. are conducted periodically to assess the impact of various contingencies.</p>
<b>3.</b>	<b>Operational risk</b>
3.1	<p>Strategies and processes:</p> <p>Bank has put in place detailed framework for Operational Risk Management with a well-defined ORM Policy. Operational Risk Management Committee (ORMC) at the executive level oversees bank wide implementation of Board approved policies and processes in this regard. All new schemes/products of the Bank are risk vetted from the point of view of operational risk, before implementation.</p> <p>Various tools, controls and mitigation measures implemented for management of operational risk are being reviewed and updated on a regular basis, to suit the changes in risk profile. Bank has also put in place a comprehensive bank wide Business Continuity Plan to ensure continuity of critical operations of the Bank covering all identified disasters.</p>

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3.2	<p>Scope and nature of risk reporting / measurement systems:</p> <p>Bank has started collection of internal operational loss data from Fiscal 2006-07. In the year 2009, Bank has introduced separate accounting of operational risk events to enhance transparency and to enable effective monitoring of loss events. Well-designed format for reporting identified loss events and data in the most granular form is put in place. Operational Risk Management Cell is the central repository for operational loss data of the Bank. Consolidation and analysis of loss data is placed before the Operational Risk Management Committee on a quarterly basis.</p>
3.3	<p>Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:</p> <p>Bank is using insurance for mitigating operational risk. Bank is subscribing to the General Banker's Indemnity Policy as mitigation against loss of securities due to various external events. Bank also mitigates loss in other physical assets through property insurance.</p>
4.	<b>Interest rate risk in banking book</b>
4.1	<p>Strategies and processes:</p> <p>Interest Rate Risk is assessed in two perspectives – Earnings perspective using Traditional Gap Analysis conducted monthly to assess the impact of adverse movement in interest rate on the Net Interest Income (Earnings at Risk) and economic value perspective using Duration Gap Analysis conducted quarterly to assess the impact of adverse movement in interest rate on the market value of Bank's equity.</p>
4.2	<p>Scope and nature of risk reporting / measurement systems:</p> <p>Interest rate risk in Banking Book is measured and Modified Duration of Equity is evaluated on a quarterly basis. The likely drop in Market Value of Equity for 200 bps change in interest rates is computed and benchmarked under the Internal Capital Adequacy Assessment Process for computation of Pillar II capital charge for Interest Rate Risk. Earnings at Risk based on Traditional Gap Analysis are calculated on a monthly basis and adherence to tolerance limit set in this regard is monitored and reported to ALCO / RMC. The results of Duration Gap Analysis are also reported to ALCO / RMC. Stress tests are conducted to assess the impact of interest rate risk under different stress scenarios on earnings of the Bank.</p>
4.3	<p>Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:</p> <p>Bank has put in place mitigating/hedging measures prescribed by Investment Policy, ALM Policy, Derivatives Policy and Stress Testing Policy.</p> <p>Risk profiles are analyzed and mitigating strategies/hedging process are suggested and operationalised by Treasury Department with the approval of Senior level Committees.</p>

### (B) Structure and organization of Bank's risk management function

Bank has put in place appropriate organizational framework for bank-wide management of risk on integrated basis. The structure ensures coordinated process for measuring and managing all types of risk on an enterprise-wide basis to achieve organizational goals. The structure assures adherence to regulatory stipulations. The structure is designed in tune with the general guidelines of Regulator.

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Bank's Board at the top of the structure has assumed overall responsibility for bank-wide management of risk. The Board decides risk management policies of the Bank and sets risk exposure limits by assessing Bank's risk appetite and risk bearing capacity. Risk Management Committee of the Board assumes responsibility of devising policy and strategy for enterprise-wide risk management. The Committee also sets guidelines for measurement of risks, risk mitigation and control parameters and approves institution of adequate infrastructure for risk management. The Committee meets regularly and reviews reports placed on various risk areas.

There are three support committees of senior executives (CRMC, ALCO also known as MRMC, ORMC) responsible for implementation of policies and monitoring of level of risks in their respective domains. The Committees are headed by Managing Director & CEO. Senior executives from respective functional areas and risk management are members of the Committee. The Committees meet regularly to take stock of various facets of risk management function and place their reports to Board level Risk Management Committee. CRMC meets at least once in a month and ORMC meets at least once in a quarter. Depending on requirement, ALCO meets very often. Further, an apex level Business Continuity Plan Committee is constituted with the Managing Director & CEO as its head, to ensure continuity of critical operations of the Bank in the event of occurrence of disasters.

Single point management of different types of risks bank-wide is made functional through Integrated Risk Management Department. The Department is responsible for overall identification, measurement, monitoring and control of various types of risks faced by the Bank in its operations and compliance of risk management guidelines and policies issued by Regulator/Board. The Department has three separate Cells to look after three broad categories of risks. Independent Mid-Office functioning on the floor of Treasury Department is reporting directly to the Head of IRMD. The distinct risk Cells report to the Head of IRMD. The Head of IRMD reports to the Managing Director & CEO through the Executive Director.

### (C) Structured risk wise disclosures

**TABLE DF – 4: CREDIT RISK: GENERAL DISCLOSURES**

1.	Qualitative disclosures
1.1	Definitions of past due and impaired (for accounting purposes).
	<p>1. Non Performing Assets An asset including a leased asset becomes non-performing when it ceases to generate income for the bank. A non performing asset (NPA) is a loan or an advance where</p> <ol style="list-style-type: none"> <li>a. Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan</li> <li>b. The account remains 'out of order' as indicated in paragraph 2 below, in respect of an Overdraft / Cash Credit (OD/CC)</li> <li>c. The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted</li> <li>d. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops.</li> <li>e. The installment of principal or interest thereon remains overdue for one crop season for long duration crops.</li> </ol> <p>An account is classified as NPA if the interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.</p>



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	<p>2. 'Out of Order' status</p> <p>An account is treated as 'Out of Order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts are treated as out of order.</p>
	<p>3. 'Overdue'</p> <p>Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.</p>
	<p>4. Credit Risk</p> <p>a. Inability or unwillingness of the counterparty to pay interest, repay principal or otherwise to fulfill their contractual obligations under loan agreements or other credit facilities</p> <p>b. Downgrading of counter parties whose credit instruments the Bank may be holding, causing the value of those assets to fall.</p> <p>c. Settlement Risk (possibility that the Bank may pay a counterparty and fail to receive the corresponding settlement in return).</p>
1.2	Discussion of the Bank's Credit Risk Management Policy
	<p>Bank has put in place a detailed Credit Risk Management Policy. Goal of this policy is to create a transparent framework for identification, assessment and effective management of credit risk in all operations of the Bank and to secure organizational strength and stability in the long run. The policy aims at contributing to the Bank's profitability by efficient and profitable utilization of a prudent proportion of the Bank's resources and maintaining a reasonably balanced portfolio of acceptable risk quality through diversification of credit risks. The policy also envisages optimizing returns with satisfactory spread over funding cost and overheads.</p> <p>The policy also deals with structure, framework and processes for effective management of inherent credit risk.</p>

2. Quantitative disclosures		Amount in ₹ Crore		
		Fund based (same as total assets in Balance Sheet)	Non-fund based (Book value, excluding market related OBS contracts and undrawn exposures)	Total
2.1	Total gross credit risk exposures (after accounting offsets in accordance with the applicable accounting regime and without taking into account the effects of credit risk mitigation techniques)	60626.79	4722.13	65348.91

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

2.2	Geographic distribution of exposures (same basis as adopted for segment reporting adopted for compliance with AS 17)			
	Overseas			
	Domestic	60626.79	4722.13	65348.91
2.3	Industry type distribution of exposures (with industry break up on same lines as prescribed for DSB returns)	Please refer Table 4 (A)		
2.4	Residual contractual maturity breakdown of assets (maturity bands as used in ALM returns should be used)	Please refer Table 4 (B)		
2.5	Amount of NPAs (Gross)			1300.83
	Substandard			466.82
	Doubtful 1			341.48
	Doubtful 2			158.05
	Doubtful 3			33.42
	Loss			301.06
2.6	Net NPAs			199.00
2.7	NPA ratios			
	Gross NPAs to gross advances (%)			3.35
	Net NPAs to net advances (%)			0.53
2.8	Movement of NPAs (Gross)			
	Opening balance (balance as at the end of previous Fiscal)			1148.33
	Additions during the period			695.31
	Reductions			542.81
	Closing balance			1300.83
2.9	Movement of provisions for NPAs			
	Opening balance (balance as at the end of previous Fiscal)			942.34
	Provisions made during the period			221.77
	Write-off / Write back of excess provisions			108.78
	Closing balance			1055.33
2.10	Amount of Non Performing Investments			0.00
2.11	Amount of provisions held for Non Performing Investments			0.00
2.12	Movement of provisions for depreciation on investments			
	Opening balance (balance as at the end of previous Fiscal)			16.50
	Provisions made during the period			51.37
	Write-off			0.00
	Write-back of excess provisions			16.50
	Closing balance			51.37

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**TABLE 4 (A): INDUSTRY TYPE DISTRIBUTION OF EXPOSURES**

(Amount in ₹ Crore)

Sl. No.	Industry	Gross lending exposures, without netting			% to gross credit exposure as per Table DF 4 – 2.1
		Fund based	Non-fund based	Total	
1	Mining & Quarrying	240.24	7.01	247.25	0.38
2	Food Processing	1401.87	4.07	1405.94	2.15
3	Beverages & Tobacco	16.65	0.00	16.65	0.03
4	Textiles	800.66	4.06	804.72	1.23
5	Leather & Leather products	73.51	1.73	75.24	0.12
6	Paper & paper products	200.61	1.08	201.69	0.31
7	Petroleum, Coal products & Nuclear Fuels	1259.46	1.25	1260.71	1.93
8	Chemicals & Chem products	659.23	1.16	660.39	1.01
9	Rubber, Plastic & their products	101.51	0.25	101.76	0.16
10	Cement & Cem products	73.93	1.40	75.33	0.12
11	Basic Metal & Metal products	1330.04	13.48	1343.52	2.06
12	All Engineering	428.52	233.75	662.27	1.01
13	Vehicles, parts and Transport Equipments	70.34	0.05	70.39	0.11
14	Gems & Jewellery	21.47	0.00	21.47	0.03
15	Construction	151.12	0.24	151.36	0.23
16	Infrastructure	4455.14	58.98	4514.12	6.91
17	Other Industries	702.45	0.00	702.45	1.07
	<b>TOTAL</b>	<b>11986.75</b>	<b>328.51</b>	<b>12315.26</b>	

As on 31st March 2012, exposure to infrastructure exceeds 5 % of the gross credit exposure of the Bank.

**TABLE 4 (B): RESIDUAL CONTRACTUAL MATURITY BREAKDOWN OF ASSETS**

(Amount in ₹ Crore)

	Cash	Balances with RBI	Balances with other banks	Investments	Advances	Fixed assets	Other assets	Total
Day 1	395.84	4.73	207.83	1.88	182.31		1.43	794.02
2 – 7 days		27.05	284.07	282.36	887.62		0	1481.10
8-14 days		9.74	29.63	68.29	1246.15		0	1353.81
15-28 days		26.13	54.64	269.02	856.93		0	1206.72
29 days & up to 3 months		151.59	523.41	1489.87	2814.34		2.18	4981.39

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Over 3 months & up to 6 months		253.98	8.83	705.58	2853.46		2.34	3824.19
Over 6 months & up to 1 year		285.41	0	218.09	4757.42		880.82	6141.74
Over 1 year & up to 3 years		752.98	0	898.01	17069.49		4.91	18725.39
Over 3 years & up to 5 years		29.31	0	1423.90	3128.60		2.38	4584.19
Over 5 years		487.37	0	12045.48	3959.67	326.14	715.54	17534.20
<b>Total</b>	<b>395.84</b>	<b>2028.29</b>	<b>1108.41</b>	<b>17402.48</b>	<b>37755.99</b>	<b>326.14</b>	<b>1609.60</b>	<b>60626.75</b>

TABLE DF – 5: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

<b>1.</b>	<b>Qualitative disclosures</b>
	For portfolios under the Standardized Approach;
	Names of credit rating agencies used, plus reasons for any changes.
	<p>Bank has approved all the four External Credit Rating Agencies accredited by RBI for the purpose of credit risk rating of domestic borrowal accounts that forms the basis for determining risk weights under Standardized Approach.</p> <p>External Credit Rating Agencies approved are:</p> <ol style="list-style-type: none"> <li>1. CRISIL</li> <li>2. CARE</li> <li>3. FITCH India</li> <li>4. ICRA</li> </ol> <p>No agency has been added/deleted by the Bank during the year. Wherever short term rating is not available, long term rating grade is used to determine risk weight of the short term claims also. However, even if short term rating is available, it is not used to determine risk weight of long term claims.</p> <p>With respect to external credit rating, Bank is using long term ratings for risk weighting all long term claims and unrated short term claims on the same counterparty. However, short term rating of a counterparty is used only to assign risk weight to all short term claims of the obligor and not to risk weight unrated long term claims on the same counterparty</p> <p>For an unrated claim with respect to external credit rating, The Federal Bank Ltd. is using long term ratings for risk weighting both unrated long term claims as well as unrated short term claims on the same counterparty. However, short term rating of counterparty are only used to assign risk weight to unrated short term claims and not unrated long term claims of the same counterparty.</p> <p>Wherever external credit rating of guarantor is relevant, the same should be used as the entity rating of the guarantor and not the rating of any particular issue of the guarantor. Whereas the entity ratings can be used to risk weight specific unrated credit exposures of counterparty, rating of any credit exposure of the counterparty cannot be used to arrive at risk weight of that counterparty as guarantor.</p>
1.2	Types of exposure for which each agency is used.

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	<ol style="list-style-type: none"> <li>Rating by the agencies is used for both fund based and non-fund based exposures.</li> <li>Short Term Rating given by the agencies is used for exposure with contractual maturity of less than or equal to one year (except Cash Credit, Overdrafts and other Revolving Credits).</li> <li>Long Term Rating given by the agencies is used for exposures with contractual maturity of above one year and also for Cash Credit, Overdrafts and other Revolving Credits.</li> <li>Rating assigned to one particular entity within a corporate group is not used to risk weight other entities within the same group.</li> </ol>
1.3	Description of the process used to transfer public issue ratings onto comparable assets in the Banking Book
	<p>The ratings available in public domain are mapped according to mapping process as envisaged in RBI guidelines on the subject.</p> <p>Issue Specific Ratings (Bank's own exposures or other issuance of debt by the same borrower constituent/counterparty) or Issuer Ratings (borrower constituent/counterparty) are applied to unrated exposures of the same borrower constituent/counterparty subject to the following:</p> <ol style="list-style-type: none"> <li>Issue specific ratings are used where the unrated claim of the Bank ranks paripassu or senior to the rated issue / debt.</li> <li>Wherever issuer rating or issue specific ratings are used to risk weight unrated claims, such ratings are extended to entire amount of claim on the same counterparty.</li> <li>Ratings used for risk weighting purposes are confirmed from the websites of the rating agencies concerned.</li> </ol>

<b>2. Quantitative disclosures</b>		
Risk weight wise details of credit risk exposures (rated and unrated) after risk mitigation subject to the Standardized Approach (Credit equivalent amount of all exposures subjected to Standardized Approach, after risk mitigation)	Risk Weight	Amount in ₹ Crore
	Below 100%	39156.86
	100 %	15081.18
	More than 100%	3695.39
	Deducted	0.00
	Total	57933.43

TABLE DF – 6: CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACHES

<b>1. Qualitative disclosures</b>	
	Disclosures on credit risk mitigation methodology adopted by the Bank that are recognized under the Standardized Approach for reducing capital requirements for credit risk
1.1	Policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting
	Bank has no practice of on-balance sheet netting for credit risk mitigation. Eligible collaterals taken for the exposures are separately earmarked and the exposures are expressed without netting.
1.2	Policies and processes for collateral valuation and management
	Bank has put in place Board approved policy on Credit Risk Management in which Collateral Management, and credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes are separately included. The Loan policy of the Bank covers various aspects of valuation of collaterals.

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1.3	<p>Description of the main types of collateral taken by the Bank</p> <p>Collaterals used by Bank as risk mitigants for capital computation under Standardized Approach comprise eligible financial collaterals namely:</p> <ol style="list-style-type: none"> <li>1. Cash margin and fixed deposits of the counterparty with the Bank.</li> <li>2. Gold jewellery of purity 91.6% and above, the value of which is notionally converted to value of gold with 99.99% purity.</li> <li>3. Securities issued by Central and State Governments</li> <li>4. Kisan Vikas Patra and National Savings Certificates.</li> <li>5. Life Insurance Policies with a declared surrender value of an insurance company regulated by the insurance sector regulator.</li> <li>6. Debt securities rated by a chosen Credit Rating Agency in respect of which the bank is sufficiently confident of market liquidity of the security and where these securities are either:             <ol style="list-style-type: none"> <li>a. Attracting 100% or lesser risk weight i.e. rated at least BBB (-) when issued by Public sector entities and other entities including banks and Primary Dealers or</li> <li>b. Attracting 100% or lesser risk weight i.e. rated at least A3 for short term debt instruments</li> </ol> </li> <li>7. Debt securities not rated by a chosen Credit Rating Agency in respect of which the bank is sufficiently confident of market liquidity of the security and where these securities are             <ol style="list-style-type: none"> <li>a. Issued by the Bank</li> <li>b. Listed on a recognized exchange</li> <li>c. Classified as senior debt</li> <li>d. All rated issues of the same seniority by the issuing Bank are rated at least BBB (-) or A3 by a chosen Credit Rating Agency</li> <li>e. The bank has no information to suggest that the issue justifies a rating below BBB (-) or A3 by a chosen Credit Rating Agency</li> </ol> </li> <li>8. Units of Mutual Funds regulated by the securities regulator of the jurisdiction of the Bank's operation and mutual funds where             <ol style="list-style-type: none"> <li>a. A price for the units is publicly quoted daily i.e. where the daily NAV is available in public domain</li> <li>b. Mutual fund is limited to investing in the permitted instruments listed.</li> </ol> </li> </ol> <p>Bank has no practice of monitoring / controlling exposures on a net basis, though Bank is able to determine at any time loans/advances and deposits of the same counterparty. Netting benefit, even if available, is not utilized in capital computation under Basel II norms.</p>
1.4	<p>Main types of guarantor counterparty and their creditworthiness.</p> <p>Bank considers guarantees, which are direct, explicit, irrevocable and unconditional for credit risk mitigation. Use of such guarantees for capital computation is strictly as per RBI guidelines on the subject.</p> <p>Main types of guarantor counter party are</p> <ol style="list-style-type: none"> <li>a. Sovereigns (Central / State Governments)</li> <li>b. Sovereign entities like ECGC, CGTSI</li> <li>c. Banks and Primary Dealers with a lower risk weight than the counter party</li> </ol> <p>Other entities rate AA (-) or better. This would include guarantee cover provided by parent, subsidiary and affiliate companies when they have lower risk weight than the obligor. The rating of the guarantor should be an entity rating which has factored in all the liabilities and commitments (including guarantees) of the entity.</p>

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

1.5	Information on market / credit risk concentrations within the mitigation taken by the Bank
	<p>Majority of financial collaterals held by the Bank are by way of own deposits, government securities, Gold, Life Insurance Policies and other approved securities like NSC, KVP etc. Bank does not have exposure collateralized through units of eligible MF. Bank does not envisage market liquidity risk in respect of financial collaterals. As far as Gold, where exposure comes to less than 6%, is considered, Bank is maintaining adequate margin (minimum 20%) on such exposures and every exposure is reviewed/renewed/closed within the maximum period of 12 months stipulated for such exposures. Downward volatility in Gold prices is low, and Gold is increasingly preferred now as an investment asset class. Bank has long experience in this portfolio and measures warranted by situations are timely taken as per practices followed in the past (enhancement of margin, reduction of exposure, auction at short notice etc). Hence, Bank does not anticipate market liquidity risk in Gold. Overall, financial collaterals do not have any issue in realization.</p> <p>Concentration on account of collateral is also relevant in the case of land &amp; building. Except in the case of housing loan to individuals, land and building is considered only as additional security. As land and building is not recognized as eligible collateral under Basel II Standardized Approach, its value is not reduced from the amount of exposure in the process of computation of capital charge, and is used only in the case of housing loan to individuals and non performing assets to determine the appropriate risk weight. As such, there is no concentration risk on account of nature of collaterals.</p>

(Amount in ₹ Crores)

<b>2.</b>	<b>Quantitative Disclosures</b>			
2.1	Credit risk exposure covered by eligible financial collaterals			
	Type of exposure	Credit equivalent of gross exposure	Value of eligible financial collateral after haircuts	Net amount of credit exposure
A	Loans and advances	5699.49	5203.70	495.79
B	Non-market related off balance sheet items	4430.28	507.35	3922.93
C	Securitisation exposures – on balance sheet	0.00	0.00	0.00
D	Securitisation exposures – off balance sheet	0.00	0.00	0.00
	TOTAL	10129.77	5711.05	4418.72
2.2	Credit risk exposure covered by guarantees			
	Type of exposure	Credit equivalent of gross exposure	Amount of guarantee (Credit equivalent)	
A	Loans and advances	2035.26	1869.16	
B	Non-market related off balance sheet items	64.91	63.98	
C	Securitisation exposures – on balance sheet	0.00	0.00	
D	Securitisation exposures – off balance sheet	0.00	0.00	
	TOTAL	2100.16	1933.14	

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

TABLE DF – 7: SECURITISATION: DISCLOSURES FOR STANDARDIZED APPROACH

<b>1.</b>	<b>Qualitative disclosures</b>
<b>1.1</b>	<b>General disclosures on securitisation exposures of the Bank</b>
A	Objectives of securitisation activities of the Bank (including the extent to which these activities transfer credit risk of the underlying securitized exposures away from the Bank to other entities and nature of other risks inherent in securitized assets)
	Bank's securitisation exposure is limited to investments in AAA rated securitisation instruments, primarily made in an earnings perspective and risks inherent in the investment is within reasonable levels.
B	Role of Bank in securitisation processes (originator / investor/ service provider/ facility provider etc.) and extent of involvement in each activity.
	Bank has invested in rated securitized instruments and such investments are held in its Trading Book. Bank is not active in securitisation processes in any other manner.
C	Processes in place to monitor changes in the credit and market risk of securitisation exposures
	Bank is constantly monitoring the changes in credit and market risk profile of securitisation instruments held in the Trading Book.
D	Bank's policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation exposures
	Bank has not retained any exposure/risk as originator of securitisation transactions.
<b>1.2</b>	<b>Accounting policies for securitisation activities</b>
A	Treatment of transaction (whether as sales or financings)
	N.A
B	Methods and key assumptions (including inputs) applied in valuing positions retained or purchased
	Income from investments in Pass Through Certificates is recognized on accrual basis. Income recognition is subjected to prudential norms stipulated by Reserve Bank of India in this regard.
C	Changes in methods and key assumptions from the previous period and impact of the changes
	No change is effected in methods and key assumptions used for valuation of investment in securitized instruments.
D	Policies for recognizing liabilities on the balance sheet for arrangements that could require the bank to provide financial support for securitized assets.
	Bank has not entered into any arrangement to provide financial support for securitized assets.
1.3	In the Banking Book, names of ECAIs used for securitisations and the types of securitisation exposures for which each agency is used.
	Bank does not have any securitisation exposure in the Banking Book.

(Amount in ₹ Crore)

<b>2.</b>	<b>Quantitative disclosures</b>	
2.1	In the Banking Book	
A	Total amount of exposures securitized by the Bank	Nil



## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

B	For exposures securitized, losses recognized by the Bank during the current period ( <i>exposure type wise breakup</i> )	Nil						
C	Amount of assets intended to be securitized within a year	Nil						
D	Of (C) above, amount of assets originated within a year before securitisation	Nil						
E	Securitisation exposures (by exposure type) and unrecognized gain or losses on sale thereon							
	Type of exposure	Amount securitized			Unrecognized gain / loss			
	Nil	Nil			Nil			
	TOTAL							
F	Aggregate amount of on-balance sheet securitisation exposures retained or purchased by the Bank ( <i>exposure type wise breakup</i> )	Nil						
G	Aggregate amount of off-balance sheet securitisation exposures ( <i>exposure type wise breakup</i> )	Nil						
H	Aggregate amount of securitisation exposures retained or purchased and associated capital charges ( <i>exposure type wise and risk weight wise breakup</i> )							
	Type of exposure	Risk weights						
		20%	30%	50%	100%	150%	350%	400%
	Nil	-	-	-	-	-	-	-
I	Total amount of deductions from capital on account of securitization exposures						Nil	
	Deducted entirely from Tier I capital-underlying exposure type wise breakup						Nil	
	Credit enhancing interest only strips (I/Os) deducted from total capital – underlying exposure type wise breakup						Nil	
	Other exposures deducted from total capital – underlying exposure type wise breakup						Nil	
2.2	In the Trading Book							
A	Aggregate amount of exposures securitized by the Bank for which the Bank has retained some exposures, which is subject to Market Risk approach ( <i>exposure type wise details</i> )							
	Type of exposure	Gross Amount			Amt retained			
	Nil	Nil			Nil			
B	Aggregate amount of on-balance sheet securitisation exposures retained or purchased by the Bank ( <i>exposure type wise breakup</i> )						Amt in ₹ Cr.	
	Type of exposure						0.16	
	Investment in Pass through Certificates							
C	Aggregate amount of off-balance sheet securitisation exposures ( <i>exposure type wise breakup</i> )						Nil	

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

D	Securitisation exposures retained / purchased subject to Comprehensive Risk Measure for specific risk			-
E	Securitisation exposures retained / purchased subject to specific risk capital charge (risk weight band wise distribution)			
	Type of Exposure	Capital charge as % to exposure	Exposure (₹ Cr.)	
	Investment in Pass through Certificates	1.80 %	0.16	
F	Aggregate amount of capital requirements for securitisation exposures (risk weight band wise distribution)			
	Type of exposure	Capital charge as % to exposure	(Capital charge ₹)	
	Investment in Pass through Certificates	1.80%	29000/-	
G	Total amount of deductions from capital on account of securitisation exposures	Nil		
	Deducted entirely from Tier I capital – underlying exposure type wise break up	Nil		
	Credit enhancing interest only strips (I/Os) deducted from total capital – underlying exposure type wise break up	Nil		
	Other exposures deducted from total capital – underlying exposure type wise break up	Nil		

TABLE DF – 8: MARKET RISK IN TRADING BOOK

<b>1.</b>	<b>Qualitative disclosures</b>
1.1	Approach used for computation of capital charge for market risk
	<p>Bank has adopted Standardized Duration Approach as prescribed by RBI for computation of capital charge for general market risk and is fully compliant with such RBI guidelines. Bank uses VaR as an indicative tool for measuring Forex risk and Equity Price risk. Standardized Duration Approach is applied for computation of General Market Risk for</p> <ul style="list-style-type: none"> <li>➤ Securities under HFT category</li> <li>➤ Securities under AFS category</li> <li>➤ Open gold position limits</li> <li>➤ Open foreign exchange position limits</li> <li>➤ Trading positions in derivatives</li> <li>➤ Derivatives entered into for hedging trading book exposures</li> </ul> <p>Specific capital charge for market risk is computed based on risk weights prescribed by the Regulator.</p>
1.2	Portfolios covered in the process of computation of capital charge
	Investment portfolio under AFS and HFT, Gold and Forex open positions and Derivatives entered for trading and hedging.

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

(Amount in ₹ Crore)

<b>2. Quantitative disclosures</b>	
2.1 Minimum capital requirements for market risk as per Standardized Duration Approach under Basel II	166.34
Interest rate risk	114.57
Foreign exchange risk (including gold)	18.00
Equity position risk	33.77

**TABLE DF – 9: OPERATIONAL RISK**

<b>1. Qualitative disclosures</b>	
1.1 Approach used for computation of capital charge for operational risk (and for which the Bank is qualified)	
	Bank has adopted Basic Indicator Approach as prescribed by RBI for computation of capital charge for operational risk. Bank has initiated steps to move on to the Advanced Measurement Approach in due course.

**TABLE DF – 10: INTEREST RATE RISK IN BANKING BOOK (IRRBB)**

<b>1. Qualitative disclosures</b>	
1.1 Brief description of approach used for computation of interest rate risk and nature of IRRBB.	Interest Rate Risk in Banking Book is computed through Duration Gap Analysis.
1.2 Key assumptions used in Duration Gap Analysis (DGA) and computation of capital charge for Interest Rate Risk (including assumptions on prepayment of loans and behavior of non-maturity deposits)	<p>Board approved assumptions as stipulated in applicable policies are used in Duration Gap Analysis and computation of capital charge for Interest Rate Risk. The following are the key assumptions involved:</p> <ol style="list-style-type: none"> <li>1) As indicated by RBI, assets and liabilities are grouped under the broad heads under various time buckets and bucket wise modified duration of these groups is computed using the suggested common maturity, coupon and yield parameters.</li> <li>2) Advances linked to BPLR and Base Rate has been placed in the bucket of 1 to 28 days as per Bank's interest rate expectations.</li> <li>3) All the future cash flows (future repricing amount) bucket wise are discounted with midpoint of the bucket and suggested yield to get more accurate treatment of cash flows. The same present value is considered to arrive at the weighted Modified duration of each asset and liability and further to get the weighted modified duration of Liabilities and Assets.</li> <li>4) Bank's average standard advances covering Bills Purchased / Discounted, Cash Credits/ Overdrafts and term loans are mapped to appropriate external ratings. Yield curve for BBB rated corporate bonds is used as a proxy for yield for Banks' average standard advances for arriving at the Modified Duration of Advances.</li> </ol> <p>Usual bucketing applicable to the Statement of Interest Rate Sensitivity is also made applicable to the duration of Equity calculations. Last bucket for liabilities is approximated as 5 years to 10 years and last bucket for Assets as 5 years to 20 years.</p>

## Basel II – Pillar 3 Disclosures of The Federal Bank Ltd., As on 31/03/2012

1.3	Frequency of measurement of interest rate risk
	Measurement and Computation of Interest rate risk in Banking Book and evaluation of Modified Duration of Equity is done by the Bank on a quarterly basis. Bank also calculates on quarterly basis the likely drop in Market Value of Equity with 200 bps change in interest rates. Earnings-at-Risk is measured on a monthly basis using Traditional Gap Analysis.

(\* Currency wise break up not provided as the turnover in other currencies are less than 5% of total turnover)

<b>2.</b>	<b>Quantitative disclosures - Impact of interest rate risk</b>	
2.1	Earnings perspective (Traditional Gap Analysis)	
	Earnings at Risk (EaR) – impact for one year due to	
	Uniform 1% increase in interest rate (Amt in ₹ Cr.)	0.00
	Uniform 1% decrease in interest rate (Amt in ₹ Cr.)	170.35
2.2	Economic value perspective – percentage and quantum of decrease in market value of equity on account of 1% uniform increase in interest rate	6.09% ₹327.54Cr

**TABLE DF – 11: ADDITIONAL DISCLOSURES AS PER ICAAP**

<b>1.</b>	<b>Qualitative Disclosures</b>	
1.1		
	ICAAP is aimed to equip Bank to undertake various risks knowingly and more fruitfully in a fast changing dynamics of integrated and complex global financial market. The policy proposes process to identify, control, monitor and appropriately mitigate all possible risks embedded in its operations so as to draw the risk appetite and risk bearing parameters of the Bank and measure and allocate capital for quantifiable risks. Policy aims the Bank to move towards more advanced approaches in its capital planning and risk assessment and thereby gather enough strength to sail safe through normal as well as troubled times, present or future. The document envisages Bank to give sufficient comfort to the Regulator and all its stakeholders on its stability, growth and earning potential. Policy supports Bank to maximize shareholders' wealth and improve services delivery to the public by following industry level best practices. ICAAP embodies risk philosophy of the Bank, 'take risk by choice and not by chance'.	
<b>2.</b>	<b>Quantitative Disclosures</b>	
2.1	Additional capital requirements under ICAAP	Amt in ₹ Cr.
	Credit risk –over and above Pillar I capital charge	0.00
	Sectoral credit concentration risk	36.39
	Geographical credit concentration risk	82.74
	Interest rate risk	0.00
	Liquidity risk	39.83
2.2	Overall capital adequacy of solo Bank (With aggregate of capital charge under Pillar I and Pillar II of Basel II norms)	15.85%

## The Federal Bank Limited

Balance Sheet Abstract And The Bank's  
General Business Profile**I Registration Details.**

Registration No.	:	368		
State Code	:	09		
Balance Sheet Date:	Date	Month	Year	
	31	March	2012	

**II Capital raised during the year (Amount in ₹ Thousands)**

Public issue	NIL
Rights Issue	NIL
Bonus Issue	NIL
Private Placement	NIL

**III Position of Mobilisation and Deployment of Funds (Amount in ₹ Thousands)**

Total of Liabilities	606,267,721
Total Assets	606,267,721
Sources of Funds:	
Paid up Capital	1,710,471
Reserves and Surplus	55,352,798
Secured Loans	NIL
Unsecured Loans	42,410,341
Deposits	489,371,221

## Application of funds

Net fixed assets	3,261,392
Investments	174,024,877
Advances	377,559,859
Miscellaneous Expenditure	NIL
Net Current Assets	33,998,703
Accumulated Losses	NIL

**IV Performance of Bank (Amount in ₹ Thousands)**

Turnover	60,907,356
Total Expenditure	45,842,582
Profit before Tax	11,695,095
Profit after tax	7,767,995
Earning per share (Annualised)	₹45.41
Dividend @ 90% (Proposed)	1,539,424

**V Generic Name of Three Services of Bank (as per monetary terms)**

Item Code No. (ITC Code)	N A
Product Description	Banking, Leasing, Merchant Banking

P. C. John  
Executive Director & CFO

Shyam Srinivasan  
Managing Director & CEO

P. C. Cyriac  
Chairman

## DIRECTORS

Suresh Kumar

Abraham Koshy

Nilesh S Vikamsey

Kochi  
11-May-2012

**The Federal Bank Limited****Statement Pursuant to Section 212 of The Companies Act, 1956 Related to Subsidiary Companies**

Name of Subsidiary	The Fedbank Financial Services Limited
1. Financial year of the subsidiary ended on	31st March 2012
2. Share of the subsidiary held by the Company on the above date:	
a) Number and face value	19,00,00,000 equity shares of Rs.10/- each fully paid up
b) Extent of holding	100%
3. Net aggregate amount of Subsidiary's Profit/ (Losses) so far as it concerns the members of the Holding Company not dealt with in the Holding Company's accounts	
a) for the current financial year (Amount in thousands)	₹ (73,748)
b) for the previous financial year (Amount in thousands)	₹ 13,883
4. Net aggregate amount of Subsidiary's Profits/(Losses) so far as it concerns the members of the Holding Company dealt with in the Holding Company's accounts	
a) for the current financial year	NIL
b) for the previous financial year	NIL

P. C. John  
Executive Director & CFO

Shyam Srinivasan  
Managing Director & CEO

P. C. Cyriac  
Chairman

— DIRECTORS —

Suresh Kumar

Abraham Koshy

Nilesh S Vikamsey

Kochi  
11-May-2012

## Fedbank Financial Services Limited

## Report of the Board of Directors

Dear Shareholders,

Your directors have pleasure in presenting 17th Annual Report of Fedbank Financial Services Limited (FedFina) with the audited statement of accounts for the year ended 31st March, 2012.

**FINANCIAL HIGHLIGHTS**

(₹ In Lakhs)

Particulars	2011-12	2010-11
Gross Income	3768.90	1551.56
Profit/Loss (-) before Depreciation and Taxation	-521.04	230.96
Depreciation	207.9	22.77
Profit /Loss (-) before Tax	-728.94	208.19
Provision for Tax	8.53	69.36
Profit / Loss (-) after Tax	-737.48	138.83
Balance brought forward from previous year	282.11	171.05
Balance Available for Appropriation	-455.37	309.88
<b>Appropriations</b>		
Transfer to Reserve Fund	0.00	27.77
Transfer to General Reserve	0.00	0
Proposed Dividend	0.00	0
Corporate Dividend Tax	0.00	0
Balance Carried to Balance Sheet	-455.37	282.11

**FINANCIAL AND OPERATIONAL REVIEW**

Your Company is primarily into Lending against gold ornaments and distributing financial products predominantly for Federal Bank. The main streams of income for your Company are, interest income and fee based income. The major expenses for your Company are interest expense, business sourcing expense and cost of running operations.

Financial Year 2011-12 has been a landmark year for your company with Gross Income being the highest ever for the company.

During the Financial Year 2011-12, your Company's retail disbursements against gold ornaments were at ₹ 696 Crore as against ₹ 5 Crore in the previous year. During the year under review, gross advances stood at 324 Crore as against 5 Crore in the previous year.

As detailed in the 'Financial Results' section above, Gross Income of your Company increased from 15.52 crore in 2010-11 to ₹ 37.69 crore in 2011-12 registering a growth of 143%. Profit (Loss) before Tax was at ₹ (7.29) crore in 2011-12 as compared to ₹ 2.08 crore in 2010-11. The company grew its network from 41 branches to 142 branches.

There have been a few instances of fraud in gold loans by way of pledging spurious/lower carat gold ornaments

involving an aggregate amount of ₹ 1.36 Crore, as reported in annexure to auditors report. The Company has put in place necessary risk management systems so as to prevent such instances in future. Adequate provision in respect of the frauds has been made in the accounts for the year.

Your company is in the process of launching new product offering – Loans against Property in coming months. Test-run of System is under process and we expect to launch the same by 2nd quarter of FY13. Other NBFC specific products like promoter funding, loans against shares, etc. are also being considered apart from commercial vehicle finance.

#### **DIVIDEND**

The Company being in its initial growth phase, your directors consider it prudent to conserve resources and therefore do not recommend any dividend on equity shares for the financial year under review.

#### **SHARE CAPITAL**

During the year under review, company has issued and allotted 15.50 Crore equity shares of ₹. 10/- each at par to Federal Bank. Consequent to above allotment, the issued, subscribed and paid-up capital has increased from 35.00 Crore to ₹190.00 Crore as at the end of the financial year.

#### **RESOURCE MOBILISATION**

Your Company started diversifying its funding pattern and got sanction from another bank for its resource needs. Your company's rated short term debt instruments were also placed with various mutual funds / financial institutions at competitive rates enabling the company to reduce the overall cost of liabilities.

#### **CREDIT RATING**

The Company's short-term borrowing program from CRISIL enjoys the highest rating of "A1+". A1+ indicates very strong degree of safety with regard to timely payment of interest and principal.

#### **INTERNAL CONTROL**

The Internal Audit department of the company through a team of experienced personnel verifies quality of the assets pledged and the adherence to various risk management practices at the branch level.

#### **HUMAN RESOURCES**

Being a service oriented Company your company considers human resource capital as the biggest asset. As of 31st March 2012, your company has more than 700 employees on payroll at various management levels. Your management is committed to providing a wholesome work environment and support with training programs and workshops.

#### **RBI GUIDELINES**

The company has complied with the regulations of Reserve Bank of India as on March 31st March 2012 as are applicable to it as a Non-banking Finance Company.

#### **CAPITAL ADEQUACY RATIO**

The company' capital adequacy ratio was 54.15% as on 31st March 2012 which is significantly above the threshold limit as prescribed by the Reserve Bank of India.

#### **BOARD OF DIRECTORS**

The Board consists of five members including Chairman.



Mr. Somsankar Sengupta retired from the Board of Directors as Managing Director and CEO. He ceased to be a director with effect from 1st October 2011.

The Board places on record the contributions of Mr. Somsankar Sengupta during his tenure as Managing Director.

Mr. Shyam Srinivasan and Mr. PH Ravikumar, Directors are due to retire by rotation at the forthcoming Annual General Meeting. As per the Articles of Association of the Company and the Provision of the Companies Act, 1956, Mr. Shyam Srinivasan and Mr. PH Ravikumar being eligible, offer themselves for re-appointment.

Mr. Pradosh Kumar Mohapatra, presently Additional General Manager of The Federal Bank Limited and COO of company, was appointed as a Manager of the Company with effect from 1st October 2011 for the period of one year under the provisions of Companies Act subject to confirmation by shareholders in general meeting.

Mr. Pradosh Kumar Mohapatra is having professional banking career spanning 33 years with exposure in branch banking, merchant banking, credit, retail liabilities and asset products, audit and administration. He is a post graduate in science and holding a degree in law. He is also an associate member of the Indian Institute of Bankers. He is under deputation from the parent bank to the subsidiary company since November, 2009. He was part of the first team of Fedbank Financial Services Ltd. when the company began its Merchant banking, Leasing/Hire Purchase and other Non-banking Financial operations during 1995.

The Board met 8 times during FY12, and no two successive meetings were more than four months apart.

#### **AUDIT COMMITTEE**

The Audit committee consists of Mr. PH Ravikumar (Chairman), Mr. PC Cyriac and Mr. Shyam Srinivasan.

#### **RISK MANAGEMENT COMMITTEE**

The Risk Management committee consists of Mr. PC Cyriac, Mr. PH Ravikumar and Mr. Shyam Srinivasan as its members.

#### **NOMINATION COMMITTEE**

The Nomination Committee consists of Mr. Suresh Kumar, Mr. Shyam Srinivasan and Mr. MY Khan as its members.

#### **AUDITORS**

M/s Varma and Varma Chartered Accountants, auditors of the Company retire at the ensuing Annual General Meeting. They have confirmed their eligibility and willingness to accept office of Auditors.

The Audit Committee and the Board of Directors therefore recommend M/s. Varma and Varma, Chartered Accountants as statutory auditors of the company for 2012-13 for the approval of shareholders.

#### **INFORMATION PURSUANT TO SECTION 217 OF THE COMPANIES ACT, 1956**

**A. Conservation of Energy, Technology Absorption and Foreign Exchange Earning & Outgo:** Since the Company does not own any manufacturing facility, the particulars relating to conservation of energy and technology absorption stipulated in the Companies (Disclosures of particulars in the Report of the Board of Directors) Rules, 1988 are not applicable.

There are no foreign exchange earnings or outgo during the year under review.

## Fedbank Financial Services Limited

## Report of the Board of Directors

- B. Particulars of Employees:** The Company does not have any employee of the category specified in Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Amendment Rules, 2011.
- C. Directors' Responsibility Statement:** As required by Section 217(2AA) of the Companies Act, 1956, your directors hereby confirm that:
- (1) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departure
  - (2) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
  - (3) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provision of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and
  - (4) The Directors have prepared the annual accounts on a going-concern basis.

**ACKNOWLEDGEMENT**

Your Directors wish to express their sincere appreciation for the co-operation, assistance and guidance received from the Reserve Bank of India, other Government and regulatory agencies and rating agencies and The Federal Bank Ltd. The Board also acknowledges the faith reposed in the Company by the Company's lending institutions. Your directors look forward to their continued support in future.

Your Directors express their deep sense of appreciation of the commitment, co-operation, active involvement and dedication displayed by all the employees.

Your Directors thank you for your continued support, trust and confidence reposed in them.

For and on behalf of the Board of Directors

Date: 16th June 2012

Place: Mumbai

Suresh Kumar

Chairman

## Fedbank Financial Services Limited

## Balance Sheet as at 31st March 2012

(In Thousands of ₹)			
	Note No.	As at 31.03.2012	As at 31.03.2011
<b>I EQUITY AND LIABILITIES</b>			
<b>(1) Shareholders' Funds</b>			
(a) Share Capital	2.1	1,900,000	350,000
(b) Reserves & Surplus	2.2	(35,653)	38,093
<b>(2) Non-current Liabilities</b>			
(d) Long-term Provisions	2.3	1,217	1,598
<b>(3) Current Liabilities</b>			
(a) Short-term Borrowings	2.4	1,596,039	-
(b) Trade Payables	2.5	29,216	21,751
(c) Other Current Liabilities	2.6	53,413	49,771
(d) Short-term Provisions	2.7	26,678	672
<b>Total</b>		<b>3,570,910</b>	<b>461,885</b>
<b>II ASSETS</b>			
<b>(1) Non-current Assets</b>			
(a) Fixed Assets	2.8		
(i) Tangible Assets	2.8.1	106,900	30,355
(ii) Intangible Assets	2.8.2	2,051	668
(iii) Capital Work-in Progress	2.8.3	24,508	9,149
(iv) Intangible Assets Under Development	2.8.3	12,510	-
(b) Deferred Tax Assets (Net)	2.9	-	853
(c) Long-term Loans and Advances	2.10	47,720	32,211
<b>(2) Current Assets</b>			
(a) Trade Receivables	2.11	10,909	26,055
(b) Cash and Cash Equivalents	2.12	82,130	275,895
(c) Short-term Loans and Advances	2.13	3,276,409	70,438
(d) Other Current Assets	2.14	7,773	16,261
<b>Total</b>		<b>3,570,910</b>	<b>461,885</b>
Significant Accounting Policies and Notes on Accounts	1 & 2		

Dilip Maloo Head - Finance & Company Secretary	P. K. Mohapatra COO & Manager	Suresh Kumar Chairman
DIRECTORS		
M. Y. Khan	P. H. Ravikumar	P.C. Cyriac
		Shyam Srinivasan

As per our report of even date  
For Varma & Varma  
FRN: 004532S  
Chartered Accountants

Kochi  
09 May, 2012

Vijay Narayan Govind  
Partner, Membership No. 203094

## Fedbank Financial Services Limited

Statement Of Profit & Loss  
For The Year Ended 31st March 2012

(In Thousands of ₹)			
	Note No.	For the year ended 31.03.2012	For the year ended 31.03.2011
<b>I. INCOME</b>			
(a) Revenue from Operations	2.15	375,799	145,556
(b) Other Income	2.16	1,091	9,600
<b>Total</b>		<b>376,890</b>	<b>155,156</b>
<b>II. EXPENDITURE</b>			
(a) Employee Benefit Expenses	2.17	155,957	52,726
(b) Financial Costs	2.18	104,336	-
(c) Depreciation and Amortization Expenses	2.8	20,790	2,277
(d) Other Expenses	2.19	168,700	79,334
<b>Total</b>		<b>449,783</b>	<b>134,337</b>
<b>III. Profit/(Loss) before tax</b>	( I-II )	(72,893)	20,819
<b>IV. Provision for Taxes</b>			
(1) Current Tax		-	7,364
(2) Deferred Tax		853	(428)
<b>V. Profit/ (Loss) for the Year</b>	( III-IV )	<b>(73,746)</b>	<b>13,883</b>
<b>Earnings Per Equity Share (EPS)</b>			
	<b>2.20</b>		
(1) Basic (₹)		(1.12)	0.85
(2) Diluted (₹)		(1.12)	0.85

Significant Accounting Policies and Notes on Accounts 1 &amp; 2

Dilip Maloo Head - Finance & Company Secretary	P. K. Mohapatra COO & Manager	Suresh Kumar Chairman
DIRECTORS		
M. Y. Khan	P. H. Ravikumar	P.C. Cyriac
		Shyam Srinivasan

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered AccountantsKochi  
09 May, 2012Vijay Narayan Govind  
Partner, Membership No. 203094

**Fedbank Financial Services Limited****Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012****Significant Accounting Policies and Notes on Accounts****1. Principal Accounting Policies****1.1. Basis of Preparation of Financial Statements**

Financial Statements are prepared under the historical cost convention, in compliance with the provisions of the Companies Act 1956 and the Accounting Standards as specified in the Companies (Accounting Standards) Rules 2006. Accounting Policies not stated explicitly otherwise are consistent with generally accepted accounting principles.

**1.2. Use of Estimates:**

The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent liabilities on the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual result could differ from those estimates. Any revision to accounting estimates is recognized prospectively.

**1.3. Revenue Recognition:**

Revenue is recognized as and when it is earned and no significant uncertainty exists as to its realization or collection.

Interest Income is recognized on accrual basis, except in case of interest on non-performing assets which are recognized on receipt basis. Overdue charges are recognized when the company is certain of its realization.

Income from Logo-sharing (Display of Logo on website) is recognized pro-rata over the period of contract.

Exclusivity Fees (for providing services exclusively to the clients) is recognized in the year in which right to receive the same is established subject to volume of business generated.

**1.4. Fixed Assets and Depreciation:****Tangible Assets:**

Fixed Assets are stated at their cost of acquisition less accumulated depreciation and impairment losses, if any.

Computers are depreciated using SLM @ 33.33% as against 16.21% as prescribed under Schedule XIV of the Companies Act, 1956.

Leasehold improvements are depreciated @ 18.10% using WDV method.

Depreciation on other assets is provided, pro-rata for the period of use, using WDV method at the rates and in the manner prescribed in the said schedule.

**Intangible Assets:**

Intangible assets include computer software which are acquired, capitalized and amortized on an SLM basis over the estimated useful lives of 3 years on a pro rata basis..

**1.5. Employee Benefits:**

- a) All employee benefits payable wholly within twelve months of rendering the service are classified as short term employee benefits and recognized as an expense at the undiscounted amount in the Statement of Profit & Loss of the year in which the related service is rendered.
- b) The company has defined contribution plans for employees comprising of Provident Fund and Employee State Insurance. The contributions paid/payable to these plans during the year are charged to Statement of Profit & Loss for the Year.

**Fedbank Financial Services Limited****Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012**

- c) The net present value of the obligation for gratuity benefits, which is a defined benefit plan, as determined on independent actuarial valuation, conducted annually using projected unit credit method, as adjusted for unrecognized past services cost, if any, is recognised in the accounts. Actuarial gains and losses are recognised in full in the Statement of Profit & loss for the period in which they occur.
- d) The company has a scheme for compensated absences for employees, the liability of which is determined on the basis of an independent actuarial valuation carried out at the end of the year, using the projected unit credit method. Actuarial gains and losses are recognised in full in the Statement of Profit and Loss for the period in which they occur.

**1.6. Provision for Taxes:**

Income tax is accounted in accordance with Accounting Standard on Accounting for Taxes on Income (AS-22), which includes current taxes and deferred taxes. Provision for current tax is made based on the tax payable under the Income Tax Act, 1961.

Deferred tax on account of timing difference between taxable and accounting income is accounted using the tax rates and the tax laws enacted or substantively enacted by the balance sheet date. Deferred tax assets in respect of unabsorbed depreciation or carried forward losses are recognised if there is virtual certainty of realisation of such assets. Other deferred tax assets are recognised to the extent there is reasonable certainty of their realisation.

**1.7. Borrowing cost**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use are capitalized. Other borrowing costs are recognized as expenditure for the period in which they are incurred.

**1.8. Impairment of assets.**

The company assesses at each Balance Sheet date whether there is any indication that an asset may be impaired. As asset is identified as impaired, when the carrying value of the asset exceeds its recoverable value. Based on such assessment, impairment loss, if any, is charged to the Statement of Profit and Loss in the period in which, an asset is identified as impaired. The impairment loss recognised in the prior accounting periods is reversed if there has been a change in the estimate of recoverable amount

**1.9. Provisions, Contingent Liabilities and Contingent Assets:**

Provisions are recognised when the company has a present obligation as a result of a past event, for which it is probable that a cash outflow will be required and a reliable estimate can be made of the amount of the obligation. Provisions are not discounted to its present value and are determined based on management estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the correct management estimates.

Contingent Liabilities are disclosed when the company has a possible obligation or a present obligation and it is probable that a cash flow will not be required to settle the obligation.

Contingent assets are neither recognised nor disclosed in the accounts.

**1.10. Advances:**

Advances are classified as Performing Assets and Non-performing Assets and Provisions required are made as per the guidelines of the Reserve Bank of India on matters relating to Prudential Norms as applicable to Non-banking Financial (Non-Deposit Accepting or Holding) Companies, Directions, 2007.

**1.11. Segment Reporting:**

The company has classified its operations into two segments – Distribution (Marketing of Financial Products) and Retail Finance. For presentation of segment information, directly attributable income and assets are allocated as such and the other income, expenses and other assets and liabilities are apportioned on appropriate basis.

**1.12. Earnings per share:**

The company reports basic and diluted earnings per share in accordance with Accounting Standard 20 on “Earnings per Share”. Basic earnings per share are computed by dividing the net profit or loss for the year attributable to equity share holders (after deducting attributable taxes) by the weighted average number of Equity Shares outstanding during the period.

Diluted earnings per share are computed by dividing the net profit or loss for the year attributable to equity share holders (after deducting attributable taxes) by the weighted average number of Equity Shares outstanding during the period as adjusted for the effects of all diluted potential Equity Shares outstanding as at the year end.

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

(In Thousands of ₹)

Particulars	As at 31 March 2012	As at 31 March 2011
<b>2. NOTES ON ACCOUNTS</b>		
<b>2.1 SHARE CAPITAL</b>		
<b>Authorised Capital</b>		
19,00,00,000 (19,00,00,000) Equity Shares of ₹ 10 each	19,00,000	19,00,000
<b>Issued, Subscribed and Paid Up Capital:</b>		
19,00,00,000 (3,50,00,000) Equity Shares of ₹ 10 each fully paid-up.	19,00,000	3,50,000
All the above shares are held by the Holding Company, The Federal Bank Ltd and its nominees.		
<b>2.1.1 Reconciliation of the number of shares issued, subscribed and paid up at the beginning and at the end of the year</b>		
No of Shares Outstanding at the beginning of the year	35,000	10,000
Add Additional Shares Issued During the Year	1,55,000	25,000
Less Shares Forfeited/Bought Back During the year	-	-
No Of Shares Outstanding at the end of the year	1,90,000	35,000
<b>2.1.2 Number of shares held by each shareholder holding more than 5% shares in the company:</b>		
Equity Shares Held by holding company		
- Federal Bank Limited	1,90,000	35,000
<b>2.2. RESERVES &amp; SURPLUS</b>		
<b>(a) Reserves</b>		
<b>(i) Reserve under Section 45 IC of the RBI Act</b>		
As per last Balance Sheet	8,412	5,635
Add: Transferred from Statement of Profit & Loss (Note 2.2.1 below)	-	2,777
	8,412	8,412
<b>ii) General Reserve</b>		
As per last Balance Sheet	1,470	1,470
<b>(b) Surplus</b>		
As per last Balance Sheet	28,211	17,105
Add : Net Profit / Loss after tax transferred from Statement of Profit & Loss	(73,746)	13,883
Less : Transferred to Reserve under Section 45 IC of the RBI Act, 1934 (Note 2.2.1 below)	-	(2,777)
	(45,535)	28,211
<b>Total of Reserves &amp; Surplus</b>	<b>(35,653)</b>	<b>38,093</b>



## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

(In Thousands of ₹)

Particulars	As at	As at
	31 March 2012	31 March 2011

2.2.1 In view of losses during the year ended 31st March 2012, no transfer has been made to the Reserve Account specified under Section 45-1C of the Reserve Bank of India Act, 1934, for the above Financial Year.

## 2.3. LONG TERM PROVISIONS

## Provision for employee benefits (See Note 2.3.1)

Provision for Compensated Absences	883	844
Provision for Gratuity	334	754
	<u>1,217</u>	<u>1,598</u>

2.3.1. Disclosures of employee benefits as required by the accounting standard 15 (revised) employee benefits are as under:

- a) Amount recognized as an expense in the Statement of Profit and Loss in respect of Defined Contribution Plans

(₹ in Thousands)

	Current Year	Previous Year
Provident Fund	5,481	-
Employee State Insurance	1,777	839
<b>Total</b>	<b>7,258</b>	<b>839</b>

- b) Defined Benefit Plan- Gratuity (Unfunded) & Long term employee Benefits- Compensated absences- Vesting (Unfunded).

₹ Thousands

i	Particulars	Gratuity		Compensated Absences	
		Current year	Previous Year	Current year	Previous Year
1	Changes in the present value of defined obligation representing reconciliation of opening and closing balances thereof are as follows :				
1	Present Value of Defined Benefit Obligation as at the beginning of the year	763.23	-	1,393.49	675.12
2	Current Service cost	295.36	468.82	1,948.75	1,063.74
3	Interest Cost	61.06	-	97.75	53.75
4	Actuarial (gains) / losses	(719.39)	294.41	(928.44)	-392.72
5	Benefits paid	-	-	(343.37)	(6.40)
6	Present value of Defined Benefit Obligation as at the end of the year	400.26	763.23	2,168.18	1,393.49

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

(In Thousands of ₹)

Particulars	As at		As at	
	31 March 2012		31 March 2011	

<b>ii</b>	<b>Changes in the fair value of plan assets representing reconciliation of opening and closing balances thereof are as follows :</b>				
1	Fair value of Plan assets as at the beginning of the year	-	-	-	-
2	Expected return on plan assets	-	-	-	-
3	Actuarial gains/ (losses)	-	-	-	-
4	Actual contributions	-	-	343.37	6.40
5	Benefits paid	-	-	(343.37)	(6.40)
6	Fair value of Plan assets as at the end of the year.	-	-	-	-
7	Funded Status	(400.26)	(763.23)	(2,168.18)	(1393.49)
<b>iii</b>	<b>Reconciliation of Present Value of Defined Benefit Obligation and fair value of plan assets showing amount recognized in the Balance Sheet :</b>				
1	Present value of Defined Benefit Obligation	400.26	763.23	2,168.18	1,393.49
2	Fair value of plan assets	-	-	-	-
3	Funded status	(400.26)	(763.23)	(2,168.18)	(1,393.49)
4	Unrecognized Past Service Costs	-	-	-	-
5	<b>Net asset/(Liability) recognized in Balance Sheet</b>	(400.26)	(763.23)	(2,168.18)	(1,393.49)
<b>iv</b>	<b>Expenses recognized in the statement of profit and loss for the year ended 31st March,2012</b>				
1	Current Service cost	295.36	468.82	1,948.75	1,063.74
2	Interest cost	61.06	-	97.75	53.75
3	Expected return on plan assets	-	-	-	-
4	Past Service cost	-	-	-	-
5	Actuarial Losses/(Gains)	(719.39)	294.41	(928.44)	(392.71)
6	<b>Total expense recognized in the Statement of Profit &amp; Loss</b>	(362.97)	763.23	1,118.06	724.78

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

(In Thousands of ₹)

Particulars	As at 31 March 2012	As at 31 March 2011
-------------	------------------------	------------------------

v	Principal Actuarial Assumptions :	Gratuity		Compensated Absences	
1	Discount Rate (%)	8.57%	8%	8.57%	8%
2	Expected Return on plan assets (%)	-	-	-	-
3	Salary Escalation (%)	10%	10%	10%	10%
4	Mortality	LIC (1994-96) Ultimate			

vi	Experience History	Gratuity		Compensated Absences	
1	(Gain)/Loss due on obligation due to change in assumption	(475.39)	-	(73.55)	57.80
2	Experience (Gain)/Loss on Obligation	(244.01)	294.41	(854.89)	(450.52)
3	Actuarial Gain/(Loss) on plan assets	-	-	-	-

The Discount rate is based on the benchmark yields available on Indian Government bonds as at the Balance Sheet date with terms matching that of the liabilities and the salary increase rates takes into account the inflation, seniority, promotion and other relevant factors.

**2.4. SHORT TERM BORROWINGS**

Cash Credit Facility (Note No 2.4.1)

From Federal Bank	13,45,957	-
From IDBI Bank	2,50,082	-
	<b>15,96,039</b>	-

**2.4.1** The above facilities are secured by way of hypothecation on Gold Loan Receivables.

**2.5 TRADE PAYABLES**

Trade Payables – ( See Note 2.5.1)	29,216	21,751
	<b>29,216</b>	<b>21,751</b>

**2.5.1** The company has taken steps to identify the suppliers who qualify under the definition of micro and small enterprises as defined under the Micro, Small and Medium Enterprises Development Act, 2006. Based on the available information, there are no balances outstanding as payable to such suppliers at the year end.

**2.6. OTHER CURRENT LIABILITIES**

Advance from clients	-	840
Security Deposits	3,072	3,096
Liability Towards Capital Contracts/goods	21,502	1980
Other Payables:		
Withholding Tax and Other Statutory Dues	3,396	3,249
Other Current Liabilities	25,443	40,606
	<b>53,413</b>	<b>49,771</b>

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

Particulars	(In Thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
<b>2.7. SHORT TERM PROVISIONS</b>		
Provision Against Non Performing Assets (See Note 2.7.1)	17,300	-
Contingent Provision Against Standard Assets (See Note 2.7.2)	7,683	113
<b>Provision for Employee benefits: (See Note No 2.3.1)</b>		
Provision for Compensated Absences	1,628	550
Provision for Gratuity	67	9
	<b>26,678</b>	<b>672</b>

**2.7.1.** Provision against Loans Classified as non Performing Assets in accordance with RBI Guidelines has been made to the extent specified in such guidelines and has not been netted of against the value of assets disclosed under short term loans and advances (Note No 2.13).

**2.7.2.** Contingent Provision of ₹ 7,570 thousands (₹ 113 thousands) has been made during the current year against standard assets as per clause 9A of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

## Fixed Assets

## 2.8.1. TANGIBLE FIXED ASSETS

₹ Thousands

Description	Gross Block (at cost)			Depreciation			Net Block	
	As on 1st April 2011	Additions for the Year	As on 31st March 2012	As on 1st April 2011	For the Year	As on 31st March 2012	As on 31st March 2012	As on 31st March 2011
<b>Tangible Assets</b>								
Leasehold Improvements - Interior Furnishings	18,102	56,525	74,627	275	10,612	10,887	63,740	17,827
	-	(18,102)	(18,102)	-	(275)	(275)	(17,827)	-
Furniture & Fixtures	11,258	11,600	22,858	1,991	4,000	5,991	16,867	9,267
	(4,534)	(6,724)	(11,258)	(1,217)	(774)	(1,991)	(9,267)	(3,317)
Vehicles – Cars	1,714	-	1,714	1,146	147	1,293	421	568
	(1,714)	-	(1,714)	(948)	(198)	(1,146)	(568)	(766)
Office Equipments	3,381	15,898	19,279	1,214	1,837	3,051	16,228	2,167
	(1,910)	(1,471)	(3,381)	(861)	(353)	(1,214)	(2,167)	(1,049)
Computers	2,299	12,532	14,831	1,773	3,414	5,187	9,644	526
	(1,975)	(324)	(2,299)	(1,128)	(645)	(1,773)	(526)	(847)
<b>Total Tangible Fixed Assets</b>	<b>36,754</b>	<b>96,555</b>	<b>1,33,309</b>	<b>6,399</b>	<b>20,010</b>	<b>26,409</b>	<b>1,06,900</b>	<b>30,355</b>
	(10,133)	(26,621)	(36,754)	(4,154)	(2,245)	(6,399)	(30,355)	(5,979)

## 2.8.2 INTANGIBLE ASSETS

₹ Thousands

Description	Gross Block (at cost)			Amortisation			Net Block	
	As on 1st April 2011	Additions for the Year	As on 31st March 2012	As on 1st April 2011	For the Year	As on 31st March 2012	As on 31st March 2012	As on 31st March 2011
Computer Software	700	2,163	2,863	32	780	812	2,051	668
	-	(700)	(700)	-	(32)	(32)	(668)	-
<b>Total Intangible Assets</b>	<b>700</b>	<b>2,163</b>	<b>2,863</b>	<b>32</b>	<b>780</b>	<b>812</b>	<b>2,051</b>	<b>668</b>
	-	(700)	(700)	-	(32)	(32)	(668)	-

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

(In Thousands of ₹)

Particulars	As at	As at
	31 March 2012	31 March 2011

**2.8.3. Capital Work In Progress**

₹ Thousands

Particulars	Capital Work In Progress		Intangible Assets Under Development	
	Current Year	Previous Year	Current Year	Previous Year
Balance as at the beginning of the Year	9,149	-	-	-
Additions during the Year	54,393	9,149	12,510	-
Transferred to Fixed Assets	(39,034)	-	-	-
Balance as at the end of the Year	<b>24,508</b>	<b>9,149</b>	<b>12,510</b>	-

**2.9. DEFERRED TAX ASSET (NET)**

Deferred tax assets (net) has not been recognized by credit to statement of profit and loss for the year ended 31st March 2012, as a matter of prudence, in the absence of virtual certainty supported by convincing evidence that sufficient future taxable income will be available, in terms of the Accounting standard 22, "Taxes on Income" notified under the Companies (Accounting Standard) Rules, 2006. The Deferred Tax Asset carried forward from the previous year towards Depreciation Rs 116 thousands and towards Expenses allowable on payment basis Rs 737 thousands has been reversed by debit to the Statement of Profit & Loss.

**2.10. LONG TERM LOANS AND ADVANCES**

(Unsecured &amp; Considered Good)

Capital Advances	2,955	8,512
Security Deposits (See Note 2.10.1)	44,371	23,168
Pre Paid Expenses	394	531
	<b>47,720</b>	<b>32,211</b>

2.10.1 Security Deposits include ₹ 3072 thousands (₹ 3096 thousands) paid to The Federal Bank Ltd (Holding company).

**2.11. TRADE RECEIVABLES**

Unsecured &amp; Considered Good

Debts Due for a period exceeding six months from the date they are due for payment

Other Debts (See Note 2.11.1)	10,909	26,055
	<b>10,909</b>	<b>26,055</b>

2.11.1 Trade receivables include amount due from The Federal Bank Ltd (Holding Company) ₹ 10,733 thousands (Previous year - ₹ 16,448 thousands)

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

(In Thousands of ₹)

Particulars	As at 31 March 2012	As at 31 March 2011
<b>2.12. CASH AND CASH EQUIVALENTS</b>		
<b>Balances with Banks</b>		
- Current Accounts	5,558	29,785
- Deposit Accounts (See Note No 2.12.1)	21,279	2,33,133
Cash in hand	55,293	12,977
	<b>82,130</b>	<b>2,75,895</b>
2.12.1. Balance in Deposit Accounts have maturity period of less than twelve months.		
<b>2.13. SHORT TERM LOANS AND ADVANCES</b>		
<b>Secured</b>		
<b>(a) Considered Good</b>		
Loans against Gold (Note 2.13.1)	30,61,284	45,376
Interest Receivable	1,22,106	345
	<b>31,83,390</b>	<b>45,721</b>
<b>(b) Considered Doubtful</b>		
Loans against Gold (See Note 2.7.1 & Note 2.13.1)	56,955	-
	<b>56,955</b>	-
<b>Unsecured</b>		
<b>(a) Considered Good</b>		
Advance to Employees	798	-
Prepaid Expenses	3,665	1,038
Withholding and Other Taxes Receivables (Net of Provision)	26,420	22,786
Advances for Supplies & Services	909	893
	<b>31,792</b>	<b>24,717</b>
<b>(b) Considered Doubtful</b>		
Loans against Gold (See Note 2.7.1 & Note 2.13.1)	4,272	-
	<b>4,272</b>	-
	<b>32,76,409</b>	<b>70,438</b>

2.13.1. a) Percentage of loans granted against the collateral of gold jewellery to total assets (Loans only) as at 31st March 2012: 100%.

b) Percentage of loans granted against the collateral of gold jewellery to total assets (all assets) as at 31st March 2012: 87.44%

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

(In Thousands of ₹)

Particulars	As at 31 March 2012	As at 31 March 2011
<b>OTHER CURRENT ASSETS</b>		
Interest accrued on Fixed Deposits	356	344
Service Tax Input Credit Receivable	145	632
Reimbursement receivable from the Holding company	7,272	15,285
Other Receivables (See Note 2.14.1)		
Less:- Provision	2,562 (2,562)	-
	<b>7,773</b>	<b>16,261</b>

2.14.1 Other Receivables represents amounts recoverable pursuant to fraud at one of the branches of the company, which is being actively pursued for recovery. Full provision has been made in the accounts as a matter of abundant caution.

## 2.15. REVENUE FROM OPERATION

₹ Thousands

Particulars	For the year ended 31.03.2012	For the year ended 31.03.2011
<b>(a) Retail Finance</b>		
Interest/Other Charges on Gold Loans	2,98,837	344
<b>(b) Other Financial Services</b>		
Commission Income	55,702	1,17,320
<b>(C) Fees for Provision of Facilities/ Services</b>		
	21,260	27,892
	<b>3,75,799</b>	<b>1,45,556</b>

## 2.16. OTHER INCOME

₹ Thousands

Particulars	For the year ended 31.03.2012	For the year ended 31.03.2011
Interest on fixed deposits	715	9,600
Interest on Income Tax Refunds	314	-
Miscellaneous Receipts	62	-
	<b>1,091</b>	<b>9,600</b>

## 2.17. EMPLOYEE BENEFIT EXPENSES

₹ Thousands

Particulars	For the year ended 31.03.2012	For the year ended 31.03.2011
Salaries and other allowances	1,45,857	51,535
Contribution to Provident and other Funds	7,258	839
Staff Welfare Expenses	2,842	352
	<b>1,55,957</b>	<b>52,726</b>



## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

## 2.18. FINANCE COSTS

₹ Thousands

Particulars	For the year ended 31.03.2012	For the year ended 31.03.2011
Interest on Cash Credit Facility	86,893	-
Discount on Commercial Paper	14,816	-
Bank & Other Charges	1,560	-
Processing Fees	1,067	-
	<b>1,04,336</b>	-

## 2.19. OTHER EXPENSES

₹ Thousands

Particulars	For the year ended 31.03.2012	For the year ended 31.03.2011
Electricity Charges	2,676	1,083
Rent	46,313	15,786
Repairs & Maintenance		
Machinery	84	212
Others	2,843	751
Postage, Telephones & Telegram	5,411	2,073
Travelling, Conveyance & Vehicle Expenses	7,739	3,337
Insurance	1,838	227
Rates & Taxes ( Excluding Taxes On Income)	6,410	8,767
Legal & Professional Charges	3,158	3,185
Advertisement & Business Promotion	3,500	1,991
Commission Paid	12,307	17,359
Sourcing Expenses	1,845	21,336
Office Expenses	5,069	1,191
Printing & Stationery	3,241	537
Recruitment Charges	2,930	1,220
Exclusivity Fees refundable (See Note 2.19.2)	7,872	-
Provision for Loss Assets(See Note 2.7.1)	14,981	-
Provision for Sub Standard Assets	4,881	-
Contingent Provision Against Standard Assets (See Note 2.7.2)	7,570	113
Security Expenses	12,405	-
Valuation Charges	14,249	-
Miscellaneous Expenses (See Note No 2.19.1)	1,378	166
	<b>1,68,700</b>	<b>79,334</b>

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012**2.19.1 MISCELLANEOUS EXPENSES INCLUDE PAYMENT TO AUDITORS (NET OF SERVICE TAX)**

₹ Thousands

Particulars	For the year ended 31.03.2012	For the year ended 31.03.2011
Audit fees	250	110
Tax Audit fees	-	35
Taxation matters	-	15
Other services	150	-
Out of pocket expenses reimbursed	40	-
<b>Total</b>	<b>440</b>	<b>160</b>

**2.19.2** In the Previous year ended 31st March 2011, The Company had taken credit for the whole of the income from exclusivity fees of ₹ 10,000 Thousands receivable from a General Insurance Company under an agreement to provide specified infrastructure facilities during a period of one year from 1st March 2011 and hence no part of income is accounted in this period.

As per the said agreement, in the event the insurance company is unable to generate an agreed level of business, proportionate exclusivity fees to the extent of short fall of the business shall be refunded to them. Taking in to account the level of business actually achieved during the one year period ending 29th February 2012, an amount of ₹ 7,872 Thousands is refundable to insurance company, which has been recognized as a liability by debit to statement of profit and loss.

**2.20. Earnings per share (Basic and diluted):**

Particulars	For the year ended 31.03.2012	For the year ended 31.03.2011
Profit / (Loss) after taxation (₹ Thousands)	(73,746)	13,883
Weighted average No. of Equity Shares (Thousands)	65,750	16,250
Basic & Diluted Earnings per Share (₹)	(1.12)	0.85

**2.21. Related Party Disclosures****(i) List of Related parties and the nature of relationship:****a) Holding Company**

The Federal Bank Limited

**b) Key Management Personnel**

- i) Shri Somsankar Sengupta , CEO and Managing Director - (till 30th September 2011)
- ii) Shri P K Mohapatra, COO & Manager (From 1st October 2011)

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

## (ii) Transactions -

(₹ Thousands)

Particulars	For the year ended 31.3.2012	For the year ended 31.3.2011
<b>(a) Holding Company</b>		
Transactions during the year:		
Interest Income from Fixed Deposits	715	9,600
Commission Income	52,858	93,145
Interest paid on Cash Credit Facility	86,811	-
Re-imbursements of Expenses by Holding Company	31,432	32,778
Rent recovered	3,360	5,381
Rent Paid	4,681	4,425
Security Deposit (Sub-lease of premises) received	-	378
Security Deposit Adjusted	24	249
Electricity Expenses Paid	69	72
Re-imburement of Salary to Holding Company	1,254	924
<b>Closing Balances in:</b>		
- Fixed Deposit Accounts	21,279	2,33,477
- Current Account – Receivable/(Payable)	2,613	29,785
- Borrowings Cash credit facility	13,45,957	-
- Account Receivable	18,006	32,162
- Account Payable	644	860
- Security Deposit ( Sub-lease of Premises)	3,072	3,096
<b>(b) Key Management Personnel</b>		
Remuneration to Managing Director*	4,548	3,400
Remuneration to Manager*	732	-

\* - Includes remuneration to Managing Director ₹ 558 thousands and Manager ₹ 732 in respect of which necessary approval of shareholders is being sought at the ensuing Annual General Meeting.

**2.22. Segment Information**

In terms of the Accounting Standard 17, 'Segment Reporting' notified under the Companies (Accounting Standard) Rules, 2006, the company's operations are classified into two business segments as described in the accounting policy and the information on the same is as under:

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

(₹ In Thousands)

Business Segments	Distribution		Retail Finance		Total	
	Year ended 31.03.2012	Year ended 31.03.2011	Year ended 31.03.2012	Year ended 31.03.2011	Year ended 31.03.2012	Year ended 31.03.2011
Segment Revenue	55,702	1,17,320	2,98,837	344	3,54,539	1,17,664
Segment Expenditure	90,350	1,08,708	2,06,267	25,629	296,617	1,34,337
Allocated Expenditure	6,312	-	33,245	-	39,557	-
<b>Result</b>	<b>(40,960)</b>	<b>8,612</b>	<b>59,325</b>	<b>(25,285)</b>	<b>18,366</b>	<b>(16,673)</b>
Unallocated Income (Net)					12,047	27,892
Interest Income					1,029	9,600
Interest Expenses					1,04,336	-
Profit before Tax					(72,895)	20,819
Income Taxes					853	6,936
<b>Net Profit</b>					<b>(73,748)</b>	<b>13,883</b>
<b>Other Information</b>						
Segment Assets	31,276	90,439	34,83,809	1,14,330	35,15,085	2,04,769
Unallocated Assets					55,284	2,56,908
<b>Total Assets</b>	<b>31,276</b>	<b>90,439</b>	<b>34,83,809</b>	<b>1,14,330</b>	<b>35,70,909</b>	<b>4,61,677</b>
Segment Liabilities	8,770	71,998	66,418	1,624	75,188	73,622
Unallocated Liabilities					16,31,376	
<b>Total Liabilities</b>	<b>8,770</b>	<b>71,998</b>	<b>66,418</b>	<b>1,624</b>	<b>17,06,564</b>	<b>73,622</b>
Capital Expenditure	157	2,502	98,173	33,968	98,330	36,470
Unallocated Capital Expenditure					28,257	-
Depreciation/Amortisation	1,342	1,817	18,918	460	20,260	2,277
Unallocated Depreciation					530	-
<b>Total Depreciation</b>					<b>20,790</b>	<b>2,277</b>

The Company has only the Domestic Geographic Segment.

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

2.23. Schedule appended to the Balance Sheet of a non-deposit taking non-banking financial company (as required in terms of paragraph 13 of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007)

(Figures in Rs thousands)

Particulars		Amount outstanding	Amount overdue
<b>Liabilities side :</b>			
1	<b>Loans and advances availed by the non-banking financial company inclusive of interest accrued thereon but not paid:</b>		
	(a) Debentures : Secured		
	: Unsecured		
	(other than falling within the meaning of public deposits*)	NIL	NIL
	(b) Deferred Credits	NIL	NIL
	(c) Term Loans	NIL	NIL
	(d) Inter-corporate loans and borrowing	NIL	NIL
	(e) Commercial Paper	NIL	NIL
	(f) Cash Credit Facility	15,96,039	NIL
<b>Assets side :</b>			
		Amount outstanding	
2	<b>Break-up of Loans and Advances including bills receivables [other than those included in (4) below] :</b>		
	(a) Secured	31,18,239	
	(b) Unsecured	4,272	
3	<b>Break up of Leased Assets and stock on hire and other assets counting towards AFC activities</b>		
	(i) Lease assets including lease rentals under sundry debtors :		
	(a) Financial lease	NIL	
	(b) Operating lease	NIL	
	(ii) Stock on hire including hire charges under sundry debtors:		
	(a) Assets on hire	NIL	
	(b) Repossessed Assets	NIL	
	(iii) Other loans counting towards AFC activities		
	(a) Loans where assets have been repossessed	NIL	
	(b) Loans other than (a) above	NIL	

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

4	<b>Break-up of Investments :</b>			
	Current Investments :			
	1 Quoted :			
	(i) Shares : (a) Equity			
	(b) Preference			
	(ii) Debentures and Bonds			
	(iii) Units of mutual funds			
	(iv) Government Securities			
	(v) Others (please specify)			
	2 Unquoted :			
	(i) Shares : (a) Equity			
	(b) Preference			
	(ii) Debentures and Bonds			
	(iii) Units of mutual funds			
	(iv) Government Securities			
	(v) Others (please specify)			
	Long Term investments :			
	1. Quoted :			
	(i) Shares : (a) Equity			
	(b) Preference			
	(ii) Debentures and Bonds			
	(iii) Units of mutual funds			
	(iv) Government Securities			
	(v) Others (please specify)			
	2. Unquoted :			
	(i) Shares : (a) Equity			
	(b) Preference			
	(ii) Debentures and Bonds			
	(iii) Units of mutual funds			
	(iv) Government Securities			
	(v) Others (please specify)			
5	<b>Borrower group-wise classification of assets financed as in (2) and (3) above :</b>			
	<b>Category</b>	<b>Amount net of provisions*</b>		
		Secured	Unsecured	Total
	<b>1. Related Parties</b>			
	(a) Subsidiaries	NIL	NIL	NIL
	(b) Companies in the same group	NIL	NIL	NIL
	(c) Other related parties-Holding Company	NIL	NIL	NIL
	2. Other than related parties	31,05,211	NIL	31,05,211
	Total	31,05,211	NIL	31,05,211
	* Contingent Provision on Standard Assets has not been netted off as per prudential norms			

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet  
And Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

6	<b>Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted):</b>		
	<b>Category</b>	<b>Market Value / Break up or fair value or NAV</b>	<b>Book Value (Net of Provisions)</b>
	<b>1. Related Parties</b>		
	(a) Subsidiaries	NIL	NIL
	(b) Companies in the same group	NIL	NIL
	(c) Other related parties	NIL	NIL
	2. Other than related parties	NIL	NIL
	<b>Total</b>	<b>NIL</b>	<b>NIL</b>
7	<b>Other information</b>		
	Particulars		Amount (Rs. thousands)
	(i) Gross Non-Performing Assets		
	(a) Related parties		Nil
	(b) Other than related parties		61,227
	(ii) Net Non-Performing Assets		
	a) Related parties		Nil
	b) Other than related parties		43,927
	(iii) Assets acquired in satisfaction of debt		Nil

**2.24.** Additional disclosures as required by Circular No. DNBS (PD) CC No 125 / 03.05.002/2008-09 dated August 1, 2008 issued by the Reserve Bank of India.

**2.24.1 Capital to Risk Assets Ratio (CRAR):**

Items	Particular	%
i)	CRAR	54.15
ii)	CRAR - Tier I capital	53.92
iii)	CRAR - Tier II Capital	0.23

As this is the first year of presentation of the above information, no comparatives have been disclosed for previous year.

**2.24.2 Exposure to Real Estate Sector**

The Company does not have any direct or indirect exposure to real estate sector

**2.24.3 Asset Liability Management :**

## Fedbank Financial Services Limited

Notes Forming Part Of The Balance Sheet And  
Profit And Loss Account as at & for  
The Year Ended 31st March, 2012

Maturity pattern of certain items of assets and liabilities as at 31st March, 2012. (As compiled by the management)

(₹ In Thousands)

	1 day to 30/31 days (One Month)	1 Month to 2 Months	2 Months to 3 Months	3 Months to 6 Months	Over 6 Months to 1 Year	Over 1 Year to 3 years	Over 3 Years to 5 years	Over 5 Years	Total
<b>Liabilities</b>									
Borrowings from banks	-	-	-	-	15,96,039	-	-	-	15,96,039
Market Borrowings	-	-	-	-	-	-	-	-	-
<b>Assets</b>									
Advances (Considered good)	7,01,916	7,37,338	3,70,640	7,40,582	5,10,808	-	-	-	30,61,284
Investments	-	-	-	-	-	-	-	-	-

As this is the first year of presentation of the above information, no comparatives have been disclosed for the previous year.

2.25. Previous year's figures have been regrouped / reclassified wherever necessary, to make them comparable with the current year's figures.

For and on behalf of the Board

Dilip Maloo  
Head - Finance & Company Secretary

P. K. Mohapatra  
COO & Manager

Suresh Kumar  
Chairman

— DIRECTORS —

M. Y. Khan

P. H. Ravikumar

P.C. Cyriac

Shyam Srinivasan

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

Kochi  
09 May, 2012

Vijay Narayan Govind  
Partner, Membership No. 203094



## Fedbank Financial Services Limited

Cash-Flow Statement For  
The Year Ended 31st March 2012

(In Thousands of ₹)

	For the Year ended 31.03.2012	For the Year ended 31.03.2011
<b>A. Cash Flow from Operating Activities</b>		
<b>Net Profit / (Loss) before tax as per P&amp;L Account</b>	(72,893)	20,819
<b>Adjustments for</b>		
Finance Cost	104,336	-
Interest on fixed deposits with Federal Bank	(715)	(9,600)
Provision for Standard Assets	7,570	113
Provision for Loss Assets	14,981	-
Provision for Sub Standard Asset	4,881	-
Depreciation	20,790	2,277
Operating Profit before Working Capital changes	78,950	13,609
<b>Adjustments for Working Capital Changes</b>		
Trade Receivables	15,146	-
Short-term Loans and Advances	(3,205,971)	-
Other Current Assets	4,866	(86,675)
Long term Loans & Advances	(21,066)	-
(Increase)/ Decrease in Receivables	(3,207,026)	(86,675)
Long-term Provisions	(381)	-
Trade Payables	7,465	56,339
Other Current Liabilities	(15,880)	-
Short-term Provisions	(1,426)	(113)
Increase/(Decrease) in Trade/Other payables	(10,222)	56,226
<b>Cash generated from Operations</b>	(3,138,298)	(16,840)
Taxes (paid) / refunded	3,634	(15,541)
<b>Cash Flow before extraordinary items</b>	(3,134,664)	(32,381)
Extraordinary items	-	-
<b>Net Cash inflow / (outflow) from Operating Activities</b>	<b>(3,134,664)</b>	<b>(32,381)</b>
<b>B. Cash Flow from Investment Activities</b>		
Purchase of fixed assets	(101,508)	(36,470)
Interest on fixed deposits	704	9,600
<b>Net Cash inflow / (outflow) from Investment Activities</b>	<b>(100,804)</b>	<b>(26,870)</b>

**Fedbank Financial Services Limited****Cash-Flow Statement For  
The Year Ended 31st March 2012****C. Cash Flow from Financing Activities**

Interest Expenses	(104,336)	-
Cash Credit	1,596,039	-
Proceeds from Issue of fresh Equity Shares	1,550,000	250,000

<b>Net Cash inflow / (outflow) from Financing activities</b>	<b>3,041,703</b>	<b>250,000</b>
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**D. Net increase / (decrease) in cash and cash Equivalents (A+B+C)**

Opening Balance of Cash and Cash Equivalents	275,895	85,146
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<b>Closing Balance of Cash and Cash Equivalents</b>	<b>82,130</b>	<b>275,895</b>
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Cash Flow Statement has been prepared in accordance with the Accounting Standard-3 as per the Companies (Accounting Standards) Rules, 2006.

Dilip Maloo Head - Finance & Company Secretary	P. K. Mohapatra COO & Manager	Suresh Kumar Chairman
DIRECTORS		
M. Y. Khan	P. H. Ravikumar	P.C. Cyriac
		Shyam Srinivasan

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

Kochi  
09 May, 2012

Vijay Narayan Govind  
Partner, Membership No. 203094

## Fedbank Financial Services Limited

## Auditors' Report

To  
The Members,  
Fedbank Financial Services Ltd

1. We have audited the attached Balance Sheet of FEDBANK FINANCIAL SERVICES LIMITED as at 31st March, 2012, the Statement of Profit and Loss and the Cash Flow Statement of the company for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph (3) above, we report that:
  - i we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - ii in our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
  - iii the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - iv in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - v on the basis of the written representations received from the directors of the company as on March 31, 2012, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - vi in our opinion and to the best of our information and according to the explanations given to us, the said accounts and read together with the accounting policies and other notes attached thereto, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
    - i in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2012;
    - ii in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and
    - iii in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

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As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

Kochi  
09 May, 2012

Vijay Narayan Govind  
Partner, Membership No. 203094

**ANNEXURE REFERRED TO IN PARAGRAPH (3) OF OUR AUDIT REPORT OF EVEN DATE OF FEDBANK FINANCIAL SERVICES LIMITED.**

- 1 (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.  
(b) We are informed that the fixed assets of the company have been physically verified by the management during the year, which, in our opinion is reasonable having regard to the size of the company and the nature of operations of the company and that no material discrepancies have been noticed on such verification.  
(c) The company has not disposed off a substantial part of the fixed assets during the year.
- 2 The company does not have any inventory and hence the reporting requirements contained in clause number 4 (ii) of the Order regarding inventory are not applicable to the company.
- 3 (a) As informed, the Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.  
(b) As informed, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
- 4 In our opinion and according to the information and explanations given to us, there is adequate internal control systems commensurate with the size of the company and nature of its business for the purchase of fixed assets and for the sale of services. In our opinion and according to the information and explanations given to us, there is no continuing failure to correct major weaknesses in internal controls.
- 5 In our opinion, and according to the information and explanations given to us, the Company has not entered into any contracts or arrangements referred to in Section 301 of the Companies Act, 1956.
- 6 The Company has not accepted any deposits from the public and hence the directives issued by the Reserve Bank of India and the provisions of sections 58A, 58AA or any other relevant provisions of the Companies Act 1956 and the rules framed there under are not applicable to the Company.
- 7 In our opinion, the company has an internal audit system commensurate with the size of the company and nature of its business.
- 8 As per the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records under section 209 (1) (d) of the Companies Act, 1956.
- 9 (a) As per the information and explanations furnished to us and according to our examination of the records of the Company, the Company has been generally regular in depositing undisputed statutory dues on account of Provident Fund, Employee State Insurance, Income Tax, Service Tax and other statutory dues as applicable to the company with the appropriate authorities during the year. There are no arrears of undisputed statutory dues outstanding as at the last day of the financial year, for a period of more than six months from the date on which they became payable.  
(b) According to the information and explanations given to us and the records of the company examined by us, there are no disputed statutory dues which were outstanding, at the year end.
- 10 The accumulated losses as at the end of the financial year is not more than fifty percent of the net worth of the company. The company has incurred cash losses in the current financial year. The company has not incurred cash losses in the immediately preceding financial year.
- 11 As per the information and explanations given by the management, the company has not defaulted in repayment of its dues to bank during the year.
- 12 According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities, and hence the reporting requirements under clause 4(xii) of the Order are not applicable.
- 13 In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society, and hence the reporting requirements under clause 4(xiii) of the Order are not applicable.

- 14 In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments, and hence the reporting requirements under clause 4(xiv) of the Order are not applicable.
- 15 According to the information and explanations given to us and the records of the company examined by us, the company has not given any guarantee for loans taken by others from banks or financial institutions.
- 16 According to the information and explanations given to us and the records of the company examined by us, no term loans were availed by the company.
- 17 In our opinion and according to the information and explanations given to us and the records of the company examined by us, we report that funds raised on short-term basis have not been used for making long-term investment.
- 18 The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- 19 The company has not issued any debentures, and hence the reporting requirements under clause 4(xix) of the order are not applicable.
- 20 The Company has not raised money by public issues during the year, and hence the reporting requirements under clause 4(xx) of the order are not applicable.
- 21 According to the information and explanations given to us and the records of the company examined by us, during the year the company has reported to the Reserve Bank of India, instances of frauds noticed at three branches of the company involving an aggregate amount of ₹ 136.04 lakhs in respect of which an amount aggregating to 124.67 lakhs is outstanding as at 31st March 2012. We are informed that legal action for recovery has been initiated in all the three cases and full provision has been made in the books of accounts towards the amount involved.

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As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

Kochi  
09 May, 2012

Vijay Narayan Govind  
Partner, Membership No. 203094

## Consolidated Balance Sheet As At 31 March 2012

(In thousands of ₹)

	Schedule No:	As at 31 March 2012	As at 31 March 2011
<b>CAPITAL AND LIABILITIES</b>			
Capital	1	171,04,71	171,04,71
Reserves & Surplus	2	5421,24,70	4846,65,37
Deposits	3	48934,73,29	42988,45,44
Borrowings	4	4266,04,23	1888,36,26
Other Liabilities & Provisions	5	1751,16,92	1448,32,67
<b>Total</b>		<b>60544,23,85</b>	<b>51342,84,45</b>

**ASSETS**

Cash & Balances with Reserve Bank of India	6	2429,67,59	2936,35,08
Balances with banks & money at call and short notice	7	1108,69,93	813,25,04
Investments	8	17102,02,02	14407,90,48
Advances	9	37945,85,19	31957,80,58
Fixed assets	10	337,03,43	292,91,91
Other assets	11	1620,95,69	934,61,36
<b>Total</b>		<b>60544,23,85</b>	<b>51342,84,45</b>

Contingent liabilities	12	35849,40,40	22112,74,97
Bills for collection		1189,31,40	912,52,04
Principal Accounting Policies	18		
Notes on Accounts	19		

K. Krishnakumar Asst. General Manager	P. C. John Executive Director & CFO	Shyam Srinivasan Managing Director & CEO	P. C. Cyriac Chairman
DIRECTORS			
Suresh Kumar	Abraham Koshy	Nilesh S Vikamsey	

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

For Price Patt & Co.,  
FRN: 027835  
Chartered Accountants

Kochi  
11-May-2012

R. Rajasekharan  
Partner, Membership No. 22703

S. Ramaswamy  
Partner, Membership No. 025918

## Consolidated Profit & Loss Account for the year ended 31 March 2012

		(In thousands of ₹)	
	Schedule No:	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>I. INCOME</b>			
Interest earned	13	5581,72,10	4052,02,83
Other income	14	532,19,72	518,33,49
<b>Total</b>		<b>6113,91,82</b>	<b>4570,36,32</b>
<b>II. EXPENDITURE</b>			
Interest expended	15	3606,66,61	2304,48,96
Operating expenses	16	1008,06,39	836,53,81
Provisions & contingencies		727,68,32	840,86,41
Share of loss of Associate		17,77,74	32,00,48
<b>Total</b>		<b>5360,19,06</b>	<b>4013,89,66</b>
<b>III. PROFIT/LOSS</b>			
Net profit for the year		753,72,76	556,46,66
Add Profit b/f from Previous Year			
-relating to holding company		(68,99,36)	(39,62,60)
-relating to subsidiary company		2,82,11	1,71,05
		687,55,51	518,55,11
<b>IV. APPROPRIATIONS</b>			
Transfer to Revenue Reserve		98,88,00	232,11,00
Transfer to Statutory Reserve		194,20,00	146,80,00
Transfer to Capital Reserve		5,40,17	0
Transfer to Special Reserve (sec 36(1)(viii) of IT Act)		28,50,00	36,56,00
Transfer to Reserve under Sec 45 IC of RBI Act		0	27,77
Provision for proposed dividend		153,94,24	145,39,00
Provision for Dividend Tax		24,97,33	23,58,59
Balance carried over to Balance Sheet		181,65,77	(66,17,25)
<b>Total</b>		<b>687,55,51</b>	<b>518,55,11</b>
Earnings per Share (Basic) (₹)	17	44.07	32.53
Principal Accounting Policies	18		
Notes on Accounts	19		

K. Krishnakumar Asst. General Manager	P. C. John Executive Director & CFO	Shyam Srinivasan Managing Director & CEO	P. C. Cyriac Chairman
— DIRECTORS —			
Suresh Kumar	Abraham Koshy	Nilesh S Vikamsey	

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

For Price Patt & Co.,  
FRN: 027835  
Chartered Accountants

## Schedules forming part of Consolidated Balance Sheet

	(In thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
<b>SCHEDULE 1. CAPITAL</b>		
Authorised Capital [20,00,00,000 (Previous year 20,00,00,000 ) equity shares of ₹ 10 each]	200,00,00	200,00,00
Issued Capital [17,13,17,910 (Previous year 17,13,17,910) equity shares of ₹ 10/- each]	171,31,79	171,31,79
Subscribed & Called up Capital [17,10,47,501 (Previous year 17,10,47,501) equity shares of ₹ 10/- each, which includes 3318 shares (Previous year 3318) of ₹ 10/- each issued for consideration other than cash and 4,37,35,378 shares (previous year 4,37,35,378) issued as Bonus shares and 2,00,00,000 underlying equity shares (previous year 2,00,00,000) of ₹ 10/- each issued towards Global Depository Receipts (including over allotment option of 20,00,000 equity shares) and 8,54,29,763 equity shares of ₹ 10/- each allotted on Rights basis during the financial year 2007-08] (Allotment of 1306 Shares (Previous year 1306) of ₹ 10/- each pertaining to the Rights Issue of 1993 issued at a premium of ₹25/- per share and 52,420 shares (previous year 52,420) of ₹10/- each pertaining to the Rights Issue of 1996 issued at a premium of ₹140/- per Share and 2,16,683 equity shares of Rs.10/- each (previous year 2,16,683) at a premium of ₹240/- per share pertaining to Rights issue of 2007 are kept pending following orders from various courts) (Issue of certificates/credit in demat account in respect of 82,788 shares of ₹10/ each out of the Bonus issue of 2004 (previous year - 82,788) are kept in abeyance consequent to injunction orders from various courts)	171,04,75	171,04,75
Less: Calls in arrears	4	4
Add: Forfeited shares	-	-
<b>Total</b>	<b>171,04,71</b>	<b>171,04,71</b>
<b>SCHEDULE 2. RESERVES &amp; SURPLUS</b>		
I. Statutory Reserves		
Opening balance	875,26,76	728,46,76
Additions during the year	194,20,00	146,80,00
	1069,46,76	875,26,76
II. Capital Reserves		
(a) Revaluation Reserve		
Opening balance	5,63,28	5,86,30
Deductions during the year	21,86	23,02
	5,41,42	5,63,28
(b) Others		
Opening balance	160,21,75	160,21,75
Additions during the year	5,40,17	0
	165,61,92	160,21,75
	171,03,34	165,85,03



## Schedules forming part of Consolidated Balance Sheet

(In thousands of ₹)

	As at 31 March 2012	As at 31 March 2011
III. Share premium		
Opening balance	2475,58,56	2475,26,36
Additions during the year	0	32,20
	<u>2475,58,56</u>	<u>2475,58,56</u>
IV. Revenue & Other Reserves		
a) Revenue Reserve		
Opening Balance	1021,75,42	789,64,42
Additions during the year	98,88,00	232,11,00
	<u>1120,63,42</u>	<u>1021,75,42</u>
b) Other Reserves		
Investment Fluctuation Reserve		
Opening Balance	189,72,00	189,72,00
Additions during the year	0	0
	<u>189,72,00</u>	<u>189,72,00</u>
c) Special Reserve (As per section 36 (1)(viii) of IT Act)		
Opening balance	153,56,00	117,00,00
Addition during the year	28,50,00	36,56,00
	<u>182,06,00</u>	<u>153,56,00</u>
V. Contingency Reserve		
Opening balance	30,10,03	30,10,03
Addition during the year	0	0
	<u>30,10,03</u>	<u>30,10,03</u>
VI. Reserve Fund		
Balance as per last Balance Sheet	84,12	56,35
Transferred from P&L A/c	0	27,77
	<u>84,12</u>	<u>84,12</u>
VII. General Reserve		
Balance as per last Balance Sheet	14,70	14,70
Transferred from P&L A/c	Nil	Nil
	<u>14,70</u>	<u>14,70</u>
VIII. Balance in Profit & Loss a/c	181,65,77	-66,17,25
<b>Total</b>	<b>5421,24,70</b>	<b>4846,65,37</b>
<b>SCHEDULE 3. DEPOSITS</b>		
A. I. Demand Deposits		
i. From Banks	12,69,97	142,68,91
ii. From Others	2532,94,85	2260,14,09
	<u>2545,64,82</u>	<u>2402,83,00</u>
II. Savings Bank Deposits	10929,94,57	9148,29,02
III. Term Deposits		
i. From Banks	476,20,50	199,20,23
ii. From Others	34982,93,40	31238,13,19
	<u>35459,13,90</u>	<u>31437,33,42</u>
<b>Total</b>	<b>48934,73,29</b>	<b>42988,45,44</b>
B. i. Deposits of branches in India	48934,73,29	42988,45,44
ii. Deposits of branches outside India	Nil	Nil
<b>Total</b>	<b>48934,73,29</b>	<b>42988,45,44</b>

## Schedules forming part of Consolidated Balance Sheet

	(In thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
<b>SCHEDULE 4. BORROWINGS</b>		
I. Borrowings in India		
i. Reserve Bank of India	90,00,00	100,00,00
ii. Other Banks	25,00,82	0
iii. Other institutions and agencies	2516,17,33	1417,29,17
iv. Subordinated debt	306,00,00	306,00,00
	2937,18,15	1823,29,17
II. Borrowings outside India	1328,86,08	65,07,09
<b>Total</b>	<b>4266,04,23</b>	<b>1888,36,26</b>
Secured borrowings in the above	324,82,27	0
<b>SCHEDULE 5. OTHER LIABILITIES AND PROVISIONS</b>		
I. Bills Payable	20,51,90	24,29,70
II. Interoffice adjustments (Net)	163,68,47	182,36,54
III. Interest accrued	265,85,32	149,23,10
IV. Deferred Tax Liability (Net)	64,19,00	0
V. Others (including provisions)*	1236,92,23	1092,43,33
<b>Total</b>	<b>1751,16,92</b>	<b>1448,32,67</b>
*Includes Contingent provisions against standard assets	196,80,64	159,59,94
<b>SCHEDULE 6. CASH &amp; BALANCES WITH RESERVE BANK OF INDIA</b>		
I. Cash in hand (including foreign currency notes)	401,37,36	333,96,66
II. Balance with R B I in Current Account	2028,30,23	2602,38,42
<b>Total</b>	<b>2429,67,59</b>	<b>2936,35,08</b>
<b>SCHEDULE 7. BALANCES WITH BANKS &amp; MONEY AT CALL &amp; SHORT NOTICE</b>		
I. In India		
i. Balances with banks		
a. in Current Accounts	40,38,47	40,16,13
b. in Other Deposit Accounts	423,18,00	273,67,20
ii. Money at call & short notice		
a. With Banks	100,00,00	399,72,13
b. With other institutions	404,57,07	0
<b>Total</b>	<b>968,13,54</b>	<b>713,55,46</b>
II. Outside India		
i. in Current Accounts	13,37,64	32,80,33
ii. in Other Deposit Accounts	127,18,75	66,89,25
iii. Money at call & short notice	Nil	Nil
<b>Total</b>	<b>140,56,39</b>	<b>99,69,58</b>
<b>Grand Total</b>	<b>1108,69,93</b>	<b>813,25,04</b>

## Schedules forming part of Consolidated Balance Sheet

(In thousands of ₹)

	As at 31 March 2012	As at 31 March 2011
<b>SCHEDULE 8. INVESTMENTS</b>		
I. Investments in India (Gross)	17151,30,70	14424,40,94
Less Provision for Depreciation	49,28,68	16,50,46
Net Investments	17102,02,02	14407,90,48
Break up of Investments in India		
i. Govt. Securities	11531,24,13	9964,52,93
ii. Other approved Securities	0	35,74
iii. Shares	190,72,92	168,06,61
iv. Debentures & Bonds	960,35,02	605,34,48
v. Associates & Joint Ventures	95,45,25	87,22,98
vi. Others ( Mutual Funds, Commercial Paper etc.)	4324,24,70	3582,37,74
<b>Total</b>	<b>17102,02,02</b>	<b>14407,90,48</b>
II. Investments outside India	Nil	Nil
<b>SCHEDULE 9. ADVANCES</b>		
A. i. Bills purchased & discounted	1853,81,17	898,60,67
ii. Cash credits, overdrafts and loans repayable on demand	21873,09,56	17416,05,69
iii. Term loans	14218,94,46	13643,14,22
<b>Total</b>	<b>37945,85,19</b>	<b>31957,80,58</b>
B. i. Secured by tangible assets (includes advances against Book Debts)	26468,00,49	23513,08,77
ii. Covered by Bank/Government guarantees	2864,11,38	1671,22,62
iii. Unsecured	8613,73,32	6773,49,19
<b>Total</b>	<b>37945,85,19</b>	<b>31957,80,58</b>
C. I. Advances in India		
i. Priority Sector	12188,45,84	10585,79,92
ii. Public Sector	2817,58,47	1945,87,30
iii. Banks	4,46,36	4,50,44
iv. Others	22935,34,52	19421,62,92
<b>Total</b>	<b>37945,85,19</b>	<b>31957,80,58</b>
II. Advances outside India	Nil	Nil
<b>SCHEDULE 10. FIXED ASSETS</b>		
<b>I OWNED ASSETS</b>		
a. Premises		
At cost as on 31st March of the preceding year	219,27,17	218,54,14
Additions during the year	1,29,13	74,86
	220,56,30	219,29,00
Deductions during the year	0	1,83
	220,56,30	219,27,17
Depreciation to date	56,88,70	50,78,90
	163,67,60	168,48,27

## Schedules forming part of Consolidated Balance Sheet

	(In thousands of ₹)	
	As at 31 March 2012	As at 31 March 2011
b. Other fixed assets (including furniture & fixtures)		
At cost as on 31st March of the preceding year	387,59,83	338,63,08
Additions during the year	102,25,13	60,15,64
	489,84,96	398,78,72
Deductions during the year	8,58,65	11,18,89
	481,26,31	387,59,83
Depreciation to date	308,28,82	263,54,53
	172,97,49	124,05,30
<b>II ASSETS GIVEN ON LEASE</b>		
At cost as on 31st March of the preceding year	3,10,13	3,10,13
Additions during the year	Nil	Nil
	3,10,13	3,10,13
Deductions during the year	0	0
	3,10,13	3,10,13
Depreciation to date	2,71,79	2,71,79
	38,34	38,34
<b>Total (I &amp; II)</b>	<b>337,03,43</b>	<b>292,91,91</b>
<b>SCHEDULE 11. OTHER ASSETS</b>		
I. Inter office adjustments (net)	0	0
II. Interest accrued	399,50,24	280,41,36
III. Tax paid in advance/tax deducted at source (Net of provision)	620,48,86	338,48,01
IV. Stationery & Stamps	2,69,18	2,62,69
V. Non-banking assets acquired in satisfaction of claims	3,10,61	3,05,01
VI. Deferred Tax Asset (Net)	0	1,58,53
VII. Others	595,16,80	308,45,76
<b>Total</b>	<b>1620,95,69</b>	<b>934,61,36</b>
<b>SCHEDULE 12. CONTINGENT LIABILITIES</b>		
I. Claims against the Bank not acknowledged as debts	661,14,55	613,31,98
II. Liability on account of outstanding forward exchange contracts	30431,60,64	16163,50,63
III. Guarantees given on behalf of constituents - in India	3533,64,90	3739,03,73
V. Acceptances, endorsements and other obligations	1188,48,26	1562,27,47
VI. Other items for which the Bank is contingently liable	34,52,05	34,61,16
<b>Total</b>	<b>35849,40,40</b>	<b>22112,74,97</b>

## Schedules forming part of Consolidated Profit & Loss Account

	(In thousands of ₹)	
	For the year ended 31 March 2012	For the year ended 31 March 2011
<b>SCHEDULE 13. INTEREST EARNED</b>		
I. Interest/discount on advances/bills	4213,09,23	3168,80,24
II. Income on investments	1315,73,76	868,03,04
III. Interest on balances with RBI & other inter-bank funds	34,88,36	10,59,78
IV. Others	18,00,75	4,59,77
<b>Total</b>	<b>5581,72,10</b>	<b>4052,02,83</b>
<b>SCHEDULE 14. OTHER INCOME</b>		
I. Commission, exchange and brokerage	251,85,34	250,22,42
II. Net profit/loss on sale of investments	82,07,06	45,75,89
III. Net profit/loss on revaluation of investments	-	-
IV. Net profit on sale of land, buildings & other assets	33,16	32,69
V. Net profit on foreign exchange transactions	84,20,86	57,22,90
VI. Income earned by way of dividends etc. from companies in India	5,12,46	3,52,36
VII. Miscellaneous income [Includes Recoveries in assets written off ₹ 8573.78 lakh (previous year ₹ 14607.34 lakh)]	108,60,84	161,27,23
<b>Total</b>	<b>532,19,72</b>	<b>518,33,49</b>
<b>SCHEDULE 15. INTEREST EXPENDED</b>		
I. Interest on deposits	3331,20,85	2161,02,20
II. Interest on Reserve Bank of India/Inter bank borrowings	48,54,65	9,86,75
III. Others	226,91,11	133,60,01
<b>Total</b>	<b>3606,66,61</b>	<b>2304,48,96</b>
<b>SCHEDULE 16. OPERATING EXPENSES</b>		
I. Payments to & provisions for employees	559,44,95	485,68,59
II. Rent, taxes & lighting	99,61,70	80,77,21
III. Printing & stationery	10,69,31	10,21,75
IV. Advertisement & publicity	16,40,10	18,32,28
V. Depreciation on Bank's property	58,96,21	54,71,35
Less: Depreciation on revaluation of Premises transferred from Revaluation Reserve	<u>21,86</u>	<u>23,02</u>
	58,74,35	54,48,33
VI. Directors' fees, allowances and expenses	69,64	70,85
VII. Auditors' fees & expenses (including branch auditors)	3,03,69	2,83,52
VIII. Law charges	5,28,02	5,36,41
IX. Postage, Telegrams, Telephones etc	28,16,00	19,07,58
X. Repairs & maintenance	37,61,46	23,06,13
XI. Insurance	43,72,09	35,86,97
XII. Other expenditure	144,65,08	100,14,19
<b>Total</b>	<b>1008,06,39</b>	<b>836,53,81</b>
<b>SCHEDULE 17. EARNINGS PER SHARE</b>		
Net Profit for the year	753,72,76	556,46,66
Number of Shares	17,10,47	17,10,47
Earnings Per Share (₹)	44.07	32.53

## Consolidated

## Schedules

**SCHEDULE 18 – PRINCIPAL ACCOUNTING POLICIES****1. General**

The financial statements have been drawn up on historical cost convention and on accrual basis of accounting (unless otherwise stated) and conform to Generally Accepted Accounting Principles in India which comprises the statutory provisions and practices followed in the banking industry in India.

**2. Advances**

- a) Advances are classified as Performing Assets (Standard) and Non Performing assets, (Sub-standard, Doubtful, or Loss assets) and provisions required for possible losses on non performing advances are made over and above the minimum required as per the guidelines of the Reserve Bank of India (RBI) on matters relating to prudential norms.

In case of the Subsidiary, advances are classified as Performing Assets and Non-performing Assets and Provisions required are made as per the guidelines of the Reserve Bank of India on matters relating to Prudential Norms as applicable to Non-banking Financial (Non-Deposit Accepting or Holding) Companies, Directions, 2007.

- b) Holding Company  
Advances shown in the Balance Sheet are net of:
- (i) bills rediscounted,
  - (ii) provisions made for non performing advances.

**Subsidiary Company**

Provision against loans classified as Non Performing Assets in accordance with RBI Guidelines has not been netted off against loans and advances and are shown under “Current Liabilities – Short Term Provisions”.

- c) Provisions are made in respect of the following as per the guideline of RBI and included under the head “Other liabilities and provisions- others” in the Balance Sheet.
- (i) Provisions towards interest sacrifice/fair value diminution on restructured /rescheduled advances.
  - (ii) Provision for standard asset.

**3. Investments**

- a) Investments are classified under three categories, viz ‘Held for Trading’ (HFT), ‘Available for Sale’ (AFS), and ‘Held to Maturity’ (HTM) as per RBI guidelines and disclosed in the Balance Sheet under six classifications viz.
- (i) Government Securities
  - (ii) Other Approved Securities
  - (iii) Shares
  - (iv) Debentures and Bonds
  - (v) Associates & Joint Ventures
  - (vi) Others

Investments are also classified into performing & non performing as per the guidelines of RBI and provisions are made for possible losses as non performing investments as per the guidelines of RBI.

**Consolidated****Schedules**

- b) In respect of Profit on sale of investments under 'Held to Maturity' category, an equivalent amount, net of taxes and transfer to statutory reserve, is apportioned to the Capital reserve account.
- c) REPO & Reverse REPO transactions are accounted in accordance with the extant RBI Guidelines.
- d) Valuation
  - (i) Investments classified as HFT have been marked to market and valued scrip-wise under each classification at monthly intervals, excluding equity shares which are done on a weekly basis. Within a classification net appreciation is ignored and net depreciation is provided for.
  - (ii) Investments classified as AFS have also been marked to market, and valued quarterly excluding equities, which are done on a weekly basis. Within a classification net appreciation is ignored and net depreciation is provided for.
  - (iii) Investments classified as HTM are stated at acquisition cost except in cases where the acquisition cost is higher than the face value, in which case the excess, i.e. premium on acquisition, is amortised over the period remaining to maturity on equated basis. Any diminution in value other than temporary, in investments in subsidiaries/joint venture/ associates included under HTM is provided for.
  - (iv) Closing stock of gold is valued at cost or market price whichever is lower.

**4. Derivatives**

Interest rate swaps/currency swaps in respect of trading position and which are outstanding as on Balance Sheet date are marked to market and net appreciation is ignored and net depreciation is recognized in the Profit and Loss Account.

Derivative contracts which are entered for hedging purposes, the net amount receivable/payable is recognized on accrual basis. Gains or losses on termination on such contracts are deferred and recognized over the remaining contractual life of the derivatives or the remaining life of the assets/liabilities, whichever is earlier. Such derivative contracts are marked to market and the resultant gain or loss is not recognized, except where the contract is designated with an asset/ liability which is also marked to market, in which case, the resulting gain or loss is recorded as an adjustment to the market value of the underlying asset/ liability.

**5. Transactions Involving Foreign Exchange**

- (a) All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the close of the year as advised by the Foreign Exchange Dealers' Association of India (FEDAI).
- (b) Income and expenditure denominated in foreign currencies have been accounted at the exchange rates prevailing on the dates of the transactions.
- (c) Outstanding foreign exchange forward contracts are revalued at the rates applicable on the closing date as advised by FEDAI. The resultant profit/loss is taken into Profit and Loss account.
- (d) Contingent liabilities on guarantees, letters of credit, acceptances and endorsements are reported at the rates prevailing on the Balance Sheet date.

**Consolidated****Schedules****6. Fixed Assets**

- (a) Fixed Assets are stated at historical/revalued cost less accumulated depreciation & impairment of assets, if any. Premises which were revalued are stated at such values on revaluation and the appreciation credited to the Capital Reserve.
- (b) Depreciation on assets has been provided for on the diminishing balances at the rates as per Schedule XIV to the Companies Act, 1956, except on Computers, Mobile phones & EPABX, which are depreciated under the straight line method at 33.33% per annum as per RBI guidelines. Depreciation on assets sold/disposed off during the year is provided for the period upto the date of sale. Assets costing less than ₹ 5,000 each are fully depreciated.  
In case of the Subsidiary, Leasehold improvements are depreciated @ 18.10% using WDV method.
- (c) Depreciation on assets revalued has been charged on their written-down value including the addition made on revaluation, and an equivalent amount towards the additional depreciation provided consequent upon revaluation has been transferred from the Capital Reserve to the Profit & Loss Account.
- (d) Licence fee and implementation expenditure for Core Banking Solution are amortised on the straight line basis over a period of three years, on a pro rata basis.

**7. Finance Leasing**

Accounting Standard on Leases (AS19) issued by the Institute of Chartered Accountants of India (ICAI) is applicable to leases entered into on or after 1st April 2001. Since all the Bank's outstanding finance lease transactions were entered into prior to that date, the Bank has followed the earlier ICAI guidelines in respect of these leases.

Depreciation on non-performing leased assets (NPAs) is provided on written-down value as per the Companies Act 1956, by directly charging to Profit & Loss Account without any corresponding adjustment in the Lease Adjustment Account. In addition to depreciation, provision is also made for non-performing leased assets as per RBI guidelines.

**8. Employee Benefits**

- (a) Post –Employment benefit Plans

Payments to defined contribution retirement benefit schemes (other than Second option for pension) are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each Balance Sheet date.

Actuarial gains and losses are recognized in full in the Profit and Loss account for the period in which they occur. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the Balance Sheet represents the present value of the defined obligation as adjusted for unrecognized past service cost, and as reduced by the fair value of scheme assets.



## Consolidated

## Schedules

The net liability arising out of exercise of the second option for pension is fully reckoned, to be amortised in five years commencing from 2010-11 with 1/5th thereof being absorbed in the Profit and Loss Account of the year as per approval of RBI (vide letter DBOD. No.BP.BC.15896/21.04.018/2010-11 dated 08.04.2011.)

## (b) Short-term employee benefits

The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees is recognized during the period when the employee renders the service.

## (c) The provision towards sick leave benefit to staff is made based on actuarial valuation.

**9. Recognition of Income and Expenditure**

Items of income and expenditure are accounted for on accrual basis, except as stated hereunder:

- (a) Income from non performing investments/advances are recognised on realisation as per the guidelines of RBI.
- (b) Commission other than guarantee commission is accounted on cash basis. Guarantee commission is recognised over the period of the guarantees. Dividends are recognised as and when declared by the investee companies.
- (c) Unpaid funded interest on term loans are accounted on realisation as per the guidelines of RBI.
- (d) Income from consignment sale of gold is accounted as other income.
- (e) In case of the subsidiary, exclusivity fees (for providing services exclusively to the clients) is recognized in the year in which right to receive the same is established subject to volume of business generated.

**10. Provision for Income Tax**

Provision for income tax is made for the current tax, and adjustment is made for deferred tax for the year representing the net change in the deferred tax asset or deferred tax liability, in accordance with Accounting Standard 22 issued by the Institute of Chartered Accountants of India (ICAI). Deferred tax assets are recognised on the basis of the management's judgment of reasonable certainty of future profits.

**11. Earnings per Share**

Basic Earnings per share (EPS) reported is computed by dividing net profit after tax by the weighted average number of equity shares outstanding for the year.

Diluted Earnings Per share is computed using the weighted average number of equity shares and dilutive potential equity shares outstanding at the year end.

**12. Segment Information**

In terms of the guidelines of the RBI on enhanced disclosure of segment information, the Bank's operations are classified into four reportable business segments, viz. Treasury Operations (investment and trading in securities, shares, debentures, etc.), Wholesale Banking, Retail Banking and Other Banking Operations and segment information is reported accordingly. For this purpose, aggregate exposure to a single entity exceeding ₹5 crore is treated as wholesale banking segment and other exposures are

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treated as retail banking segment as per the RBI guidelines. For presentation of segment information, directly attributable income and assets are allocated as such and the other income, expenses, other assets and liabilities are apportioned on appropriate basis.

**13. Net Profit**

The net profit disclosed in the Profit and Loss Account is after:

- (a) provision for taxes;
- (b) provision for possible losses on Standard Assets, NPAs, and other contingencies;
- (c) depreciation on investments; and
- (d) other usual and necessary provisions.

**14. Use of estimates**

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates. Any revision to the accounting estimates is recognised prospectively in the current and future periods.

**15. Impairment of assets**

Impairment losses, if any, on Fixed Assets (including revalued assets) are recognised in accordance with the Accounting Standard 28 "Impairment of Assets" issued by Institute of Chartered Accountants of India (ICAI) and charged to Profit and Loss Account.

**16. Accounting for Provisions, Contingent Liabilities & Contingent Assets**

As per the Accounting Standard 29, "Provisions, Contingent Liabilities and Contingent Assets", issued by the Institute of Chartered Accountants of India (ICAI), the Bank recognises provisions only when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made. Contingent assets are not recognised in the financial statements.

**17. ESOS**

The Bank follows the intrinsic value method to account for its stock-based employee compensation plans, as per the Guidance Note for "Accounting for Employees Share Based Payments" issued by ICAI.

**SCHEDULE 19 – NOTES ON ACCOUNTS****1. Reconciliation**

The reconciliation of outstanding entries in inter branch/office transactions as on 31st March 2012 has been substantially completed and the effect, if any, of pending entries will not be material.

**2. Consolidation**

- a) The Consolidated Financial Statements include results of the Subsidiary and Associate of Federal bank limited.

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Name of the Company	Country of incorporation	% Shareholding	Consolidated as
Fedbank Financial services Limited	India	100%	Subsidiary
IDBI Federal Life Insurance Company Limited	India	26%	Associate

- b) The Consolidated Financial Statements have been prepared on the following basis:

The Financial Statements of the parent company and its subsidiary company have been consolidated on a line-by-line basis, by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions resulting in unrealised profits or losses.

Accounting for investment in 'Associates' is under the 'Equity Method' as per Accounting Standard (AS) 23, 'Accounting for Investments in Associates in Consolidated Financial Statements'.

- c) Differences in accounting policies followed by the Subsidiary and associate have been reviewed and no adjustments have been made, since the impact of these differences is not significant.
3. The net liability arisen on exercise of second option for Pension by employees (other than separated/retired employees) actuarially determined during FY 2010-2011 at ₹ 168.43cr and 1/5th of the said liability amounting to ₹ 33.71cr. was charged to the Profit and Loss Account during last FY and balance unamortized amount of ₹ 134.72 crore was carried forward to be amortised equally over the succeeding four years, as per approval of RBI (vide letter no.DBOD.No.BP.BC.15896/21.04.018/2010-11 dated 08.04.2011). Accordingly, an amount of ₹ 33.68 crore, being proportionate amount is charged to Profit and Loss during the year. The balance outstanding as unamortized is ₹ 101.04 crore.

## 4.1 Capital

Particulars	31 <sup>st</sup> March 2012		31 <sup>st</sup> March 2011	
	Basel II	Basel I	Basel II	Basel I
i) CRAR (%)	16.81	13.98	16.67	15.27
ii) CRAR - Tier I capital (%)	15.76	12.66	15.45	13.62
iii) CRAR - Tier II Capital (%)	1.05	1.32	1.22	1.65
iv) Percentage of the shareholding of the Government of India in nationalized banks	Nil		Nil	
v) Amount of subordinated Debts raised as Tier II capital during the year (₹ Crore)	Nil		Nil	
vi) Amount raised by issue of IPDI	Nil		Nil	
viii) Amount raised by issue of Upper Tier-II Instruments (₹ Crore)	Nil		Nil	

The computation of CRAR as per Basel II is compiled by the management with the information/data drawn from CBS system on which reliance is placed by the Auditors.

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**4.2 Investments**

- 4.2.1 a) Investments under HTM (excluding specified investments as per RBI norms) account for 24.95% (previous year 21.01%) of demand and time liabilities as at the end of March 2012 as against permitted ceiling of 25% stipulated by RBI.
- b) In respect of securities held under HTM category premium of ₹ 22.13 crore (previous year ₹ 21.90 crore) has been amortised during the year and debited under interest received on Government securities.
- c) Profit on sale of securities from HTM category amounting to ₹ 10.66 crore (previous year ₹ Nil crore) has been taken to Profit and Loss Account and a sum of ₹ 5.40 crore (previous year ₹ Nil crore) being net of taxes and transfer to statutory reserve of such profit, appropriated to Capital Reserve.

**4.2.2 Investments**

(₹ crore)

Particulars	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
(1) Value of Investments		
Gross Value of Investments		
(a) In India	17151.31	14424.40
(b) Outside India	Nil	Nil
Provisions for Depreciation		
(a) In India	49.29	16.50
(b) Outside India	Nil	Nil
(i) Net Value of Investments		
(a) In India	17102.02	14407.90
(b) Outside India	Nil	Nil
(2) Movement of provisions held towards depreciation on investments.		
(i) Opening balance	16.50	16.99
(ii) Add: Provisions made during the year	49.29	16.50
(iii) Less: Write-off/ write-back of excess provisions during the year	16.50	16.99
(iv) Closing balance	49.29	16.50

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## 4.2.3 REPO Transactions

(₹ crore)

	Outstanding during the year			Outstanding as on 31/03/2012
	Minimum	Maximum	Daily Avg	
<b>A) Securities sold under REPOs</b>				
i) Gov. Securities	- (-)	2500.00 (600.00)	356.15 (56.33)	2500.00 (-)
ii) Corp. Debt Securities	- (-)	- (-)	- (-)	- (-)
<b>Securities purchased under REVERSE REPOs</b>				
i) Gov. Securities	- (-)	1000.00 (750.00)	10.11 (32.44)	- (-)
ii) Corp. Debt Securities	- (-)	- (-)	- (-)	- (-)
<b>B) Securities sold under Market REPOs</b>				
i) Gov. Securities	- (-)	- (20.00)	- (0.11)	- (-)
ii) Corp. Debt Securities	- (-)	- (-)	- (-)	- (-)
<b>Securities purchased under REVERSE Market REPOs</b>				
i) Gov. Securities	- (-)	- (5.00)	- (0.01)	- (-)
ii) Corp. Debt Securities	- (-)	- (-)	- (-)	- (-)

(Previous year figures are given in brackets)

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## 4.2.4 Non-SLR Investment Portfolio

i) Issuer Composition of Non-SLR Investments as on 31st March 2012 (₹ crore)

No. (1)	Issuer (2)	Amount (3)	Extent of private placement (4)	Extent of 'below investment grade' securities (5)	Extent of 'unrated' securities (6) **	Extent of 'unlisted' Securities (7) ***
1	PSUs	80.93 (87.54)	68.00 (84.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2	FIs	73.29 (0.50)	50.50 (0.50)	0.00 (0.00)	0.00 (0.00)	0.00 (0.50)
3	Banks	1309.82 (1964.51)	69.68 (54.68)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
4	Private corporates	1932.66 (834.25)	601.56 (423.03)	0.00 (0.00)	6.72 (0.00)	74.21 (66.13)
5	Associates/ Joint ventures	95.45 (87.23)	95.45 (87.23)	0.00 (0.00)	0.00 (0.00)	95.45 (87.23)
6	Others	2092.86 (1473.10)	46.01 (12.50)	0.00 (0.00)	0.00 (0.83)	0.00 (0.83)
7	Less: Provisions held towards depreciation	-14.23 (-4.11)	xx	xx	xx	xx
	Total	5570.78 (4443.02)	931.20 (661.94)	0.00 (0.00)	6.72 (0.83)	169.66 (154.69)

(Previous year figures are given in brackets)

\*\* excluding investments in shares ₹ 193.42 crore (previous year ₹ 162.56 crore)

\*\*\* excluding investments in pass through certificates ₹ 0.17 crore (previous year ₹ 1.80 crore)

ii) Non-SLR investments category-wise: (₹ crore)

Particulars	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
Shares	190.73	168.07
Debentures & Bonds	960.35	605.34
Associates/Joint Ventures	95.45	87.23
Others	4324.25	3582.38
Total	5570.78	4443.02

iii) Non-performing Non-SLR investments (₹ crore)

As at 31 <sup>st</sup> March 2011	0.00
Additions during the year since 01 <sup>st</sup> April 2011	0.00
Reductions during the above period	0.00
As at 31 <sup>st</sup> March 2012	0.00
Total Provisions held	0.00

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**4.3 Sale and transfers to/ from HTM Category**

The value of sales/transfers to / from HTM category is less than 5 per cent of the book value of investments held in HTM category at the beginning of the year,

**4.4. Derivatives****4.4.1 Forward Rate Agreement/ Interest Rate Swap** (₹ crore)

Particulars	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
i) The notional principal of swap agreements	1075.00	1250.00
ii) Losses which would be incurred if counter parties failed to fulfil their obligations under the agreements	22.80	4.76
iii) Collateral required by the bank upon entering into swaps	Nil	Nil
iv) Concentration of credit risk arising from the swaps	Nil	Nil
v) The fair value of the swap book	0.22	-0.70

**4.4.2 Exchange Traded Interest Rate Derivatives:** (₹ crore)

Sl.No.	Particulars	31 <sup>st</sup> March 2012
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)	NIL
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March 2012	NIL
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective"	NIL
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective"	NIL

**4.4.3 Disclosure on Risk exposure in Derivatives****Qualitative Disclosures****Structure, organization, scope and nature of management of risk in derivatives etc**

The organizational structure consists of Treasury Department which is segregated into three functional areas, ie, front office, mid office and back office. Derivative deals are executed for hedging and market making.

The risk in the derivatives is monitored by regularly assessing Marked to Market Position (MTM) of the entire portfolio and the impact on account of the probable market movements. Various risk limits have been put in place under different segments of the derivatives, as approved by Board. The risk profile of the outstanding portfolio is reviewed by Board at regular intervals. For own balance sheet management, hedging policies are devised to mitigate risks, lower borrowing costs and enhance yields. The current outstanding under the derivatives portfolio were executed for trading and hedging.

**Accounting:**

Board Approved Accounting Policies as per RBI guidelines have been adopted. The hedge swaps are accounted for like a hedge of the asset or liability. The hedge swaps are accounted on accrual basis

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except where swaps for hedging marked to market asset/liability. Such hedge swaps are marked to market on a monthly basis and the gain/losses are recorded as an adjustment to the designated asset/liability. The Non hedge swaps are marked to market every month and the MTM losses in the basket are accounted in the books while MTM profits are ignored.

**Collateral Security:**

As per market practice, no collateral security is insisted on for the contracts with counter parties like Banks/PDs etc. For deals with Corporate Clients, appropriate collateral security/margin etc. are stipulated wherever considered necessary.

**Credit Risk Mitigation:**

Most of the deals have been contracted with Banks/ Major PDs and no default risk is anticipated on the deals with them. In the case of deals with corporate clients, the outstanding positions are closely monitored for the default risks and appropriate measures are initiated.

**Quantitative Disclosures**

(₹ crore)

Sl.No	Particulars	Currency Derivatives	Interest rate Derivatives
1	Derivatives (Notional Principal Amount)		
	a) For hedging	206.04	-
	b) For trading	-	1075
2	Marked to Market positions (1)		
	a) Asset (+)	22.93	8.59
	b) Liabilities (-)	-	-8.37
3	Credit Exposure (2)	23.96	10.75
4	Likely impact of one percentage change in interest rate (100*PV01)		
	a) on hedging derivatives	0.01	-
	b) on trading derivatives	-	-0.01
5	Maximum and Minimum of 100*PV01 observed during the year		
	a) on hedging	Max. 0.012 Min. 0.010	-
	b) on trading	-	Max. 0.06 Min. -0.01



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## 4.5 Asset Quality

## 4.5.1 Non-Performing Asset

(₹ crore)

Particulars	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
(i) Net NPAs to Net Advances (%)	0.54%	0.60%
(ii) Movement of NPAs (Gross)		
(a) Opening balance	1148.33	820.97
(b) Additions during the year	701.43	875.84
(c) Reductions during the year	542.81	548.48
(d) Closing balance	1306.95	1148.33
(iii) Movement of Net NPAs		
(a) Opening balance	190.69	128.79
(b) Additions during the year	443.65	352.54
(c) Reductions during the year	430.95	290.64
(d) Closing balance	203.39	190.69
(iv) Movement of provisions for NPAs (excluding provisions on standard assets)		
(a) Opening balance	942.34	684.43
(b) Provisions made during the year (net)	223.50	488.85
(c) Write-off/ write-back of excess provisions (net)	108.78	230.94
(d) Closing balance	1057.06	942.34

## 4.5.2 Sector wise NPAs

SI No	Sector	Percentage of NPAs to Total advances in that sector
1	Agriculture and allied Activities	3.42%
2	Industry (Micro & Small, Medium and Large)	6.97%
3	Services	4.10%
4	Personal loans	14.13%

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## 4.5.3 Details of Loan Assets subjected to Restructuring for the year 2011-12

(₹ Crore)

		CDR Mechanism	SME Debt Restructuring	Others
Standard advances restructured	No. of Borrowers	3	2	88
	Amount outstanding-Restructured Accounts	81.09	13.26	871.26
	Other accounts	-	3.15	72.92
	Sacrifice(diminution in the fair value)	24.16	0.02	20.23*
Sub standard advances restructured	No. of Borrowers	1	1	13
	Amount outstanding-Restructured Accounts	39.23	6.09	20.01
	Other accounts	5.66	0.35	11.73
	Sacrifice(diminution in the fair value)	10.18	0.02	4.89
Doubtful advances restructured	No. of Borrowers	-	-	-
	Amount outstanding-Restructured Accounts	-	-	-
	Other accounts	-	-	-
	Sacrifice (diminution in the fair value)	-	-	-
TOTAL	No. of Borrowers	4	3	101
	Amount outstanding-Restructured Accounts	120.32	19.35	891.27
	Other accounts	5.66	3.50	84.65
	Sacrifice (diminution in the fair value)	34.34	0.04	25.12

\*Includes ₹ 5.26 Crores being 1/8 th of the total amount of sacrifice of ₹ 42.05 crores provided in respect of one account for the current quarter and the balance amount of ₹36.79 crores will be provided over succeeding 7 quarters as permitted by RBI vide letter dated 15.03.2012.

## 4.5.4 Details of financial assets sold to securitisation/Reconstruction Company for Asset reconstruction

(₹ crore)

Particulars	2011-12	2010-11
(a) No of accounts	20	181
(b) Aggregate value (net of provisions) of accounts sold to SC/RC	36.43	44.37
(c) Aggregate consideration	64.95	58.43
(d) Additional consideration realised in respect of accounts transferred in earlier years	0.00	0.00
(e) Aggregate gain/loss over net book value	28.52	14.07

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**4.5.5 Details of non-performing financial assets purchased/sold****a. Details of non-performing financial assets purchased:** (Amount in ₹ crore)

Particulars	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
1. (a) No. of accounts purchased during the year	NIL	NIL
(b) Aggregate outstanding		
2. (a) Of these, number of accounts restructured during the year		
(b) Aggregate outstanding		

**b. Details of non-performing financial assets sold:** (Amount in ₹ crore)

Particulars	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
1. No of Accounts sold	NIL	NIL
2. Aggregate outstanding		
3. Aggregate consideration received		

**4.5.6 Movement of Provision for Standard Assets** (Amount in ₹ crore)

Particulars	2011-12	2010-11
(a) Opening Balance	159.60	145.24
(b) Addition/Adjustments during the year	37.21	14.36
(c) Deduction during the year	0.00	0.00
(d) Closing Balance	196.81	159.60

**4.6 Business Ratios**

Particulars	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
(i) Interest Income as a percentage to Working Funds	10.12	9.22
(ii) Non-interest income as a percentage to Working Funds	0.96	1.18
(iii) Operating Profit as a percentage to Working Funds	2.72	3.25
(iv) Return on Assets	1.32	1.27
(v) Business (Deposits plus advances) per employee (₹ crore)	9.64	9.23
(vi) Profit per employee (₹ crore)	0.08	0.07

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## 4.7 Asset Liability Management

## Maturity Pattern of assets and liabilities (As compiled by the Management)

(₹ crore)

Maturity Pattern	Advances	Investments	Deposits	Borrowings (including Subordinated Debt)	Foreign Currency Assets	Foreign Currency Liabilities
Next day	182.31	1.88	149.76	0.00	211.82	6.87
2 -7 days	887.62	282.36	628.08	299.81	104.76	21.43
8-14 days	1246.15	68.29	349.29	0.00	129.13	29.75
15-28 days	927.12	269.02	580.22	105.00	248.10	41.35
29 days to 3 months	2925.14	1489.87	4656.61	61.00	217.87	223.24
Over 3 to 6 months	2927.52	705.58	8136.64	1569.55	242.00	216.84
Over 6 months to 1 Yr	4673.90	218.09	11069.73	265.70	35.93	423.35
Over 1 Yr to 3Yrs	17069.49	898.01	21435.40	992.76	296.50	221.84
Over 3 Yrs to 5 Yrs	3128.60	1423.90	1374.28	400.58	22.93	52.59
Over 5 Yrs	3978.00	11745.02	554.72	571.64	5.80	0.00
<b>Total</b>	<b>37945.85</b>	<b>17102.02</b>	<b>48934.73</b>	<b>4266.04</b>	<b>1514.84</b>	<b>1237.26</b>

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## 4.8 Exposures

## 4.8.1 Exposure to Real Estate Sector (As compiled by the Management)

(₹crore)

Category	2011-12	2010-11
a) Direct exposure		
(i) Residential Mortgages –		
Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented;	5168.07	5309.07
(of which individual housing loans eligible for inclusion in Priority sector advances)	(3368.31)	(3482.54)
(ii) Commercial Real Estate –		
Lendings secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits;	526.12	537.38
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential,	31.57	1.80
b. Commercial Real Estate.	1.21	1.21
b) Indirect Exposure		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	1127.30	1037.85
<b>Total Exposure to Real Estate sector</b>	<b>6854.27</b>	<b>6887.31</b>

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## 4.8.2 Exposure to Capital Market (As compiled by the Management)

(₹crore)

Particulars	2011-12	2010-11
(i) direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	196.18	162.31
(ii) advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	12.20	9.87
(iii) advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	2.04	0.83
(iv) advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/convertible bonds/convertible debentures/units of equity oriented mutual funds `does not fully cover the advances;	---	--
(v) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	152.13	120.62
(vi) loans sanctioned to corporates against the security of shares / bonds/debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	-----	--
(vii) bridge loans to companies against expected equity flows/issues;	-----	--
(viii) underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	---	--
(ix) financing to stockbrokers for margin trading;	---	--
(x) all exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect)	14.61	7.00
<b>Total Exposure to Capital Market</b>	<b>377.16</b>	<b>300.63</b>

## 4.8.3 Country Risk (As compiled by the Management)

The net funded exposure of the Bank in respect of foreign exchange transactions with each country is within 1% of the total assets of the Bank and hence no provision is required to be made in respect of country risk as per the RBI circular DBOD.BP.BC.96/21.04.103/2003-04 dated 17 June 2004.

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## Risk Category wise Country Exposure

(₹ crore)

Risk Category*	Exposure (net) as at 31 <sup>st</sup> March 2012	Provision held as at 31 <sup>st</sup> March 2012	Exposure (net) as at 31 <sup>st</sup> March 2011	Provision held as at 31 <sup>st</sup> March 2011
Insignificant	613.67	0.00	787.17	0.00
Low	340.08	0.00	307.71	0.00
Moderate	28.55	0.00	21.34	0.00
High	5.76	0.00	4.70	0.00
Very High	8.43	0.00	6.43	0.00
Restricted	0.04	0.00	0.00	0.00
Off-credit	0.04	0.00	0.00	0.00
<b>Total</b>	<b>996.57</b>	<b>0.00</b>	<b>1127.35</b>	<b>0.00</b>

\* The above figures include both funded as well as non-funded exposures.

4.8.4 Details of Single Borrower limit (SGL), Group Borrower Limit (GBL) where the bank has exceeded the prudential exposure during the year. (₹ crore)

Borrower Name	Total Exposure	% to Capital Fund
Food credit	870.00	15.93

4.8.5 Concentration of Deposits, Advances, Exposures and NPAs

**Concentration of deposits** (₹ crore)

Total Deposits of Twenty Large depositors	2374.51
Percentage of Deposits of twenty large depositors to total deposits of the bank	4.85%

**Concentration of advances** (₹ crore)

Total advances of Twenty Largest Borrowers	6863.43
Percentage of advances of twenty largest Borrowers to total advances of the bank	18.09%

**Concentration of exposures** (₹ crore)

Total exposures of Twenty Largest borrowers/customers	9071.20
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	13.52%

**Concentration of NPAs** (₹ crore)

Total exposures to top Four NPA accounts	208.07
--	--------

4.8.6 Movement of NPAs (₹ crore)

Gross NPAs as on 1 <sup>st</sup> April 2011	1148.33
Additions (Fresh NPAs) during the year	701.43
Sub total (A)	<b>1849.76</b>
Less:	
(i) Upgradations	75.68
(ii) Recoveries (excluding recoveries made from upgraded accounts)	358.78
(iii) Write offs	108.35
Sub-total (B)	<b>542.81</b>
Gross NPAs as on 31 <sup>st</sup> March 2012	<b>1306.95</b>

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**4.8.7 Details of Overseas Assets, NPAs and Revenue - Nil****4.8.8 Off balance Sheet SPV sponsored - Nil****5. Fixed Assets**

- i) During the year 1995-96, the appreciation of ₹ 9.65 crore in the value of land and buildings consequent upon revaluation by approved valuers was credited to Capital Reserve. Depreciation for the year on the net addition to value on such revaluation of assets at ₹ 0.22 crore (previous year ₹ 0.23 crore) has been transferred from Capital Reserve to Profit & Loss Account. There has been no revaluation of assets during this year.
- ii) Land and premises include flats ₹ 0.37 crore (previous year ₹ 0.37 crore), written down value ₹ 0.18 crore (previous year ₹ 0.19 crore), taken possession of and being used by the Bank, for which documentation/registration formalities are to be completed.

**6. Employee Stock Option Scheme (“ESOS”):**

Shareholders of the bank has approved Employee Stock Option Scheme (ESOS) through postal ballot, the result of which was announced on Dec, 24, 2010, enabling the Board and/or the “Compensation Committee” to grant such number of equity shares, including options, of the Bank not exceeding 5% of the aggregate number of paid up equity shares of the Bank, in line with the guidelines of SEBI. Pursuant thereto, the Compensation Committee of the bank granted the following options:

Sl No.	Particulars	No. of Options granted & Accepted
1	ESOS granted on 9 <sup>th</sup> April 2011 with vesting period of 1,2,3 and 4 years. Exercise period of 5 years and Exercise price of ₹420.65	2875875
2	ESOS granted on 2 <sup>nd</sup> June 2011 with vesting period of 1,2 and 3 years. Exercise period of 5 years and Exercise price of ₹ 449.70	100000
3	ESOS granted on 16 <sup>th</sup> June 2011 with Exercise period of 5 years and Exercise price of ₹454.65	60000
4	Total number of options granted during the year	3035875
5	Options exercised/forfeited/Lapsed during the year	Nil
6	Options outstanding at the end of the year	3035875

As per SEBI guidelines the accounting for ESOS can be done either under the ‘Intrinsic value basis’ or ‘Fair value basis’.

The Compensation Committee in their meeting dated 10/05/2012 decided to adopt ‘Intrinsic value method’ for accounting of ESOS, in terms of the power vested on them as per the resolution of EGM dated 24 December 2010

The exercise price of the options granted is the same as the market price on the date prior to grant date and hence there is no intrinsic value for the options, which has to be amortized over the vesting period.

If “Fair Value Method” had been adopted based on “Black-Scholes pricing model” for pricing and accounting of options, net profit would be lower by ₹ 1972.46 lacs.

The impact on Basic and Diluted Earnings per share for the year, had the company followed Fair Value Method of accounting for ESOS compensation cost is ₹ 42.91 and ₹ 42.81 respectively.



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**7. Disclosure in terms of Accounting Standard**

7.1 There is no material prior period income/expenditure requiring disclosure under AS 5 'Net Profit or Loss for the Period, Prior period items and changes in Accounting policies issued by the Institute of Chartered Accountants of India.

**7.2 Employee Benefits (AS 15) – Holding Company****a) Defined Contribution Plan****Provident Fund**

Employees who have not opted for pension plan are eligible to get benefits from provident fund, which is a defined contribution plan. Aggregate contributions along with interest thereon are paid on retirement, death, incapacitation or termination of employment. Both the employee and the Bank contribute a specified percentage of the salary to the Federal Bank Employees' Provident Fund. The Bank has no obligation other than the monthly contribution.

The Bank recognized ₹ 41.17 lakhs (Previous year ₹ 15.84 Cr) for provident fund contribution in the Profit and Loss account

**New Pension Scheme**

As per the industry level settlement dated 27/04/2010, employees who joined the services of the Bank are not eligible for the existing pension scheme where as they will be eligible for Defined Contributory Pension Scheme in line with the New Pension Scheme introduced for employees of Central Govt. Employee shall contribute 10% of their Pay and Dearness Allowance towards defined contributory Pension Scheme and the Bank will also make a matching contribution. There is no separate Provident Fund for employees joining on or after 01/04/2010.

**(b) Defined benefit plan****1) Gratuity**

The Bank provides for Gratuity, a defined benefit retirement plan (the "Gratuity Plan") covering the eligible employees. The Gratuity Plan provides a lumpsum payment to vested employees on retirement, death, incapacitation or termination of employment, of an amount based on the respective employees' salary and the tenure of employment. Vesting occurs upon completion of five years of service as per Payment of Gratuity Act, 1972 and its amendment with effect from 24.05.2010 or as per the provisions of the Federal Bank Employees' Gratuity Trust Fund Rules / Bi-partite Award provisions. Liabilities with regard to the Gratuity Plan are determined by Actuarial valuation as on the Balance Sheet date, based upon which, the Bank contributes all the ascertained liabilities to the Federal Bank Employees' Gratuity Trust Fund (the "Trust"). Trustees administer contributions made to the Trust and contributions are invested in specific investments as permitted by law.

**2) Superannuation / Pension**

The Bank provides for monthly pension, a defined benefit retirement plan (the "pension plan") covering eligible employees. The pension plan provides a monthly pension after retirement of the employees till death and to the family after the death of the pensioner. The monthly pension is based on the respective employees' salary and the tenure of employment. Vesting occurs upon completion of ten years of service. The Bank pays the monthly pension by purchasing annuities from Life Insurance Corporation of India (LIC). Liabilities with regard to the pension plan are determined by actuarial valuation as on the Balance Sheet date, based upon which, the Bank contributes all the ascertained liabilities to the Federal Bank (Employees') Pension Fund (the "Trust"). Trustees administer contributions made to the Trust and contributions are invested in specific investments as permitted by law.

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The following table as furnished by Actuary sets out the funded status of gratuity / pension plan and the amount recognized in the Bank's financial statements as at March 31, 2012.

**i) Change in benefit obligations:** (₹ Crore)

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Projected benefit obligation, beginning of the year	203.51	181.73	589.34	195.38
Service Cost	10.94	9.75	49.16	42.68
Interest cost	16.38	14.05	46.48	11.50
Actuarial gain/ (loss)	15.97	10.15	(1.25)	443.03
Benefits paid	(21.55)	(12.17)	(84.97)	(103.25)
Projected benefit obligation, end of the year	<b>225.25</b>	<b>203.51</b>	<b>598.76</b>	<b>589.34</b>

**ii) Change in plan assets:**

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Plan assets at beginning of the year at fair value	184.69	181.73	404.04	195.38
Expected return on plan assets	15.70	14.53	34.34	15.63
Actuarial gain/(loss)	20.04	0.60	1.31	0.92
Employer's Contributions	----	----	67.90	295.36
Benefits paid	(21.56)	(12.17)	(84.97)	(103.25)
Plan assets at end of the year, at fair value	198.87	184.69	422.62	404.04

**iii) Reconciliation of present value of the obligation and the fair value of the plan assets;**

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Fair value of plan assets at the end of the year	198.87	184.69	422.62	404.04
Present value of the defined benefit obligations at the end of the period	225.25	203.51	598.76	589.34
Liability recognized in the Balance Sheet	26.38	18.82	176.14 @	185.30

@ Includes amount payable on account of transitional liability due to second option for pension ₹134.72 crore

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## iv) Gratuity/pension cost for the year ended 31st March, 2012:-

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Service cost	10.94	9.75	49.16	42.68
Interest cost	16.38	14.05	46.48	11.50
Expected return on plan assets	15.70	14.53	34.34	15.63
Actuarial gain/(loss)	(4.06)	9.55	(2.56)	442.10
Net cost Debit to Profit and Loss account	7.56	18.82	58.74	50.58
Amount recovered from employees exercising second option for pension/ amount transferred to PF account of such optees *	-	-	-	295.35
Amount not debited in profit and loss account, but carried over to be amortised in future years *	-	-	101.04	134.72
Actual return on plan assets	16.91	15.13	35.66	16.55

\* see Note no. 3 of schedule 19

## v) Investment details of plan Assets :-

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Central and state Government bonds	49.05	50.22	141.27	149.69
Other debt securities	31.14	37.64	92.49	108.08
Balance in Saving bank account with the Bank	2.10	1.53	9.17	22.75
Net current assets	2.42	2.88	6.80	8.62
Balance with LIC	114.15	92.42	172.89	114.90
Total	198.86	184.69	422.62	404.04

## vi) Assumptions:-

Particulars	Gratuity Plan		Pension Plan	
	2011-12	2010-11	2011-12	2010-11
Discount rate	8.50%	8.00%	8.50%	8.00%
Annuity rate per Rupee	-	-	125.65445	125.65445
Salary escalation rate	5.50%	5.00%	5.50%	5.00%
Estimated rate of return on plan assets	8.50%	8.00%	8.50%	8.00%

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**(c) Leave encashment**

The employees of the Bank are entitled to compensated absence. The employees can carry forward a portion of the unutilised accrued compensated absence and utilise it in future periods or receive cash compensation at retirement or termination of employment for the unutilized accrued compensated absence for a maximum of 240 days. The Bank records an obligation for compensated absences in the period in which the employee renders the services that increase this entitlement. The Bank measures the expected cost of compensated absence as the additional amount that the Bank expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date based on actuarial valuations.

**(d) Sick Leave / Leave Travel Concession / Unavailed Casual Leave**

A sum of ₹ 24.64 crore (Previous year ₹ 22.10 crore) has been provided towards the above liabilities in accordance with AS 15 (Revised) based on actuarial valuation.

**Employee Benefits (AS 15) – Subsidiary Company**

- a) Amount recognized as an expense in the Statement of Profit and Loss in respect of Defined Contribution Plans

(₹ in Thousands)

	Current Year	Previous Year
Provident Fund	5,481	-
Employee State Insurance	1,777	839
<b>Total</b>	<b>7,258</b>	<b>839</b>

- b) Defined Benefit Plan- Gratuity (Unfunded) & Long term employee Benefits- Compensated absences- Vesting (Unfunded).

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₹ Thousands

	Particulars	Gratuity		Compensated Absences	
		Current year	Previous Year	Current year	Previous Year
<b>i</b>	<b>Changes in the present value of defined obligation representing reconciliation of opening and closing balances thereof are as follows :</b>				
1	Present Value of Defined Benefit Obligation as at the beginning of the year	763.23	-	1,393.49	675.12
2	Current Service cost	295.36	468.82	1,948.75	1,063.74
3	Interest Cost	61.06	-	97.75	53.75
4	Actuarial (gains) / losses	(719.39)	294.41	(928.44)	(392.72)
5	Benefits paid	-	-	(343.37)	(6.40)
6	Present value of Defined Benefit Obligation as at the end of the year	400.26	763.23	2,168.18	1,393.49
<b>ii</b>	<b>Changes in the fair value of plan assets representing reconciliation of opening and closing balances thereof are as follows :</b>				
1	Fair value of Plan assets as at the beginning of the year	-	-	-	-
2	Expected return on plan assets	-	-	-	-
3	Actuarial gains/ (losses)	-	-	-	-
4	Actual contributions	-	-	343.37	6.40
5	Benefits paid	-	-	(343.37)	(6.40)
6	Fair value of Plan assets as at the end of the year.	-	-	-	-
7	Funded Status	(400.26)	(763.23)	(2,168.18)	(1,393.49)
<b>iii</b>	<b>Reconciliation of Present Value of Defined Benefit Obligation and fair value of plan assets showing amount recognized in the Balance Sheet :</b>				
1	Present value of Defined Benefit Obligation	400.26	763.23	2,168.18	1,393.49
2	Fair value of plan assets	-	-	-	-
3	Funded status	(400.26)	(763.23)	(2,168.18)	(1,393.49)
4	Unrecognized Past Service Costs	-	-	-	-
5	<b>Net asset/(Liability) recognized in Balance Sheet</b>	<b>(400.26)</b>	<b>(763.23)</b>	<b>(2,168.18)</b>	<b>(1,393.49)</b>

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iv	Expenses recognized in the statement of profit and loss for the year ended 31st March,2012				
1	Current Service cost	295.36	468.82	1,948.75	1,063.74
2	Interest cost	61.06	-	97.75	53.75
3	Expected return on plan assets	-	-	-	-
4	Past Service cost	-	-	-	-
5	Actuarial Losses/(Gains)	(719.39)	294.41	(928.44)	(392.71)
6	<b>Total expense recognized in the Statement of Profit &amp; Loss</b>	<b>(362.97)</b>	<b>763.23</b>	<b>1,118.06</b>	<b>724.78</b>

v	Principal Actuarial Assumptions :	Gratuity		Compensated Absences	
1	Discount Rate (%)	8.57%	8%	8.57%	8%
2	Expected Return on plan assets (%)	-	-	-	-
3	Salary Escalation (%)	10%	10%	10%	10%
4	Mortality	LIC (1994-96) Ultimate			

vi	Experience History	Gratuity		Compensated Absences	
1	(Gain)/Loss due on obligation due to change in assumption	(475.39)	-	(73.55)	57.80
2	Experience (Gain)/Loss on Obligation	(244.01)	294.41	(854.89)	(450.52)
3	Actuarial Gain/(Loss) on plan assets	-	-	-	-

The Discount rate is based on the benchmark yields available on Indian Government bonds as at the Balance Sheet date with terms matching that of the liabilities and the salary increase rates takes into account the inflation, seniority, promotion and other relevant factors.

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**7.3 Segment Information (AS 17) (As compiled by the Management)**

In terms of the Accounting Standard 17 of ICAI, the Bank's operations are classified into four business segments (see Principal Accounting Policy no. 12) and the information on them is as under.

(₹ crore)

Business Segments	Treasury		Corporate/ Whole sale Banking		Retail Banking		Other Banking Operations		Subsidiary (Fedfina)		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
Revenue	1530.30	932.00	1983.21	1460.89	2528.78	2157.47	39.29	18.04	32.34	1.96	6113.92	4570.36
Result (net of provisions)	45.22	86.19	250.33	227.60	852.26	591.51	19.97	9.61	-3.47	-11.03	1164.31	903.88
Unallocated expenses											--	--
Operating profit (PBT)											1164.31	903.88
Income taxes											392.80	315.42
Share of loss of associate											17.78	32.00
Extra-ordinary profit/loss											0.00	0.00
Net Profit											753.73	556.46
<b>OTHER INFORMATION</b>												
Segment Assets	20042.06	17591.06	19752.80	16306.10	18868.50	16233.68	557.57	448.32	352.90	16.34	59573.83	50595.50
Unallocated assets											970.41	747.34
Total assets											60544.24	51342.84
Segment liabilities	18167.25	15748.52	18569.71	15055.69	17769.28	15013.75	0.00	0.41	35.68	7.28	54541.92	45825.65
Unallocated liabilities											410.02	499.49
Total liabilities											54951.94	46325.14

Note: 1) The Bank has only the Domestic geographic segment.

2) For presentation of segment information, income, expenses, assets and liabilities of subsidiary company are classified under Retail Banking.

**7.4 Related Party Disclosures**

The following are the significant transactions with related parties during the year ended 31st March 2012

Name of the Party	Nature of Relationship
IDBI Federal Life Insurance Company Limited	Associate
Sri. Shyam Srinivasan	Key Management Personnel
Sri P C John	Key Management Personnel
Sri SomSankar Sengupta	Key Management Personnel
Shri P K Mohapatra, Manager	Key Management Personnel

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(₹ crore)

Particulars	Key Management Personnel*	
	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
Remuneration	1.62	2.00

\*The normal transactions of the Bank with the above persons as constituents are not reckoned for the purpose.

Note: In accordance with the RBI Guidelines on Compliance with the Accounting Standards by the Banks, the details of transactions with associate/joint venture and subsidiary company have not been disclosed since there is only one entity in the respective category of the related party.

**7.5 Earnings per share (AS 20)**

The Bank reports basic and diluted earnings per share in accordance with the Accounting Standard -20 "Earnings per Share".

Particulars	31 <sup>st</sup> March 2012	31 <sup>st</sup> March 2011
Weighted average number of equity shares used in computation of basic earnings per share (in 000's)	171047	171047
Weighted average number of equity shares used in computation of diluted earnings per share (in 000's)	171047	171047
Nominal Value of share (in ₹)	10	10
Basic earnings per share (in ₹)*	44.07	32.53
Diluted earnings per share (in ₹)*	44.07	32.53
Earnings used in the computation of basic and diluted earnings per share (₹ in Lakhs)	75372.76	55646.66

\* Weighted average

**7.6 Taxation (AS 22)**

- The disputed amount of income tax demand as on 31.03.2012 amounts to ₹610.32 crore. In the opinion of the Bank no provision is considered necessary in respect of the above disputed demand in view of various judicial decisions and the same has been disclosed as contingent liability.
- The Bank has accounted for income tax in compliance with ICAI's Accounting Standard 22.

Accordingly, timing differences resulting in deferred tax assets and deferred tax liabilities are recognised. The major components of deferred tax liabilities and assets as on 31st March 2012 are shown below:



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(₹ crore)

	31st March 2012		31st March 2011	
	Holding	Subsidiary	Holding	Subsidiary
Deferred Tax Liability				
Tax effect of timing difference in the assessment of:				
(i) Interest income	102.24	0.00	63.04	0.00
(ii) Depreciation on Fixed Asset	5.73	0.00	6.10	0.00
(iii) Depreciation on Investments	243.32	0.00	173.58	0.00
(A)	351.29	0.00	242.72	0.00
Deferred tax asset				
(i) Interest/premium paid on purchase of securities	47.22	0.00	40.05	0.00
(ii) Provision for Standard Assets	47.00	0.00	47.00	0.00
(iii) Others	171.76	0.00	157.17	0.09
(B)	265.98	0.00	244.22	0.09
<b>Net Deferred tax liability/(asset) (A-B)</b>	<b>85.31</b>	<b>0.00</b>	<b>-1.50</b>	<b>-0.09</b>

- iii) Deferred tax assets (net) of the subsidiary for the FY 2011-12 has not been recognized by credit to statement of profit and loss for the year ended 31st March 2012, as a matter of prudence, in the absence of virtual certainty supported by convincing evidence that sufficient future taxable income will be available, in terms of the Accounting standard 22, "Taxes on Income" notified under the Companies (Accounting Standard) Rules, 2006.

**8. In respect of Holding Company, Provisions and Contingencies debited in Profit and Loss Account during the year:** (₹ crore)

	For the year ended / As at	31st March 2012	31st March 2011
i)	Provision towards NPAs (net)	221.77	488.85
ii)	Provision for Investments	34.86	11.13
iii)	Provision for Standard Assets	36.45	14.35
iv)	Provision for Taxation :		
	Current Tax	305.90	316.99
	Deferred tax	86.89	-1.57
v)	Provision towards P/V sacrifice on restructuring, other contingencies etc	41.81	11.12
	<b>Total</b>	<b>727.68</b>	<b>840.87</b>

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## 9. Floating Provision (₹ crore)

Particulars	Standard Assets Provision		NPA Provision	
	2011-12	2010-11	2011-12	2010-11
(a) Opening Balance in the floating provisions account	38.00	38.00	179.52	179.52
(b) The quantum of floating provisions made in the accounting year	Nil	Nil	Nil	Nil
(c) Amount of draw down made during the accounting year	Nil	Nil	Nil	Nil
(d) Closing Balance in the floating provisions account	38.00	38.00	179.52	179.52

10. In the financial statement of Subsidiary Company, the schedule appended to the Balance Sheet of a non-deposit taking non-banking financial company (as required in terms of paragraph 13 of Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007)

(Figures in ₹ thousands)

Particulars		Amount outstanding	Amount overdue
<b>Liabilities side :</b>			
1	<b>Loans and advances availed by the non-banking financial company inclusive of interest accrued thereon but not paid:</b>		
	(a) Debentures : Secured	NIL	NIL
	: Unsecured	NIL	NIL
	(other than falling within the meaning of public deposits*)		
	(b) Deferred Credits	NIL	NIL
	(c) Term Loans	NIL	NIL
	(d) Inter-corporate loans and borrowing	NIL	NIL
	(e) Commercial Paper	NIL	NIL
	(f) Cash Credit Facility	15,96,039	NIL
<b>Assets side :</b>			
		Amount outstanding	
2	<b>Break-up of Loans and Advances including bills receivables [other than those included in (4) below] :</b>		
	(a) Secured	31,18,239	
	(b) Unsecured	4,272	
3	<b>Break up of Leased Assets and stock on hire and other assets counting towards AFC activities</b>		

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	(i) Lease assets including lease rentals under sundry debtors :	
	(a) Financial lease	NIL
	(b) Operating lease	NIL
	(ii) Stock on hire including hire charges under sundry debtors:	
	(a) Assets on hire	NIL
	(b) Repossessed Assets	NIL
	(iii) Other loans counting towards AFC activities	
	(a) Loans where assets have been repossessed	NIL
	(b) Loans other than (a) above	NIL
4	<b>Break-up of Investments :</b>	
	<u>Current Investments :</u>	NIL
	<u>1 Quoted :</u>	NIL
	(i) Shares : (a) Equity	
	(b) Preference	NIL
	(ii) Debentures and Bonds	NIL
	(iii) Units of mutual funds	NIL
	(iv) Government Securities	NIL
	(v) Others (please specify)	
	<u>2 Unquoted :</u>	
	(i) Shares : (a) Equity	NIL
	(b) Preference	NIL
	(ii) Debentures and Bonds	NIL
	(iii) Units of mutual funds	NIL
	(iv) Government Securities	NIL
	(v) Others (please specify)	NIL
	<u>Long Term investments :</u>	
	<u>1. Quoted :</u>	
	(i) Shares : (a) Equity	NIL
	(b) Preference	NIL
	(ii) Debentures and Bonds	NIL
	(iii) Units of mutual funds	NIL
	(iv) Government Securities	NIL
	(v) Others (please specify)	NIL
	<u>2. Unquoted :</u>	
	(i) Shares : (a) Equity	NIL
	(b) Preference	NIL
	(ii) Debentures and Bonds	NIL
	(iii) Units of mutual funds	NIL
	(iv) Government Securities	NIL
	(v) Others (please specify)	NIL

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5	<b>Borrower group-wise classification of assets financed as in (2) and (3) above :</b>		
	<b>Category</b>	Amount net of provisions*	
		Secured	Unsecured
			Total
	<b>1. Related Parties</b>		
	(a) Subsidiaries	NIL	NIL
	(b) Companies in the same group	NIL	NIL
	(c) Other related parties-Holding Company	NIL	NIL
	2. Other than related parties	31,05,211	NIL
	Total	31,05,211	NIL
	* Contingent Provision on Standard Assets has not been netted off as per prudential norms		
6	<b>Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted):</b>		
	<b>Category</b>	Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
	<b>1. Related Parties</b>		
	(a) Subsidiaries	NIL	NIL
	(b) Companies in the same group	NIL	NIL
	(c) Other related parties	NIL	NIL
	2. Other than related parties	NIL	NIL
	<b>Total</b>	<b>NIL</b>	<b>NIL</b>
7	<b>Other information</b>		
	Particulars		Amount (₹ thousands)
	(i) Gross Non-Performing Assets		
	(a) Related parties		Nil
	(b) Other than related parties		61,227
	(ii) Net Non-Performing Assets		
	a) Related parties		Nil
	b) Other than related parties		43,927
	(iii) Assets acquired in satisfaction of debt		Nil

**11. Additional Disclosures:**

11.1 Amount of Provisions made for Income-tax during the year  
(₹crore)

	<b>2011-12</b>	<b>2010-11</b>
Provision for Income Tax	392.71	315.42

11.2 Details of penalties imposed by RBI under the provision of Section 46 (4) of BR Act, 1949  
**Nil**

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## 11.3 Disclosure of customer complaints and awards passed by the Banking Ombudsman:

## A. Customer Complaints

(a)	No. of complaints pending at the beginning of the year	28
(b)	No. of complaints received during the year	1588
(c)	No. of complaints redressed during the year	1571
(d)	No. of complaints pending at the end of the year	45

## B. Awards passed by the Banking Ombudsman

(a)	No. of unimplemented awards at the beginning of the year	2
(b)	No. of awards passed by the Banking Ombudsman	2
(c)	No. of awards implemented during the year	2*
(d)	No. of unimplemented awards at the end of the year	2§

\*One awards is implemented and appellate authority withheld the award in other case  
§ Appeal against both the awards filed

## 11.4.1 Income from bancassurance business

(₹ lakh)

SI No	Nature of Income	As on 31 <sup>st</sup> March 2012
1	For selling life insurance policies	1298.90
2	For selling non-life insurance policies	150.22
3	For selling mutual fund products	36.02
4	Others (reimbursement of expenses)	282.51

## 11.4.1 Provision coverage ratio

Provision coverage ratio as per RBI guidelines as on 31st March 2012 stood at 88.69%

## 11.4.2 Amount of advances for which intangible securities such as charge over rights, licences, authority etc. has been taken as collateral security and the value of such collateral security : Nil

## 11.4.3 There are no dues to micro and small enterprises as at 31st March 2012. This disclosure is based on the records available with the Bank.

## 11.4.4 The Bank has not issued any letters of comforts coming within the Prudential Norms for Issuance of Letters of Comforts by banks regarding their subsidiaries (DBOD.No. BP.BC.65/21.04.009/2007-08 dated March 4, 2008).

## 11.4.5 The Bank has not made any draw down of reserves during the year.

## 11.5 Previous year's figures have been regrouped and recast wherever necessary.

K. Krishnakumar Asst. General Manager	P. C. John Executive Director & CFO	Shyam Srinivasan Managing Director & CEO	P. C. Cyriac Chairman
DIRECTORS			
Suresh Kumar	Abraham Koshy	Nilesh S Vikamsey	

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

For Price Patt & Co.,  
FRN: 027835  
Chartered Accountants

## Consolidated

## Cash Flow Statement

	(In thousands of ₹)	
	For the Year ended 31 March 2012	For the Year ended 31 March 2011
<b>A. Cash Flow from Operating Activities</b>		
Net Profit Before Tax and Extra Ordinary Items/Provisions	14,991,882	14,293,355
Adjustments for:-		
Depreciation on Fixed assets	589,621	547,135
Others	(5,502)	(5,571)
<b>Operating Profit before Working Capital Changes</b>	<b>15,576,001</b>	<b>14,834,919</b>
<b>Adjustments for working capital changes:-</b>		
Investments	(27,186,750)	(13,791,545)
Funds Advanced to Customers	(62,098,155)	(54,965,423)
Other Operating Assets	(4,059,201)	(2,384,884)
Deposits from Customers	59,462,785	69,391,622
Borrowings from Banks & Financial Institutions	23,776,797	3,416,062
Other Operating Liabilities	1,483,962	583,606
<b>Cash Generated from Operations</b>	<b>6,955,439</b>	<b>17,084,357</b>
Taxes Paid	(6,090,483)	(4,359,811)
<b>Cash Flow before Extraordinary items</b>	<b>864,956</b>	<b>12,724,546</b>
Extraordinary items	0	0
Net Cash From Operating Activities	864,956	12,724,546
<b>B. Cash Flow from Investing Activities</b>		
Purchase of Fixed Assets	(1,035,426)	(609,050)
Sale of Fixed Assets	7,969	39,669
Investment in Associate	(260,000)	(900,000)
Net Cash from Investing Activities	(1,287,457)	(1,469,381)
<b>C. Cash Flow from Financing Activities</b>		
Equity Capital including Premium	0	3,361
Dividend Paid	(1,689,759)	(997,197)
<b>Net Cash used in Financing Activities</b>	<b>(1,689,759)</b>	<b>(993,836)</b>
<b>Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	<b>(2,112,260)</b>	<b>10,261,329</b>
<b>Cash &amp; Cash Equivalents at the beginning of year</b>	<b>37,496,012</b>	<b>27,234,683</b>
<b>Cash &amp; Cash Equivalents at the end of year</b>	<b>35,383,752</b>	<b>37,496,012</b>

K. Krishnakumar  
Asst. General ManagerP. C. John  
Executive Director & CFOShyam Srinivasan  
Managing Director & CEOP. C. Cyriac  
Chairman

## DIRECTORS

Suresh Kumar

Abraham Koshy

Nilesh S Vikamsey

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered AccountantsFor Price Patt & Co.,  
FRN: 027835  
Chartered AccountantsKochi  
11-May-2012R. Rajasekharan  
Partner, Membership No. 22703S. Ramaswamy  
Partner, Membership No. 025918

## Auditors' Report on Consolidated Financial Statements

### The Board of Directors, The Federal Bank Limited, Aluva

We have audited the attached Consolidated Balance Sheet of THE FEDERAL BANK LIMITED, Aluva and its subsidiary (FedBank Financial Services Ltd.) and its associate (IDBI Federal Life Insurance Company Limited) (collectively referred to as 'the group') as at 31st March, 2012, and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of The Federal Bank Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The audit of the subsidiary company has been carried out by one of us.

We did not audit the financial statements of the associate which have been audited by other auditors, and whose report has been furnished to us. These financial statements reflect the bank's share of losses on the investments made therein, accumulated upto 31st March 2012 amounting to Rs 112.55 crores, and for the year ended on that date amounting to Rs 17.78 crores, and our opinion thereon is based solely on the report of the said other auditors.

We report that the consolidated financial statements have been prepared by The Federal Bank Limited's management in accordance with the requirements of Accounting Standard (AS) 21, "Consolidated Financial Statements" and Accounting Standard (AS) 23, "Accounting for Investments in Associates in Consolidated Financial Statements", prescribed by the Companies (Accounting Standards) Rules, 2006.

Without qualifying our opinion, we draw attention to Note No.3 of Schedule 19 to the consolidated financial statements, which describes deferment of pension liability of the bank to the extent of Rs.101.04 crore pursuant to the approval granted by the Reserve Bank of India to the Bank vide letter no.DBOD No.BP.BC.15896/21.04.018/2010-11 dated 08.04.2011, for availing the exemption from application of the provisions of Accounting Standard (AS) 15- Employee Benefits, as provided therein.

Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that the attached consolidated financial statements, give a true and fair view in conformity with the accounting principles generally accepted in India:

- a) in the case of the Consolidated Balance Sheet, of the state of affairs of the group as at 31st March 2012;
- b) in the case of the Consolidated Profit and Loss Account, of the profit of the group for the year then ended; and
- c) in the case of the Consolidated Cash Flow Statement, of the cash flows of the group for the year ended on that date.

As per our report of even date

For Varma & Varma  
FRN: 004532S  
Chartered Accountants

For Price Patt & Co.,  
FRN: 027835  
Chartered Accountants

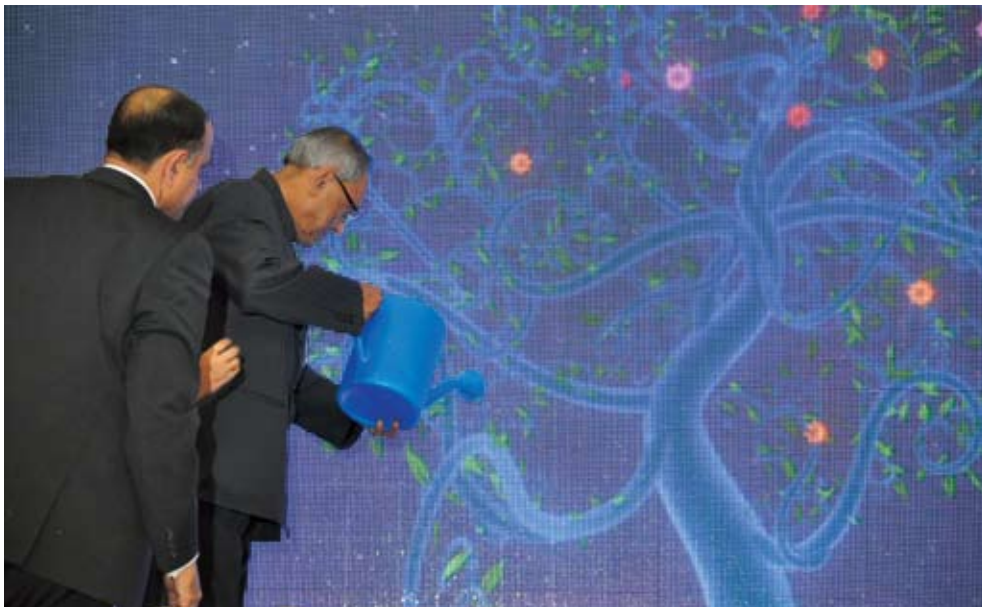
Kochi  
11-May-2012

R. Rajasekharan  
Partner, Membership No. 22703

S. Ramaswamy  
Partner, Membership No. 025918



Shri. Pranab Kumar Mukherjee, the then Hon'ble Union Minister of Finance flanked by Bank's Chairman Mr. P.C. Cyriac, Star Customer Shri. Kapil Dev and other directors as they posed for a photo session soon after the inauguration of 100 branches of the Bank by Shri. Mukherjee.



Shri. Pranab Kumar Mukherjee, the then Hon'ble Union Minister of Finance pouring water on the Federal Tree which was all set to blossom out with 100 flowers representing the 100 new branches.





Inauguration of Fedselect Priority lounge of Br. Irinjalakuda Nada by Cine Artist Shri. Innocent in the presence of Shri. Tomy John (AGM & Regional Head - Irinjalakuda), Shri. K.V. Ramanathan (writer and winner of “Samsthana Balasahithya Award”), Shri. Rajesh K.G. (Branch Manager) and others.



Federal Bank Mathrubhumi SEED 2012-13 is inaugurated by Shri. P.C. John, Executive Director by giving away saplings to students at the launch held at Federal Towers, Ernakulam on World Environment Day. Shri. P. V. Chandran (MD, Mathrubhumi), Shri. Sathyan Anthikkad (Film Director), Shri. Thampy Kurian (Addl GM, Agri & Financial Inclusion Dept) and Shri. Biju Menon (Film Actor) are also seen in the picture.



Exchange of signed agreement between our Bank and Amrita Institute of Medical Sciences, Kochi by Shri. T.S. Jagadeesan (Chief General Manager) and Dr. Prem Nair (Medical Director, AIMS) in the presence of Shri. Ajith Kumar K.K. (DGM, SME Business Dept.), Shri. T.P. Mathai (DGM and Regional Head) and others.



Our MD & CEO Shri. Shyam Srinivasan exchanges the MOU with Shri. N Sivasailam IAS, MD, Bangalore Metro Rail Corporation Ltd (BMRCL) enabling our Bank to act as BMRCL's Merchant Bank for Automatic Fare Collection (AFC) for the 13 stations in Northern REACH.



Our MD&CEO Shri.Shyam Srinivasan receives the **Golden Peacock Award for Corporate Social Responsibility – 2012** from His Excellency Mr Juma Al Majid, Chairman of Dubai Economic Council & Founder Chairman of Juma Al Majid Group, in the presence of Shri. Suresh Kumar (Director) and other dignitaries.



Inauguration of Br.Manarcadu by Shri.Oommen Chandy (Chief Minister of Kerala), in the presence of our MD & CEO Shri.Shyam Srinivasan, Shri.Simon James (AGM & Kottayam Regional Head), Shri.Thomas Joseph (Br. Manager) and others.



The launch of 100 new branches at Hotel ITC Maurya, New Delhi by the then **Hon'ble Union Minister of Finance Shri. Pranab kumar Mukherjee**. Shri. Kapil Dev, former Indian Cricket Captain triggered the launch of 100 new ATMs on the same occasion.



Our Bank got the Global CSR Award for “Best Corporate Social Responsibility Practice Overall”. The award is being received by Shri. Antu Joseph (Deputy General Manager) from Dr. M Veerappa Moily (Hon’ble Union Minister of Corporate Affairs), Government of India.



Shri. P.C. John (Executive Director) is seen exchanging the MOU for financing Tata’s commercial vehicle with Shri. Sanjay K Mishra (Regional Head, South, Tata Motors), in the presence of Shri. Ajith Kumar K.K. (DGM), Shri. Eqbal Manoj (CM) and Smt. Treasa Joseph, (SM, SMEBD).



October 18, 2012 was the 66th founder's day of the bank. To make the day memorable, 66 branches were opened in one go on that date. MD & CEO, Shri. Shyam Srinivasan is seen inaugurating the branches by lighting the lamp on the occasion. Shri. P. C. Cyriac (Chairman of the Board), Shri. P. C. John (Executive Director), Shri. Rajagopalan Nair (Addl. GM, Information Technology Dept) and Shri. T. Oommen Benjamin (Zonal Head, Ernakulam) are also seen.



Launch Of Three Varients Of Master Cards, 2 Debit Card And One Foreign Currency Travel Card- Mastero, Premium And Cash Passport Travel Card.



Shri. Antu Joseph (DGM, LCD) and Shri. V.K. Kukreja (ED, Finance and Accounts, LIC) are seen exchanging the MOU documents on e-Payment services for all Divisional Offices of LIC across the country, in the presence of Shri. Anil Kumar V.V. (AGM, Branch Mumbai Fort).



MD & CEO, Shri. Shyam Srinivasan, planting the one of the 66 saplings at Mookannoor, the hometown of Hormis Sir on October 18, 2012, the 66th founder's day of the bank in the presence of federals and natives of the town.



Shri.K.S. Mohan (GM, Operations) receives the award for the Best Bank in the category of “Innovative Cost Management Measures Implemented”, instituted by Kerala Management Association (KMA) from Mr. K.M. Chandrasekhar (Dy Chairman, Planning Commission and former Cabinet Secretary) in the presence of Shri. Surinder Kumar Laul (DGM).



Inauguration of Br. New Delhi/ Hauz Khas by Shri. Jaydeep Shah (President, ICAI) in the presence of Shri. Virender Aggarwal (National Organising Secretary, Akhil Bhartiya Agrawal Sammelan), Shri. Jose V Joseph (Zonal Head, New Delhi) Shri. P.K. Patney (Regional Head, New Delhi) and others.





MD & CEO addressing Management workshop conducted by Federal Bank.



Inauguration of contact centre for disabled by Dr.C.Rangarajan (Chairman of Economic Advisory Council to the Prime Minister of India).



Our MD & CEO Shri. Shyam Srinivasan presenting memento to Dr.C.Rangarajan on the occasion of the 12th Commemorative Lecture of Fedbank Hormis Memorial Foundation held at Cochin.



Dr. Subir Gokarn, Deputy Governor, RBI with our MD & CEO.



The distribution of smart cards under fedjyothi is inaugurated by Smt. K.K. Nafeesa (President, Kuttiyadi Grama Panchayat), in the presence of Shri. C.P. Mohandas (General Manager) Shri. P.K. Francis (AGM), Shri.Rajagopal T (SM, Br.Thottilpalam) and others.

**FEDERAL BANK**  
YOUR PERFECT BANKING PARTNER

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