Annual Report
2012-2013

FEDERAL BANK
YOUR PERFECT BANKING PARTNER

Safe Harbour

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

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The perfect partner walks alongside always; anticipates obstacles and clears the path with discretion and agility; encourages when the going is tough and responds with warmth; applauds & celebrates when goals are accomplished...

At Federal Bank, we aspire to be the 'Perfect Banking Partner' to our customers - NRI, Retail, SME, Agriculture, Large Corporate - for we believe that at the core of our work are the relationships we build with individuals, in whose smiles and achievements, lie the secret to our growth and success.

In the following vignettes, we bring to you, our esteemed shareholders, a glimpse into the partnerships we have built with our target customer segments.

PERFECT BANKING PARTNER

ABOUT THE BANK

What we are

The Federal Bank Limited (erstwhile Travancore Federal Bank Limited) was incorporated with an authorised capital of ₹5,000 at Nedumpuram near Tiruvalla in Central Travancore in1931 under the Travancore Companies Act. In 1947, the name of the Bank was changed to The Federal Bank Limited. Today, the Bank is listed on the Bombay, Cochin, National and London Stock Exchanges.

Vision

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

Our Mission

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

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

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

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

1,103
Branches
(March 31, 2013)

1,172
ATMs
(March 31, 2013)

10,059
Team
(March 31, 2013)

7,60,872
NRI customers
(March 31, 2013)

PERFORMANCE DASHBOARD

Volume growth

Retail Advances grew from ₹10,623 Cr to ₹13,328 Cr (up by 25.47%)

SME and Agri Advances grew from ₹10,472 Cr to ₹12,821 Cr (up by 22.44%)

NRI deposits grew from ₹11,184 Cr to ₹15,266 Cr (up by 36.50%)

CASA deposits grew from ₹13,402 Cr to ₹15,519 Cr (up by 15.80%)

Income growth

Total Income grew from ₹6,090.73 Cr to ₹6,832.01 Cr (up by 12.17%)

Profit after tax grew from ₹776.79 Cr to ₹838.17 Cr (up by 7.90%)

Consolidated Profit after tax grew from ₹753.73 Cr to ₹852.66 Cr (up by 13.12%)

Key ratios

Earnings per share - ₹49.00

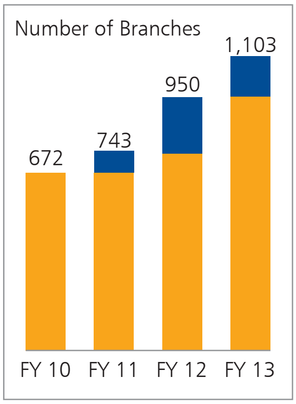
CRAR - 14.73%

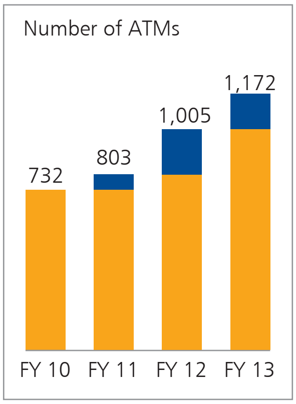
Return on Equity - 14.03%

Return on Assets - 1.35%

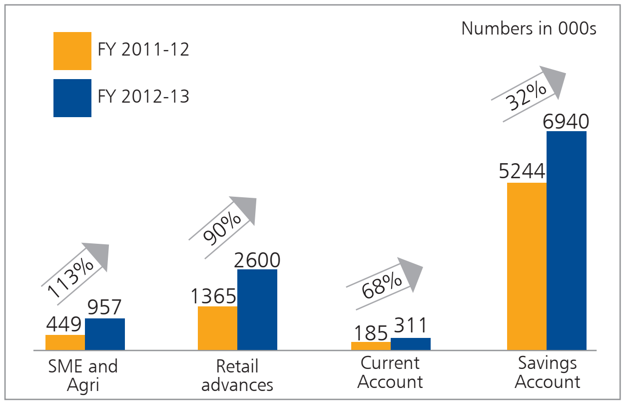
PERFORMANCE DASHBOARD

Increasing presence

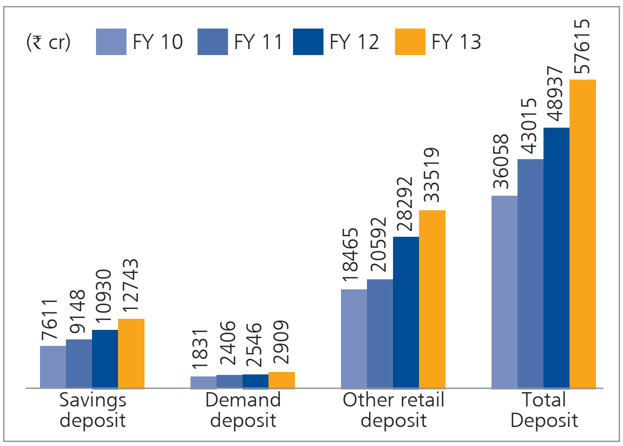




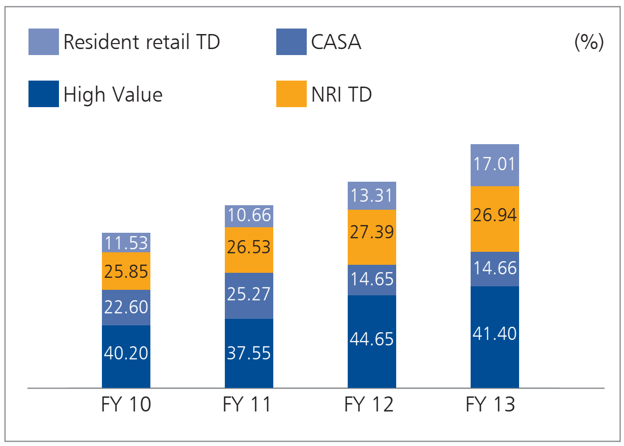
Increasing accounts



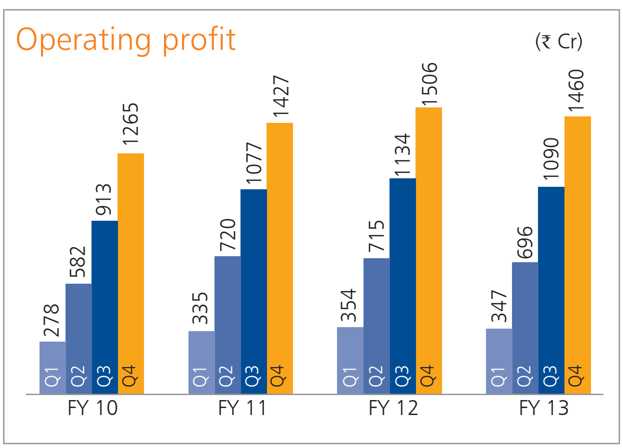
Robust growth in customer deposits

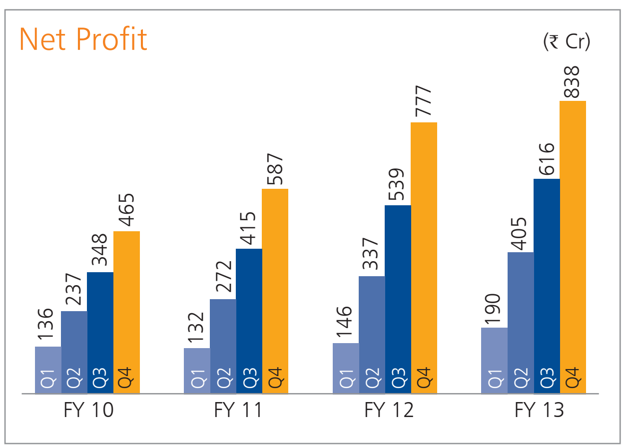


Improving deposit mix



Improving profitability





MESSAGE FROM THE CHAIRMAN

Dear Esteemed Shareholders,

I am privileged to address this message to all our stakeholders as the Chairman of The Federal Bank Limited from September 2012.

I have been on the Board of Directors for the last seven years; both as an enabler and as part of a fulfilling journey of the transformation process of your Bank.

The Annual Report for this fiscal 2012-13 therefore reflects both the resilience and positive performance of the Bank, despite the adverse global and domestic economic environment.

As you are aware, the year began with continuing crises in the Euro-zone as well as stresses in the Western banking system - that resulted in a contagion impact sweeping across the emerging economies, including India.

The U.S. economy started early in the fiscal to show signs of anemic recovery. Both the Federal Reserve and the U.S. authorities have therefore remained anxious to sustain the growth momentum through monetary stimulus -- such that other countries in Europe, Japan, China and elsewhere began to emulate with their own accommodative monetary stance.

India was naturally impacted by the headwinds drifting down from the developed economies. However, due to persistent domestic inflationary pressures, the monetary policy remained tight. During the year, manufacturing and other productive sectors declined - causing Gross Domestic Product (GDP) growth to dip in from 6.2% in 2011-12 to about 5%.

Despite this, during the fiscal, there was a good flow of NRI remittances and investments by Foreign Institutional Investors (FIIs) -- partly stemming from the falling Indian Rupee against major currencies.

The policy-makers made determined efforts, especially in the last few months of the fiscal, to create a more conducive business environment; focusing particularly on Foreign Direct Investments (FDIs).

All these policy measures augur well for 2013-14 and beyond.

Your Bank's performance

Despite the external challenges, your Bank improved its performance during the year in vigorous pursuit of its strategic business objectives.

The Bank invested in expanding its operating network; with the addition of 153 branches and 174 ATMs during the financial year to record 1103 branches and 1179 ATMS as at the 31st of March 2013.

Net profit increased by 7.9% and Earnings Per Share (EPS) improved from ₹45.41 to ₹49.00. Book value per share grew from ₹333.61 to ₹364.74.

I am happy to advise that the Board of Directors recommend a dividend for the year at the same level as in the previous year i.e. of ₹9.00 per share, on par.

Excellent relationships with our customers and stakeholders

During the fiscal, the Bank increased the number of customers that it serves effectively across its operating geographies.

Federal Bank has always reached out to the Non-Resident Indian (NRI) diaspora and established tremendous connectivity with its customers overseas. This year, as in the recent past, witnessed a step-up in terms of remittances and other business flows from NRIs.

I have personally had the opportunity to engage with several of these NRI clients; especially those in the GCC. It is therefore, a matter of pride for me to hear from them of their appreciation and acknowledgement of Federal Bank's outstanding service quality and empathetic sensitivities to their needs - both at home and abroad.

The Bank has also continued to customise its products and services; so as to deliver differentiated and innovative products.

I am encouraged by the Bank's careful build-up of businesses in the SME segments in their chosen clusters of branches in the Western and Northern India; while deepening its domestic franchise in Kerala and in South India.

Growth in Progress

Strategically, the Bank's governance quality and management bandwidth are also being enhanced to cope with the emerging rigours of the banking and financial sector.

The Bank remains steadfastly committed to build on its core values, instilled in us by the Bank's Founder - the late Shri K.P. Hormis, and deliver a consistently positive growth in value for all our stakeholders.

We are grateful to all the authorities and regulators for their support and guidance in our endeavours.

Over the years, your Bank has invested in its human resources and technology as well as strengthened its technical and professional teams - through both training & development as well as a careful nurturing of talent and experience across the Bank and its subsidiary.

In conclusion, may I acknowledge the excellent dedication and contribution of all of the Bank's staff members i.e. the Federal family.

Suresh Kumar
Chairman

MESSAGE FROM THE MANAGING DIRECTOR & CEO

Dear Shareholders,

I am happy to present to you our results for the financial year 2012-13. We delivered a satisfactory performance in very demanding circumstances. The year that went by was characterised by a sharp focus on strengthening our fundamentals and ensuring that we maintain a balanced approach to the conduct of business.

As you are aware, global economic challenges – the deceleration in global economic recovery, the continuing eurozone crisis and the fiscal cliff in the US – have had a direct bearing on the business environment in our country as well. India faced a slowdown in investments, high interest rates, high current account deficit and a decade-low GDP growth. While these affected the macro picture, there were some tangible opportunities which your Bank made a determined effort to capitalise on.

Some of the milestones we achieved during the year were noteworthy and more importantly, give us the platform to accelerate our growth in the coming years.

- We crossed the ₹100,000 Cr mark in total business, entering the league of larger banks in the country.
- Our network expanded by 16.11% to 1,103 branches, making us the fourth largest private sector Bank across our footprint and the largest in Kerala.
- Our focus businesses and segments grew encouragingly - Retail Advances (25.47%), SME advances (22.44%), Savings Balances (16.59%) - registering top quartile performances in the market. This was helped by heartening performances by our new branches that dot the country.
- Our Non Resident customers continued to provide us with their patronage, which helped us gain share in a crucial business segment which grew 36.51%
- Our two strategic investments - IDBI Federal Life Insurance Company Ltd and Fedbank Financial Services Ltd. - turned profitable this year.

However, the year was not without challenges. Some of our stressed advances did face the impact of a sluggish external environment, resulting in unfortunate increase in slippages. Our determined efforts to have strong credit underwriting for new advances and strengthened recovery practices helped stabilise our overall portfolio quality.

Third-party recognition and awards are always an inspiration to a team and we had our share of them in 2012-13. We were recognised for our high quality technology platform; for our commitment to service excellence and for sensitive engagement with-deep rooted social causes.

As I look ahead into FY 2013-14, I remain optimistic about the future, yet tempered with realism. I truly believe that our Bank is positioned to respond suitably to challenges and capitalise on emerging opportunities. The management team is acutely aware, as I mentioned last year, that we live in demanding times and to be an out-performer in this environment, we must possess a deep and abiding commitment to execution and excellence while never straying from our core values and objectives.

We are confident that by being the perfect banking partner to our customers, we will return to you with an inspired performance in this financial year.

Thanking you for your continuous support.

I remain 'Proud to be a Federal'.

Shyam Srinivasan
Managing Director and CEO

BOARD OF DIRECTORS

Seated from left to right: Shri K M Chandrasekhar | Shri Suresh Kumar, *Chairman* | Shri Shyam Srinivasan, *MD & CEO* | Prof. Abraham Koshy. Standing left to right: CA Nilesh Shivji Vikamsey | Shri Dilip Gena Sadarangani | Dr K Cherian Varghese | Shri Sudhir Moreshwar Joshi | Shri Abraham Chacko, *Executive Director* | Dr M Y Khan.

MANAGEMENT TEAM

Ashutosh Khajuria
President

Radhakrishnan Nair
Chief Human Resources Officer

Harikumar K S
General Manager

Varghese K I
General Manager

Mohanachandran K R
General Manager

Sampath D, *Additional General Manager*

Jose V Joseph, *Additional General Manager*

Nagarajan R, *Additional General Manager*

Surendran A, *Additional General Manager*

Madhavakumar V R, *Additional General Manager*

Pradosh Kumar Mohapatra, *Additional General Manager*

Thampy Kurian, *Additional General Manager*

BONDS OF TRUST

Meeting Non Resident Aspirations

WE BELIEVE THAT AT THE HEART OF OUR BUSINESS LIES THE CAPACITY TO BUILD ENDURING RELATIONSHIPS.

They are far away from the warmth of home and family, toiling over sands or seas or frozen lands. Every time they listen to a Mohammed Rafi or a Yesudas, their hearts ache to be homeward bound. Though they have made their fortunes away from their homeland, they have left their heart behind. We at Federal Bank relate to the pangs of longing that they endure. We cannot of course bring their homeland to them, but we can certainly bring the wealth of their toil to their loved ones and ensure that it remains safe and growing. The relationship is beyond that of a Banker and a customer. It is a bond of trust.

- Fun engagements for the NRI clientele like the 'TogetherVgather' reunion.
- Value added services like holiday planning, tax advisory, health care services and online religious offerings.
- Priority lounges at all major NRI centers – Fedselect Lounges
- One among the banks with the most number of inward remittance arrangements.
- Tech-enabled offerings which invariably reduce the distance between continents.

We believe that these small steps help the NRI customers stay connected real-time with their finances as well as their loved ones, while forging the Bank's relationship with them further.

NRI patrons at a 'togetherVgather' event.

FULFILLING THE PROMISE OF PROSPERITY

Nurturing SME Relationships

WE HAVE EXTENDED BEYOND THE USUAL, NOT AS AN EXCEPTION BUT AS A CONSISTENT RULE.

They started off with whim and courage for capital. They waded through the headwinds with the strength lent by the faith in their business ideas. The numerous obstacles could not bog them down, for they believed in themselves. Over the years, from modest outfits they grew bigger and better in volume and returns. They have created jobs that shelter families. They are the engine of the universe around them. We at Federal Bank realise what it takes to grow from small beginnings while remaining fiercely independent, because seven decades ago we were a fledgling too. We share their passion and believe in them.

- At Federal Bank the roles shift fluidly from banker to advisor to consultant.
- Tailor made SME products and services in a variety of fields including Education, Medicine, Agriculture, Allied Agriculture, Fisheries, and Engineering
- Supply Chain financing - from raw material procurement to receivables collection.
- Zealous participation and contribution in all initiatives organised by Government and non-Government bodies for SMEs.
- Specialised products for small businessmen, professionals and traders engaged in a variety of activities.

Your Bank is a strong believer in the power of entrepreneurial India and will continue to support the SME segment in its journey forward.

Inauguration of Federal Bank's 3rd Currency Chest at Mumbai by Shri. B B Mohanty (General Manager- Reserve Bank of India) in the presence of Shri Shyam Srinivasan, MD & CEO, Shri Abraham Chacko (Executive Director), Shri T S Jagadeesan (Rtd CGM), Shri K I Varghese (General Manager) and others.

SHARED DREAMS

Fulfilling Retail Dreams

WE STRIVE TO OFFER THE BEST DEAL, WITH QUALITY AND AGILITY, TO HELP REALIZE THE DREAMS OF A NATION.

They stand around the dining table – a small family of four. On the table is a plan for their new home. A dream built over years. A desire that lights up four pairs of eyes simultaneously. They have put their dream together lovingly, brick after brick. The plan for the realisation of their dream has been anxiously discussed and debated. We at Federal Bank so believe in that dream, that when they choose to light that lamp of their dream, ours will be the first pair of hands to protect the flame from the wind.

- Innovative delivery channels with convenient and personalised offerings
- Contemporary Customer Relationship Management tools and Analytics to predict customer preferences.
- Pre-approved loans to customers based on insights from transactional information
- Novel products - like Apna Gold 24X7 (Debit Card for Gold loan limits) and RD Extragain (A recurring deposit with added benefits).
- Priority Banking Services to ensure personalised service to HNIs
- Loyalty programs to users of debit cards and first-time customers.

Retail is a key segment which the Bank pursues and will continue to occupy an important role in the future growth of the Bank.

An interior view of branch St Marks Road, Bangalore.

REACHING BEYOND THE ORDINARY

Embracing Inclusion

FOR FEDERAL BANK 'FINANCIAL INCLUSION' IS NOT A REGULATORY COMPULSION BUT AN OPPORTUNITY TO PARTICIPATE IN BUILDING A BETTER ECO-SYSTEM FOR THE UNBANKED AND UNDER-BANKED REACHES OF THE COUNTRY

The best savings avenue for them comes in the shape of a round tin biscuit box; the contents of which are counted every day. Their children cannot go to school because the nearest one is 30 kms away. They borrow at huge interest rates to carry forth their vocations. They are the less privileged citizens of India's rural and suburban fringes. We at Federal Bank empathise with their aspirations for they are no different from ours. Theirs is a cause close to our heart. We entwine our activities with their needs to improve their environment and bring the light of finance to their doorstep.

- Financial literacy centers to create awareness.
- Equipped and prepared for the Direct Benefit Transfer of subsidies
- Micro insurance schemes for the less privileged.
- One of the first movers to enable Aadhaar linkage
- Micro credit to villagers and SHGs through Grama Jeevan Branches and Ultra Small Branches

Your Bank has been in the forefront of implementing initiatives involving financial inclusion. Going forward too, the Bank shall lead from the front in reaching out to the un-included.

Inauguration of 21 Financial Inclusion Grama Jeevan Branches in Tamil Nadu by Shri Dr. Ramasamy (Hon'ble Vice Chancellor of Tamil Nadu Agricultural University) in the presence of Shri. Manoharan M (DGM), Shri Srinivasan K (AGM) and others.

DIRECTORS' REPORT

Dear Shareholders,

Your Board of Directors has the immense pleasure of presenting the 82nd Annual Report of The Federal Bank Limited on its business and operations front along with the audited accounts for the year ended March 31, 2013.

FINANCIAL PARAMETERS	For the year ended	(₹ *In Crores*)
	31-03-2013	31-03-2012
Net Interest Income	1,974.66	1,953.40
Fee and Other Income	664.44	532.34
Net Revenue	2,639.10	2,485.74
Operating Expense	1,179.54	979.27
Operating Profit	1,459.56	1,506.47
Net Profit	838.17	776.79
Profit brought forward	296.68	25.78
Total Profit Available for appropriation	1,134.85	802.57
Appropriations:		
Transfer to Statutory Reserves	209.55	194.20
Transfer to Revenue Reserves	172.14	98.88
Transfer to Capital Reserves	22.95	5.40
Transfer to Special Reserves	33.70	28.50
Proposed Dividend	153.95	153.94
Provision for Dividend Tax	26.17	24.97
Balance Carried over to Balance Sheet	516.39	296.68
Financial Position (as on)		
Deposits	57,614.86	48,937.12
Advances	44,096.71	37,755.99
Total Business (Deposits + Advances)	101,711.57	86,693.11
Other Borrowings	5,186.99	4,241.03
Investments	21,154.59	17,402.49
Total Assets (Balance Sheet Size)	71,049.57	60,626.77
Equity Capital	171.06	171.05
Ratios		
Return on Total Assets (%)	1.35	1.41
Return on Equity (%)	14.03	14.37
Earnings Per Share (₹)	49.00	45.41
Book value per share (₹)	364.74	333.61
Operating cost to Income (%)	44.69	39.40
Capital Adequacy Ratio (%) Basel (I)	13.09	13.83
Capital Adequacy Ratio (%) Basel (II)	14.73	16.64

The financial year (FY12-13) was marked by macroeconomic and inflationary challenges. Regulatory tightening was also a distinctive feature of the year. Your Bank was able to deliver a consistent set of numbers amidst all these challenges, through systematic and calibrated process corrections, planned de-bulking of exposures and deposits and via focused attention on market demands.

In FY 12-13 the Bank continued its strategic drive in its traditional areas of strength viz. retail, NRI, SME, agriculture and gold loans through value-added offerings. Our retail portfolio grew by 19.09% annually, supported by a growth in retail deposits by 17.45% and retail advances by 25.47%. Priority sector advances of the Bank declined by ₹857.57 Cr in the last fiscal year and stood at ₹11794.97 Cr as on 31st March 2013. Advances to the agriculture sector were marked by an increase of 8.89% and reached ₹4702.80 Cr. The Bank exhibited robust performance in the gold loan business with an increase of 76.67% in the portfolio.

The Bank also continued the strategic expansion of its footprint by opening 153 branches during the financial year. The Bank's branch strength as on 31stMarch 2013 stood at 1,103. The financial year saw your Bank cross the 1,000 branch milestone. The Bank also added 174 ATMs during the financial year bringing the ATM strength to 1,172 as on 31 Mar 2013. Post 2012-13, the Bank intends to continue its strategy of enhancing its presence in its chosen geographies outside the State of Kerala, which include the States of Tamil Nadu, Karnataka, Punjab, Gujarat and Maharashtra. The Bank will choose to pursue growth in areas where it has accumulated considerable experience over the years viz. agriculture, SME and NRI businesses.

Net Profit

During the year ended March 31, 2013, your Bank registered a net profit of ₹838.17 Cr, an increase of 7.90% over the previous year.

As a result of a refinement in the asset quality, the Bank could rein in a total provisioning to ₹621.39 Cr. This was mainly aided by a reverse effect of ₹36.82 Cr of investment depreciation and a reduced loan loss provisioning of ₹189.28 Cr (with an overall provision coverage of 80.96%. taking into account all written off accounts). An amount of ₹355.59 Cr was earmarked for taxes and ₹113.34 Cr, for other purposes.

Return on Average Equity and Return on Average Total Assets stood at 14.03% and 1.35% respectively. Earnings per Share of the Bank, for the year FY 2012-13 stood at ₹49.00 as compared to the previous fiscal year figure of ₹45.41. Book value per share increased from ₹333.61 in the previous fiscal year to ₹364.74 in FY 12-13.

Operating Profit

In the financial year 2012-13, the Bank had continued its policy of reducing its reliance on bulk businesses, selecting advances through a tightly-sieved quality filter, increasing its footprint materially and augmenting its workforce to match the network growth. The Operating Profit of your Bank stood at 1,460 Cr.

The Net Interest Margin of the Bank for the year stood at 3.37%, despite the interest rate volatility. Net Interest Income of the Bank for the period increased from ₹1,953.40 Cr to reach ₹1,974.66 Cr.

The financial year ended March 2013, saw Total Non-interest Income of the Bank grew to ₹664.44 from ₹532.34 Cr in FY 11-12, clocking a growth of 24.81%.

Expenditure

The fiscal year ended 2013 witnessed an increase in the total expenses of the Bank which reached ₹5,372.45 Cr from ₹4,584.26 Cr with an increase of 17.19%. Interest expenses increased to ₹4,192.91 Cr in FY 12-13 from ₹3,604.99 Cr in FY 11-12.

Despite the strains on the macroeconomic level and increased costs, your Bank succeeded in reining in the cost of deposits to 7.58% compared to 7.41% of the previous year.

Average cost of all funds (deposits + borrowings + bonds) recorded a marginal increase and reached 7.67%. 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 the RBI contributed to an increase in the interest expenses on deposits. The interest expenses as percentage of the Total Income increased to 61.37% from 59.19% in FY 2012.

In the current fiscal, CASA increased from ₹13402 Crore to ₹15519 Crore. Average CASA grew by 23.49% from ₹11630 Crore to ₹14362 Crore. CASA to total deposits decreased marginally from 27.39% in FY 11-12 to 26.94% in FY 12-13, as term deposits grew at a faster pace. Operating Expenses of the Bank during the fiscal year grew from ₹979.27 Cr to ₹1,179.54 Cr. This has been caused by increase in human capital related expenses (wages, DA, contribution to the New Pension Scheme, retirement benefits of employees among others) and depreciation.

The expenses on account of the opening of 153 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 44.69% (39.40% in FY 2012) which was a reflection of the varied strategic initiatives viz. increasing our footprint in chosen geographies and increase in manpower. Income growth was muted due to the reorienting of our sourcing to quality and lower risk segments and the impact on revenue due to slippage of some vintage accounts.

Income

Despite the macroeconomic slowdown, inflationary issues and other uncertainties that plagued the financial year, your Bank could hold its own by maintaining and growing quality assets as well as by implementing a market-oriented pricing policy.

The Total Income of the Bank during the fiscal year 2013 recorded a 12.17% growth to reach ₹6,832.01 Cr from the previous fiscal year figure of ₹6090.73 Cr. The interest income component grew by 10.96% while other income grew by 24.81% y-o-y.

Income from advances increased by 10.64% to reach ₹4,635.66 Cr. At the same time, income from investments registered a reasonable growth to reach ₹1,464.60 Cr clocking at a rate of 11.31% annually.

The yield on advances stood at 12.28% and the yield on investments at 7.24%. The Net Interest Margin for the fiscal year is at 3.37% as against 3.79% of the last fiscal, owing primarily to the lower yield on advances.

Focused attention on streams of fee-based income and other income resulted in an increase of 24.81%. The total other income grew from ₹532.34 Cr in the previous fiscal to ₹664.44 Cr in the current fiscal.

Spread

During the fiscal year the Bank's spread on advances (gross) decreased to 4.70% from 5.17% and spread on investments (gross) stood at 0.67%. The spread (net of provisions) on advances decreased from last year's 4.50% to reach 4.20%.

Dividend

Continuing the Bank's policy of striking a fine balance between retained earnings and dividend, your Bank's Board has recommended a dividend of ₹9 per share on par with the dividend for the previous fiscal. Protecting the value for our shareholders' has always been a guiding philosophy of the Bank.

Investor Education and Protection Fund

As per the Companies Act 1956, dividend unclaimed for more than seven years from the date of issue is to be transferred to Investor Education and Protection Fund. On 28.09.2012, we transferred ₹31,73,731 to the Fund.

Growth in Business

Total business of your Bank reached ₹1,01,711.57 Cr as on 31st March 2013. The Bank crossed an important milestone of ₹1,00,000 Cr. Total deposits increased by 17.73% from ₹48,937.12 Cr in FY'12 to ₹57,614.86 Cr in FY'13. The total advances of your Bank increased by 16.79% from ₹37,755.99 Cr in FY' 12 to ₹44,096.71 Cr in FY'13.

NRE deposits clocked an increase of 65.21% to reach

₹13,156.98 Cr and retail deposits grew by 17.45% to touch ₹48,484.37 Cr. CASA deposits also displayed a growth of 15.80% to reach ₹15518.80 Cr.

The savings deposits of the Bank has touched ₹12,743 Cr, growing by 16.59% over that of the previous fiscal of ₹10,930 Cr.

The investment portfolio of the Bank burgeoned to ₹21,154.59 Cr in the current fiscal from ₹17,402.49 Cr in the previous fiscal, registering a growth of 21.56% compared to 19.71% in the previous fiscal year. The average investments on y-o-y registered a growth of 12.34% as compared to previous fiscal year growth of 44.31%.

Loan Asset Quality

In the fiscal 2012-13, your Bank consolidated its credit underwriting processes, which had been initiated in the previous fiscal by isolating the sourcing and sanctioning legs of the credit vertical. The credit monitoring cells, the Stressed Assets Management Cell and the National Credit Hub were strengthened with sufficient manpower and by making the processes leaner and more efficient. This could to a great extent ensure that fresh slippages can be reduced.

The Bank's Gross NPA and Net NPA stood at 3.44% and 0.98% respectively as at the end of March 2013. The total provisions held against non-performing advances, expressed as a percentage of Gross NPAs amounted to 80.96% (including technically written-off accounts) at the end of FY 2012-13.

The Bank managed its NPA portfolio prudently, by considering and exercising options such as SARFAESI Act, compromise settlements, Lok Adalats and DRT.

Provision Coverage

As on 31 March 2013, the Bank held a total provision of ₹1, 097.87 Cr. Provision coverage for NPAs as on 31 March 2013 stood at 70.65%. As per the RBI directive, banks should hold a minimum provision coverage of 70% including technically written-off accounts. As on 31 March 2013, the provision coverage ratio of the Bank, including technically written-off accounts is 80.96%.

Capital Adequacy

Historically, your Bank has been strong on capital adequacy. The CRAR of the Bank calculated in line with Basel II norms stood at 14.73% which is considerably higher than the 9% stipulated by the RBI. Of this, Tier-I CRAR is 14.09%.

Employee Productivity

Business per Employee of the Bank during the period has grown from ₹10.13 Cr in FY2011-12 to ₹10.75 Cr in and the profit per employee of the Bank stood at ₹8.91 lakh during the fiscal.

Share Value

Earnings per Share of your Bank increased from ₹45.41 to ₹49.00 registering a growth of 7.90%. Return on Equity during the year reached 14.03% in the fiscal year ended 31st March 2013.

Employee Stock Option Scheme (ESOS)

The Bank has instituted an Employee Stock Option Scheme to enable its employees including Wholetime 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 Wholetime Directors on 24th December 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 and 24,48,475 options during the year 2012-13. The options granted are non-transferable, with vesting period of one to four years, subject to standard vesting conditions, must be exercised within five years from the date of vesting. As on 31 March 2013, 11,631 options had been exercised and 54,46,279 options were in force.

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

Expansion of Network

Your Bank crossed the landmark of 1,000 branches in the current fiscal year to expand its footprint to 1,103 branches as on 31st March 2013. On 17.08.2012 (1st day of the Malayalam month of Chingam), Shri Vayalar Ravi, Honorable Union Minister for Overseas Affairs, inaugurated the 1,000th branch of your Bank commemorating the opening of the first Branch of Federal Bank some sixty seven years ago by our Founder Shri K P Hormis. The Bank was able to add 153 branches in the current fiscal year which included under-banked and un-banked centres as per RBI's guidelines. This resulted in a footprint expansion of 16.11% from the previous year's base. The Bank had opened a number of branches in the chosen five States of Tamil Nadu, 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 which has been circulated among the employees and also made available in the intranet and in the Bank's website.

Your Bank has always stood for the assistance and 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 disadvantaged students for pursuing professional education courses. The Trust also endeavours to impart better knowledge and awareness in the field of banking to the less privileged particularly in far flung rural areas, through training programmes, seminars, award ceremonies among others.

The Bank runs a customer contact centre manned almost entirely by differently-abled personnel. The Bank, through its CSR cell lends a helping hand by sponsoring ambulances, computers, dialysis machines, medical equipments, elevators, free midday meals, environmental and healthcare projects, and social cultural and educational programmes among others. The cell also engages in community outreach programmes related to health, family welfare, environment, education, providing potable water, sanitation and empowerment of women and other marginalised groups.

As part of its employee engagement initiatives your Bank has participated wholeheartedly in promoting Earth Hour prescriptions, paperless banking, blood donation, adoption of population control measures and scores of such initiatives amongst its employees.

The Bank, leveraging its technological advantages, has influenced the lives of the less privileged in a meaningful way. Such as fishermen, farmers, coolies, construction workers, rickshaw pullers and migrant labourers, by bringing them to the centre from the peripheries. In the last fiscal, the Bank carried forward the initiative christened 'Fedjyothi' through which the ICT (Information & Communication Technology) model accounts (which are operated using Biometric Smart Cards and Micro ATM) were delivered door-to-door to people in far flung and hard-to-reach areas, as a part of its financial inclusion programme. Long before the bill on Corporate Social Responsibility (CSR) was introduced, the Bank had started practicing CSR activities in line with the lofty ideals of its founder, Shri K P Hormis.

Awards and Accolades

- Your Bank received the NPCI award for being the highest contributor in number of IMPS (Immediate Payment Service) transactions, which is one of the clearest indicators of the technological preeminence of your Bank
- The Bank received the NPCI Award for Excellence in promotion of Inter Bank Payment Service.
- The Bank won the following IDRBT Banking Technology

Excellence Awards for the year 2011-12:

a) Best Bank Award among Small Banks for 'Mobile Banking and Electronic Payments'.

b) Best Bank Award among Small Banks for 'CRM and Business Intelligence Initiatives'.

IDRBT (Institute for Development and Research in Banking Technology) sets the benchmark and recognises technology implementation and absorption among banks aimed at improving customer service, customer convenience and overall productivity.

- National award of excellence 'Quality Brands India 2012-14'

  The Bank received the National award of excellence 'Quality Brands India 2012-14'. National award of excellence 'Quality Brands India 2012-14' was awarded to the Bank on 20th June 2012. This is a prestigious award instituted by Quality Brands India Private Limited, an independent appraiser organisation established in 2008 to identify, recognise and honour business enterprises that excel in performance, research, growth and brand building in India.

- Rashtriya Udyog Ratna Award

  The Bank bagged the Rashtriya Udyog Ratna Award on 20th June 2012. The National Education and Human Resource Development Organisation (NEHRDO) has recognised your Bank's outstanding contribution to the national economic growth by presenting this award. NEHRDO is an organisation established to ensure the economic and social well-being of the nation through the development of individuals and institutions.

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 recognising 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 towards ensuring transparency, accountability and equality of treatment amongst all the stakeholders in tune with statutory and regulatory requirements. A copy of the Code is available on our website.

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 nine Directors, as on 4th June 2013, with rich experience and specialised 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), who was the Wholetime Director of the Bank, retired on 30 April 2013.

Excluding the MD & CEO and the ED all other members of the Board are Non-Executive and Independent Directors.

Prof. Abraham Koshy and Dr. M.Y.Khan were re-elected/ appointed as Directors of the Bank at its last Annual General Meeting held on 2nd August 2012.

The other Directors who are retiring at this AGM are Shri Suresh Kumar and CA Nilesh S. Vikamsey. Shri Suresh Kumar and CA Nilesh S. Vikamsey both being eligible, have offered themselves for reappointment.

Shri Suresh Kumar holds a Bachelor's degree in Economics & Commerce (Hons.) from the University of Bombay. He started his career as a probationary officer in the State Bank of India (SBI). In 1979, he continued his banking career as a member of the Senior Management and Executive Committee (ExCo) of the Emirates Bank Group; following senior treasury and general management positions in Government of Dubai's projects. He is a fellow of the Indian Institute of Bankers and has also completed several Advanced Management

Programmes at London, Wharton and Columbia Schools of Business. He has been the Founder-President of the Indian Business & Professional Council, Dubai and an active member of the Regional Chief Executive Forum of the Institute of International Finance (IIF). He retired in April 2012 as a CEO in the Emirates NBD Group, Dubai, and as a member of the Board of its subsidiaries. Currently, Shri Suresh Kumar is also Chairman of Federal Bank Financial Services Ltd and a non-executive Director on the Boards of IDBI Life Insurance Co. Ltd and ICICI Prudential Asset Management Co. Ltd. He has been a recipient of several accolades and recognition and was awarded the 'Hind Rattan' (Jewel of India) on the 25th of January 2012. Shri Suresh Kumar holds 105,710 GDRs of The Federal Bank Limited

Shri Nilesh Shivji Vikamsey is a Chartered Accountant by profession, and holds a diploma in Information System Audit and was also associated with the Business Consultancy Studies course at the Bombay Chartered Accountants Society jointly with Jamnalal Bajaj Institute of Management Studies. He is the senior partner of Khimji Kunverji & Co, Chartered Accountants, a firm which has over 75 years of experience in the areas of auditing, taxation, corporate and personal advisory services, business and management consulting services, due diligence, valuations, inspections, and investigations. He is a member of the Central Council of the Institute of Chartered Accountants of India (ICAI). He has also acted as a Speaker/Chairman at various seminars, meetings, lectures held by various committees. He is a director in India Infoline Limited, India Infoline Investment Services Private Limited, Rodium Realty Limited, ICAI Accounting Research Foundation. Apart from being contributor to various articles, he has been managing audits/consultancy of large nationalised banks, foreign banks (Indian operations), large listed public and private limited companies.

CA Nilesh Shivji Vikamsey did not hold any shares of the Bank as on 31st March 2013.

Dr. T.C. Nair resigned from the Board of the Bank w.e.f 01.05.2013.

The Directors who were co-opted by the Board as additional directors are Dr. K. Cherian Varghese on 20.10.2012, Shri Sudhir M Joshi on 20.10.2012 , Shri K.M Chandrasekhar on 06.12.2012 and Shri Dilip Gena Sadarangani on 4.6.2013.

Dr. K. Cherian Varghese was co-opted to the Board as an Independent Director w.e.f 20.10.2012. He received his Ph.D (Commerce) in Business Policy and Administration from University of Mumbai. Presently, he is the chairman of Union KBC Trustee Company Private Ltd. He is also a member of Government of India's MOU Task Force for PSUs. He has 36 years of experience as banker. During this period, he was the Chairman & Managing Director / CEO of Union Bank of India, Corporation Bank, and South Indian Bank Ltd. He also served as Executive Director of Central Bank of India and General Manager of Indian Bank. He was also the Chairman of the Board for Industrial and Financial Reconstruction (BIFR) of Government of India and the President of Indian Institute of Banking and Finance. He is an Associate of the Chartered Institute of Bankers, London. He was included in the roll of honour of the top fifty, of those who passed the Associate Examination of the Chartered Institute of Bankers, London from all over the globe and was awarded a honorary fellowship by the Indian Institute of Banking and Finance.

Dr.K.Cherian Varghese did not hold any shares of the Bank as on 31st March 2013.

Shri Sudhir Moreshwar Joshi was co-opted to the Board as an Independent Director w.e.f 20.10.2012. He is a professional banker with vast experience in the banking industry. He holds a Bachelor of Science degree in Chemistry from University of Pune and is a Certified Associate of the Indian Institute of Bankers. He was the Head of Treasury at HDFC Bank. He is also on the Board of National Securities Clearing Corporation of India Ltd. and is a member of its Executive Committee and Audit and Risk Committee. Previously, he has held key positions with State Bank of India. Shri Joshi was also part of the Times Bank Core Management Team as Executive Vice President (Treasury).

Shri Sudhir M Joshi did not hold any shares of the Bank as on 31st March 2013.

Shri K.M.Chandrasekhar was co-opted as an Independent Director of our Board on 06.12.2012. He is the Vice Chairman of Kerala State Planning Board. He entered the Indian

Administrative Service in 1970. Prior to that, he did his B.A (Honours) in Economics and M.A. in History from St. Stephen's College, University of Delhi. After entering Government Service, he got the degree of M.A. in Management Studies from the University of Leeds in United Kingdom. He spent the first 25 years of his career in Kerala, holding positions as Managing Director of the State Civil Supplies Corporation, District Collector, Idukki, Director of Fisheries, Principal Secretary (Industries) and Principal Secretary (Finance). In 1996, he left Kerala on Central Government deputation and rose to the highest position that any Indian civil servant can occupy that of Union Cabinet Secretary. As Cabinet Secretary, he was the Head of all the Civil Services in India and reported directly to the Prime Minister of India. He retained that position for a full four years, a tenure that has not been matched by any other officer during the last 40 years. He retired from Government Service in 2011 at the age of 63, having served Government for 41 years. He also served as Joint Secretary in the Key Trade Policy Division of the Ministry of Commerce, Union Revenue Secretary, Deputy Chief of Mission in the Embassy of India, Brussels and the Ambassador and Permanent Representative of India in the World Trade Organisation in Geneva. It was he who introduced for the first time, the Performance Management and Evaluation System in the offices of Government of India. He has considerable management experience having been associated – as Chairman, Managing Director or Member of the Board of Directors – with more than 40 companies in the public, joint and private sector. He has written several articles and presented papers. He has also been consultant to the Commonwealth Secretariat and to the UN Food and Agriculture Organisation.

Shri K.M.Chandrasekhar did not hold any shares of the Bank as on 31st March 2013.

Shri Dilip G Sadarangani was co-opted as an Independent Director on 4.6.2013. He has wide experience in the realm of banking/technology/operations, and includes management, maintenance and support of IT software projects as well as IT operations. He has developed and put in place processes and IT policies and continuity plans in three leading Banks in India, Australia and Kuwait

Shri Dilip G Sadarangani holds a Bachelor of Science (Hons) degree from University of Bombay. He also holds a post graduate diploma in Computer Management from Jamnalal Bajaj Institute of Management, University of Bombay. He has developed business-technology strategies for ANZ Grindlays Bank, Standard Chartered Bank (SCB), India, Gulf Bank, Kuwait and Man Power, Asia Pacific. He was a key member of the Global Leadership team in ANZ Bank (Australia), Standard Chartered Bank (India & Global), and Gulf Bank (Kuwait) and Manpower Inc (Asia Pacific & Global) He was also a core member of the team which automated the first 50 branches of one of the largest financial institutions in the world –State Bank of India and led the replacement of disparate legacy systems with modern banking systems in ANZ Bank across Pacific Island nations, South Asia and Middle East. He drove the off-shoring of large volume of IT acitivities in ANZ and Standard Chartered Banks to India and Malayasia.

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 12-13 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 2013, its Profit and Loss account, and the Statutory Auditors' report and statements required under the Section, are attached.

Statutory Audit

M/s. Deloitte Haskins & Sells,Chartered Accountants, Chennai, and M/s. M P Chitale & Co., Chartered Accountants, Mumbai, 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.

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 Aegeas), 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 4th Floor, 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 mentioned 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 cooperation. The Directors wish to express their gratitude to Investment Banks, rating agencies and stock exchanges for their wholehearted 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.

For and on behalf of the Board of Directors

Suresh Kumar

Chairman of the Board

Aluva

Date: 4th June 2013

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 (in ₹)		Experience (In years)	Date of commencement of employment	Last employment
		Gross @	Net #			
Shri. Shyam Srinivasan @ B.E., P.G.D.M. (IIM, Kolkata) 51 years	Managing Director & CEO	105,57,556*	74,62,556	27 years	23rd September 2010	Head (Consumer Banking- India), Standard Chartered Bank
Shri. Abraham Chacko@ Post graduate diploma in Business Management (XLRI, Jamshedpur) Bachelors in Commerce (Honours) 60 years	Executive Director	83,01,127	59,15,127	34 years	21st May 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 53 YEARS	President (Treasury)	72,28,086	51,53,086	29 years	16th June 2011	CGM &Head of Treasury, IDBI BANK LIMITED

Net of Taxes Paid

@In addition to the above 1,28,275 stock options were granted to Shri. Shyam Srinivasan, MD & CEO, 65,000 stock options were granted to Shri. Abraham Chacko, Executive Director and 40,000 stock options were granted to Shri. Ashutosh Khajuria, President (Treasury) @ market rates relevant on the date of grant.

* Includes the bonus/ex-gratia for FY 2010-11 and FY 2011-12 (₹10.08 lakh and ₹17.50 lakh respectively) payment made after receiving RBI approval in FY 2012-13.

Annexure - II

Sl. no.	Particulars	ESOP 2010 Granted On 09th April 2011	ESOP 2010 Granted On 02nd June 2011	ESOP 2010 Granted On 16th June 2011	ESOP 2010 Granted On 05th Nov 2012
1.	No. of options granted	33,12,020	1,00,000	60,000	24,48,475
2.	No. of options issued	Nil	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	13,92,001	50,000	30,000	Nil
5.	No. of options exercised	11,631	Nil	Nil	Nil
6.	No. of shares arising as a result of exercise of options	11,631	Nil	Nil	Nil
7.	Options lapsed	462,585	Nil	Nil	Nil
8.	Variation in terms of options	Nil	Nil	Nil	Nil
9.	Money realised by exercise of options	48,92,580.15	Nil	Nil	Nil
10.	Total number of options in force	28,37,804	1,00,000	60,000	24,48,475*
11.	Employee-wise details of options granted to				
	a) Senior Managerial Personnel i.e MD & CEO	5,13,100	-	-	1,28,275
	ED I ED II	10,125 -	- 1,00,000	- -	15,000 65,000
	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	Nil
	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	Nil
12.	Diluted Earnings Per Share (EPS) of the Bank after considering the effect of potential Equity Shares on account of exercise of options	₹49.00 per share			

Sl. no.	Particulars	ESOP 2010 Granted On 09th April 2011	ESOP 2010 Granted On 02nd June 2011	ESOP 2010 Granted On 16th June 2011	ESOP 2010 Granted On 05th Nov 2012
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 ₹1,272.91lacs for FY 2012-13 Basic EPS – ₹48.25 per share Diluted EPS – ₹48.09 per share			
14	Weighted average exercise prices of options whose:				
	i. whose exercise price equal to the market price	₹447.03			
	ii. Exercise price is greater than the market price	Nil			
	iii. Exercise price is greater than the market price	Nil			
	Weighted average fair value of options				
	i. whose exercise price equal to the market price	₹109.79			
	ii. Exercise price is greater than the market price	Nil			
	iii. Exercise price is greater than the 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%	8.00%
	ii. Expected life	3 years to 4.5 years	3 years to 4 years	3 years to 4.5 years	3 years to 4.5 years
	iii. Expected volatility	20%	20%	20%	20%
	iv. Expected dividends	1.50%	1.50%	1.50%	1.50%
	v. The price of the underlying share in market at the time of grant of option (in ₹)	423.45	449.70	454.65	474.00

* Includes ESOS shares granted to MD and two EDs

MANAGEMENT DISCUSSION AND ANALYSIS

Global Scenario

In the fiscal year 2012-13, the world economy remained under stress as in the immediately preceding years. With fiscal cliffs hovering over America and a meltdown in Europe, the year 2013 started off uncertainly. Developed economies (more so in Europe) faced recession as a fallout of the mounting public debt and inherent financial weaknesses. The growth of the American economy may continue to remain low on account of concerns over fiscal tightening. Among emerging markets, the Chinese economy continued to grow at a modest rate of 7.8% in 2013 as against its aggressive show of 9.3% in the year 2012. While the policy environment in the developed economies was tailor-made to prevent any sudden crises, uncertainty around the revival in global growth remained a concern throughout the year. The central banks of the developed world pursued a policy of maintaining low interest rates in the FY 2012-13.

The continuance of the eurozone sovereign debt crisis and the uncertainty over the US fiscal cliff proved to be major hindrances to global growth and financial stability. While Europe continues with its efforts to contain the crisis, emerging economies face the threat of spillovers in the face of global trade and volatile capital flows.

Indian Economic Scenario

The Indian economy registered moderate recovery in the fiscal 2013, tracking the global economic conditions and fortunes of the developed and emerging economies. In the first nine months of the fiscal 2013, India's gross domestic product (GDP) grew by 5.0%, as against the growth of 6.6% in the corresponding period of fiscal 2012. The service sector, industrial sector and agriculture sector demonstrated growth rates of 6.7%, 3.2% and 4.0% during the initial 9 months of the financial year 2013 as against 8.5%, 4.0% and 4.3% respectively for the same period of the fiscal 2012.

The primary reason for the stymied growth can be attributed to the weak industrial performance clocking 3.2% in 2012-13. Similarly, agricultural growth also suffered on account of a weak monsoon. The second half of the financial year was adversely impacted by fiscal consolidation which resulted in the shrinking of government expenditure, resulting in further slowdown, especially in the service sector.

Headline inflation moderated to 7.4% in 2012-13 after registering 9.6% in 2010-11 and 9.0% in 2011-12. The monetary measures pursued by the RBI, the recent softening of global commodity prices and a relatively stable rupee saw core inflation decline continuously.

The Banking Scenario

Throughout the past couple of years, the Indian banking sector has demonstrated a high level of resilience in the face of high domestic inflation, rupee depreciation and fiscal uncertainty in the US and Europe.

The slowdown of the economy led to subdued demand and hampered the credit growth of the banking sector. Another fallout of the slowdown was the deterioration of the existing stock of credit on banks' books. Credit growth suffered in most major sub-sectors, with the exception of some - viz. cement, textiles, food processing among others.

On the deposits front also, the banking industry put forth a modest growth of 13.5%. With the economy poised for better growth in the coming fiscal and with the inflation declining, the deposit growth is expected to show a better performance in the coming fiscal.

Capital adequacy, asset quality, financial inclusion and talent acquisition and efficient management are some of the key challenges for the Indian banking industry, which has a total of 87 banks (26 public sector banks, 20 private banks and 41 foreign banks).

The RBI's mandate to license new private sector banks may have a considerable impact on the status quo of the industry and define new lines of activity in the sector. Capital adequacy will be a challenge for the commercial banks in India, as they look towards achieving further growth as well as complying with Basel III guidelines.

Review of Business Performance

The FY 2012-13 was a point of inflection in the journey of the Bank. Your Bank crossed an important landmark figure of ₹1,00,000 Cr in total business. Several of the Bank's processes that were watched keenly over the past two years stabilised in the FY 2012-13 viz. the risk independence strategy – which separated sourcing and sanctioning (was streamlined through manpower strengthening), centralisation of account opening through document management system, the creation of a new organisational blueprint via the introduction of the zone and region concept, clearly defining service quality parameters, establishment of separate compliance wing to ensure strict statutory adherence among others. The Balance Sheet of the Bank grew to ₹71,049.57 Cr, keeping pace with the volume growth in the Bank

The Bank's networth stood at ₹6,239.27Cr as on 31.03.2013 indicating the financial strength of your Bank. The Capital Adequacy Ratio (CRAR) of the Bank, computed as per Basel II guidelines, stood at a robust level of 14.73% as on 31.3.2013. The Tier-I (core CRAR) capital was 14.09%.

In FY 2013, the Bank posted net profit of ₹838.17 Cr registering a growth of 7.90%. Despite the challenging economic scenario, the Bank could restrain the gross NPA ratio at 3.44% and net NPA at 0.98%.

The advances portfolio of the Bank grew by 16.79% to reach ₹44,096.71 Cr and the deposit portfolio grew by 17.73% to reach ₹57,614.86 Cr. Advances and deposit portfolio of the Bank grew in tandem with the industry.

The total income posted a growth of 12.17% and amounted to ₹6,832.01 Cr. Tracking the industry, the net profit of the Bank grew by 7.90% to touch ₹838.17 Cr as on 31st March 2013. Return on average assets of the Bank stood at 1.35%. Earnings per share improved to reach ₹49.00 from ₹45.41 from the previous fiscal.

The business per employee of the Bank as on March 31, 2013 increased to ₹10.75 Cr from ₹10.13 Cr at the end of the previous financial year. The profit per employee for the year 2012-13 stood at ₹8.91 Lakh. The cost to income ratio increased to 44.69% as on 31 Mar 2013 as against 39.40% as on 31 Mar 2012. The Bank had invested substantially in expanding its geographical foot print by opening a record number of 153 branches and recruited 1,843 employees during the year, resulting in an increase in the cost to income ratio. New business to be generated through this expanded infrastructure may produce improvement in this ratio in the coming years.

The SME advances of the Bank constituted 28.37% of the gross advances while retail credit contributed 29.49%. The Bank's priority sector advances stood at ₹11,794.97 Cr, of which lending to the agricultural sector stood at ₹4,702.80 Cr

NRI Business

During fiscal 2013, the NRI deposits of your Bank registered a growth of 36.51% reaching a level of ₹15,267 Cr from the base of ₹11,184 Cr The NRE deposit portfolio grew by 65%. The Bank has appointed business development managers in all the zones across the country as part of its strategy to have a focus beyond Kerala. Arrangements with Mastercard to offer Business class lounge facilities to HNI customers at seven airports in India are in place. The representative office at Abu Dhabi acts as your Bank's gateway to GCC countries, offering service and support to NRI customers in that region. Value-added services were launched by the Bank enabling NRI patrons to avail a bouquet of services tailor-made for them like holiday planner, tax advisory services, healthcare services and online religious offerings. Crorepathi and multi Millionaire FSFs, recurring deposit products launched by your Bank, were well accepted by our NRI patrons.

International Banking and Cross Border Remittances

Your Bank entered into a Rupee Drawing Arrangement with 11 more entities during the fiscal. Presently, the Bank has remittance tie-ups with seven banks and 64 exchange houses. It would be interesting to note that the total number of exchange houses in the Gulf Co-operation Council (GCC), Hong Kong and Singapore are only about 100. In addition to this, the Bank has remittance tie ups with Western Union, Xpress Money, VISA money transfer, Remit2India, Transfast, Moneygram as well as cash payout arrangements with SAMBA Bank and Arab National Bank (Fed-e Cash) under MTSS.

The Bank handled 46,67,779 inward rupee remittances during the year with an inflow of ₹26,755 Cr.

The Bank has a cutting-edge remittance engine, 'FedFast Plus', through which money can be remitted to the beneficiaries' accounts with Federal Bank in seconds and with other banks in India at hourly intervals as per the NEFT clearance schedule.

On 28th February, 2013, RBI amended the guidelines and permitted RDA (Rupee Drawing Arrangement) from 34 FATF (Financial Action Task Force) compliant countries. This relaxation will complement our plans to extend rupee drawing arrangements to US, UK, Australia, Canada and other non GCC countries.

Foreign Exchange Business

Your Bank undertakes all types of foreign exchange business. As on 31st March 2013, the Bank had two 'A' Category branches and seventy five (75) 'B' Category branches for handling foreign exchange business. SWIFT connectivity has been extended to 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 and post-shipment activities of the exporters. Credit facilities are extended for export of cashew, sea foods, garments, minerals, coir, spices, other food products, leather, rubber, pharmaceutical products, gems and jewellery among others.

Credit facilities are extended for import goods including chemicals, timbers, raw cashew nuts, paper and electronic items. Your Bank arranges Buyer's Credit from overseas banks for import customers at competitive rates.

The Bank conducted regular one-on-one meetings with exporters/importers to assess the financial position of the units, support additional credit requirements and to strengthen the relationship. Updates on forex market movements are sent to clients on a regular basis.

The Bank has been giving much thrust to the development of forex business and is continuously endeavouring to improve the operating skills of the personnel through meetings, interactions and training programmes. This enabled the designated branches to improve their operating efficiency substantially. The Bank is also in the process of centralising its forex functions to the Head Office in a calibrated manner to extend timely and efficient service to forex clients and improve effectiveness of the designated branches. Issuance of Import LCs and the realisation of import bills under LC have already been centralised. The Bank periodically updates and codifies the RBI/FEDAI instructions applicable for forex business, in the form of comprehensive guidelines for the benefit of the customers and operating staff.

Micro, Small & Medium Enterprises

Your Bank has been giving special attention to SME finance since its inception. The popularity that the Bank enjoys among this sector was built on a philosophy of trust and confidence reposed in industrialists, traders, businessmen and agriculturists.

The SME portfolio continues to be the catalyst for financial growth of the Bank over the years. During the past financial year, SME advances increased to ₹12,821 Cr from ₹10,472 Cr and current account deposits increased to ₹2,776 Cr from ₹2,472 Cr.

The following innovative products/services were introduced in the financial year for SMEs

- SME Asset Power Scheme – Business loan for professionals to facilitate setting up offices / clinics etc.
- Fed + Amrita, Health Portal for Amrita Institute of Medical Sciences enabling card holders and our customers to make online booking for various services / payment of in-patient bills among others.
- Virtual Accounting System to enable businesses to segregate transactions with each of their customer/ supplier introduced.
- Bulk note acceptors installed at select branches.
- Customised loan products for gold manufacturing units launched
- Online religious offerings portal launched in our website – Sree Padmanabha Swamy Temple is one of the contracted institutions.
- Supply chain finance /channel financing as a niche area for quality volume growth - the concept is being popularised. Software enabling easy operations is installed.
- Provision for online MSME loan application introduced

Retail Business

During the financial year, resident savings bank balances registered an above-industry growth of 16.27% to reach a figure of ₹7,281 Cr. The Bank also registered a growth in the total resident retail deposits to reach a figure of ₹30,385 Cr.

As part of extending personalised and customised services to high networth customers, the Bank has been providing priority banking services across various branches. The special service christened 'FedSelect' has been spread to over 130 branches by 31st of March 2013. The business in this portfolio has increased by 169%. Under this service, customers experience a whole new world of banking through dedicated customer relations personnel and special banking lounges. The Bank also offers home banking services under this facility. The Bank opened an exclusive priority branch at Tiruvalla/Muthoor to cater to the HNI clients. This branch provides state-of-the-art facilities, exclusivity and beyond banking experience for our high networth clients. Our Bangalore St Marks Road branch was re-dedicated with special focus on FedSelect clients with a top-class lounge and relationship support. The Bank is successfully running various loyalty programmes enhancing customer value and loyalty. The Bank has been able to successfully offer its fee collection solution, EFEE, and thereby earn support and goodwill of a large number of educational institutions.

During the year ended March 31, 2013, your Bank had reached a total life insurance premium collection figure of ₹103 Cr for its joint venture life insurance company, IDBI Federal Life Insurance Co. Ltd. During the financial year, as a para banking service, your Bank actively participated in the sale of Federal Pure Gold through select branches. The Bank also offers depository services and e-trade facilities for investors. The Bank has entered into a tie up with Bajaj Allianz General Insurance Company for distribution of general insurance products across its branches.

The retail loan book of the Bank reached ₹13,328 Cr forming 29.49% of the total advances of the Bank. Housing loans continued to be the major contributor in retail advances constituting 40% of the total retail loans. The housing loan portfolio increased to ₹5,353 Cr even after your Bank had put in place a slew of quality control measures for such loans, consciously aiming at weeding out lower quality accounts. Auto loans closed at ₹441 Cr and gold loans (excluding agricultural gold loans) grew by 75% to reach ₹4,263 Cr, even in the backdrop of intense competition from private players/NBFCs. The Bank also introduced an innovative product, Apna Gold 24*7, which earned the attention of the market and the product won two international awards for innovation in concept and technology. During the year the Bank also introduced housewarming loans – a first-of-its-kind in the country. A twin product, RD Extra Gain that encourages savings habits and also takes care of the loan requirements was introduced. The Bank continues to place a lot of importance to asset quality and this has resulted in retail NPA going down considerably during the fiscal. During the year the Bank came up with a dedicated Credit Hub, National Auto Hub, to process and sanction auto loans in the state of Kerala to ensure excellent delivery time and the services of such hubs are proposed to be extended on pan-India basis. The Bank also set up a separate sales vertical during the year to consolidate, accelerate and take forward the sales activities of your Bank under a single umbrella.

Agriculture

Recognising the importance of the agricultural sector in the development of the nation, your Bank has created an elaborate institutional framework to meet the credit requirements of the sector. Agricultural lending forms an integral part of the priority sector lending of the Bank.

The Bank's agricultural credit portfolio registered a growth of 9% and stood at ₹4,702.80 Cr as on 31st March 2013, which is 12.12% of Adjusted Net Bank Credit (ANBC); as against the benchmark of 18% stipulated by the RBI.

One of the reasons for the shortfall is that several accounts were reclassified from the existing Agricultural Credit portfolio to other segments like Small and Medium Enterprises and Corporate Advances. On account of revised guidelines announced by RBI on Priority Sector Lending, sectors like food and agro processing, financing the farmers indirectly through the co-operative system, finance to co-operative societies in excess of ₹5 Cr among others were excluded, from being reckoned as agriculture advances.

To give special focus to agricultural lending, the Bank is concentrating on credit dispensation in sectors like plantation, horticulture, land development, irrigation, farm mechanisation, construction of rural godowns, cold storages and poly house/ greenhouse, precision farming, floriculture, animal husbandry, poultry, fishery among others. This service is extended through rural, semi-urban and urban branches of the Bank.

To give a boost to the agricultural credit portfolio and to achieve the benchmark stipulated by the RBI under agricultural lending , the Bank has aggressive plans to expand its footprint outside the State of Kerala especially in Punjab, Gujarat, Maharashtra, Karnataka and Tamil Nadu, where the Bank intends to increase its branch network. Technically qualified personnel are also posted in such centres where there is good scope for agricultural lending.

Financial Inclusion

Your Bank, as part of its mission to reach out to those who are deprived of banking in the under banked/ unbanked villages has successfully implemented biometric smart card and Micro ATM based FEDJYOTHI project in Kerala, Maharashtra, Chattisgarh and Tamil Nadu and delivered the banking services through Business Correspondents.

Financial Literacy Centres

The Bank has setup 19 Federal Ashwas Financial Literacy centres in Kerala with an aim to educate the public in rural/ semi-urban and urban areas to promote financial literacy, intelligent borrowing and to save the small customers from debt trap by offering preventive and curative credit counselling.

Micro insurance

The Bank has launched the micro insurance scheme 'Federal Suraksha' exclusively for the under-privileged sections of the society. This scheme provides insurance cover against accidental death and fire and burglary of household items; the premium amount payable is as low as ₹17 per year for a cover of ₹50,000.

Achievement of 'Meaningful Financial Inclusion' of Households in Ernakulam District

Ernakulam district got the rare distinction of being declared the first district in India to have achieved meaningful financial inclusion of households on November 22, 2012. Your Bank was in the forefront of this mission and played a key role in achieving meaningful financial inclusion in Ernakulam district. Officers of the Bank visited all the financially excluded households in the service area wards, ensured account opening for at least one member of every household, extended micro insurance and also micro credit facilities to the financially excluded population.

Aadhaar

The Bank launched a facility for customers to link their account number to Aadhaar, open accounts with the Aadhaar letter/card as the proof of identity and address and also launched the NPCI~UIDAI Aadhaar Payment Bridge platform for receiving cooking gas subsidies and similar Goverment benefits such as scholarships, old age pensions, among others to the Aadhaar linked accounts.

Direct Benefit Transfers

The Bank has played a key role in the first phase of the ambitious Direct Benefit Transfer programme (DBT) launched by the Government of India in 43 districts in India by conducting surveys, household visits, opening accounts, ensuring at least one account for all financially excluded households and linking of accounts to Aadhaar in the service area wards of our branches in these districts. This will ensure flow of subsidies and government benefits to the intended beneficiaries; which is the objective of the DBT programme.

Urban Financial Inclusion

The Bank is also into urban financial inclusion, by bringing groups like construction workers, street vendors, rickshaw pullers and migrant labour in urban/semi-urban areas in to the fold of formal banking . The Bank offers doorstep banking services to such customers through Immediate Payment Systems (Mobile) platform and its branches.

Grama Jeevan branches

Your Bank has opened 31 exclusive financial Inclusion 'Grama Jeevan' branches in Kerala, Tamil Nadu, Karnataka and Maharashtra. These branches are involved in augmenting rural income and improving livelihood by providing micro credit to the villagers to engage in agricultural and other similar activities,. The Bank also encourages the activities of self-help groups and farmers clubs.

Ultra Small branches

Federal Bank has launched four low-cost intermediary ultra small branches in un-banked villages in Kerala which will act as customer service points for the business correspondents appointed in these areas. Through these branches, your Bank will be able to reach out to the villagers and offer a bouquet of banking services suitable to them.

Corporate Advances

As on 31.3.2013 large corporate advances constituted about 42.14% of the total advances portfolio. The business from this segment registered a moderate growth of 11.30% in the financial year ended March 31, 2013. The Bank provides comprehensive financial and risk management solutions to clients generally with a turnover of more than ₹500 Cr or with credit requirement of ₹25 Cr and above.

In the changing economic scenario, corporate portfolio requires diversified and specialised products and services from banks. To compete with major players, several structural developments have been brought about in the Large Corporate Department.

A specialised dedicated relationship team has been appointed to offer financial solutions to various categories including large, mid and emerging Indian corporate groups, public sector enterprises, Government bodies, multinational companies and financial institutions.

Specialised solutions are being offered to clients after determining specific needs and their credit risk profile within our broad parameters and policies. Prospective clients are being selected after in-depth analyses. The Bank offers an array of banking products and services covering working capital, term finance, trade finance, specialised corporate finance products, structured financial services, foreign exchange, syndication services and electronic banking requirements of corporate clients.

Specialised debt syndication desk has been started to work with corporate/ SME clients to structure their credit portfolio to aid them in raising funds.

The Bank has been taking active steps in improving efficiency in relationship management with corporates. Customer Relationship Management (CRM) software has been implemented in the Bank across all major corporate branches. It has created cross selling opportunities for the Bank within the existing and prospective customer base.

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 stipulated a clear threshold exposure criteria which determines the credit rating and guides taking large and new exposures. Prudential ceilings are prescribed for exposure in long-term assets, unsecured advances among others. Apart from subjecting each credit exposure to robust risk analysis at several levels it is also vetted by a Credit Risk Vetting Committee which consists of senior executives.

Integrated Treasury Operations

Your 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, Interbank and Merchant Trading, Currency Futures, Money Market, Government Securities, Bonds and Debentures, Certificates of Deposit, Commercial Paper, Interest Rate Swaps and Equity in Bank's dealing room in Mumbai.

The Bank has commenced trading actively in Currency Futures in all approved exchanges. Our capabilities in this area have been augmented at the trading desk level so as to encash all trading opportunities. The Bank has revamped the Interest Rate Swaps (IRS) desk which undertakes activities of trading in IRS for proprietary as well as balance sheet hedging purposes. During the fiscal 2013, your Bank held seminars, workshops and interactive sessions for exporters, importers and gilt account clients. A separate marketing team has been formed at Treasury Department level for marketing various treasury products.

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

The Bank is represented on FIMMDA Board by virtue of the Head of Treasury being one of the twelve Directors of FIMMDA. Bank has also been nominated as a Managing Committee member of FEDAI for FY 2013.

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. The credit, market and operational risk management departments are functionally assigned to three separate cells under the 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. Policy on interest rates on deposits,
5. Operational Risk Management Policy,
6. Stress Testing Policy,
7. Business Continuity Plan Policy,
8. Policy on Internal Capital Adequacy Assessment Process (ICAAP),
9. Disclosure Policy, and
10. Loan Policy.

The Bank has established an independent onsite mid-office within Treasury Department, reporting directly to the Head of IRMD. The mid-office scrutinises 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 norms under Basel I to Basel II as on 31 March 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 the Basel II norms, the Bank has computed capital charge for credit risks as per the Standardised Approach, for market risk as per the Standardised Duration Method and for operational risk as per the Basic Indicator Approach. Under Pillar-II, the Bank assesses the level of inherent risks and related capital requirements on a quarterly basis using a well-defined Internal Capital Adequacy Assessment Process, as approved by the Board. Additional disclosure requirements under Pillar-III of Basel II are also complied with. The Bank is progressively coming up with initiatives for meeting the requirements of the advanced approaches for credit, market and operational risks under Basel II. External consultants are guiding the Bank through the process of migration via advanced approaches. Software solutions for adoption of Basel II advanced approaches are being implemented. The frameworks of the advanced approaches are in line with the Bank's objective of adopting the industry-best practices in risk management.

Capital Adequacy Ratio

The Bank's capital adequacy ratio as on 31/03/2013 under Basel II norms is 14.73% with Tier-I CRAR of 14.09% fully comprising of common equity, as against the minimum level of 9% prescribed by the Reserve Bank of India. The Bank's comfortable common equity capital level offers good cushion for further expansion and growth in asset portfolio and smooth adoption of Basel III norms.

Basel III

RBI guidelines on Basel III demands building capital and liquidity buffers in phases from 2013. It seeks to enhance the minimum core capital, introduce a capital conservation buffer, and prescribe a counter-cyclical buffer. The Bank's comfortable level of common equity capital offers good cushion for smooth implementation of Basel III norms.

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 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. The 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 utilisation of the existing and emerging market opportunities and ensure optimum level of returns on an ongoing basis.

The Bank conducts ICAAP process every year as stipulated by RBI. ICAAP is aimed at ensuring that Bank maintains an amount of capital commensurate to its risk profile and improves upon its risk management systems and framework on an ongoing basis. It involves realistic assessment of the level of risks inherent in the business operations of the Bank and setting aside adequate capital to cover all such risks. The ICAAP policy covers all material risks involved in the business operations of the Bank and establishes organisational framework with delineated hierarchical responsibilities. The assessment is done considering the operational presence, activities, and 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.

Risk Based Supervision

Reserve Bank of India had appointed a High Level Steering Committee (HLSC) under the Chairmanship of Deputy Governor, Dr.K.C.Chakrabarty to review the supervisory processes of commercial banks for meeting the objectives of supervision which is primarily to protect the interest of depositors, customers and also to promote financial stability. In view of the growing complexities in the processes, product offerings and systems and procedures in the Indian banking sector and for ensuring optimisation of supervisory resources the Committee had recommended a shift in RBI's supervisory stance to Risk-Based approach which would focus on evaluating both present and future risks, identifying incipient problems and facilitating prompt intervention / early corrective action. This transition to Risk Based approach to supervision will be effective from the current supervisory cycle (2013-14) beginning from April 2013 in two phases. Under the revised approach, preliminary risk assessment on various parameters would be carried out offsite. RBI has included your Bank among the 30 banks identified in the first phase of Risk Based Supervision (RBS).

'Credit initials' Programme

The Bank has introduced a unique concept - certification programme of 'Credit initials' for identifying and empowering a strong team of individuals who have the domain expertise and competency in handling various facets of credit management. The credit initials programme was introduced with the following objectives.

- To establish a framework in the Bank to assess the capability of the officials involved in credit sanctioning process.
- To identify and update/develop the level of credit competency of the officials involved in credit sanction process on an ongoing basis.
- To empower officers who have exhibited knowledge and proven competency in credit management.
- To evaluate and measure the quality of credit decisions taken by functionaries at various levels.
- To improve the credit delivery mechanism in quality, quantity and turn around time.

Branch heads in Scale IV and V, who are found competent in this assessment exercise, are delegated with individual credit sanctioning powers, thereby adding one more channel for efficient credit delivery.

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. The Bank's Core Banking System, ATM switch, among others have undergone periodical DR testing to ensure the capability of the same to handle disastrous situations.

Information security

The Bank has an information systems security team functioning at its 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 the information systems security policies as well as creating information security awareness among staff and customers of the Bank. As per the RBI circular dated 29th 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 main objective of the Legal Department of the Bank is to devise systems and controls that can effectively manage and minimise the legal risks. The Bank has a well laid down system to ensure defect-free documentation so as to mitigate the legal challenges associated with operational risks. New products and schemes introduced by the Bank undergo legal vetting by the Department for ensuring legal compliance. The department is rendering professional and expert advice on various legal issues associated with the Bank and educates the operating units with periodical circulation of legal decisions pronounced by various courts, educational series, amendments/modifications in statutes from time to time. The Legal Department department also extends faculty assistance for training on legal matters to the employees of the Bank.

The Legal Department also conducts a biennial conference of legal officers of the Bank so as to impart information regarding the latest changes/amendments of various laws.

Leveraging Operations & Processes

Through carefully centralising some processes and decentralising some others, your Bank has always strived to extract maximum output and thereby increase efficiency. Leveraging on better processes and procedures has led to enhanced operational efficiency and service delivery. During the year, the Bank continued focusing on improving the productivity through automation, reducing the turnaround time and ultimately enhancing customer service.

The Bank's corporate website was redesigned with revised content, easy-to-use features, innovative tools, value added services for NRI customers and interactive wizards for facilitating product search.

With a view to enhance customer convenience, registration for internet banking facility has been made online.

The Bank has successfully brought all SME loans under the Centralised Lending Automation Processing System, which enables a turnaround time of one hour for opening a loan account, once approval by credit hubs / branches is completed.

The Bank has also centralised the process of archival of old records at outsourced locations to help branches to save space and improve the ambience at the branches. The Bank has already completed the process in 100 branches and going ahead this will be extended to all the identified branches in a phased manner. The following activities have also been centralised with a view to have more operational convenience, control and quality of data:

a. Opening of inland LC/BG (Letter of Credit/Bank Guarantee).

b. Issuance of EBRC (Electronic Bank Realisation Certificate)

c. All TDS (Tax Deducted at Source) activities such as deduction, remittance and generation of TDS certificate (Form 16) with effect from 1st April 2012.

d. CTS (Cheque Truncation System) clearing implemented in all MICR centres coming under the Chennai grid.

Business Effectiveness through Technology

Your Bank is a pioneer among Indian banks, in the area of using technology to leverage its operations and was the first bank in India to computerise all its branches. The 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) among others. This has been done as a strategic move to enhance the convenience for its customers. The Bank also offers Point of Sale (PoS) terminal services to its merchant clientele. A 24 hour toll-free helpline ensures that the customers are taken care of, round the clock.

Cash Deposit Machines

Your Bank has introduced Cash Deposit Machines or Bunch Note Acceptors (BNA) at select branches which facilitates remittance of cash on real time basis to customers' accounts on a 24x7 time frame, i.e. even beyond the business hours of the Bank. The machine has inbuilt intelligence to identify fake notes and to sort cash deposited by customers into different denominations. It also provides other facilities like balance enquiry and mini statement.

ACI Excellence Awards 2013

The Bank has won the international ACI Excellence Awards 2013 for its product 'Apna Gold 24X7'. Taking gold ornaments as the security, 'Apna Gold 24x7' provides customers the convenience of withdrawal/use of the loan amount through any ATM/POS across the country.

MasterCard Innovation Award

Your Bank has won the MasterCard Innovation Award for the Cash Passport Travel Card product under prepaid programme category. The award is in recognition of introducing a secured travel card product with chip and PIN protection.

The other awards which your Bank won during the period include:

- IDRBT Award for Excellence in Banking Technology 2011 - Best CRM initiative among small banks category
- IDRBT Award for Excellence in Banking Technology 2011 - Best Bank Award among small banks for mobile and electronic payments

Mobile Banking

Mobile platform promises to be the most convenient channel for delivery, going by the industry predictions. The Bank is committed to augment the overall customer experience and services through this channel and has acquired an appropriate platform for in-house development on the mobile platform.

The Bank has already developed native versions for Android, BlackBerry, Windows and iPhone platforms of its mobile banking application. The various variants of the IMPS based inter-bank funds transfer have been made operational thereby empowering customers to undertake m-commerce transactions and funds transfer from their mobile phones, while on the move. The Bank has started tying up with small merchants to popularise the IMPS, a fact appreciated by the National Payment Corporation of India (NPCI).

Aadhaar Based Payments

Your Bank has become member of the Aadhaar Payment Bridge Services through which direct benefit transfers are being received by its customers from the various governmental agencies.

IT Governance

In accordance with the Gopalakrishna Committee recommendations, the Bank has initiated many steps to augment its IT governance. A separate cell to attend to security, compliance and governance issues with relation to information technology has been formed. The Bank also has put in place tools to ensure strict compliance of software licensing norms.

The Bank has initiated the process of getting ISO 27001 certification for its data centre, disaster recovery site and command centres. A near DR Centre to ensure zero data loss has been set up.

The Bank also acquired a transaction monitoring system to monitor and identify suspicious transactions hitting the Core Banking System. It has also subscribed to the fraud monitoring services provided by Visa and NPCI.

Government Business

With the recent changes made by the government to permit private sector banks to foray into doing government business, the Bank has acquired necessary systems to support handling of such transactions. Already the Bank has started providing tax collection services to one of the Southern States. Discussions with other States are under way. The Bank is also awaiting permission from the Central Government to handle a part of its businesses.

Your Bank is banker to the Kerala State Electricity Board for collection of energy bills from High Tension users. The payment is acceptable through NEFT / RTGS and over the counter. Your Bank also helps KSEB to collect bills from the retail customers through its net banking service.

Human Resources

Your Bank has a motivated and committed workforce and strongly believes that human resources are its most valuable asset. Through the active guidance of the Board, the Management team strives to keep the workforce engaged through a series of strategic initiatives to support the business growth and achieve organisational objectives.

The total Human Capital of the Bank has increased to 10,059 by inducting 1,843 new entrants in various positions during the financial year. The average age of employees of your Bank is now 38 years compared to 40 last year. The male female ratio of the Bank is 66:34.

Manpower Management

a) Manpower planning.

Manpower planning exercises were conducted across the organisation in a professional manner in collaboration with field level functionaries. Manning of positions based on the branch profile was initiated to ensure that the right person was placed at the right place. A consultative process between the HR Department and the Business departments has ensured that appropriate decisions are taken with regard to placement of the most valuable resource of the Bank.

b) Recruitment

During the year recruitment was conducted through various channels. This included lateral hiring as well as campus recruitments. Various processes such as newspaper advertisements, advertisements in job portals were utilised to make Federal Bank visible as an ideal employer.

You will be pleased to note that your Bank has entered into a tie up with Manipal Global Education Services for a one year residential programme, to mould a group of highly capable and job ready prospective workforce to take on the various challenges in the Bank as we leap into the future. The first batch of 107 students was inducted after a structured selection process involving a written test, group discussion and personal interview. We expect this to become a regular source of high quality, high caliber employees in the years to come.

c) Performance Management System

To assess employee performance and to foster employee growth and development, a Performance Management System has been introduced . The FedPMS online platform was launched to make the process easier and more effective.

d) Communication

HR Road show titled Bodhi was conducted across the Bank to share the experience of line managers in different facets of the HR Management, and inculcate in them the tenets of leadership and responsibility. The HR leadership interacted with the line managers reiterating their role in leading their team and developing people capability. Suggestions from the programme formed the base to redesign the established HR policies and programmes.

An online platform titled HR Direct was launched to address HR-related queries within a stipulated time frame. Another platform named 'Managers Speak' was also rolled out for managers to express their feedback, suggestions and concerns to leaders of the HR Department.

Federal Reach, an in-house magazine published quarterly, released four editions in 2012-13 with wide participation of the employees and their family members.

e) Business Linkage

A certification programme titled 'Credit Initials' was rolled out to identify and hone the skills of the officials in the areas of credit appraisal, sanctioning and credit management and also to expedite the process of credit delivery.

Compensation policy as envisaged by the RBI was drafted and put in place with the approval of the Board.

Best business units of the Bank were recognised across all regions, zones and corporate level. The entire team of the best corporate business unit was offered a trip to a foreign location in recognition of their efforts and also to motivate the people to perform better.

f) Employee Stock Option Scheme

The Bank offered employee stock options in 2012 as a part of the ESOS 2010 scheme. It was granted to all employees confirmed in the services of the Bank as on 1st November, 2012. Vesting of 2011 grant was completed in the current fiscal.

g) Learning & Development

On the learning front, primary focus during the fiscal was laid on induction programmes. 31 Induction programmes were conducted covering new recruits giving them orientation in values and culture of the Bank and imparting knowledge in basics of banking and customer service. A series of behavioural and functional programmes were also conducted during the fiscal, empowering the Bank's employees at different levels with contemporary skill sets. Apart from these, a programme titled SPARSH, (a personality development programme for the children of employees of the Bank) was conducted for 98 children, in four batches. A programme titled FRAGRANCE focused on personality development was conducted for the children of the Bank's customers.

To foster individual development, your Bank has started two clubs of the Toastmasters International at the Corporate Office. The objective of the club is to enhance communication and leadership skills of the member participants. The Bank is also working on starting an assessment and development centre with a view to identify potential of the employees and drawing up individual development plans.

h) Employee and Industrial Relations

The industrial relations climate in the Bank during the fiscal stayed amicable and issues were addressed and resolved through mutual discussions. The implementation of progressive staff accountability started showing results through the creation of a positive environment facilitating growth and development within the compliance framework.

i) Administration & Welfare

Fed Care – a group medical insurance scheme for retired employees was launched on the auspicious occasion of 67th Founders Day. 1221 retired employees are covered under this scheme. Your Bank has implemented a new pension scheme to all employees who joined the services of the Bank on or after 01/04/2010. As on date 3,140 employees have benefited under this scheme.

Achievements

As recognition of the various HR initiatives & practices undertaken by the organisation, HR Leadership Awards were conferred on the Bank by the following organisations:

- Institute of Public Enterprise (IPE), at ASIA PACIFIC HRM CONGRESS 2012 held at Bangalore and
- World HRD congress at a function held at Hyderabad.

Marketing Initiatives

The visibility of the 'Federal Bank' brand saw a perceptible improvement during the year, especially in those geographies where the Bank is focused on. The Bank used various media like television, print, radio, digital and OOH (Out of Home) to reach out to new and existing customers.

The Bank is generating customer leads through 'search engine marketing' and 'search engine optimisation'. The Bank is strengthening its presence across the social media, viz- Facebook, You Tube and Twitter and its Facebook page has generated more than 2 lakh followers. The Bank intends to intensify its focus in the digital marketing space.

Customer Grievance

	Particulars	31st March 2013
(a)	No. of complaints pending at the beginning of the year	45
(b)	No. of complaints received during the year	2510
(c)	No. of complaints redressed during the year	2507
(d)	No. of complaints pending at the end of the year	48

	Implementation of Awards	31st March 2013
(a)	No. of unimplemented awards at the beginning of the year	2
(b)	No. of awards passed by the Banking Ombudsman	-
(c)	No. of awards implemented during the year	1
(d)	No. of unimplemented awards at the end of the year	1

Vigilance

Your Bank has put in place an effective vigilance mechanism to safeguard the Bank and its customers from fraud. The Bank has formulated a comprehensive 'Fraud Risk Management Policy' and 'Whistleblower Policy' which are reviewed and updated from time to time, in line with RBI instructions. The Vigilance Department of the Bank has the twin roles of investigation of frauds and prevention of frauds. The preventive measures aim at enhancing awareness of fraud risks and promoting a culture of compliance among employees, through preventive vigilance audits, vigilance workshops, circulation of modus operandi of frauds which occurred among others. Your Bank is also promoting customer awareness on frauds, especially cyber frauds through different communication channels, as an effective tool in prevention of frauds.

KYC and Anti-Money Laundering

The 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 line with the guidelines issued by the Reserve Bank of India from time to time. The KYC policy of the Bank incorporates customer acceptance policy, identification procedures, monitoring of transactions and risk management processes. We have installed a central anti-money laundering software to ensure regulatory compliances. 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 in monitoring the daily transactions, enabling identification of any suspicious transactions undertaken by money launderers and financiers of terrorism. In order to make the monitoring more timely and stringent, the KYC-AML cell has also started online monitoring of transactions using another software tool.

Compliance

A separate and independent division, viz. the Compliance Division is functioning in the Bank to ensure the existence and practice of a high-level of compliance across the various levels in the Bank. The Bank has formulated a well-defined Compliance Policy to adequately enable compliance functions and strengthened it to ensure the effective monitoring and coordination of the compliance functions. Your Bank has laid-down an effective mechanism to monitor compliance functions. In all branches/offices, Compliance monitoring officers have been nominated to monitor the compliance functions. The Bank is focusing on employee education through circulars, workshops and frequent contacts to sensitise them on the need for a strong compliance culture and also striving to develop a robust compliance culture in the Bank.

Inspection & Audit

Your Bank has a well established Inspection & Audit Department ensuring adherence to systems, policies and procedures of the Bank and Guidelines received from regulators like RBI, Government of India, State Governments and all other statutory bodies. Audits and Inspections are carried out in the Bank as per the Board approved Audit Policy. M/S M P Chitale & Co undertook a Quality Assurance Study of the present Audit system of the Bank and made many valid recommendations in their report of July 2012. The revised policy was made in line with these recommendations. The Model Audit Manual on Internal & Concurrent Audit Systems in Public Sector Banks circulated by Ministry of Finance was also a source of guidance while revising the audit policy of the Bank. All the branches are covered under Risk based Internal Audit (RBIA). The assessment of level of risk and its direction is carried out on the Risk Matrix prescribed by the Reserve Bank of India, assisting the Management in identifying areas of high risk requiring attention on priority basis. The status of risk categorisation of branches is reviewed by the Audit Committee of the Board on a quarterly basis.

As on 31-03-2013, 194 branches, Treasury Department, International Banking Department (IBD), DP Division and Gold Sale business of RBD were subjected to Concurrent Audit covering 63.59% of the total business of the Bank (57.14% of deposits and 71.75% of advances) on that date, as against the minimum requirement of 50% of deposits and advances separately, stipulated by RBI.

The Bank conducts Credit Audit as part of Loan Review Mechanism, for examining compliance level with sanction and post sanction process / procedures laid down from time to time, as per RBI guidelines where the limit sanctioned is above ₹2 Cr.

Information Systems Audit is conducted as per the IS Audit Policy approved by the Board of Directors. I S Audit of Data Center DR and core applications was done by M/S Ernst & Young. 376 branches were also covered under IS Audit. Various other Audits are also carried out in the Bank such as Management Audit of Zonal Offices, Credit Hubs, Stressed Asset Management Cells, Credit Monitoring Cells, and HO Departments, Forex Audit, and Vulnerability Analysis & Penetration testing (VAPT). Under Risk Based Internal Audit (RBIA) 769 audits were completed as against 741 targeted during FY-13. All the 6 Fedfina Retail Hubs were also subjected to Management Audit. Five Zonal Offices were subjected to Management Audit as per the Audit Plan. Forex Audit covered 51 branches; Revenue Audit covered 381 branches; and Credit Audit covered 212 accounts.

Your Bank has an in-house fully automated Audit Management System which covers all Audits with dedicated servers, systems and databases which are managed under secured environments and by adequately trained personnel. This significantly contributed to the Bank going green, by doing away with paper reports.

Off-site Monitoring

Off-site monitoring cell of your Bank is poised to enter the next maturity level in effectively meeting the demands of the rapidly changing business environment and regulatory compliance on internal audit. The main aim of constituting the cell is to review periodic reports on critical items and sensitise the controlling offices, departments and branches for taking corrective action on a daily basis.

Document Management System (DMS)

Phased implementation of Document Management System (DMS) is progressing well in all branches. All the documents will be available for verification through DMS once the process is completed. So the Bank will be in a position to conduct major part of RBIA centrally (off-site) and the number of days spent by inspecting officials at the branches can be reduced considerably.

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 2012. 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

- Education
- Medical Treatment (Healthcare)
- Support to agricultural infrastructure projects.

The Bank encompasses a 'Triple Bottomline' approach (Social, economic and environmental features) in its CSR initiatives.

The Bank has always been in the forefront to support socially beneficial initiatives of responsible organisations. Activities the Bank associated with, during the FY 2012-13 were:

- To celebrate the launch of the 1000th branch in a responsible manner, your Bank, with the support of Indian Medical Association (IMA), conducted blood donation camps across India.

- Organised a breast cancer awareness campaign "Protect Your Mom" on 18th October 2012 on the 67th Founders Day. A pink walkathon was another event organised on the Founders day where 1,500 students from schools around Kochi along with Federal Bank employees enthusiastically participated in the walk.
- The Bank in association with SB Global trust organised career guidance class in schools all over Kerala. As of date, the project has been successfully conducted in 75 schools spread across 10 districts covering 9,255 students and will reach 10,000 soon.
- World Environment Day on 5th June 2012 was celebrated at Federal Bank branches with various activities including distribution of saplings to the customers from selected branches. 1,300 saplings where distributed from 41 branches across India.
- Sponsored the event 'FEDERAL BANK SOORYA MONSOON FESTIVAL' a fund-raising programme of Maithri Counseling Center, Kochi for establishing their base. The programme was conducted in the month of June.
- Sponsored desktop computers for 'Empowerment Centre for the Blind', Trivandrum to train the blind students on trouble shooting, networking, hardware maintenance and assembling computers.
- Extended financial support for free flight for 100 differently abled children from Nedumbassery, Ernakulam.
- Extended support for Mother Touch Charitable Trust for developing a website. The aim of the website is to provide information in all relevant areas of disability management (at national and international level).
- Aided 'Ahmad & Haris Khan Charitable Trust' in educating 30 underprivileged girl students in Jammu.
- Sponsored a school bus for "Pratheeksha Special School", North Parur and "Deepthi Special School", Muhamma for the use of differently abled children.
- Extended financial support for the construction of a library at Mar Thoma Guidance Centre, Vytilla.
- Sponsored the purchase of a generator at CSI Vocational Higher Secondary school, Thiruvalla.
- Sponsored an ambulance for Alpha Pain Clinic, Kochi to carry patients in and out of the Palliative center.
- Extended Support in renovating old building for poor old aged people and orphan boys and girls of St. Joseph Center for Disabled, Taliparamba.
- Aided the purchase of LCD projector for Aswasalayam Aids Foundation, Aluva to educate people on various diseases caused by alcohol, drugs, tobacco and other harmful products
- Extended financial support to Dilasa Sangli Mission, Maharashtra for construction of dormitory and toilet for HIV positive orphans.
- Supported Fr. Ignatius Centenary Celebration Committee for purchasing a 'Dialysis Machine' to be installed at Lisie Hospital, Ernakulam.
- Assisted Snehabhavan- Alzheimer's Day Care Centre, Aluva for expanding their project at Aluva.
- Aided the purchase of a 125 KV Generator for IMA Voluntary Donor Blood Bank, Cochin.
- Sponsored utility vehicle to BOSCO Rehabilitation Centre, Bangalore – for transporting orphaned children of Bangalore.
- Sponsored a musical programme 'Melody in Darkness'- fund raising programme for the blind, Kochi for establishing a permanent residential facility.
- Sponsored an ambulance for pain and palliative care, Kozhikode to carry patients suffering from cancer, AIDS and chronic pain.
- Sponsored an ambulance for Pain Navjeevan Trust, Ichalkaranji, Kolhapur for carrying the mentally deranged people from rehabilitation centres to a mental hospital at Pune and at times to be used as a mobile dispensary also.

- Extended support for "Runathone of Hope" a Fund raising project for humanitarian project at Pune. More than 6,000 runners participated in the corporate race including our team comprising of more than 100 Federal Bank employees.
- Supported the Government District Hospital, Aluva to purchase a lift for dialysis patents.
- Sponsored an ambulance for Lisie Hospital, Kochi for dialysis patents.
- Sponsored an ambulance for Dr. K.M Cherian Heart Foundation, Thiruvalla for the patients of Kuttanad region.
- Facilitated the building of a dialysis block for the patients of Malankara Orthodox Syrian Church Medical Mission, Puduppady.
- Helped IMA Pune in buying an ambulance, for community-based project for screening cervical cancer.
- Extended support in constructing a computer lab for RSS-Government HACLP School, Aluva.
- Supported "Positive Thinking Movement" -An Initiative by the Elders Forum, Kochi.
- Supported "Choral EVE 2012" a platform for talented singers.
- Sponsored OTICON Annual National Conference, for Indian occupational therapists. The conference aimed at bringing all healthcare professionals together for improving awareness about rehabilitation of the disabled and updating their knowledge.
- Assisted in the purchase of school uniform for the poor children of the landslide victims at Idukki.
- Facilitated organising a women's empowerment programme by YWCA, Aluva.
- Distributed six PCs to the computer lab at the Government U P School-Anadhapuram, Nellayi, Thrissur.
- Extended financial support for the reconstruction of St. Mary's LP School, Vallarpadam.
- In association with Kerala Management Association organised a Women empowerment programme- "Women Management Conclave",at Ernakulam
- Sponsored a medical camp organised by Paithrikam Samskarika Vedi on 22nd December, 2012 at Mathilakam. The camp was beneficial to the rural and urban community and covered cardiac, neurological, orthopaedic, gynaecological, and ENT specialists and paediatricians.
- Sponsored the silver jubilee celebration of Ernakulam District Association of Deaf – "All Kerala Deaf Children's Chithrakala Camp and Painting Comptetion".
- Supported "Hospice and Palliative Care Day" on 10th Oct by Alpha Pain Clinic and National Service Scheme of M G University - 'Walkathon' form Marine Drive to Fine Arts Society Hall followed by a seminar
- Sponsored an eye camp by the Catholic Congregation on 10th November 2012 at Chalakkal, Thumbichal.
- Sponsored 'Abilities Mela' Kochi 2012 conducted by the People's Council for Social Justice. The mela was conducted for showcasing and selling crafts work made by the differently-abled.
- Sponsored cost of printing 1,000 booklets of the HIV / AIDS outreach programme
- The Bank supported Ashraya 13-inter college volleyball tournament by Rotary Club of Palarivatom- to raise funds for the operation theatre at General Hospital, Kochi.
- Supported 'Samaritan Home'- a home for aged and destitute people, Thalassery- for digging a tube well.
- Evangeline Booth Hospital at Varikoli, Puthencruz purchased a four wheeler trolley with the Bank's support to supply food to the inmates.
- Sponsored musical instruments for implementing music therapy in open prison at Trivandrum
- Supported 'Providence home'- a home for differently-

abled handicapped orphans, Karakkunnam- for digging a tube well.

Fedbank Hormis Memorial Foundation

Federal Bank has instituted a public charitable trust by name Fedbank Hormis Memorial Foundation in 1996 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 includes bestowing scholarships to economically disadvantaged students

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

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 recognising 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 ensure transparency, accountability and equality of treatment amongst all the stakeholders in tune with statutory and regulatory requirements. A copy of the Code is available on request and is also displayed on our Bank's website.

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 10 Directors as on 31.03.2013 with rich experience and specialised knowledge in various areas of relevance to the Bank, including banking, accountancy, MSME, finance, industry, agriculture, and information technology.

Shri. P. C. Cyriac, ceased to be a member of the Board and also as the Chairman of the Board of the Bank from 31.08.2012. Shri. Suresh Kumar was appointed as Chairman, by the Board of Directors at their meeting held on 01/02 August 2012 and he took charge as Chairman from September 2012, with the approval of RBI.

Dr. K. Cherian Varghese and Shri. Sudhir M Joshi, were appointed as Directors of the Bank on 20.10.2012 . Shri. K. M. Chandrasekhar was appointed as the Director on 06.12.2012. Shri. Dilip G Sadarangani was appointed as Director on 4.6.2013.

Dr.T.C.Nair, an independent Director on the Board of the Bank resigned from the Board on 01.05.2013 and the Board took on record of the same at its meeting held on 04.06.2013

Shri. P.C. John was a Whole Time Director of the Bank up to 30.04.2013 and ceased to be a Director on expiry of his term on that date.

Excluding the MD & CEO, all other members of the Board are Non-Executive and Independent Directors.

Prof. Abraham Koshy and Dr. M.Y. Khan were re-elected/ appointed as Directors of the Bank at its last Annual General Meeting held on 2nd August 2012.

No relationship exists between the Directors of the Bank.

The other directors who are retiring at this AGM are Shri. Suresh Kumar and CA.Nilesh S Vikamsey and being eligible have offered themselves for reappointment.

Nine Board Meetings were held during the Financial Year ended March 31, 2013.

Attendance Details as on 31.03.2013 of Board / Committees of the Board are given below.

Name of Director	No of Board Meetings attended/held.	Attendance at Last AGM
Shri.P.C.Cyriac*	3/3	Present
Shri. Suresh Kumar	9/9	Present
Dr. T. C. Nair*	8/9	Present
Dr. M. Y. Khan	7/9	Present
Prof. Abraham Koshy	8/9	Present
CA. Nilesh S Vikamsey	8/9	Present
Shri. Shyam Srinivasan	9/9	Present
Shri. P. C. John	8/9	Present
Dr. K. Cherian Varghese	3/3**	Director w.e.f 20.10.2012; was not Director on the date last AGM
Shri. Sudhir M Joshi	3/3**	Director w.e.f 20.10.2012; was not Director on the date of late AGM
Shri. K.M. Chandrasekhar	2/2**	Director w.e.f 06.12.2012; was not Director on the date of last AGM

* Shri.P.C.Cyriac and Dr.T.C.Nair ceased to be Directors w.e.f 31.08.2012 and 01.05.2013

** Number of meetings held after the Director joined the Board

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/ Committees. Also the Board/Committee agenda contains the Compliance Report of the directions taken at previous meetings. 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 a cordial environment.

Remuneration To Directors

Shri. Shyam Srinivasan, MD & CEO, was paid ₹95,58,092 (gross), Shri. P.C.John (Executive Director) was paid ₹41, 92,052 (gross) as remuneration for the year in accordance with the terms and conditions approved by Reserve Bank of India and the shareholders.

a) No pecuniary relationship exists for independent Directors vis-à-vis the Bank, other than payment of sitting fees for Board/Committee meetings.

b) The Non Executive Directors are paid sitting fees as per the provisions of Companies Act, 1956.

The details of remuneration of Shri.Shyam Srinivasan and Shri.P C John are as under:

	Shri. Shyam Srinivasan MD & CEO (₹)	Shri. P C John Executive Director (₹)
Basic Pay	69,99,960	25,43,913
House Rent Allowance	Nil	5,08,787
Provident Fund (Employer Contribution)	6,99,996	2,54,388
Servant Wages	60,000	36,000
Drivers Wages	Nil	90,000
Subscription to periodicals	Nil	Nil
Medical Expenses	48,136	62,420
Premium on Mediclaim Policy	Nil	Nil
Leave Travel Concession	Nil	1,79,544
Bonus/Ex-gratia/Others*	17,50,000	5,17,000
Total	95,58,092	41,92,052

*Paid with the approval of RBI.

Reserve Bank of India has approved grant of 1,28,275 options under ESOS 2010 to Shri. Shyam Srinivasan, MD & CEO and 15000 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 31-03-2013)
Shri.P.C.John	1231
Prof. Abraham Koshy	1000

(*Note: 1,05,710 GDRs of the Federal Bank Ltd. are held by Shri. Suresh Kumar)

Audit Committee

The Audit Committee consists of three non-executive independent Directors, and is chaired by CA. Nilesh S Vikamsey, a Non-Executive Independent Director, since 24th June 2011. The other members of the Committee for FY 13 were Dr. M.Y.Khan and Dr. T.C Nair, Non-Executive Independent Directors. The terms 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 have 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 4 (Four) 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/ held.
CA. Nilesh S Vikamsey	4/4
Dr.M.Y.Khan	2/4
Dr.T.C.Nair	3/4

Nomination, Ethics, Compensation And Remuneration Committee

The Committee is chaired by Shri. Suresh Kumar and has two other members viz: Prof. Abraham Koshy and Dr. M.Y.Khan. All of them are Non Executive and Independent Directors. Shri.P. C. Cyriac was a member of the Committee and ceased to be a director w.e.f 31.08.2012 .

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.

f. To consider and approve issuance and allotment of ESOS shares to MD/ ED and employees of the Bank.

The Bank is having a compensation policy as per RBI guidelines.

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

Attendance Details are given below.

Name of the members	No of meetings attended/held.
Shri. P. C. Cyriac*	3/3
Shri. Suresh Kumar	7/8
Prof.Abraham Koshy	8/8
Dr. M.Y. Khan	4/8

* Shri. P.C. Cyriac ceased to be a Director w.e.f 31.08.2012

Shareholders'/Investors' Grievances And Share Transfer Committee

The Committee is chaired by CA. Nilesh S Vikamsey, an independent Director and consists of Shri. Sudhir M Joshi,Shri.Shyam Srinivasan, MD & CEO of the Bank & Shri. P.C. John (Executive Director), as members. Shri.Sudhir M Joshi was inducted as a member w.e.f 20.10.2012 on reconstitution of the committee. Shri. P.C. Cyriac ceased to be the Chairman of the Committee w.e.f. 31.08.2012. 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.

The Committee met 8 (Eight) times during the year and reviewed and redressed the 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 2013 have been processed.

Total complaints received during the year	Number of complaints redressed	Number of complaints pending for redressal
147	145	2

Attendance Details are given below.

Name of the members	No of meetings attended/ held.
Shri.P.C.Cyriac *	3/3
CA. Nilesh S Vikamsey	7/8
Shri.Shyam Srinivasan	8/8
Shri.P.C.John	8/8
Shri. Sudhir M Joshi	2/2

(*Shri. P.C.Cyriac ceased to be a Director w.e.f. 31.08.2012)

Finance Committee

The Committee is chaired by Shri Suresh Kumar and consists of Dr. K.Cherian Varghese, Shri. Sudhir M Joshi, Shri.Shyam Srinivasan, MD & CEO of the Bank and Shri. P.C.John, (Executive Director) as members. Shri. P.C.Cyriac was a member of the Committee till 31.08.2012 and he ceased to be a member w.e.f 31.08.2012 Shri. Sudhir M Joshi and Dr. K Cherian Varghese were inducted to the committee w.e.f

20.10.2012 on reconstitution of the committee.

The terms of reference of the Committee are:

a. 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.

b. Review of top 100 borrowal accounts of above ₹5 Cr in each category of NPA i.e. substandard/doubtful/loss.

c. To ratify credit proposals sanctioned by MD & CEO/ Executive Director/General Manager(s).

d. To ratify compromise proposals/bad debts written off with the approval of MD & CEO/Executive Director.

The Finance Committee met 12 (Twelve) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended/held.
Shri. Suresh Kumar	12/12
Shri.P.C.Cyriac*	3/3
Shri.Shyam Srinivasan	12/12
Shri.P.C.John	11/12
Dr. K. Cherian Varghese	7/7
Shri. Sudhir M Joshi	7/7

(*Shri. P.C.Cyriac ceased to be a Director w.e.f. 31.08.2012)

Risk Management Committee

The Committee is chaired by Prof. Abraham Koshy and consists of Dr.K.Cherian Varghese, Shri. Shyam Srinivasan, MD & CEO of the Bank as members. Dr. T.C. Nair was a member of the Committee and he ceased to be a member w.e.f 20.10.2012 on reconstitution of the Committee. Shri P. C. John was member of the Committee till his retirement. 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 co-ordinate between the Credit Risk Management Committee (CRMC), Asset Liability Management Committee (ALCO) and Operational 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 Credit Risk Management Department, which handles this complex function.

h. Ensure that operational 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/held.
Prof. Abraham Koshy	4/4
Dr.T.C.Nair	2/2
Shri.Shyam Srinivasan	4/4
Shri.P.C.John	4/4
Dr. K. Cherian Varghese	2/2

Customer Service Committee

The Committee is chaired by Prof. Abraham Koshy and consists of Shri. K.M.Chandrasekhar, Shri.Shyam Srinivasan, MD & CEO of the Bank and Shri.P.C John, (Executive Director) as members. CA.Nilesh S Vikamsey was a member of the Committee and he ceased to be a member w.e.f 20.10.2012 on reconstitution of the Committee. Shri. K .M. Chandrasekhar was inducted as a member w.e.f 16.01.2013. 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 2 (Two) times during the year.

Attendance Details are given below.

Name of the members	No of meetings attended/held.
Prof. Abraham Koshy	2/2
CA. Nilesh S Vikamsey	1/1
Shri.Shyam Srinivasan	2/2
Shri.P.C.John	1/1
Shri.K.M. Chandrasekhar	1/1

Committee For Investment and Raising of Capital

The Committee is chaired by Shri. Suresh Kumar and consists of Shri. Shyam Srinivasan , MD & CEO , Shri. Sudhir M Joshi and Dr.T.C Nair as members with an objective to look into the various avenues 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. CA.Nilesh S Vikamsey ceased to be a member w.e.f. 20.10.2012 on reconstitution of the Committee.

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

Attendance Details are given below.

Name of the members	No of meetings attended/held.
Shri. Suresh Kumar	3/3
Shri.Shyam Srinivasan	3/3
CA.Nilesh S Vikamsey	1/1
Dr.T.C.Nair	3/3
Shri.Sudhir M Joshi	2/2

Committee For Human Resources Policy

The Committee is chaired by Prof. Abraham Koshy, and consists of Shri. K.M. Chandrasekhar, Shri. Shyam Srinivasan, MD & CEO and Shri.P.C John (Executive Director) as members. Shri. K.M Chandrasekhar was inducted as a member w.e.f. 16.01.2013. CA.Nilesh S Vikamsey was a member of the Committee and he ceased to be a member w.e.f 20.10.2012 on reconstitution of the Committee.

The terms of reference of the Committee are:

a. To review the existing HR policy of the Bank.
b. Finalise the organisational 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 once (1) during the year.

Attendance Details are given below.

Name of the members	No of meetings attended/held.
Prof. Abraham Koshy	1/1
CA. Nilesh S Vikamsey	1/1
Shri. Shyam Srinivasan	1/1
Shri. P.C.John	1/1

Committee For Marketing Strategies

The Committee is chaired by Prof. Abraham Koshy and consists of Shri. K.M.Chandrasekhar, 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. CA. Nilesh S Vikamsey was a member of the Committee and he ceased to be a member w.e.f 20.10.2012 and Shri. K.M.Chandrasekhar was inducted as a member w.e.f 16.01.2013 on reconstitution of the Committee. Shri. Sudhir.M.Joshi was a member of the Committee from 20.10.2012 and he ceased as a member w.e.f 16.01.2013 on reconstitution of the committee

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

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

Attendance Details are given below.

Name of the members	No of meetings attended/held.
Prof. Abraham Koshy	2/2
CA. Nilesh S Vikamsey	1/1
Shri. Shyam Srinivasan	2/2
Shri. P.C.John	1/1
Shri. K.M.Chandrasekhar	1/1

Details Of Board, Audit Committee, Finance Committee, Risk Management Committee and Share Transfer Committee Meetings Held During The Financial Year Ended March 31, 2013.

Sl. no.	Board Meeting	Audit Committee	Finance Committee	Risk Management Committee (RMC)	Share transfer Committee
1	11.05.12	10.05.12	10.5.12	14.09.12	11.05.12
2	29.06.12	01.08.12	15.06.12	19.10.12	29.06.12
3	01.08.12	19.10.12	01.08.12	16.01.13	01.08.12
4	15.09.12	16.01.13	11.09.12	11.03.13	15.09.12
5	06.10.12		16.10.12		20.10.12
6	20.10.12		23.11.12		06.12.12
7	06.12.12		13.12.12		17.01.13
8	17.01.13		16.01.13		12.03.13
9	12.03.13		09.02.13		
10			28.02.13		
11			12.03.13		
12			27.03.13		

Information relating to last three general body meetings is furnished below:

Name of Meeting	Day, Date and Time of Meeting	Venue	Special Resolution Transacted
79th Annual General Meeting	Monday, 13th 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
81st Annual General Meeting	Thursday, 2nd August 2012 at 10 A.M	Priyadarshini Town Hall, Thottakaattukara, 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. No Postal Ballot was conducted during the financial year 2012-2013.

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:

Bank has initiated steps for meeting the training needs of the Directors and they are being nominated wherever suitable programs are available.

Mechanism for evaluating non-executive Board Members:

A mechanism for the performance evaluation of non-executive directors is under process.

Whistle Blowing Policy:

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

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 33,71,338 GDRs (equivalent to equity shares) outstanding, which constituted 1.97% of the Bank's total equity capital as at 31 March 2013. 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

General Information For Shareholders

Annual General Meeting

Date	: 20.07.2013
Time	: 10 AM
Venue	: Mahatma Gandhi Municipal Town Hall, Aluva
Financial year	: 01st April 2012 to 31st March 2013
Period of book closure	: 11.07.2013 to 20.07.2013
Dividend payment date	: Will be within the prescribed time limit

Financial Calendar

Approval of quarterly results for the period ending:

- 30th June 2012 : 2nd August 2012
- 30th September 2012 : 20th October 2012
- 31st December 2012 : 17th January 2013
- 31st March 2013 : 27th April 2013

Listing On Stock Exchanges

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

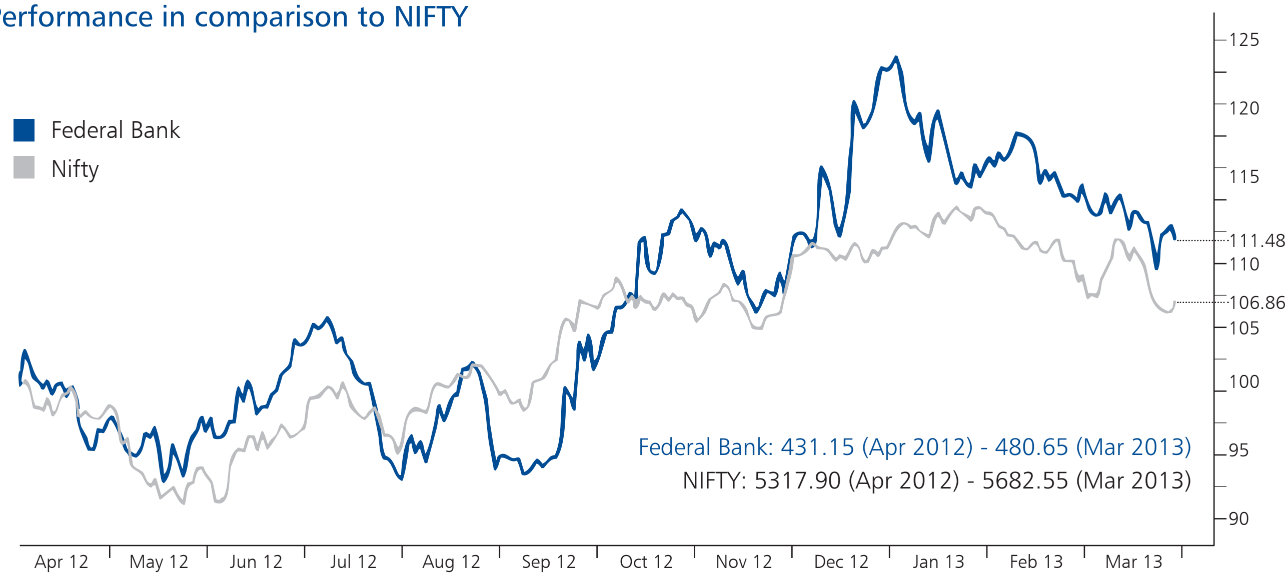
BSE Scrip Code	: 500469
Scrip ID	: FEDBANK
NSE Symbol	: FEDERALBNK
Demat ISIN Code	: INE171A01011

The annual listing fees for 2012-13 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-12	448.80	402.15
May-12	425.00	390.40
Jun-12	455.00	404.95
Jul-12	459.00	392.00
Aug-12	445.00	400.50
Sep-12	454.80	399.50
Oct-12	571.00	446.40
Nov-12	498.95	448.00
Dec-12	544.00	473.25
Jan-13	550.95	493.00
Feb-13	524.30	474.95
Mar-13	505.00	463.10

Performance in comparison to NIFTY



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: csdstd@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, 97.19% are held in dematerialised form and 2.81% 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 dematerialised for which the share holders are requested to open a Depository Account with the Depository Participants (DP) and 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 last three years are as under

(As on 31-03-2013)

Sl. No.	Financial Year	Amount of unclaimed Dividend (in ₹)
1	2009-10	77,60,400.00
2	2010-11	1,24,01,364.00
3	2011-12	1,34,88,822.00
	Total	3,36,50,586.00

Share Holding Pattern as on March 31,2013

Share holder Category.	Shares	% Holding
Shares held by Custodians and others against which Depository Receipts have been issued	45,17,785	2.64
Mutual Funds/UTI	2,73,00,498	15.96
Financial Institutions/Bank/Insurance Companies	88,71,267	5.19
Foreign Institutional Investors	7,85,68,225	45.93
Bodies Corporate	1,70,09,076	9.94
NRI, Trust, Overseas Corporate Bodies, Foreign Bank, Foreign Body Corporate , LLP, Clearing Member	97,05,288	5.67
Individual	2,50,86,993	14.67
Total	**17,10,59,132**	**100.00**

Details of Share holders holding more than 1% of the shares as on 31.03.2013

Sl.no.	Name	Shares	Percentage
1	INTERNATIONAL FINANCE CORPORATION	82,24,239	4.81
2	FRANKLIN TEMPLETON INVESTMENT FUNDS	66,53,585	3.89
3	EMIRATES FINANCIAL SERVICES PSC	54,80,423	3.20
4	LIFE INSURANCE CORPORATION OF INDIA	49,18,543	2.88
5	WARHOL LIMITED	49,12,000	2.87
6	MORGAN STANLEY MAURITIUS COMPANY LIMITED	47,87,930	2.80
7	EQUINOX PARTNERS LP	46,29,345	2.71
8	M/S NAPEAN TRADING AND INVESTMENT CO PVT LTD	**41,03,041**	**2.40**
9	GENERAL INSURANCE CORPORATION OF INDIA	**36,00,000**	**2.10**
10	EASTSPRING INVESTMENTS (SINGAPORE) LIMITED A/C THE PRUDENTIAL ASSURANCE COMPANY LIMITED	**35,19,348**	**2.06**
11	DEUTSCHE BANK TRUST COMPANY AMERICAS	**33,71,338**	**1.97**
12	RELIANCE CAPITAL TRUSTEE COMPANY LIMITED A/C RELIANCE GROWTH FUND	**32,76,300**	**1.92**
13	BIRLA SUN LIFE INSURANCE COMPANY LIMITED	**30,46,013**	**1.78**

Sl.no.	Name	Shares	Percentage
14	RELIANCE CAPITAL TRUSTEE CO. LTD A/C RELIANCEBANKING FUND	20,79,033	1.22
15	KUROTO FUND LP	20,42,753	1.19
16	FID FUNDS (MAURITIUS) LIMITED	20,35,588	1.19
17	MFS INTERNATIONAL NEW DISCOVERY FUND	20,13,395	1.18
18	BAJAJ ALLIANZ LIFE INSURANCE COMPANY LTD.	18,87,755	1.10
19	M/S REGAL INVESTMENT AND TRADING CO PVT LTD	18,46,029	1.08
20	FRANKLIN TEMPLETON MUTUAL FUND A/C FRANKLIN INDIA BLUECHIP FUND	17,30,000	1.01
21	DIMENSIONAL EMERGING MARKETS VALUE FUND	17,22,798	1.01
	Total	**7,58,79,456**	**44.36**

Distribution of Holdings as on March 31, 2013

No. of shares held	Holders		Amount	
	No.	%	₹	%
Up to 500	49716	82.27	6,14,30,050	3.59
501 - 1000	5896	9.76	4,19,10,720	2.45
1001 - 2000	2781	4.60	3,80,19,370	2.22
2001 - 3000	727	1.2	1,82,88,420	1.07
3001 - 4000	271	0.45	95,43,600	0.56
4001 - 5000	218	0.36	99,63,630	0.58
5001 - 10000	345	0.57	245,07,320	1.43
ABOVE 10001	475	0.79	1506928210	88.1
TOTAL	60429	100	1710591320	100

Locations

With its Head Office at Aluva, the Bank has a network of 1103 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

Company Secretary Shri. Girish Kumar Ganapathy

Auditors M/s Deloitte Haskins & Sells, Chennai
M/s M.P.Chitale & Co, Mumbai

Compliance With The Code Of Conduct

I confirm that for the year under review all Directors and members of the Senior Management have affirmed compliance with the Code of Conduct of the Bank.

Shyam Srinivasan
4th June 2013

AUDITORS' CERTIFICATE

TO THE MEMBERS OF
THE FEDERAL BANK LIMITED

We have examined the compliance of conditions of Corporate Governance by The Federal Bank Limited ("the Bank") for the year ended 31st March 2013, as stipulated in clause 49 of the Listing Agreement of the said Bank with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

For **Deloitte Haskins & Sells**
Chartered Accountants
(Registration No.008072S)

M. Ramachandran
Partner
(Membership No.16399)

For **M P Chitale & Co.**
Chartered Accountants
(Registration No. 101851W)

Ulhas Chitale
Partner
(Membership No. 32292)

KOCHI, 4th June, 2013.

Independent Auditors' Report

The Shareholders of
The Federal Bank Limited,
Aluva

Report on the Financial Statements

1. We have audited the accompanying financial statements of **The Federal Bank Limited** ("the Bank"), which comprise the Balance Sheet as at 31st March, 2013 and the Profit and Loss Account and the Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns of 35 branches / offices of the Bank audited by one of us and 1096 branches / offices audited by branch auditors.

Management's Responsibility for the Financial Statements

2. The Bank's Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956 in so far as they apply to the banks and the Guidelines issued by Reserve Bank of India. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as Companies Act, 1956 in the manner so required for banking companies and the Guidelines issued by Reserve Bank of India from time to time 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, 2013;
   (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 cash flows of the Bank for the year ended on that date.

Emphasis of Matter

7. We draw attention to Note No.2.9 of Schedule 18 to the Financial Statements which describes proportionate charge of pension liability of the Bank amounting to ₹ 33.68 Crore to the Profit and Loss Account and the balance unamortised pension liability of ₹ 67.36 Crore as at 31st March 2013, included in Schedule 11 to the Financial Statements to be amortised over the next two years, pursuant to the exemption from the application of the provisions of the Accounting Standard (AS) 15, Employee Benefits, granted by the Reserve Bank of India and made applicable to the Bank vide letter no. DBOD No.BP.BC.15896 / 21.04.018 / 2010-11 dated April 8, 2011.

   Our Opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Matters

8. As required by Section 227(3) of the Companies Act, 1956 and Section 30 of the Banking Regulation Act,1949, 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) 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 branches / offices of the Bank not visited by one of us have been found adequate for the purposes of our audit.

9. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement comply with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 in so far as they apply to banks.

10. We further report that:

   (i) the Balance Sheet and Profit and Loss Account dealt with by this report, are in agreement with the books of account and with the returns received from the branches / offices not visited by any one of us.

   (ii) 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.

   (iii) 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.

   (iv) on the basis of the written representation received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2013 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For Deloitte Haskins & Sells	For M P Chitale & Co.
Chartered Accountants	*Chartered Accountants*
(Registration No.008072S)	(Registration No. 101851W)
M. Ramachandran	Ulhas Chitale
Partner	*Partner*
(Membership No.16399)	(Membership No. 32292)

KOCHI,
27 April, 2013.

Balance Sheet as at 31 March 2013

हजार रुपयों में
(in Thousands of ₹)

३१ मार्च २०१३ का तुलनपत्र		अनुसूची Schedule	As at 31 March 2013	As at 31 March 2012
पूँजी और ऋण	**CAPITAL AND LIABILITIES**			
पूँजी	Capital	1	1,710,587	1,710,471
आरक्षितियाँ और अधिशेष	Reserves and Surplus	2	61,936,003	55,352,798
निक्षेप	Deposits	3	576,148,633	489,371,221
उधार	Borrowings	4	51,869,908	42,410,341
अन्य ऋण तथा प्रावधान	Other Liabilities and Provisions	5	18,830,596	17,422,890
जोड़	**Total**		**710,495,727**	**606,267,721**
संपत्तियाँ	**ASSETS**			
भारतीय रिज़र्व बैंक में नकदी अधिशेष	Cash and Balances with Reserve Bank of India	6	27,424,961	24,241,466
बैंकों में अतिशेष और मांग पर तथा अल्प सूचना पर प्रप्यधन	Balances with banks and money at call and short notice	7	9,774,943	11,084,048
विनिधान	Investments	8	211,545,909	174,024,877
अग्रिम	Advances	9	440,967,029	377,559,859
स्थिर आस्तियाँ	Fixed assets	10	3,974,746	3,261,392
अन्य संपत्तियाँ	Other assets	11	16,808,139	16,096,079
जोड़	**Total**		**710,495,727**	**606,267,721**
आकस्मिक ऋण	Contingent liabilities	12	302,459,180	358,494,040
संग्राहण के लिए बिल	Bills for collection		12,266,208	11,893,140
महत्वपूर्ण लेखांकन नीतियाँ	Significant Accounting Policies	17		
लेखा संबन्धी टिप्पणियाँ	Notes on Accounts	18		
अनुसूचियाँ ऊपर बैलेंस शीट का एक अभिन्न अंग के रुप में	Schedules referred to above form an integral part of the Balance Sheet			

Krishnakumar K
Assistant General Manager

Girish Kumar Ganapathy
Company Secretary

In terms of our report attached

For Deloitte Haskins & Sells
Chartered Accountants
Firm Reg. No. 008072S

For M P Chitale &Co.
Chartered Accountants
Firm Reg. No. 101851W

M Ramachandran
Partner
Membership No. 16399
Place: Kochi
Date: 27 April, 2013

Ulhas Chitale
Partner
Membership No. 32292

For and on behalf of the Board of Directors

P C John
Executive Director & CFO

Shyam Srinivasan
Managing Director & CEO

Suresh Kumar
Chairman

Prof. Abraham Koshy
Nilesh S Vikamsey
Dr. K Cherian Varghese
Sudhir M Joshi
K M Chandrasekhar
Directors

Profit and Loss Account for the year ended 31 March 2013

हजार रूपयों में
(in Thousands of ₹)

३१ मार्च २०१३ समाप्त वर्ष केलिए लाभ-हानि लेख			अनुसूची Schedule	For the year ended 31 March 2013	For the year ended 31 March 2012
आय	I.	INCOME			
आर्जित ब्याज		Interest earned	13	61,675,657	55,583,924
अन्य आय		Other income	14	6,644,398	5,323,432
जोड़		**Total**		**68,320,055**	**60,907,356**
व्यय	II.	EXPENDITURE			
व्यय किया गया ब्याज		Interest expended	15	41,929,123	36,049,851
परिचालन व्यय		Operating expenses	16	11,795,389	9,792,731
उपबंध और आकस्मिक व्यय		Provisions & contingencies		6,213,867	7,296,779
जोड़		**Total**		**59,938,379**	**53,139,361**
लाभ/हानि	III.	PROFIT/LOSS			
वर्ष के शुद्ध लाभ		Net profit for the year		8,381,676	7,767,995
पिछले वर्ष के अग्रनीत लाभ		Profit brought forward from Previous Year		2,966,787	257,766
				11,348,463	**8,025,761**
विनियोजन	IV.	APPROPRIATIONS			
राजस्व आरक्षितियों को अंतरण		Transfer to Revenue Reserve		1,721,400	988,800
कानूनी आरक्षितियों को अंतरण		Transfer to Statutory Reserve		2,095,500	1,942,000
पुँजीगत आरक्षितियों को अंतरण		Transfer to Capital Reserve		229,500	54,017
आकस्मित आरक्षितियों को अंतरण		Transfer to Contingency Reserve		–	–
विशेष आरक्षितियों का अंतरण धारा ३६(१)(vii) आईटी अधिनियम		Transfer to Special Reserve (sec 36(1)(viii) of IT Act)		337,000	285,000
प्रस्तावित लाभांशों को प्रावधान		Provision for proposed dividend		1,539,528	1,539,424
लाभांश करे को प्रावधान		Provision for Dividend Tax		261,643	249,733
अतिशेष जो आगे तुलन पत्र में ले जाया गाया है।		Balance carried over to Balance Sheet		5,163,892	2,966,787
जोड़		**Total**		**11,348,463**	**8,025,761**
प्रति षेयर अर्जन (रु)		Earnings per Share (Basic and Diluted) (₹)		49.00	45.41
(अंकित मूल्य रु १०/- प्रत्येक)		(Face value of ₹10/- each)			
(अनुसुचि १८ में से नोट २.१ संदर्भ लें)		(Refer Note 2.1 of Schedule 18)			
महत्वपूर्ण लेखांकन नीतियाँ		Significant Accounting policies	17		
लेखा संबन्धी टिप्पणियाँ		Notes on Accounts	18		
अनुसूचियाँ ऊपर लाभ और हानि रवाता का एक अभिन्न अंग के रुप में		Schedules referred to above form an integral part of the Profit and Loss Account			

Krishnakumar K
Assistant General Manager

Girish Kumar Ganapathy
Company Secretary

In terms of our report attached

For and on behalf of the Board of Directors

For Deloitte Haskins & Sells
Chartered Accountants
Firm Reg. No. 008072S

For M P Chitale &Co.
Chartered Accountants
Firm Reg. No. 101851W

P C John
Executive Director & CFO

Shyam Srinivasan
Managing Director & CEO

Suresh Kumar
Chairman

Prof. Abraham Koshy
Nilesh S Vikamsey
Dr. K Cherian Varghese
Sudhir M Joshi
K M Chandrasekhar
Directors

M Ramachandran
Partner
Membership No. 16399
Place: Kochi
Date: 27 April, 2013

Ulhas Chitale
Partner
Membership No. 32292

Cash Flow Statement for the year Ended 31 March, 2013

(in Thousands of ₹)

	Year ended 31.03.2013	Year ended 31.03.2012
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before taxes	**11,937,576**	**11,695,095**
Adjustments for:		
Depreciation on Fixed Assets	786,974	566,645
Depreciation on Investments	(414,881)	348,622
Provision for Non Performing Investments	46,700	–
Provision for Non Performing Assets (Including Bad Debts)	1,892,846	2,217,694
Provision on Standard Assets	493,400	364,500
Profit on sale of fixed assets (net)	(1,908)	(3,316)
Provision for Restructured assets	676,826	343,552
Provision for Other Contingencies	(36,925)	95,311
	15,380,608	**15,628,103**
Adjustments for working capital changes:-		
(Increase)/ Decrease in Investments (excluding Held to Maturity Investments)	(4,055,894)	(13,940,544)
(Increase)/ Decrease in Advances	(65,300,016)	(60,245,216)
(Increase)/ Decrease in Other Assets	10,764	(4,017,642)
Increase/ (Decrease) in Deposits	86,777,412	59,223,415
Increase/ (Decrease) in Other liabilities and provisions	904,291	1,432,834
Direct taxes paid	(4,920,624)	(6,090,483)
Net Cash flow From Operating Activites	**28,796,541**	**(8,009,533)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(1,513,178)	(936,708)
Proceeds from Sale of Fixed Assets	12,681	7,969
Investment in Subsidiary/Joint Venture	–	(1,810,000)
(Increase)/ Decrease in Held to Maturity Investments	(33,096,957)	(13,246,205)
Net Cash Used in Investing Activities	**(34,597,454)**	**(15,984,944)**

Cash Flow Statement for the year ended 31st March 2013 *(Contd...)*

(in Thousands of ₹)

	Year ended 31.03.2013	Year ended 31.03.2012
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital (ESOS)	116	–
Proceeds from Share Premium	4,777	–
Repayment of Subordibate Debt	(760,000)	–
Increase/(Decrease) in Borrowings (Excluding Subordinate Debt)	10,219,567	23,526,715
Dividend Paid	(1,789,157)	(1,689,759)
Net Cash generated from financing Activities	**7,675,303**	**21,836,956**
Net Increase in Cash and Cash Equivalents	**1,874,390**	**(2,157,521)**
Cash and Cash Equivalents at the beginning of year	**35,325,514**	**37,483,035**
Cash and Cash Equivalents at the end of year	**37,199,904**	**35,325,514**

Note:

Cash and cash equivalents comprise of cash on hand (including foreign currency notes), Balances with Reserve Bank of India, Balance with Banks and money at call and short notice (Refer schedules 6 and 7 of the Balance sheet).

Krishnakumar K
Assistant General Manager

Girish Kumar Ganapathy
Company Secretary

In terms of our report attached

For Deloitte Haskins & Sells
Chartered Accountants
Firm Reg. No. 008072S

M Ramachandran
Partner
Membership No. 16399
Place: Kochi
Date: 27 April, 2013

For M P Chitale &Co.
Chartered Accountants
Firm Reg. No. 101851W

Ulhas Chitale
Partner
Membership No. 32292

For and on behalf of the Board of Directors

P C John
Executive Director & CFO

Shyam Srinivasan
Managing Director & CEO

Suresh Kumar
Chairman

Prof. Abraham Koshy
Nilesh S Vikamsey
Dr. K Cherian Varghese
Sudhir M Joshi
K M Chandrasekhar
Directors

Schedules forming part of Balance Sheet

Schedule: 1 **CAPITAL**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
Authorised Capital	2,000,000	2,000,000
[20,00,00,000 (Previous year 20,00,00,000) Equity Shares of ₹ 10 each]		
Issued Capital	1,713,295	1,713,179
[17,13,29,541 (Previous year 17,13,17,910) Equity Shares of ₹ 10/- each]		
Subscribed, Called up and Paid up Capital	1,710,591	1,710,475
[17,10,59,132 (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 and issue of 11631 ESOS shares under ESOS 2010] (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 82,588 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)		
Less: Calls in arrears	4	4
Total	**1,710,587**	**1,710,471**

Schedules forming part of Balance Sheet

Schedule: 2 **RESERVES AND SURPLUS**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Statutory Reserve		
Opening balance	10,694,676	8,752,676
Additions during the year	2,095,500	1,942,000
	12,790,176	10,694,676
II. Capital Reserves		
a) Revaluation Reserve		
Opening balance	54,142	56,328
Deductions during the year	2,077	2,186
	52,065	54,142
b) Others		
Opening balance	1,656,193	1,602,176
Additions during the year	229,500	54,017
	1,885,693	1,656,193
	1,937,758	1,710,335
III. Share premium		
Opening balance	24,755,856	24,755,856
Additions during the year	4,777	–
	24,760,633	24,755,856
IV. Revenue and Other Reserves		
a) Revenue Reserve		
Opening Balance	11,206,341	10,217,541
Additions during the year	1,721,400	988,800
	12,927,741	11,206,341
b) Investment Fluctuation Reserve		
Opening Balance	1,897,200	1,897,200
Additions during the year	–	–
	1,897,200	1,897,200
c) Special Reserve (As per section 36(1)(viii) of Income Tax Act)		
Opening balance	1,820,600	1,535,600
Addition during the year	337,000	285,000
	2,157,600	1,820,600
V. Contingency Reserve		
Opening balance	301,003	301,003
	301,003	301,003
VI. Balance in Profit and Loss Account	5,163,892	2,966,787
Total	61,936,003	55,352,798

Schedule: 3 **DEPOSITS**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
A. I. Demand Deposits		
i. From Banks	592,963	126,997
ii. From Others	28,496,439	25,332,098
	29,089,402	25,459,095
II. Savings Bank Deposits	127,431,909	109,299,457
III. Term Deposits		
i. From Banks	6,276,618	4,762,050
ii. From Others	413,350,704	349,850,619
	419,627,322	354,612,669
Total	576,148,633	489,371,221
B. I. Deposits of branches in India	576,148,633	489,371,221
II. Deposits of branches outside India	–	–
Total	576,148,633	489,371,221

Schedules forming part of Balance Sheet

Schedule: 4 **BORROWINGS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Borrowings in India		
i. Reserve Bank of India	3,300,000	900,000
ii. Other Banks #	322,000	582,000
iii. Other institutions and agencies ##	34,339,160	27,639,733
	37,961,160	**29,121,733**
II. Borrowings outside India	**13,908,748**	**13,288,608**
Total	**51,869,908**	**42,410,341**
Secured borrowings included in I and II above	4,997,198	2,998,145

Represents Subordinated Debt in the nature of Non Convertible debentures

Borrowings from other Institutions and agencies include Subordinated Debt of ₹1,978,000 Thousands (Previous Year ₹ 2,478,000 Thousands) in the nature of Non Convertible Debentures

Schedule: 5 **OTHER LIABILITIES AND PROVISIONS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Bills Payable	302,265	205,190
II. Inter - office adjustments (Net)	1,856,540	1,636,847
III. Interest accrued	687,622	2,658,532
IV. Others (including provisions)*	15,984,169	12,922,321
Total	**18,830,596**	**17,422,890**
***Includes :-**		
(a) Contingent provision against standard assets	2,453,781	1,960,381
(b) Proposed Dividend	1,539,528	1,539,424
(c) Tax on Proposed Dividend	261,643	249,733
(d) Deferred Tax Liability (Net)	–	641,900

Schedule: 6 **CASH AND BALANCES WITH RESERVE BANK OF INDIA** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Cash in hand (including foreign currency notes)	5,288,505	3,958,443
II. Balance with Reserve Bank of India		
i. in Current Accounts	22,136,456	20,283,023
ii. in Other Accounts	–	–
Total	**27,424,961**	**24,241,466**

Schedules forming part of Balance Sheet

Schedule: 7 **BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. In India		
i. Balances with banks		
a. in Current Accounts	1,004,261	400,902
b. in Other Deposit Accounts	5,885,600	4,231,800
ii. Money at call and short notice		
a. With Banks	–	1,000,000
b. With other institutions	–	4,045,707
Total	6,889,861	9,678,409
II. Outside India		
i. in Current Accounts	170,832	133,764
ii. in Other Deposit Accounts	2,714,250	1,271,875
iii. Money at call and short notice	–	–
Total	2,885,082	1,405,639
Grand Total (I and II)	9,774,943	11,084,048

Schedule: 8 **INVESTMENTS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Investments in India in :		
i. Government Securities ## **	145,750,543	115,312,413
ii. Other approved Securities	–	–
iii. Shares	2,564,217	1,907,292
iv. Debentures and Bonds	8,017,423	9,603,502
v. Subsidiaries/ Joint Ventures	3,980,000	3,959,200
vi. Others (Mutual Funds, Commercial Paper etc.) @	51,233,726	43,242,470
Total	211,545,909	174,024,877
II. Investments outside India	–	–
Grand Total (I and II)	211,545,909	174,024,877
Gross Investments	211,691,397	174,538,545
Less: Depreciation/ Provision for Investments	145,488	513,668
Net Investments	211,545,909	174,024,877

Includes securities costing ₹1,447,241 Thousands (previous year ₹1,478,176 Thousands) pledged for clearing facility and margin requirements

@ Includes priority sector shortfall deposits ₹ 24997387 Thousands (previous year ₹ 20,433,228 Thousands)

** Net of Repo borrowing of ₹ 14,700,000 Thousands (previous year ₹ 26,250,000 Thousands) under the Liquidity Adjustment Facility in line with the RBI requirements

Schedules forming part of Balance Sheet

Schedule: 9 **ADVANCES (NET OF PROVISIONS)** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
A. i. Bills purchased and discounted	14,938,824	18,538,117
ii. Cash credits, overdrafts and loans repayable on demand	265,154,471	216,832,298
iii. Term loans	160,873,734	142,189,444
Total	**440,967,029**	**377,559,859**
B. i. Secured by tangible assets $	340,827,603	262,781,389
ii. Covered by Bank/Government guarantees #	26,926,169	28,641,138
iii. Unsecured	73,213,257	86,137,332
Total	**440,967,029**	**377,559,859**
C. I. Advances in India		
i. Priority Sector	114,956,971	121,884,584
ii. Public Sector	22,666,528	28,175,847
iii. Banks	29,641	44,636
iv. Others	303,313,889	227,454,792
Total	**440,967,029**	**377,559,859**
II. Advances outside India	–	–
Grand Total (C I and C II)	**440,967,029**	**377,559,859**

$ Includes Advances against book debts

Includes advances against L/Cs issued by banks

Schedule: 10 **FIXED ASSETS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I OWNED ASSETS		
a. Premises #		
Gross Block		
At the beginning of the year	2,205,630	2,192,717
Additions during the year	25,919	12,913
Deductions during the year	–	–
Closing Balance	**2,231,549**	**2,205,630**
Depreciation		
As at the beginning of the year	568,870	507,890
Charge for the Year	59,145	60,980
Deductions during the year	–	–
Depreciation to date	**628,015**	**568,870**
Net Block	**1,603,534**	**1,636,760**
b. Other fixed assets (including furniture and fixtures)		
Gross Block		
At the beginning of the year	4,676,459	3,838,529
Additions during the year	1,487,259	923,795
Deductions during the year	106,951	85,865
Closing Balance	**6,056,767**	**4,676,459**
Depreciation		
As at the beginning of the year	3,055,661	2,629,022
Charge for the year	729,906	507,851
Deductions during the year	96,178	81,212
Depreciation to date	**3,689,389**	**3,055,661**
Net Block	**2,367,378**	**1,620,798**

Schedules forming part of Balance Sheet

Schedule: 10 **FIXED ASSETS** *(Contd...)* (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
II ASSETS GIVEN ON LEASE		
Gross Block		
At the beginning of the year	31,013	31,013
Additions during the year	–	–
Deductions during the year	–	–
Closing Balance	31,013	31,013
Depreciation		
As at the beginning of the year	27,179	27,179
Charge for the year	–	–
Deductions during the year	–	–
Depreciation to date	27,179	27,179
Net Block	3,834	3,834
Total (I & II)	3,974,746	3,261,392

Includes buildings constructed on leasehold land at different places having original cost of ₹ 655,216 Thousands and Written down value of ₹ 549,014 Thousands with remaining lease period varying from 61 -73 years

Schedule: 11 **OTHER ASSETS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Inter - office adjustments (net)	–	–
II. Interest accrued	4,273,812	3,995,024
III. Tax paid in advance/tax deducted at source (Net of provision)	5,673,810	6,204,886
IV. Stationery and Stamps	29,734	26,918
V. Non-banking assets acquired in satisfaction of claims	27,858	31,061
VI. Others @	6,802,925	5,838,190
Total	16,808,139	16,096,079
@ Includes Deferred Tax Asset (Net)	1,253,900	–

Schedule: 12 **CONTINGENT LIABILITIES** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Claims against the Bank not acknowledged as debts	7,301,798	6,611,455
II. Liability on account of outstanding forward exchange contracts	245,319,772	304,316,064
III. Guarantees given on behalf of constituents - in India	36,966,166	35,336,490
IV. Acceptances, endorsements and other obligations	12,338,376	11,884,826
V. Other items for which the Bank is contingently liable	533,068	345,205
Total	302,459,180	358,494,040

Schedules forming part of Profit and Loss Account

Schedule: 13 **INTEREST EARNED** (in Thousands of ₹)

	For the year ended 31 March 2013	For the year ended 31 March 2012
I. Interest/discount on advances/bills	46,356,627	41,897,637
II. Income on investments	14,645,987	13,157,376
III. Interest on balances with Reserve Bank of India and other inter-bank funds	563,557	348,836
IV. Others	109,486	180,075
Total	**61,675,657**	**55,583,924**

Schedule: 14 **OTHER INCOME** (in Thousands of ₹)

	For the year ended 31 March 2013	For the year ended 31 March 2012
I. Commission, exchange and brokerage	3,046,834	2,515,690
II. Profit on sale of investments (Net)	2,057,560	820,706
III. Profit on revaluation of investments (Net)	–	–
IV. Profit on sale of land, buildings and other assets (Net)	1,908	3,316
V. Profit on foreign exchange transactions (Net)	793,960	842,086
VI. Income earned by way of dividends etc. from companies in India	58,874	51,246
VII. Miscellaneous income	685,262	1,090,388
[Includes Recoveries in assets written off ₹ 4812.13 lakh (previous year ₹ 8573.78 lakh)]		
Total	**6,644,398**	**5,323,432**

Schedule: 15 **INTEREST EXPENDED** (in Thousands of ₹)

	For the year ended 31 March 2013	For the year ended 31 March 2012
I. Interest on deposits	38,375,495	33,312,800
II. Interest on Reserve Bank of India/Inter bank borrowings	779,355	485,465
III. Others	2,774,273	2,251,586
Total	**41,929,123**	**36,049,851**

Schedule: 16 **OPERATING EXPENSES** (in Thousands of ₹)

	For the year ended 31 March 2013	For the year ended 31 March 2012
I. Payments to and provisions for employees	6,264,594	5,438,538
II. Rent, taxes and lighting	1,327,280	948,128
III. Printing and stationery	126,446	103,690
IV. Advertisement and publicity	126,921	160,510
V. Depreciation on Banks property	789,051	568,831
Less: Depreciation on revaluation of Premises transferred from Revaluation Reserve	2,077	2,186
	786,974	566,645
VI. Directors' fees, allowances and expenses	7,738	6,964
VII. Auditors' fees and expenses (including branch auditors fees and expenses)	52,668	44,991
VIII. Law charges	57,931	49,644
IX. Postage, Telegrams, Telephones etc.	323,205	276,189
X. Repairs and maintenance	438,544	373,219
XI. Insurance	472,681	435,371
XII. Other expenditure	1,810,407	1,388,842
Total	**11,795,389**	**9,792,731**

Significant Accounting Policies

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH, 2013**

1 Background

The Federal Bank Limited ('the Bank') was incorporated in 1931 as Travancore Federal Bank Limited to cater to the banking needs of Travancore Province by a small group of local citizens. It embarked on a phase of sustained growth under the leadership of Late K.P. Hormis. The Bank has a network of 1131 branches / offices in India and provides retail and corporate banking, para banking activities such as debit card, third party product distribution, in addition to treasury and foreign exchange business. The bank is governed by Banking Regulation Act, 1949 and other applicable Acts/ Regulations. The Bank's shares are listed in the Bombay Stock Exchange Limited, Cochin Stock Exchange Limited and National Stock Exchange of India Limited. The GDRs issued by the Bank in 2006 have been listed on the London Stock Exchange.

2. Basis of preparation

The financial statements have been prepared and presented under the historical cost convention on accrual basis of accounting, and comply with the generally accepted accounting principles, statutory requirements prescribed under the Banking Regulation Act, 1949, the circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time and the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, to the extent applicable and current practices prevailing within the banking industry in India.

3. Use of estimates

The preparation of the financial statements in conformity with the generally accepted accounting principles requires the Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. The Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Any revisions to the accounting estimates are recognised prospectively in the current and future periods.

4. Significant accounting policies

4.1 Advances

Advances are classified into performing assets (Standard) and non-performing assets ('NPAs') as per the RBI guidelines and are stated net of specific provisions made towards NPAs and floating provisions. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Provisions for NPAs are made over and above the minimum required as per the guidelines of the RBI on matters relating to prudential norms.

Advances shown in the Balance Sheet are net of (a) bills rediscounted and (b) provisions made for non performing advances.

Loss assets and unsecured portion of doubtful assets are provided / written off as per the RBI guidelines.

Amounts recovered against debts written off are recognised in the profit and loss account.

For restructured/rescheduled assets, provision is made in accordance with the guidelines issued by the RBI, which requires the diminution in the fair value of the assets to be provided at the time of restructuring.

A general provision for standard advances is made @ 0.25% in case of direct advances to agricultural and SME sectors, 1 % in respect of advances classified as commercial real estate, 2.75 % in respect of certain class of restructured assets and 0.40% for all other advances as prescribed by the RBI.

4.2 Country risk

In addition to the provisions required to be held according to the asset classification status, provisions are held for individual country exposure (other than for home country). The countries are categorised into seven risk categories namely insignificant, low, moderate, high, very high, restricted and off-credit and provision is made on exposures exceeding 180 days on a graded scale ranging from 0.25% to 100%. For exposures with contractual maturity of less than 180 days, 25% of the normal provision requirement is held. If the country exposure (net) of the Bank in respect of each country does not exceed 1 % of the total funded assets, no provision is maintained on such country exposure.

4.3 Investments

Classification

In accordance with the RBI guidelines, investments are categorised into "Held for Trading" (HFT), "Available for Sale" (AFS) and "Held to Maturity" (HTM) and further classified under six groups, viz. Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Subsidiaries / joint ventures and other investments for the purposes of disclosure in the Balance Sheet.

a) Investments which are held for sale within 90 days from the date of purchase are classified as "Held for Trading".

b) Investments which the bank intends to hold till maturity are classified as "Held to Maturity".

c) Investments which are not classified in either of the above two categories are classified as "Available for Sale".

Significant Accounting Policies

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

Acquisition Cost

Transaction costs including brokerage and commission pertaining to acquisition of investments are charged to the Profit and Loss Account.

Broken period interest is charged to the Profit and Loss Account.

Cost of investments is computed based on the weighted average cost method.

Valuation

The valuation of investments is made in accordance with the RBI Guidelines:

a) Held for Trading/Available for Sale – Each security in this category is valued at the market price or fair value and the net depreciation of each group is recognised in the Profit and Loss account. Net appreciation, if any, is ignored.

   The market value of investments where current quotations are not available is determined as per the norms prescribed by RBI.

b) Held to Maturity – These are carried at their acquisition cost. Any premium on acquisition of government securities are amortised over the remaining maturity period of the security. Any diminution, other than temporary, in the value of such securities is provided for.

c) Repurchase and reverse repurchase transactions – These are accounted as outright sale and outright purchase respectively. The difference between the clean price of the first leg and the clean price of the second leg is recognised as interest income / interest expense over the period of the transaction. However, depreciation in their value, if any, compared to their original cost, is provided for.

d) In respect of securities included in any of the three categories of investments where interest / principal is in arrears, for more than 90 days, income thereon is not reckoned and appropriate provision for the depreciation in the value of the investments is made, as per prudential norms applicable to non-performing investments. Debentures / Bonds in the nature of advances are subjected to usual prudential norms applicable to advances.

e) Market value of investments where current quotations are not available, is determined as per the norms prescribed by the RBI as under:

   - in case of unquoted bonds, debentures and preference shares where interest/dividend is received regularly (i.e. not overdue beyond 90 days), the market price is derived based on the YTM for Government Securities as published by Fixed Income Money Market and Derivatives Association of India (FIMMDA) / Primary Dealers Association of India (PDAI) and suitably marked up for credit risk applicable to the credit rating of the instrument. The matrix for credit risk mark-up for each categories and credit ratings along with residual maturity issued by FIMMDA is adopted for this purpose;
   - in case of bonds and debentures (including Pass Through Certificates) where interest is not received regularly (i.e. overdue beyond 90 days), the valuation is in accordance with prudential norms for provisioning as prescribed by RBI;
   - equity shares, for which current quotations are not available or where the shares are not quoted on the stock exchanges, are valued at break-up value (without considering revaluation reserves, if any) which is ascertained from the company's latest Balance Sheet. In case the latest Balance Sheet is not available, the shares are valued at ₹ 1 per company;
   - Units of Venture Capital Funds (VCF) held under AFS category where current quotations are not available are marked to market based on the Net Asset Value (NAV) shown by VCF as per the latest audited financials of the fund. In case the audited financials are not available for a period beyond 18 months, the investments are valued at ₹ 1 per VCF. Investment in unquoted VCF after 23rd August, 2006 are categorised under HTM category for the initial period of three years and valued at cost as per RBI guidelines;
   - Investment in security receipts are valued as per the Net Asset Value (NAV) obtained from the issuing Reconstruction Company /Securitisation Company.

Investments in subsidiaries/associates are categorised as HTM and assessed for impairment to determine permanent diminution, if any, in accordance with the RBI guidelines.

All investments are accounted for on settlement dates except investments in equity shares which are accounted for on trade date as the corporate actions are effected in equity on the trade date.

Transfer between Categories

Transfer between categories is done at the lower of the acquisition cost / book value / market value on the date of the transfer and the depreciation, if any, on such transfer is fully provided for.

Significant Accounting Policies

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

Profit or Loss on Sale / Redemption of Investments

a) Held for Trading and Available for Sale – Profit or loss on sale / redemption is included in the Profit and Loss account.

b) Held to Maturity – Profit or loss on sale / redemption of investments is included in the Profit and Loss account. In case of profits, the same is appropriated to Capital Reserve after adjustments for tax and transfer to statutory reserve in accordance with RBI guidelines.

Repo and Reverse Repo Transactions

In respect of Repo transactions under Liquidity Adjustment Facility (LAF) with RBI, monies borrowed from RBI are credited to investment account and reversed on maturity of the transaction. Costs thereon are accounted for as interest expense. In respect of Reverse Repo transactions under LAF, monies paid to RBI are debited to investment account and reversed on maturity of the transaction. Revenues thereon are accounted as interest income.

4.4 Foreign currency transactions

Transactions denominated in foreign currencies are accounted for at the rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated at the Balance Sheet date at rates notified by Foreign Exchange Dealers Association of India ('FEDAI'). All profits/losses resulting from year end revaluations are recognised in the Profit and Loss Account.

Outstanding forward exchange contracts including currency swaps undertaken to hedge foreign currency assets/ liabilities, funding swaps and spot exchange contracts are revalued at quarter end exchange rates notified by FEDAI for specified maturities and at interpolated rates for contracts of interim maturities The resulting gains or losses on revaluation are included in the Profit and Loss Account in accordance with RBI/FEDAI guidelines. The forward exchange contracts of longer maturities where exchange rates are not notified by FEDAI are revalued at the forward exchange rates implied by the swap curves in respective currencies. The resultant gains or losses are recognised in the Profit and Loss Account.

Currency futures contracts are marked to market using daily settlement price on a trading day, which is the closing price of the respective futures contracts on that day. While the daily settlement price is computed based on the last half an hour weighted average price of such contract, the final settlement price is taken as the RBI reference rate on the last trading day of the futures contract or as may be specified by the relevant authority from time to time. All open positions are marked to market based on the settlement price and the resultant marked to market profit/loss is daily settled with the exchange.

Contingent liabilities on account of foreign exchange contracts, guarantees, acceptances, endorsements and other obligations denominated in foreign currencies are disclosed at closing rates of exchange notified by FEDAI.

4.5 Derivative transactions

The Bank recognises all derivative contracts at the fair value, on the date on which the derivative contracts are entered into and are re-measured at fair value as at the Balance Sheet or reporting dates. Derivatives are classified as contingent Assets/ Liabilities. In respect of derivative contracts that are marked to market, negative market value is recognised in the Statement of Profit and Loss in the relevant period. Contingent liabilities on account of derivative contracts denominated in foreign currencies are reported at closing rates of exchange notified by FEDAI at the Balance Sheet date.

4.6 Fixed assets and depreciation

Fixed assets are carried at cost of acquisition less accumulated depreciation and impairment, if any. Cost includes freight, duties, taxes and incidental expenses related to the acquisition and installation of the asset.

Capital work-in-progress includes cost of fixed assets that are not ready for their intended use and also includes advances paid to acquire fixed assets.

Premises which were revalued are stated at such values on revaluation and the appreciation credited to the Revaluation Reserve.

Depreciation is provided on the written down value from the date of addition at the rates prescribed in Schedule XIV to the Companies Act, 1956 except in the following cases where higher rate of depreciation has been provided on a straight – line basis.

Asset	Rate of Depreciation
Computers and Accessories, Mobile Phones, EPABX	33.33%
Software Expenditure	33.33%
Improvements to leased premises	20.00%

Significant Accounting Policies

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

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 Revaluation Reserve to the Profit and Loss Account.

All fixed assets individually costing less than ₹ 5,000 are fully depreciated in the year of installation.

Depreciation on assets sold during the year is recognised on a pro-rata basis till the date of sale.

4.7 Impairment of Assets

The carrying amounts of assets are reviewed at each Balance Sheet date to ascertain if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

4.8 Non-Banking Assets

Non-Banking assets acquired in settlement of debts /dues are accounted at the lower of their cost of acquisition or net realisable value.

4.9 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, balances with Reserve Bank of India and Balances with Other Banks / institutions and money at call and short notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

4.10 Revenue Recognition

Interest income is recognised on an accrual basis except interest income on non-performing assets, which is recognised on receipt in accordance with AS-9, Revenue Recognition as notified under the Companies (Accounting Standards) Rules, 2006 and the RBI guidelines.

Guarantee commission, commission on letter of credit and annual locker rent fees are recognised on a straight line basis over the period of contract. Other fees and commission income are recognised when due, except in cases where the bank is uncertain of ultimate collection.

Dividend is accounted on an accrual basis when the right to receive the dividend is established.

Gain or loss arising on sale of NPAs is accounted as per the guidelines prescribed by the RBI, which require provisions to be made for any deficit (where sale price is lower than the net book value), while surplus (where sale price is higher than the net book value) is ignored.

Loan Syndication fee is accounted for on completion of the agreed service and when right to receive is established.

Unpaid funded interest on term loans are accounted on realisation as per the guidelines of RBI.

The bank imports gold coins on a consignment basis for selling to its customers. The difference between the sale price to customers and cost of purchase is included in other income.

4.11 Finance Lease

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.

4.12 Retirement and other employee benefits

a) Provident Fund

The contribution made by the bank to The Federal Bank Employees Provident Fund, administered by the trustees is charged to Profit and Loss account.

b) Pension Fund

The contribution towards The Federal Bank Employees' Pension Fund, managed by trustees, is determined on actuarial basis on projected unit credit method as on the Balance Sheet date and is recognised in the accounts. However,

Significant Accounting Policies

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

the liability arising on account of re-opening of pension option to existing employees who had joined prior to 29th September 1995 and not exercised the option earlier, is amortised over a period of five years commencing from the financial year 2010-11 as permitted by the Reserve Bank of India.

Employees who had joined the services of the Bank with effect from April 01, 2010 are covered under Defined Contributory Pension Scheme (DCPS). In respect of such employees the bank contributes 10% of the Basic Pay plus Dearness Allowance and the expenditure thereof is charged to Profit and Loss account.

c) Gratuity

The bank makes annual contribution to The Federal Bank Employees' Gratuity Trust Fund administered and managed by the Trustees. The cost of providing such 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 recognised in the Statement of Profit and Loss in the period in which they occur. The retirement benefit obligation recognised in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the schemes.

d) Compensation for absence on Privilege / Sick / Casual Leave and Leave Travel Concession (LTC)

The employees of the bank are entitled to compensated absence on account of privilege / sick / casual leave as per the leave rules. The bank measures the long term expected cost of compensated absence as a result of the unused entitlement that has accumulated at the balance sheet date based on actuarial valuation and such costs are recognised in the accounts.

The employees are also eligible for LTC as per the rules. The estimated cost of unused entitlement as on the Balance Sheet date based on actuarial valuation is provided for.

4.13 Debit card reward points

Provision for probable redemption of debit card reward points is made on an estimated basis.

4.14 Employee Stock Option Scheme

The Bank has formulated Employee Stock Option Scheme (ESOS) 2010 in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999. The Scheme provides for grant of options to Employees of the Bank to acquire Equity Shares of the Bank that vest in a graded manner and that are to be exercised within a specified period. In accordance with the SEBI Guidelines and the guidance note on "Accounting for Employee Share based payments" issued by the ICAI, the excess, if any, of the market price of the share preceding the date of grant of the option under ESOS over the exercise price of the option is amortised on a straight line basis over the vesting period.

4.15 Taxation

Income tax expense is the aggregate amount of current tax and deferred tax charge. Current year taxes are determined in accordance with the Income tax Act, 1961. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the taxes on income levied by same governing taxation laws. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. The impact of changes in the deferred tax assets and liabilities is recognised in the Profit and Loss Account.

Deferred tax assets are recognised and reassessed at each reporting date, based upon the Management's judgement as to whether realisation is considered as reasonably certain. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax asset can be realised against future profits.

4.16 Segment Reporting

Business Segments have been identified and reported taking into account, the target customer profile, the nature of product and services, the differing risks and returns, the organization structure, the internal business reporting system and guidelines issued by RBI vide notification dated April 18, 2007. The Bank operates in the following business segments;

a) Treasury

The treasury services segment primarily consists of interest earnings on investments portfolio of the bank, gains or losses

Significant Accounting Policies

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

on investment operations and earnings from foreign exchange business. The principal expenses of the segment consist of interest expense on funds borrowed and other expenses.

b) Corporate / Whole Sale Banking

The Corporate / Whole sale Banking segment provides loans and other banking services to segment identified on the basis of RBI guidelines. Revenues of this segment consist of interest earned on exposure exceeding ₹ 5 Crore per customer and the charges / fees earned from other banking services to these customers. The principal expenses of the segment consist of interest expense on funds borrowed and other expenses.

c) Retail Banking

The Retail Banking segment provides loans and other banking services to customers other than Corporate / Whole Sale Banking customers, identified on the basis of RBI guidelines. Revenues of this segment consist of interest earned on Loans made to such customers and the charges / fees earned from other banking services from them. The principal expenses of the segment consist of interest expense on funds borrowed and other expenses.

d) Other Banking Operations

This segment includes income from para banking activities such as debit cards, third party product distribution and associated costs.

Geographic Segment

The Bank operates only in India.

4.17 Earnings per Share

The Bank reports basic and diluted earnings per share in accordance with AS 20, Earnings per Share, as notified by the Companies (Accounting Standards) Rules, 2006. Basic earnings per share is computed by dividing the net profit after tax by the weighted average number of equity shares outstanding for the year.

Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were converted or exercised during 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.

4.18 Provisions, contingent liabilities and contingent assets

A provision is recognised when the Bank has a present obligation as a result of past event where it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

A disclosure of contingent liability is made when there is:

- a possible obligation arising from a past event, the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Bank; or
- a present obligation arising from a past event which is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

4.19 Service tax input credit

Service tax input credit is accounted for in the books in the period in which the underlying service received is accounted and when there is no uncertainty in availing / utilising the credits.

4.20 Net Profit

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

(a) provision/ Write off of Non – Performing Assets as per the norms prescribed by RBI;
(b) Provision for Taxes;
(c) Depreciation/ Write off of Investments; and
(d) Other usual, necessary and mandatory provisions, if any

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013**

1. Disclosures as per RBI's Master Circular on Disclosure in Financial Statements

1.1. Capital Adequacy Ratios

The Bank's Capital Adequacy Ratios calculated in accordance with the RBI guidelines are as follows:

(₹ in Crore)

Particulars	31 March 2013		31 March 2012	
	Basel II	Basel I	Basel II	Basel I
Tier I Capital	6,139.06	5,949.34	5,605.91	5,416.18
Tier II Capital	278.72	468.44	275.47	465.20
Total Capital	**6,417.78**	**6,417.78**	**5,881.38**	**5,881.38**
Total Risk Weighted Assets and Contingencies	**43,559.63**	**49,045.63**	**35,353.10**	**42,518.80**
Capital Ratios				
i) Capital to Risk Assets Ratio (CRAR) - Tier I Capital (%)	14.09	12.13	15.86	12.74
ii) CRAR - Tier II Capital (%)	0.64	0.96	0.78	1.09
iii) CRAR (%)	14.73	13.09	16.64	13.83
iv) Percentage of the shareholding of the Government of India in nationalized banks	Nil	Nil	Nil	Nil
v) Amount of subordinated Debt raised as Tier II capital (₹ Crore)	Nil	Nil	Nil	Nil
vi) Amount raised by issue of IPDI (₹ Crore)	Nil	Nil	Nil	Nil
vii) Amount raised by issue of Upper Tier-II Instruments (₹ Crore)	Nil	Nil	Nil	Nil

The computation of CRAR as per Basel II is compiled by the management and relied upon by the Auditors.

1.2. The Key business ratios and other information:

Particulars	As at 31 March 2013	As at 31 March 2012
(i) Interest Income as a percentage to Working Funds* (%)	9.93	10.09
(ii) Non-interest income as a percentage to Working Funds* (%)	1.07	0.97
(iii) Operating Profit as a percentage to Working Funds* (%)	2.35	2.73
(iv) Return on Assets [Based on Working Fund] *(%)	1.35	1.41
(v) Business (Deposits less inter-bank deposits plus advances) per employee (₹ Crore)**	10.75	10.11
(vi) Profit per employee (₹ Crore)**	0.09	0.09

* Working Funds represent average of total assets as reported to RBI in Form X under Section27 of the Banking Regulation Act, 1949 during the year.

** Productivity ratios are based on average employee numbers for the year.

1.3. 'Provisions and Contingencies' recognised in the Profit and Loss Account include:

(₹ in Crore)

For the year ended / As at	31 March 2013	31 March 2012
i) Provision towards NPAs (net)	189.28	221.77
ii) Provision for Depreciation in Value of Investments (Net)	(41.49)	34.86
iii) Provision for Non - Performing Investments	4.67	–
iv) Provision for Standard Assets	49.34	36.45
v) Provision for Taxation :		
Current Tax	514.81	305.90
Deferred tax	(159.22)	86.81
vi) Provision towards Present Value of sacrifice on restructuring, expected Wage Revision, other contingencies etc.	64.00	43.89
Total	621.39	729.68

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.4. Investments

1.4.1. Details of Investments:

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
(1) Value of Investments		
(i) Gross Value of Investments		
(a) In India	21,169.14	17,453.85
(b) Outside India	–	–
(ii) Provisions for Depreciation		
(a) In India	9.88	51.37
(b) Outside India	–	–
(iii) Provisions for Non-Performing Investments		
(a) In India	4.67	–
(b) Outside India	–	–
(iv) Net Value of Investments		
(a) In India	21,154.59	17,402.48
(b) Outside India	–	–
(2) Movement of provision held towards depreciation on Investments.		
(i) Opening balance	51.37	16.50
(ii) Add: Provisions made during the year	–	51.37
(iii) Less: Write-off/ write-back of excess provisions during the year	41.49	16.50
(iv) Closing balance	9.88	51.37
(3) Movement of provision for Non Performing Investments (NPI)		
(i) Opening Balance	–	–
(ii) Add: Provision made during the year	4.67	–
(iii) Less: Write –off/ Write back of excess provisions during the year	–	–
(iv) Closing Balance	4.67	–

1.4.2. a) Investments under HTM (excluding specified investments as per RBI norms) account for 23.84% (previous year 24.95%) of demand and time liabilities as at the end of March 2013 as against permitted ceiling of 25% stipulated by RBI.

b) In respect of securities held under HTM category premium of ₹22.10 Crore (previous year : ₹22.13 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 ₹45.30 Crore (previous year : ₹10.66 Crore) has been taken to Profit and Loss Account. During the year, the Bank has appropriated ₹ 22.95 Crore (previous year ₹ 5.40 Crore), net of taxes, to the Capital Reserve, being the gain on sale of HTM investments in accordance with RBI guidelines.

1.4.3. Repo Transactions

Details of securities sold/purchased (in face value terms) during the years ended 31st March, 2013 and 31st March, 2012 under repos/reverse repos (excluding LAF transactions):

(₹ in Crore)

	Outstanding during the year			Outstanding
Particulars	Minimum	Maximum	Daily Average	as on 31/03/2013
A) Securities sold under REPOs				
i) Government Securities	– (–)	2400 (2500.00)	319.53 (356.15)	1400 (2500.00)
ii) Corporate Debt Securities	– (–)	– (–)	– (–)	– (–)
Securities purchased under REVERSE REPOs				
i) Government Securities	– (–)	– (1000.00)	– (10.11)	– (–)
ii) Corporate Debt Securities	– (–)	– (–)	– (–)	– (–)

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.4.3. Repo Transactions *(contd...)*

(₹ in Crore)

Particulars	Outstanding during the year			Outstanding
	Minimum	Maximum	Daily Average	as on 31/03/2013
B) Securities sold under Market REPOs				
i) Government Securities	– (–)	– (–)	– (–)	– (–)
ii) Corporate Debt Securities	– (–)	– (–)	– (–)	– (–)
Securities purchased under REVERSE Market REPOs				
i) Government Securities	– (–)	– (–)	– (–)	– (–)
ii) Corporate Debt Securities	– (–)	– (–)	– (–)	– (–)

(Previous year's figures are given in brackets)

1.4.4. Details of Non-SLR investment portfolio

a) Issuer composition as at 31 March, 2013 of non-SLR investments

(₹ in Crore)

Sl. No.	Issuer	Amount	Extent of private placement	Extent of 'below investment grade' securities	Extent of 'unrated' securities **	Extent of 'unlisted' Securities ***
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Public Sector Units	73.80 (80.93)	52.00 (68.00)	– (–)	– (–)	– (–)
2	Financial Institutions	51.02 (73.29)	50.50 (50.50)	– (–)	– (–)	– (–)
3	Banks	2651.41 (1309.82)	89.68 (69.68)	– (–)	– (–)	– (–)
4	Private Corporates	810.41 (1932.66)	525.93 (601.56)	27.86 (–)	11.46 (6.72)	78.45 (74.21)
5	Subsidiaries/ Joint ventures	398.00 (398.00)	398.00 (398.00)	– (–)	– (–)	398.00 (398.00)
6	Others	2602.21 (2092.86)	99.72 (46.01)	– (–)	– (–)	– (–)
7	Less: Provision held towards depreciation	7.85 (16.31)	xx	xx	xx	xx
	Total	**6579.00 (5871.25)**	**1215.83 (1233.75)**	**27.86 (–)**	**11.46 (6.72)**	**476.45 (472.21)**

(Previous year's figures are given in brackets)

Amount reported under column (4), (5), (6) and (7) above are not mutually exclusive

** Excluding Investments in Shares ₹262.98 Crore (Previous Year ₹ 193.42 Crore)

*** Excluding Investments in Pass through Certificates ₹7.70 Crore (Previous Year ₹ 0.17 Crore)

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

b) Non-SLR investments category-wise:

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
Shares	256.42	190.73
Debentures and Bonds	801.74	960.35
Subsidiaries / Joint Ventures	398.00	395.92
Others	5122.84	4324.25
Total	**6579.00**	**5871.25**

c) Non-performing Non-SLR investments

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
Opening Balance	–	–
Additions during the year	4.67	–
Reductions during the year	–	–
Closing Balance	4.67	–
Total Provisions held	**4.67**	–

1.4.5. Sale and transfers to/ from HTM Category

During the current year, the value of sales/transfers of securities to/from HTM category (excluding one-time transfer of securities and sales to RBI under OMO auctions) was within 5% of the book value of investments held in HTM category at the beginning of the year.

1.5. Derivatives

Disclosure in respect of Outstanding Interest Rate Swaps (IRS) and Forward Rate Agreement (FRA)

1.5.1 Exchange Traded Interest Rate Derivatives:

(₹ in Crore)

Sl No.	Particulars	31 March 2013	31 March 2012
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)	Nil	Nil
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March 2013	Nil	Nil
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective"	Nil	Nil
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective"	Nil	Nil

1.5.2 Forward Rate Agreement (FRA)/ Interest Rate Swap (IRS)

(₹ in Crore)

Sl No.	Particulars	31 March 2013	31 March 2012
i)	The notional principal of swap agreements	1250.00	1075.00
ii)	Losses which would be incurred if counter parties failed to fulfil their obligations under the agreements	4.94	22.80
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	0.67	0.22

The nature and terms of the IRS as on 31 March, 2013 are set out below:

(₹ in Crore)

Nature	Nos.	Notional Principal	Benchmark	Terms
Hedging				
Trading	25	625	NSE MIBOR	Fixed payable v/s floating receivable
Trading	25	625	NSE MIBOR	Fixed Receivable/floating payable

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

The nature and terms of the IRS as on 31 March, 2012 are set out below: (₹ in Crore)

Nature	Nos.	Notional Principal	Benchmark	Terms
Hedging				
Trading	21	525	NSE MIBOR	Fixed payable v/s floating receivable
Trading	22	550	NSE MIBOR	Fixed Receivable/floating payable

1.5.3. Disclosure on Risk exposure in Derivatives

a) Qualitative Disclosures

Structure, organization, scope and nature of management of risk in derivatives etc.

The Treasury Department is organised into three functional areas, ie, front office, mid office and back office under the charge of Assistant General Managers with overall supervision and control by President – Treasury. Derivative deals are generally executed for market making. Although fresh derivative deals are not undertaken, the outstanding position of earlier years is managed by the back office.

The risk in the derivatives is monitored regularly by 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 the Board at regular intervals. The current outstanding under the derivatives portfolio were executed for trading purposes.

Accounting:

Board Approved Accounting Policies as per RBI guidelines have been adopted. The 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/Primary Dealers (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. No derivative contracts are done for other clients as of now.

b) Quantitative Disclosures (₹ in Crore)

Sl. No.	Particulars	As at 31 March 2013	
		Currency Derivatives	Interest rate Derivatives
(i)	Derivatives (Notional Principal Amount)		
	a) For hedging		
	b) For trading	–	1250
(ii)	Marked to Market positions (1)		
	a) Asset (+)	–	4.94
	b) Liabilities (-)	–	–4.27
(iii)	Credit Exposure (2)		17.44
(iv)	Likely impact of one percentage change in interest rate (100*PV01)		
	a) on hedging derivatives	–	–
	b) on trading derivatives	–	0.003
(v)	Maximum and Minimum of 100*PV01 observed during the year		
	a) on hedging	–	
	b) on trading	–	Max 0.017 Min 0.003

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

b) Quantitative Disclosures *(Contd...)*

(₹ in Crore)

Sl. No.	Particulars	As at 31 March 2012 Currency Derivatives	As at 31 March 2012 Interest rate Derivatives
(i)	Derivatives (Notional Principal Amount)		
	a) For hedging	206.04	–
	b) For trading	–	1075
(ii)	Marked to Market positions (1)		
	a) Asset (+)	22.93	8.59
	b) Liabilities (-)	–	–8.37
(iii)	Credit Exposure (2)	23.96	10.75
(iv)	Likely impact of one percentage change in interest rate (100*PV01)		
	a) on hedging derivatives	0.01	–
	b) on trading derivatives	–	(0.01)
(v)	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

1.6. Asset Quality

1.6.1 Net non-performing assets

(%)

Particulars	31 March 2013	31 March 2012
Net non-performing assets as a percentage of net advances.	0.98	0.53

1.6.2 Movement in gross non-performing assets

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
Gross NPAs as on 1st April (Opening Balance)	1,300.83	1,148.33
Additions (Fresh NPAs) during the year	807.00	695.31
Sub total (A)	2,107.83	1,843.64
Less:		
(i) Upgradations	159.08	75.68
(ii) Recoveries (excluding recoveries made from upgraded accounts)	224.06	305.67
(iii) Write offs	11.47	108.35
(iv) Reduction by Sale of Assets to ARCs	159.21	53.11
Sub-total (B)	**553.82**	**542.81**
Gross NPAs as on 31 March (Closing Balance)	**1,554.01**	**1,300.83**

1.6.3 Movement in net non-performing assets

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
Opening Balance at the beginning of the year	199.00	190.69
Additions during the year	605.67	439.26
Reductions during the year	372.73	430.95
Closing Balance at the end of the year	**431.94**	**199.00**

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.6.4 Movement in provisions for non-performing assets

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
Opening Balance	1,055.33	942.34
Additions during the year	189.28	221.77
Reductions during the year	146.74	108.78
Closing Balance	**1,097.87**	**1,055.33**

1.6.5 Sector wise Non-performing Assets

Sl. No.	Sector	Percentage of NPAs to Total Advances in that Sector	
		31 March, 2013	31 March, 2012
1	Agriculture and allied Activities	3.11%	3.42%
2	Industry (Micro and Small, Medium and Large)	6.59%	6.97%
3	Services	6.99%	4.10%
4	Personal loans	23.31%	14.13%

Above information is provided as per the internal classification by management and has been relied upon by the auditors.

1.6.6 Movement in floating provision:

(₹ in Crore)

Particulars	Standard Assets		NPA Provision	
	2012-13	2011-12	2012-13	2011-12
(a) Opening Balance	38.00	38.00	179.52	179.52
(b) Additional provision for the year	Nil	Nil	Nil	Nil
(c) Draw down during the year	Nil	Nil	Nil	Nil
(d) Closing Balance	38.00	38.00	179.52	179.52

1.6.7 The Provisioning coverage ratio of the bank computed in terms of the RBI Guidelines as on 31 March, 2013 was 80.96% (Previous Year 88.85%).

1.6.8 Movement of Provision on Standard Assets

(₹ in Crore)

Particulars	2012-13	2011-12
(a) Opening Balance	196.04	159.59
(b) Addition/Adjustments during the year	49.34	36.45
(c) Deduction during the year	–	–
(d) Closing Balance	245.38	196.04

1.6.9 Amount of Provisions made for income-tax during the year

(₹ in Crore)

Particulars	2012-13	2011-12
Provision for Income Tax		
a) Current Tax for the year	514.81	305.90
b) Deferred Tax for the year	(159.22)	86.81

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.6.10 Particulars of Accounts Restructured

Details of loan assets subjected to restructuring during the year ended 31 March, 2013:

(₹ in Crore)

Type of Restructuring		Under CDR Mechanism					Under SME Debt Restructuring Mechanism				
Asset Classification		Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
Restructured accounts as on April 1 of the FY (Opening Balance)	No. of borrowers	5	2	1	0	8	77	22	90	14	203
	Amount Outstanding – (a)Restructured facility	96.35	68.51	31.56	0	196.42	139.57	39.04	82.32	9.55	270.48
	b)Other Facility	–	5.66	–	–	5.66	3.15	0.35	–	–	3.50
	Provision thereon	31.75	12.37	7.26	0	51.38	6.01	0.85	5.77	0.14	12.77
Fresh Restructuring during the year	No. of borrowers	7	1	0	0	8	14	1	0	0	15
	Amount Outstanding – (a)Restructured facility	207.49	35.62	0	0	243.11	83.92	2.6	0	0	86.52
	b)Other Facility	14.68	–	–	–	14.68	12.65	0.64	–	–	13.29
	Provision thereon	16.98	5.40	0	0	22.38	3.44	0.19	0	0	3.63
Upgradation to restructured standard category during the FY	No. of borrowers	1	0	0	0	1	0	0	0	0	0
	Amount Outstanding – (a)Restructured facility	44.08	0	0	0	44.08	0	0	0	0	0
	b)Other Facility	2.70	–	–	–	2.70	–	–	–	–	–
	Provision thereon	10.18	0	0	0	10.18	0	0	0	0	0
Restructured Standard Advances which cease to attract higher provisioning and/ or additional risk weight at the end of FY	No. of borrowers	0				0	10				10
	Amount Outstanding – (a)Restructured facility	0				0	15.30				15.30
	b)Other Facility										
	Provision thereon	0					0.82				0.82
Downgradation of restructured accounts during the FY	No. of borrowers	0	0	1	0	1	0	14	0	0	14
	Amount Outstanding – (a) Restructured facility	0	0	32.30	0	32.30	0	17.82	0	0	17.82
	b)Other Facility	–	–	–	–	–	–	8.74	–	–	8.74
	Provision thereon	0		2.19		2.19		0.88			0.88
Write-offs of restructured accounts during the FY	No. of borrowers	0	0	0	0	0	0	0	9	0	9
	Amount Outstanding – (a)Restructured facility	0	0	0	0	0	0	0	27.50	0	27.50
	b)Other Facility	–	–	–	–	–	–	–	–	–	–
	Provision thereon	0							0.57		0.57
Restructured accounts as on March 31 of the FY (closing figures)	No. of borrowers	13	1	2	0	16	102	14	70	9	195
	Amount Outstanding – (a)Restructured facility	337.64	35.62	70.78	0	444.04	201.48	17.82	76.31	10.13	305.74
	b)Other Facility	65.94	–	17.54	–	83.48	90.81	6.76	28.27	5.27	131.11
	Provision thereon	36.89	5.40	2.59	0	44.88	9.78	0.56	4.26	0.08	14.68

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.6.10 Particulars of Accounts Restructured

Details of loan assets subjected to restructuring during the year ended 31 March, 2013:

(₹ in Crore)

Type of Restructuring		Others					Total				
Asset Classification		Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
Restructured accounts as on April 1 of the FY (Opening Balance)	No. of borrowers	318	57	174	66	615	400	81	265	80	826
	Amount Outstanding – (a)Restructured facility	1100.35	31.74	187.42	20.19	1339.70	1336.27	139.29	301.30	29.74	1806.60
	b)Other Facility	72.92	11.73	–	–	84.65	76.07	17.74	–	–	93.81
	Provision thereon	22.62	0.53	2.04	4.95	30.14	60.38	13.75	15.07	5.09	94.29
Fresh Restructuring during the year	No. of borrowers	81	5	0	0	86	102	7	0	0	109
	Amount Outstanding – (a)Restructured facility	525.76	4.66	0	0	530.42	817.17	42.88	0	0	860.05
	b)Other Facility	75.42	20.69	–	–	96.11	102.75	21.33	–	–	124.08
	Provision thereon	67.66	2.96	0	0	70.62	88.08	8.55	0	0	96.63
Upgradation to restructured standard category during the FY	No. of borrowers	17	0	0	0	17	18	0	0	0	18
	Amount Outstanding – (a)Restructured facility	3.71	0	0	0	3.71	47.79	0	0	0	47.79
	b)Other Facility	0.06	–	–	–	0.06	2.76	–	–	–	2.76
	Provision thereon	0.05	0	0	0	0.05	10.23	0	0	0	10.23
Restructured Standard Advances which cease to attract higher provisioning and/or additional risk weight at the end of FY	No. of borrowers	66				66	76				76
	Amount Outstanding – (a)Restructured facility	30.66				30.66	45.96				45.96
	b)Other Facility	1.32				1.32	1.32				1.32
	Provision thereon	0.28				0.28	1.10				1.10
Downgradation of restructured accounts during the FY	No. of borrowers	0	40	2	13	55	0	54	3	13	70
	Amount Outstanding – (a)Restructured facility	0	7.29	0.32	99.82	107.43	0	25.11	32.62	99.82	157.55
	b)Other Facility	–	1.17	–	–	1.17	–	9.91	–	–	9.91
	Provision thereon	0	0.23	0.02	4.92	5.17	0	1.11	2.21	4.92	8.24
Write-offs of restructured accounts during the FY	No. of borrowers	0	0	15	26	41	0	0	24	26	50
	Amount Outstanding – (a)Restructured facility	0	0	17.11	0.02	17.13	0	0	44.61	0.02	44.63
	b)Other Facility	–	–	–	–	–	–	–	–	–	–
	Provision thereon	0	0	0.32	0	0.32	0	0	0.89	0	0.89
Restructured accounts as on March 31 of the FY (closing figures)	No. of borrowers	315	42	115	73	545	430	57	187	82	756
	Amount Outstanding – (a)Restructured facility	1416.25	7.44	67.14	167.98	1658.81	1955.37	60.88	214.23	178.11	2408.59
	b)Other Facility	397.04	1.19	22.07	14.78	435.08	553.79	7.95	67.88	20.05	649.67
	Provision thereon	111.73	0.36	0.7	0.18	112.97	158.40	6.32	7.55	0.26	172.53

Note: This note is given for the first time. Hence previous year's numbers are not furnished.

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.6.11 Details of financial assets sold to Securitisation / Reconstruction companies for Asset Reconstruction:

(₹ in Crore)

Particulars	2012-13	2011-12
(a) No of accounts	201	20
(b) Aggregate value (net of provisions) of accounts sold to SC/RC	113.92	36.43
(c) Aggregate consideration	238.91	64.95
(d) Additional consideration realised in respect of accounts transferred in earlier years	19.95	–
(e) Aggregate gain/(loss) over net book value	144.94	28.52

1.6.12 Details of non-performing financial assets purchased / sold

A. Details of non-performing financial assets purchased:

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
1. (a) No. of accounts purchased during the year		
(b) Aggregate outstanding	NIL	NIL
2. (a) Of these, number of accounts restructured during the year		
(b) Aggregate outstanding		

B. Details of non-performing financial assets sold:

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
1. No of Accounts sold		
2. Aggregate outstanding	NIL	NIL
3. Aggregate consideration received		

1.6.13 There are no advances as on 31 March, 2013 (previous year: Nil) for which intangible securities have been taken as collateral by the Bank.

1.7. Asset Liability Management

A maturity pattern of certain items of assets and liabilities at 31 March, 2013 and 31 March, 2012 is set out below:

Year ended 31 March, 2013

(₹ in Crore)

Maturity Pattern	Deposits	Advances	Investments	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
Day 1	193.84	3027.91	34.95	–	100.59	141.19
2 -7 days	797.93	204.22	1862.71	517.18	330.17	13.43
8-14 days	884.80	319.66	194.65	6.16	1.01	9.44
15-28 days	1741.80	1057.32	532.65	330.00	1.82	10.10
29 days to 3 months	6988.50	3160.31	2665.02	580.85	62.60	704.49
Over 3 months and upto 6 months	6682.26	3372.79	1564.80	841.00	432.80	549.55
Over 6 months and upto 1 Year	13351.63	5991.87	3279.57	765.00	96.52	671.87
Over 1 Year and upto 3 Years	24201.02	18224.94	4819.13	1526.74	121.65	243.52
Over 3 Years and upto 5 Years	1667.13	3341.97	743.40	620.06	51.63	92.27
Over 5 Years	1105.95	5395.71	5457.71	–	42.84	–
Total	**57614.86**	**44096.70**	**21154.59**	**5186.99**	**1241.63**	**2435.86**

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

Year ended 31 March, 2012

(₹ in Crore)

Maturity Pattern	Deposits	Advances	Investments	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
Day 1	149.76	182.31	1.88	–	211.82	6.87
2 -7 days	628.08	887.62	282.36	299.81	104.76	103.72
8-14 days	349.29	1246.15	68.29	–	129.13	29.75
15-28 days	580.22	856.93	269.02	105.00	248.10	41.35
29 days to 3 months	4656.61	2814.34	1489.87	61.00	217.87	324.99
Over 3 months and upto 6 months	8138.02	2853.46	705.58	1569.55	242.00	1310.65
Over 6 months and upto 1 Year	11070.48	4757.42	218.09	240.69	35.93	474.23
Over 1 Year and upto 3 Years	21435.66	17069.49	898.01	992.76	296.50	221.84
Over 3 Years and upto 5 Years	1374.28	3128.60	1423.90	400.58	22.93	52.59
Over 5 Years	554.72	3959.67	12045.48	571.64	5.80	–
Total	**48937.12**	**37755.99**	**17402.48**	**4241.03**	**1514.84**	**2565.99**

Note:

Classification of assets and liabilities under the different maturity buckets is based on the same estimates and assumptions as used by the Bank for compiling the return submitted to the RBI, which has been relied upon by the auditors. Maturity profile of foreign currency assets and liabilities exclude forward contracts.

1.8. Exposures

1.8.1 Exposure to Real Estate Sector

(₹ in Crore)

Category	31 March 2013	31 March 2012
a) Direct Exposure:		
(i) Residential Mortgages:-		
Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented;	5,206.16	5,168.07
(of which individual housing loans eligible for inclusion in Priority sector advances)	(3,039.96)	(3,368.31)
(ii) Commercial Real Estate:-		
Lending 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;	1,086.16	526.12
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential	87.08	31.57
b. Commercial Real Estate	0.66	1.21
b) Indirect Exposure:		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	1,376.48	1,127.30
Total Exposure to Real Estate sector	**7,756.54**	**6,854.27**

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.8.2 Exposure to Capital Market

(₹ in Crore)

Category	2012-13	2011-12
i) Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which are not exclusively invested in corporate debt;	252.13	196.18
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;	4.53	12.20
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;	2.17	2.04
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;	84.43	152.13
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)	20.34	14.61
Total Exposure to Capital Market	**363.60**	**377.16**

1.8.3 **Risk Category wise Country Exposure**

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 guidelines:

(₹ in Crore)

Risk Category*	Exposure (net) as at 31 March 2013	Provision held as at 31 March 2013	Exposure (net) as at 31 March 2012	Provision held as at 31 March 2012
Insignificant	611.36	–	613.67	–
Low	277.09	–	340.08	–
Moderate	72.49	–	28.55	–
High	7.34	–	5.76	–
Very High	12.31	–	8.43	–
Restricted	0.02	–	0.04	–
Off-credit	–	–	0.04	–
Total	**980.61**	–	**996.57**	–

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

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.8.4 Information on Concentration of deposits:

(₹ in Crore)

	31 March 2013	31 March 2012
Total Deposits of Twenty Largest depositors	4,195.01	2,374.51
Percentage of Deposits of twenty largest depositors to total deposits of the bank	7.28%	4.85%

1.8.5 Information on Concentration of advances:

(₹ in Crore)

	31 March 2013	31 March 2012
Total advances of Twenty Largest Borrowers	8,714.00	6,863.43
Percentage of advances of twenty largest Borrowers to total advances of the bank	19.76%	18.18%

1.8.6 Information on Concentration of exposure:

(₹ in Crore)

	31 March 2013	31 March 2012
Total exposures of Twenty Largest borrowers/customers	9935.41	9071.20
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	13.70%	13.50%

1.8.7 Information on Concentration of NPAs:

(₹ in Crore)

	31 March 2013	31 March 2012
Total exposures to top Four NPA accounts	401.29	208.07

1.8.8 During the year ended 31 March, 2013, the Bank's credit exposure to single borrower and group borrowers was within the prudential exposure limits prescribed by RBI.

In the previous year ended 31 March, 2012, the Bank's credit exposure to single borrower had exceeded the prudential exposure limits prescribed by RBI, the details of which are given below:

(₹ in Crore)

Name of the Borrower	Period	Original Exposure Ceiling	Limit Sanctioned	% of excess limit sanctioned over original ceiling	Exposure Ceiling as on 31 March, 2012	Exposure as on 31 March, 2012
Housing Development Finance Corporation Limited	29.06.2011 to 17.02.2012	820	1013.42	3.54	882.15	817.54

In the previous year ended 31 March, 2012, the Bank's credit exposure to group borrowers was within the prudential exposure limits prescribed by RBI.

1.9. Penalty levied by RBI on account of bouncing of SGL sale transaction ₹ 0.68 lakhs (Previous Year Nil); Date of payment 27 July, 2012.

1.10. Disclosure of customer complaints

Particulars	31 March 2013	31 March 2012
(a) No. of complaints pending at the beginning of the year	45	28
(b) No. of complaints received during the year	2510	1588
(c) No. of complaints redressed during the year	2507	1571
(d) No. of complaints pending at the end of the year	48	45

The above information is as certified by the Management and relied upon by the auditors

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

1.11. Disclosure of Awards passed by the Banking Ombudsman

Particulars	31 March 2013	31 March 2012
(a) No. of unimplemented awards at the beginning of the year	2	2
(b) No. of awards passed by the Banking Ombudsman	–	2
(c) No. of awards implemented during the year	1	2*
(d) No. of unimplemented awards at the end of the year	1@	2$

* One award is implemented by the Bank and another award is withheld by the appellate authority (AA) .

$ Appeals against both the awards were filed

@ Appeal rejected by AA, case filed in High Court and stay obtained

The above information is as certified by the Management and relied upon by the auditors.

1.12. Draw Down from Reserves

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

1.13. Letter of Comfort

The Bank has not issued any letters of comfort (LoC) on behalf of its subsidiaries.

1.14. Bancassurance Business

Details of income earned from bancassurance business:

(₹ in Crore)

Sl. No.	Nature of Income *	31 March 2013	31 March 2012
1	For selling life insurance policies	24.14	12.99
2	For selling non-life insurance policies	1.72	1.50
3	For selling mutual fund products	0.69	0.36
4	Others	1.48	2.83

* Includes receipts on account of marketing activities undertaken on behalf of Bancassurance partners.

1.15. The Bank has not sponsored any special purpose vehicle which is required to be consolidated in the consolidated financial statements as per accounting norms.

1.16. Details of Overseas Assets, NPAs and Revenue - Nil

1.17. Disclosures on Remuneration

(i) Qualitative disclosures

a) Information relating to the composition and mandate of the Remuneration Committee:

Composition

The remuneration committee of the Board consists of three members of which one member from Risk Management committee of the Board will facilitate effective governance of compensation.

Function and mandate

The remuneration committee of the Board would oversee framing, review and implementation of the compensation policy on behalf of the Board with the assistance of Integrated Risk Management department (IRMD).

Process

The remuneration committee with the assistance of IRMD will closely co-ordinate with the Risk committee of the Board to review the compensation practices every year and to decide instances for invoking clawback agreements. The committee will study the business and industry environment, analyze and categorize the risks into immediate and long term and stream line the components of the compensation plan like proportion of the total variable compensation to be paid to Managing Director & Chief Executive Officer (MD & CEO), Executive Directors (ED) and Senior Executives to ensure financial stability of the Bank.

The committee would also analyze various factors to ascertain whether cost/ income ratio supports the remuneration package provided to MD & CEO, ED's and Senior Executives, consistent with maintenance of sound capital adequacy ratio.

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

Authority to invoke clawback arrangement

The remuneration committee of the Board have the authority to ascertain whether the decision taken by the MD & CEO, ED and Senior Executives (Non-IBA) have brought forth a negative contribution to the Bank. The committee will be vested with the powers to invoke the clawback arrangement or compensation recovery within a period of three years from the date of payment of variable compensation.

b) Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy.

The compensation payable to MD & CEO, ED and Senior Executives is divided into fixed and variable components. The fixed compensation is determined based on the industry standards, the exposure, skill sets, talent and qualification attained by the official over his/her career span etc. Approval from RBI is obtained to decide fixed compensation for MD & CEO and ED.

The variable compensation for MD & CEO and senior executives (Non – IBA package ie. CGM and above) are determined based on Bank's performance and Key Performance Areas (KPA) set for the official. KPAs contain targets on risk adjusted metrics such as Risk Adjusted Return on Capital (RAROC), Risk Adjusted Return on Risk Adjusted Capital (RARORAC), in addition to target on NPAs.

The objectives of the remuneration policy are four fold:

- To align compensation with prudent risk taken
- To drive sustainable performance in the organization
- To ensure financial stability of the organization; and
- To attract and retain talent

c) Description of the ways in which current and future risks are taken into account in the remuneration processes.

For the purpose of effectively aligning compensation structure with risk outcomes, the functionaries in the Bank are arranged under the following four categories

1) MD & CEO / ED
2) Senior Executives (Non IBA package)
3) Senior Executives (On IBA package)
4) Other members of staff (on IBA package)

Compensation Recovery policy

A claw back arrangement or a compensation recovery policy is provided, which will entail the Bank to recover proportionate amount of variable compensation paid to the above functionaries on account of an act or decision taken by the official which has brought forth a negative contribution to the bank at a prospective stage. The claw back arrangement would be valid for a period of three years from the date of payment of variable compensation.

Limit on variable pay

The variable compensation offered to an official would not exceed 70% of the total fixed compensation

Severance pay and guaranteed bonus

Severance pay (other than gratuity or terminal entitlements or as entitled by statute) is not paid to any official of the organization

Sign on bonus or joining bonus is limited to the first year and is paid only as Employee stock options

Hedging

No compensation scheme or insurance facility would be provided by the Bank to employees to hedge their compensation structure to offset the risk alignment mechanism (deferral pay and clawback arrangements) embedded in their compensation arrangement

Committees to mitigate risks caused by an individual decision

In order to further balance the impact of market or credit risks caused to the organization by an individual decision taken by a senior level executive, MD & CEO or a ED, the bank has constituted various committees to take decisions on various aspects

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

Credit limits are sanctioned by committee at different levels.

Investment decisions of the Bank are taken and monitored by Investment committee and there is an upper limit in treasury dealings where individual decisions can be taken.

Interest rates on Asset and liability products for different buckets are decided and monitored by the Asset Liability Committee of the Board (ALCO). Banks' exposure to liquidity risk are also monitored by ALCO.

<u>Integrated Risk Management Department (IRMD)</u>

In order to effectively govern the compensation structure, IRMD would assist the Remuneration Committee of the Board to monitor, review and control various risks and balance prudent risk taking with the compensation paid out to top executives and other employees

<u>Compensation of risk control staff</u>

The total fixed and variable compensation paid out to the employees of IRMD is independent of business parameters and rendering of effective support to the Remuneration Committee of the Board. The variable compensation component (Performance Linked Incentive or PLI) will be subjected to a minimum and greater proportion of compensation will be fixed in nature to ensure autonomy and independence from business goals

d) Linkage of performance during a performance measurement period with levels of remuneration.

The Bank's performance is charted based on the revenue point index / performance scorecard which takes into account various financial indicators like revenue earned, cost deployed, profit earned, NPA position and other intangible factors like leadership and employee development. Variable pay is paid purely based on performance and is measured through Score cards for MD& CEO / EDs. The score card provides a mix of financial and non-financial, quantitative and qualitative metrics.

<u>Compensation paid to Senior executives and other staff members on IBA package</u>

The compensation paid to other officials that include Award staff, Officers coming under Scale I to III and Senior executives coming under Scale IV to VII is fixed based on the periodic industry level settlements with Indian Bank Association. The variable compensation paid to these functionaries is based on the Performance Linked incentive scheme which has been formulated on the basis of performance parameters set in Performance Management System

e) Bank's policy on deferral and vesting of variable remuneration and criteria for adjusting deferred remuneration before vesting and after vesting.

<u>Deferred compensation and Performance Linkage</u>

In the event variable compensation paid to MD & CEO, ED and Senior Executives (Non-IBA) exceeds more than 50% of the fixed compensation for the year on account of high level of Bank's performance, 60% of the variable pay so entitled to the official will be deferred for payment over a period of 3 years. The amount is parked in an escrow account and the payment will be made in the ratio of 20:30:50 over a period of three years, i.e.,

- 20 % of the deferred compensation will be paid in the first year
- 30% of the deferred compensation in the second year; and
- 50 % of the deferred compensation in the third year

<u>Clawback and deferral arrangements</u>

The provisions of clawback and deferral arrangements are applicable to the referred functionaries and all employees in the event their variable compensation exceeds 50 % of their fixed emoluments

f) Description of the different forms of variable remuneration

Bank uses an optimum mix of cash, ESOPS and variable PLI to decide the compensation of employees in all categories. The distribution of ESOPS and variable PLI are higher in top levels and is linked with their performance measurements taken from Scorecards. This is done to align the compensation of senior staff with their performance, risk and responsibility taken in higher assignments. The Officers in Scale I-III as well as Award staff come under the purview of IBA package that is as per the Industry wide settlements. Variable compensation, ESOP is linked with seniority in these levels

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

(ii) Quantitative disclosures

	Current Year	Previous Year
(a) Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.	8 ₹440,000	8 ₹520,000
(b) (i) Number of employees having a variable remuneration award during the financial year.	3	3
(ii) Number and total amount of sign-on awards made during the financial year.	Nil	1
(iii) Details of guaranteed bonus, if any, paid as joining / sign on bonus	Nil	₹1,000,000
(iv) Details of severance pay, in addition to accrued benefits, if any.	Nil	Nil
(c) (i) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms	Nil	Nil
(ii) Total amount of deferred remuneration paid out in the financial year.	Nil	Nil
(d) Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred (₹) (F) – Fixed; (V) - Variable	17,069,640(F) 4,025,000(V)	15,065,814(F) 31,267(V)
(e) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	Nil	Nil

2. Other Disclosures

2.1. Earnings Per Share ('EPS')

Particulars	31 March 2013	31 March 2012
Weighted average number of equity shares used in computation of basic earnings per share (in 000's)	171,059	171,047
Weighted average number of equity shares used in computation of diluted earnings per share (in 000's)	171,059	171,047
Nominal Value of share (in ₹)	10	10
Basic earnings per share (in ₹)	49.00	45.41
Diluted earnings per share (in ₹)	49.00	45.41
Earnings used in the computation of basic and diluted earnings per share (₹ in '000)	8,381,676	7,767,995

2.2. Employee Stock Option Scheme ("ESOS"):

(i) Shareholders of the bank had approved Employee Stock Option Scheme (ESOS) through postal ballot, the result of which was announced on December 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:

	Number of Options	
	2012-13	2011-12
Outstanding at the beginning of the year	3,035,875	–
Surrendered during the year	–	–
Granted during the year*	2,448,475	3,472,020
Exercised during the year	11,631	–
Forfeited/lapsed during the year	26,440	436,145
Outstanding at the end of the year	5,446,279	3,035,875
Options exercisable	1,460,370	–

* ESOS granted on 5th November 2012 with vesting period of 1,2,3 and 4 years. Exercise period of 5 years and exercise price of ₹474/- per share.

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

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

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 ₹12.73 Crore (Previous Year: ₹ 19.73 Crore)

The modified basic and diluted earnings per share for the year, had the company followed Fair Value Method of accounting for ESOS compensation cost, would be ₹ 48.25 and ₹ 48.09 (Previous Year: ₹ 44.26 and ₹ 44.16) respectively.

(ii) Dividend paid on shares issued on exercise of stock options

The Bank may allot shares between the Balance Sheet date and record date for the declaration of dividend pursuant to the exercise of any employee stock options. These shares will be eligible for full dividend for the year ended 31 March 2013, if approved at the ensuing Annual General Meeting. Dividend relating to these shares has not been recorded in the current year.

2.3 Segment Reporting (AS 17)

In terms of the Accounting Standard 17 of ICAI, the Bank's operations are classified into four business segments and the information on them is as under.

(₹ in Crore)

Business Segment	Treasury		Corporate/Whole sale Banking		Retail Banking		Other Banking Operations		Total	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Revenue	1813.60	1530.30	2169.73	1992.10	2807.88	2529.04	40.80	39.29	6832.01	6090.73
Result (net of provisions)	287.61	42.13	254.70	257.01	618.30	850.39	33.15	19.97	1193.76	1169.50
Unallocated expense									–	–
Operating profit (PBT)									1193.76	1169.50
Income taxes									355.59	392.71
Extraordinary profit/loss									–	–
Net Profit									838.17	776.79
Other Information										
Segment Assets	24616.62	20342.52	22045.64	19958.93	23202.73	18797.34	69.28	557.58	69934.27	59656.37
Unallocated assets									1115.30	970.41
Total assets									71049.57	60626.78
Segment liabilities	22155.15	18304.57	20412.75	18629.58	21517.25	17576.27	–	–	64085.15	54510.42
Unallocated liabilities									599.76	410.03
Total liabilities									64684.91	54920.45

Geographic Segment Information

The Bank operates within India

2.4. Related Party Disclosures

a) Details of Related Parties:

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

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

b) Significant transactions with related parties:

(₹ in Crore)

Particulars	Key Management Personnel #	
	31 March 2013	31 March 2012
Remuneration	1.49	1.09
Dividend Paid	*	*

** Asterisk denotes figures below ₹ 1 Lakh*

During the year 2012-13, 143 Thousands (Previous Year : 523 Thousands) number of Stock Options under " ESOS 2010" Scheme were granted to MD & CEO and Executive Director & CFO

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

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.

2.5. Fixed Assets

a) Fixed Assets as per Schedule 10 include Intangible Assets relating to Software and System Development Expenditure which are as follows:

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
Gross Block		
At the beginning of the year	39.39	26.77
Additions during the year	31.08	12.62
Deductions during the year	–	–
Closing Balance	70.47	39.39
Depreciation / Amortisation		
At the beginning of the year	31.87	25.71
Charge for the year	4.64	6.16
Deductions during the year	–	–
Depreciation to date	**36.51**	**31.87**
Net Block	**33.96**	**7.52**

b) Land and premises include flats ₹0.37 Crore (previous year: ₹0.37 Crore), written down value ₹0.17 Crore (previous year: ₹ 0.18 Crore), taken possession of and being used by the Bank, for which documentation/registration formalities are to be completed.

2.6. Revaluation of Fixed Assets

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 Revaluation Reserve. Depreciation for the year on the net addition to value on such revaluation of assets at ₹ 0.21 Crore (Previous year: ₹ 0.22 Crore) has been transferred from Revaluation Reserve to Profit and Loss Account. There has been no revaluation of assets during this year.

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

2.7. Deferred Tax Assets / Liability

The major components of deferred tax assets and deferred tax liabilities are as under:

(₹ in Crore)

		31 March 2013	31 March 2012
Deferred Tax Liability			
Tax effect of items constituting deferred tax liability:			
(i) Interest accrued but not due		111.81	102.24
(ii) Depreciation on Fixed Assets		5.47	5.73
(iii) Depreciation on Investments		151.85	243.32
Total	(A)	**269.13**	**351.29**
Deferred Tax Asset			
Tax effect of items constituting deferred tax assets:			
(i) Interest/premium paid on purchase of securities		56.29	47.22
(ii) Provision for Standard Assets		83.34	47.00
(iii) Others		224.53	171.76
Total	(B)	**364.16**	**265.98**
Deferred tax liability/ (Asset) (A-B)		**(95.03)$**	**85.31**
Less: Deferred tax on Provision for NPA and other disallowances by the Income Tax Department		30.36	21.12
Net Deferred tax liability/ (Asset)		(125.39)	64.19 $

$ Net Deferred Asset of ₹159.22 Crore credited to the Profit and Loss Account.

2.8. Employee Benefits

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 ₹0.37 Crore (Previous year: ₹0.41 Crore) 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 whereas they will be eligible for Defined Contributory Pension Scheme (DCPS) in line with the New Pension Scheme introduced for employees of Central Government. Employee shall contribute 10% of their Pay and Dearness Allowance towards DCPS and the Bank will also make a matching contribution. There is no separate Provident Fund for employees joining on or after 01/04/2010.

The Bank recognized ₹ 5.69 Crore (Previous year: ₹ 2.94 Crore) for DCPS contribution in the Profit and Loss Account

b) Defined benefit plan

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.

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

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, 2013.

(i) Change in benefit obligations:

(₹ in Crore)

Particulars	Gratuity Plan		Pension Plan	
	2012-13	2011-12	2012-13	2011-12
Projected benefit obligation, beginning of the year	225.25	203.51	598.76	589.34
Service Cost	12.00	10.94	42.18	49.16
Interest cost	18.20	16.38	46.14	46.48
Actuarial (gain)/ loss	6.85	15.97	8.98	(1.25)
Benefits paid	(22.17)	(21.55)	(111.94)	(84.97)
Projected benefit obligation, end of the year	**240.13**	**225.25**	**584.12**	**598.76**

(ii) Change in plan assets:

(₹ in Crore)

Particulars	Gratuity Plan		Pension Plan	
	2012-13	2011-12	2012-13	2011-12
Plan assets at beginning of the year at fair value	198.87	184.69	422.62	404.04
Expected return on plan assets	16.90	15.70	35.92	34.34
Actuarial gain/(loss)	1.69	20.04	3.23	1.31
Employer's Contributions	26.38	–	94.34	67.90
Benefits paid	(22.17)	(21.56)	(111.94)	(84.97)
Plan assets at end of the year, at fair value	**221.67**	**198.87**	**444.17**	**422.62**

(iii) Reconciliation of present value of the obligation and the fair value of the plan assets:

(₹ in Crore)

Particulars	Gratuity Plan		Pension Plan	
	2012-13	2011-12	2012-13	2011-12
Fair value of plan assets at the end of the year	221.67	198.87	444.17	422.62
Present value of the defined benefit obligations at the end of the period	240.13	225.25	584.12	598.76
Liability recognized in the Balance Sheet	18.46	26.38	139.95@	176.14

@ Includes amount payable on account of transitional liability due to second option for pension ₹67.36 Crore. (Previous year ₹ 101.04 Crore)

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

(iv) Gratuity / pension cost for the year ended 31 March, 2013:-

(₹ in Crore)

Particulars	Gratuity Plan		Pension Plan	
	2012-13	2011-12	2012-13	2011-12
Service cost	12.00	10.94	42.18	49.16
Interest cost	18.20	16.38	46.14	46.48
Expected return on plan assets	16.90	15.70	35.92	34.34
Actuarial (gain)/loss	5.16	(4.07)	5.75	(2.56)
Employee Cost	18.46	7.55	58.15	58.74
Amortisation Cost			33.68	33.68
Net cost Debit to Profit and Loss account			91.83	92.42
Amount not debited in profit and loss account, but carried over to be amortised in future years *	–	–	67.36	101.04
Actual return on plan assets	18.59	35.74	39.15	35.65

* See item No.2.9 of schedule 18

(v) Investment details of plan Assets :-

(₹ in Crore)

Particulars	Gratuity Plan		Pension Plan	
	2012-13	2011-12	2012-13	2011-12
Central and state Government bonds	46.53	49.06	137.37	141.27
Other debt securities	29.51	31.14	90.47	92.49
Balance in Saving bank account with the Bank	2.87	2.10	6.33	9.17
Net current assets	2.21	2.42	6.68	6.80
Balance with LIC#	140.55	114.15	203.32	172.89
Total	**221.67**	**198.87**	**444.17**	**422.62**

In the absence of detailed information regarding plan assets which is funded with Life Insurance Corporation of India, the composition of each major category of plan assets, the percentage or amount for each category to the fair value of plan assets has not been disclosed.

(vi) Experience Adjustments :-

i) Gratuity Plan

(₹ in Crore)

	2012-13	2011-12	2010-11	2009-10	2008-09
Defined Benefit Obligations	240.13	225.25	203.51	181.73	153.03
Plan Assets	221.67	198.87	184.69	181.73	153.03
Surplus/Deficit	(18.46)	(26.38)	(18.82)	–	–
Experience adjustments on Plan Liabilities [Gain / (Loss)]	17.02	0.03	13.89	40.36	(0.96)
Experience Adjustments on Plan Assets [Gain / (Loss)]	22.33	0.64	(0.26)	(0.10)	(0.57)

ii) Pension Plan

(₹ in Crore)

	2012-13	2011-12	2010-11	2009-10	2008-09
Defined Benefit Obligations	584.12	598.76	589.34	195.38	161.02
Plan Assets	444.17	422.62	404.04	195.38	161.02
Surplus/Deficit	(139.95)	(176.14)	(185.30)	–	–
Experience adjustments on Plan Liabilities [Gain / (Loss)]	(1.22)	450.11	0.59	(0.22)	4.73
Experience Adjustments on Plan Assets [Gain / (Loss)]	1.38	0.96	(0.37)	(0.72)	(1.45)

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

(vii) Assumptions:-

(₹ in Crore)

Particulars	Gratuity Plan		Pension Plan	
	2012-13	2011-12	2012-13	2011-12
Discount rate	8.50%	8.50%	8.50%	8.50%
Annuity rate per Rupee	–	–	126.18297	125.65445
Salary escalation rate	5.00%	5.50%	5.00%	5.50%
Estimated rate of return on plan assets	8.50%	8.50%	8.50%	8.50%
Employee Turnover				
Above 45 (Age in Years)	0.6%	0.6%	0.6%	0.6%
29 to 45 (Age in Years)	0.3%	0.3%	0.3%	0.3%
Below 29 (Age in Years)	0.1%	0.1%	0.1%	0.1%

The estimates of future salary increases considered in actuarial valuation take account of inflation, seniority, promotion and other relevant factors.

The expected rate of return on plan assets is based on the average long-term rate of return expected on investments of the Fund during the estimated term of the obligations.

The bank expects to contribute ₹ 29.02 Crore (Previous Year ₹ 18.83 Crore) and ₹ 63.96 Crore (Previous Year ₹ 50.58 Crore) as gratuity and pension respectively for the year 2013-14.

The above information is as certified by the actuary and relied upon by the auditors.

c) Leave Encashment/Sick Leave / Leave Travel Concession / Unavailed Casual Leave

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.

A sum of ₹ 9.93 Crore (Previous year: ₹ 1.14 Crore) has been provided towards the above liabilities in accordance with AS 15 (Revised) based on actuarial valuation.

The Actuarial liability of compensated absences of accumulated privilege, sick, casual leaves and leave travel concession of the employees of the Bank is given below:

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
Privilege leave	113.53	106.69
Sick leave	27.18	24.63
Leave Travel Concession	9.87	9.52
Casual Leave	2.23	2.04
Total actuarial liability	**152.81**	**142.88**
Assumptions		
Discount rate	8.50%	8.50%
Salary escalation rate	5.00%	5.50%

2.9. The net liability arising on exercise of second option for Pension by employees (other than separated / retired employees) actuarially determined during Financial Year 2010-11 at ₹ 168.43 Crore is amortised equally over a period of five years pursuant to the exemption from the application of the provisions of the Accounting Standard (AS) 15, Employee Benefits, granted by the Reserve Bank of India and made applicable to the Bank vide letter no. DBOD No.BP.BC.15896 / 21.04.018 / 2010-11 dated April 8, 2011. Accordingly, an amount of ₹ 33.68 Crore (Previous Year: ₹ 33.68 Crore), being proportionate amount is charged to Profit and Loss Account for the year and the balance unamortised pension liability of ₹ 67.36 Crore (Previous Year: ₹ 101.04 Crore) is to be amortised over the next two years.

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

2.10. Provisions and Contingencies

a) Movement in provision for frauds included under other liabilities:

(₹ in Crore)

	31 March 2013	31 March 2012
Opening balance at the beginning of the year	3.83	3.65
Additions during the year	1.27	0.18
Reductions on account of payments during the year	–	–
Reductions on account of reversals during the year	–	–
Closing balance at the end of the year	**5.10**	**3.83**

b) Movement in provision for debit card reward points:

(₹ in Crore)

	31 March 2013	31 March 2012
Opening provision at the beginning of the year	0.17	–
Provision made during the year	3.37	0.17
Reductions during the year	0.01	*
Closing provision at the end of the year	**3.53**	**0.17**

Asterisk denotes figures below ₹1 Lakh.

c) Movement in provision for other contingencies (including derivatives):

(₹ in Crore)

	31 March 2013	31 March 2012
Opening provision at the beginning of the year	38.37	30.50
Provision made during the year	5.05	9.35
Reductions during the year	10.60	1.48
Closing provision at the end of the year	**32.82**	**38.37**

d) Movement in floating provisions:

(₹ in Crore)

	Standard Assets Provisions		NPA Provision	
Particulars	2012-13	2011-12	2012-13	2011-12
Opening balance	38.00	38.00	179.52	179.52
Provision made during the year	–	–	–	–
Draw down from provision	–	–	–	–
Closing balance	38.00	38.00	179.52	179.52

2.11. Description of contingent liabilities:

a) Claims against the Bank not acknowledged as debts

These represent claims filed against the Bank in the normal course of business relating to various legal cases currently in progress. These also include demands raised by income tax and other statutory authorities and disputed by the Bank.

b) Liability on account of forward exchange and derivative contracts

The Bank enters into foreign exchange contracts, currency swaps, Forward exchange contracts and currency futures on its own account. Bank enters into Forward exchange contracts for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest/principal in two currencies, based on ruling spot rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. Currency Futures contract is a standardized, exchange-traded contract, to buy or sell a certain underlying currency at a certain date in the future, at a specified price.

c) Guarantees given on behalf of constituents

As a part of its banking activities, the Bank issues guarantees on behalf of its customers to enhance their credit standing. Guarantees represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.

Notes forming part of the Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS** *(Contd...)*

d) Acceptances, endorsements and other obligations

These include documentary credit issued by the Bank on behalf of its customers and bills drawn by the Bank's customers that are accepted or endorsed by the Bank.

e) Other items

Other items represent stock of gold on consignment basis.

2.12. Small and Micro Industries

Under the Micro, Small and Medium Enterprises Development Act, 2006 which came into force from 2 October, 2006, certain disclosures are required to be made relating to Micro, Small and Medium enterprises. There have been no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments. The above is based on the information available with the Bank which has been relied upon by the auditors.

2.13. Figures of previous year were audited by Joint Central Statutory Auditors other than current Joint Central Statutory Auditors "Deloitte Haskins & Sells and M P Chitale & Co." Figures for the previous year have been regrouped and reclassified, where necessary to conform to current year's presentation.

For and on behalf of the Board of Directors

Krishnakumar K *Assistant General Manager*	P C John *Executive Director & CFO*	Shyam Srinivasan *Managing Director & CEO*
Girish Kumar Ganapathy *Company Secretary*	Suresh Kumar *Chairman*	Prof. Abraham Koshy *Director*
	Nilesh S Vikamsey *Director*	Dr. K Cherian Varghese *Director*
Place: Kochi Date : 27 April 2013	Sudhir M Joshi *Director*	K M Chandrasekhar *Director*

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

I. SCOPE OF APPLICATION OF BASEL II DISCLOSURES

TABLE DF - 1: SCOPE OF APPLICATION

1. Qualitative disclosures

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) Fed Bank 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.	Insurance	26%

2. Quantitative disclosures

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	N.A.	N.A.

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 Company Limited.
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 14.34% as against 14.73% under the risk weighting method.

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

II. STRUCTURE AND ADEQUACY OF CAPITAL

TABLE DF - 2: CAPITAL STRUCTURE

1. Qualitative disclosures

1.1 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.)

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

2. Quantitative disclosures

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			
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	26.07.04	30	117	6.85	Rating by CARE as 'CARE AA' and by India Ratings & Research (A Fitch Group company) as 'AA-(Ind)'
	16.12.06	200	120	9.25	

2.2 Capital funds

		Amount in ₹ Crore
A	**TIER I CAPITAL**	
	Paid up share capital	171.06
	Reserves and Surplus	6,188.39
	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	220.39
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	230.00
	Total amount outstanding	230.00
	Of which, amount raised during the current year	0.00
	Amount eligible to be reckoned as capital funds	126.00
	Other Tier II capital	247.72
	Revaluation Reserve	2.34
	General Provisions	245.38
	Deductions from Tier II capital	95.00
C	**Other deductions from capital, if any.**	0.00
D	**Total eligible capital**	6,417.78

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

II. STRUCTURE AND ADEQUACY OF CAPITAL *(contd...)*

TABLE DF - 3: CAPITAL ADEQUACY

1. Qualitative Disclosures

1.1 A summary discussion of the Bank's approach to assess the adequacy of its capital to support current and future activities.

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.
2. Capital requirement for current business levels and estimated future business levels are assessed on a periodic basis.
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 %.

2. Quantitative Disclosures

2.1 Minimum capital requirements under Pillar I of Basel II

		Amount in ₹ Crore
A	Capital requirements for credit risk (@ 9% CRAR)	3371.49
	Portfolios subject to Standardized approach	3371.49
	Securitisation exposures	0.00
B	Capital requirements for market risk (Standardized duration approach) (@ 9% CRAR)	233.73
	Interest rate risk	152.58
	Foreign exchange risk (including gold)	18.00
	Equity risk	63.15
C	Capital requirements for operational risk (Basic Indicator Approach) (@ 9% CRAR)	315.15

2.2 Capital Adequacy Ratio (CRAR) % for consolidated group (consolidation only for annual disclosures) and significant bank subsidiaries

Name of entity	Total CRAR	Tier I CRAR
Consolidated Bank (group as a whole - applicable annually only)	14.91%	14.05%
The Federal Bank Ltd. (solo basis)	14.73%	14.09%
Significant bank subsidiaries (wherever applicable, entity wise data)		

III. RISK EXPOSURE AND ASSESSMENT

(A) Objectives and policies

1. Credit risk

1.1 Strategies and processes:

The Bank is exposed to credit risk in its lending operations. The Bank's strategies to manage the credit risks are as under:

a) Defined segment exposures delineated into retail, small and medium enterprises and to Corporate;

b) Industry wise segment caps on aggregate lending by Bank across Branches

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

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

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

f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit limits

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.

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.

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

i) Credit hub system put in place to enhance quality of credit appraisal and underwriting process.

j) Bank has put in place appropriate mechanism for ongoing identification, development and assessment of expertise of officials in the area of credit appraisal, underwriting and credit management functions.

k) Dedicated credit monitoring cells function at various levels to monitor/follow up of performance of loans and advances.

l) All credit proposals of ₹5.00 crores and above are scrutinized and risk assessment is conducted by Integrated Risk Management Department, independent of the business functions.

Oversight of the Board's sub committee on risk.

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 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.

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.

1.2 Scope and nature of risk reporting / measurement systems:

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 ₹2.00 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 ₹2.00 lakhs to ₹50.00 lakhs is relatively simple in structure. Retail advances are rated using scoring model. At present separate scoring models are used for rating Home loans, Auto loans and Property Power 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 ₹5.00 Crores and above and is also conducting migration and default rate analysis for all loans of ₹50.00 lakhs and above.

Rating process and rating output are used by the Bank in sanction and pricing of its exposures. Bank also conducts annual credit rating of its exposures and the findings are used in annual migration study and portfolio evaluation.

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 ₹5.00 Crores and above by independent Integrated Risk Management Department. Risk rating and vetting process being done independent of credit appraisal function ensures its integrity and independency.

Credit audit is being conducted at specified intervals. Bank has made reasonably good progress in implementing all available instruments of credit risk mitigation.

1.3 Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

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 amount in mitigation of risk arising in investment portfolio. Credit Risk Management Committee at senior executive level and Risk Management Committee

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

at Board level monitor, discuss, evaluate and review risk mitigation levels and effectiveness of mitigation measures.

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 awarded by an official is confirmed by another official to ensure its integrity.

2. Market risk

2.1 Strategies and processes:

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.

The policies and practices also take care of monitoring and controlling of liquidity risk arising out of its banking and trading book operations.

2.2 Scope and nature of risk reporting / measurement systems:

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.

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.

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.

2.3 Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

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.

Liquidity risk of the Bank is assessed through Statement of Structural Liquidity and through Statement of Short Term Dynamic Liquidity. The liquidity profile of the Bank is measured on a static basis using the Statement of Structural Liquidity, and on a dynamic basis using statement of Short Term Dynamic Liquidity. 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 and economic value perspective using Duration Gap Analysis on a monthly basis. Based on the analysis, steps are taken to minimize the impact of interest rate changes.

Advance techniques such as Stress testing, sensitivity analysis etc. are conducted periodically to assess the impact of various contingencies.

3. Operational risk

3.1 Strategies and processes:

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.

Various tools, controls and mitigation measures implemented for management of operational risk are being reviewed

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

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.

3.2 Scope and nature of risk reporting / measurement systems:

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 system 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.

3.3 Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

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.

4. Interest rate risk in Banking Book

4.1 Strategies and processes:

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 monthly to assess the impact of adverse movement in interest rate on the market value of Bank's equity.

4.2 Scope and nature of risk reporting / measurement systems:

Interest rate risk in Banking Book is measured and Modified Duration of Equity is evaluated on a monthly 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 as well as that of Traditional Gap Analysis including the adherence to tolerance limit set in this regard is monitored and is placed before ALCO / RMC for approval. Stress tests are conducted to assess the impact of interest rate risk under different stress scenarios on earnings of the Bank.

4.3 Policies for hedging / mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

Bank has put in place mitigating/hedging measures prescribed by Investment Policy, ALM Policy, Derivatives Policy and Stress Testing Policy.

Risk profiles are analyzed and mitigating strategies/hedging process are suggested and operationalised by Treasury Department with the approval of Senior level Committees.

(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.

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

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

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 Chief Risk Officer, who in turn reports directly to the Managing Director & CEO.

(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).

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

a. Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan

b. The account remains 'out of order' as indicated in paragraph 2 below, in respect of an Overdraft /Cash Credit (OD/ CC)

c. The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted

d. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops

e. The installment of principal or interest thereon remains overdue for one crop season for long duration crops.

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.

2. 'Out of Order' status

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.

3. 'Overdue'

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.

4. Credit Risk

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

b. Downgrading of counterparties whose credit instruments the Bank may be holding, causing the value of those assets to fall.

c. Settlement Risk (possibility that the Bank may pay counterparty and fail to receive the corresponding settlement in return).

1.2 Discussion of the Bank's Credit Risk Management Policy:

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.

The policy also deals with structure, framework and processes for effective management of inherent credit risk.

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

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)	71049.57	4930.45	75980.02
2.2	Geographic distribution of exposures (same basis as adopted for segment reporting adopted for compliance with AS 17)			
	Overseas			
	Domestic	71049.57	4930.45	75980.02
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)			1554.01
	Substandard			464.23
	Doubtful 1			473.56
	Doubtful 2			223.70
	Doubtful 3			57.50
	Loss			335.02
2.6	Net NPAs			431.94
2.7	NPA ratios			
	Gross NPAs to gross advances (%)			3.44
	Net NPAs to net advances (%)			0.98
2.8	Movement of NPAs (Gross)			
	Opening balance (balance as at the end of previous Fiscal)			1300.83
	Additions during the period			807.00
	Reductions			553.82
	Closing balance			1554.01
2.9	Movement of provisions for NPAs			
	Opening balance (balance as at the end of previous Fiscal)			1055.33
	Provisions made during the period			200.20
	Write off / Write back of excess provisions			157.66
	Closing balance			1097.87
2.10	Amount of Non Performing Investments			4.67
2.11	Amount of provisions held for Non Performing Investments			4.67
2.12	Movement of provisions for depreciation on investments			
	Opening balance (balance as at the end of previous Fiscal)			51.37
	Provisions made during the period			0.00
	Write-off			36.82
	Write-back of excess provisions			0.00
	Closing balance			14.55

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

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	251.19	1.88	253.07	0.33
2	Food Processing	1127.70	3.86	1131.56	1.49
3	Beverages & Tobacco	24.72	0.00	24.72	0.03
4	Textiles	907.56	2.64	910.20	1.20
5	Leather & Leather products	62.23	1.59	63.82	0.08
6	Paper & paper products	213.63	1.04	214.67	0.28
7	Petroleum, Coal products & Nuclear Fuels	1426.58	1.24	1427.82	1.88
8	Chemicals & Chem products	838.81	0.48	839.29	1.10
9	Rubber, Plastic &their products	208.95	0.14	209.09	0.28
10	Cement & Cem products	271.19	1.00	272.19	0.36
11	Basic Metal & Metal products	1698.79	12.62	1711.41	2.25
12	All Engineering	439.54	228.07	667.61	0.88
13	Vehicles, parts and Transport Equipments	30.13	0.05	30.18	0.04
14	Gems & Jewellery	135.95	0.00	135.95	0.18
15	Construction	91.12	0.18	91.30	0.12
16	Infrastructure	3757.35	24.36	3781.71	4.98
17	Other Industries	745.15	0.00	745.15	0.98
	TOTAL	**12230.59**	**279.15**	**12509.74**	

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	528.85	6.40	0.00	34.95	3027.91	0.00	0.46	3598.57
2 - 7 days	0.00	34.48	0.00	1862.71	204.22	0.00	0.00	2101.41
8-14 days	0.00	27.95	411.79	194.65	319.66	0.00	0.00	954.05
15-28 days	0.00	49.29	124.20	532.65	1057.32	0.00	0.00	1763.46
29 days & up to 3 months	0.00	230.56	428.10	2665.02	3160.31	0.00	0.97	6484.96
Over 3 months & up to 6 months	0.00	221.81	13.40	1564.80	3372.79	0.00	0.57	5173.37
Over 6 months & up to 1 year	0.00	406.83	0.00	3279.57	5991.87	0.00	0.91	9679.18
Over 1 year & up to 3 years	0.00	779.04	0.00	4819.13	18224.94	0.00	857.43	24680.54
Over 3 years & up to 5 years	0.00	40.89	0.00	743.40	3341.97	0.00	0.86	4127.12
Over 5 years	0.00	416.40	0.00	5457.71	5395.71	397.47	819.61	12486.90
Total	**528.85**	**2213.65**	**977.49**	**21154.59**	**44096.70**	**397.47**	**1680.81**	**71049.56**

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

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

1. Qualitative Disclosures

1.1 For portfolios under the Standardized Approach;

Names of credit rating agencies used, plus reasons for any changes.

Bank has approved all the six 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.

External Credit Rating Agencies approved are:

1. CRISIL
2. CARE
3. India Ratings and Research Private Limited (Formerly FITCH INDIA)
4. ICRA
5. Brickwork Ratings India Pvt. Ltd (BRICKWORK)
6. SME Rating Agency of India Ltd.(SMERA)

Two new agencies, Brickwork Ratings India Pvt. Ltd & SME Rating Agency of India Ltd. are added by the Bank during the year for rating the exposures in line with RBI instructions in this regard. 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.

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.

For an unrated claim with respect to external credit rating, the Bank 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.

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.

1.2 Types of exposure for which each agency is used.

1. Rating by the agencies is used for both fund based and non-fund based exposures.
2. 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).
3. 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.
4. Rating assigned to one particular entity within a corporate group is not used to risk weight other entities within the same group.

1.3 Description of the process used to transfer public issue ratings onto comparable assets in the Banking Book;

The ratings available in public domain are mapped according to mapping process as envisaged in RBI guidelines on the subject.

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:

1. Issue specific ratings are used where the unrated claim of the Bank ranks paripassu or senior to the rated issue / debt.
2. 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.
3. Ratings used for risk weighting purposes are confirmed from the websites of the rating agencies concerned.

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

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

2. Quantitative Disclosures

	Risk Weight	Amount in ₹ Crore
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)	Below 100 %	39753.27
	100 %	18374.78
	More than 100 %	6031.55
	Deducted	0.00
	Total	**64159.60**

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

1. Qualitative disclosures

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.

1.3 Description of the main types of collateral taken by the Bank

Collaterals used by Bank as risk mitigants for capital computation under Standardized Approach comprise eligible financial collaterals namely:

1. Cash margin and fixed deposits of the counterparty with the Bank.
2. Gold jewellery of purity 91.6% and above, the value of which is notionally converted to value of gold with 99.99% purity.
3. Securities issued by Central and State Governments
4. Kisan Vikas Patra and National Savings Certificates.
5. Life Insurance Policies with a declared surrender value of an insurance company regulated by the insurance sector regulator.
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:
   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
   b. Attracting 100% or lesser risk weight i.e. rated at least A3 for short term debt instruments
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
   a. Issued by the bank
   b. Listed on a recognized exchange
   c. Classified as senior debt
   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
   e. The bank has no information to suggest that the issue justifies a rating below BBB (-) or A3 by a chosen Credit Rating Agency
8. Units of Mutual Funds regulated by the securities regulator of the jurisdiction of the Bank's operation and mutual funds where
   a. A price for the units is publicly quoted daily i.e. where the daily NAV is available in public domain
   b. Mutual fund is limited to investing in the permitted instruments listed.

   Bank has no practice of monitoring / controlling exposures on a net basis, though Bank is able to determine at any

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

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

time loans/advances and deposits of the same counterparty. Netting benefit, even if available, is not utilized in capital computation under Basel II norms.

1.4 Main types of guarantor counterparty and their creditworthiness

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.

Main types of guarantor counterparties are

a. Sovereigns (Central / State Governments)

b. Sovereign entities like ECGC, CGTMSE

c. Banks and Primary Dealers with a lower risk weight than the counter party

Other entities rated 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.

1.5 Information on market / credit risk concentrations within the mitigation taken by the Bank

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 envisage market liquidity risk in respect of financial collaterals except in Gold and Units of Mutual Funds. Bank does not have exposure collateralized through units of eligible Mutual Funds. Personal loan exposures fully secured only by Gold comes to 5.61% of total gross credit risk exposures, in which Bank is maintaining adequate margin (minimum 20% to 25%) on value of securities. Risk mitigation by gold is also taken in the form of agricultural gold loans to the tune of 2.76% of gross credit exposure. Each and every exposure is reviewed/renewed/closed within a maximum period of 12 months stipulated for such exposures. Bank could successfully manage the risks posed by sudden reduction in gold price. Measures warranted by the situation are timely taken. Bank has not experienced any significant market liquidity risk in Gold. Overall, financial collaterals do not have any issue in realization.

Concentration on account of collateral is also relevant in the case of land & building. Except in the case of housing loan to individuals, land and building is considered only as an 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.

2. Quantitative Disclosures

2.1 Credit risk exposure covered by eligible financial collaterals Amount in ₹ Crore

Type of exposure		Credit equivalent of gross exposure	Value of eligible financial collateral after haircuts	Net amount of credit exposure
A	Loans and advances	8856.59	8164.24	692.35
B	Non-market related off balance sheet items	4596.89	755.61	3841.28
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		**13453.48**	**8919.85**	**4533.63**

2.2 Credit risk exposure covered by guarantees Amount in ₹ Crore

Type of exposure		Credit equivalent of gross exposure	Amount of guarantee (Credit equivalent)
A	Loans and advances	2302.48	2094.62
B	Non-market related off balance sheet items	399.36	383.85
C	Securitisation exposures - on balance sheet	0.00	0.00
D	Securitisation exposures - off balance sheet	0.00	0.00
TOTAL		**2701.84**	**2478.47**

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

TABLE DF - 7: SECURITISATION: DISCLOSURES FOR STANDARDIZED APPROACH

1. Qualitative Disclosures

1.1 General disclosures on securitisation exposures of the Bank;

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.

1.2 Accounting Policies for Securitisation Activities;

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.

2. Quantitative Disclosures

2.1 In the Banking Book

		Amount in ₹ Crore
A	Total amount of exposures securitized by the Bank	Nil
B	For exposures securitized, losses recognized by the Bank during the current period (exposure type wise break up)	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	Nil	Nil

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

TABLE DF - 7: SECURITISATION: DISCLOSURES FOR STANDARDIZED APPROACH

		Amount in ₹ Crore
F	Aggregate amount of on-balance sheet securitisation exposures retained or purchased by the Bank (exposure type wise breakup)	Nil
G	Aggregate amount of off-balance sheet securitisation exposures (exposure type wise breakup)	Nil

H Aggregate amount of securitisation exposures retained or purchased and associated capital charges (exposure type wise and risk weight wise breakup)

Type of exposure	Risk weights						
	20%	30%	50%	100%	150%	350%	400%
Nil	----	----	----	----	----	----	----

		Amount in ₹ Crore
I	Total amount of deductions from capital on account of securitization 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

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 (exposure type wise details)

Type of exposure	Gross Amount	Amount retained
Nil	Nil	Nil

B Aggregate amount of on-balance sheet securitisation exposures retained or purchased by the Bank (exposure type wise breakup)

Type of exposure	Amount in ₹ Crore
Investment in Pass through Certificates	7.70
C Aggregate amount of off-balance sheet securitisation exposures (exposure type wise breakup)	Nil
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 charges as % to exposure	Exposure (₹ Cr.)
Investment in Pass through Certificates	1.80 %	7.70

F Aggregate amount of capital requirements for securitisation exposures (risk weight band wise distribution)

Type of exposure	Capital charges as % to exposure	Capital charge (₹ Cr.)
Investment in Pass through Certificates	1.80%	0.0014

G Total amount of deductions from capital on account of securitisation exposures

Type of exposure	Capital charge (₹ Cr.)
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

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

TABLE DF - 8: MARKET RISK IN TRADING BOOK

1. Qualitative disclosures

1.1 Approach used for computation of capital charge for market risk

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

- Securities under HFT category
- Securities under AFS category
- Open gold position limits
- Open foreign exchange position limits
- Trading positions in derivatives
- Derivatives entered into for hedging trading book exposures

Specific capital charge for market risk is computed based on risk weights prescribed by the Regulator.

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.

2. Quantitative Disclosures

	Amount in ₹ Crore
2.1 Minimum capital requirements for market risk as per Standardized Duration Approach under Basel II	233.73
Interest rate risk	152.58
Foreign exchange risk (including gold)	18.00
Equity position risk	63.15

TABLE DF - 9: OPERATIONAL RISK

1. Qualitative disclosures

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)

1. Qualitative disclosures

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 and Traditional Gap Analysis. In Traditional Gap Analysis, the impact of changes in interest rates on Banks' earnings due to changes in Net Interest Income is assessed. i.e., earnings perspective is taken care in this method whereas in Duration Gap Analysis, the economic value perspective is taken care of. Duration Gap Analysis measures the level of Banks exposure to interest rate risk in terms of sensitivity of Market Value of its Equity (MVE) to interest rate movements.

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)

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:

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.

2) Advances linked to BPLR and Base Rate has been placed in the bucket of 29 days to 3 months as per Bank's interest rate expectations.

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

Basel II Disclosures of The Federal Bank Ltd., as on 31 March 2013

III. RISK EXPOSURE AND ASSESSMENT *(contd...)*

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

at the weighted Modified duration of each asset and liability and further to get the weighted modified duration of Liabilities and Assets.

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.

Usual bucketing applicable to the Statement of Interest Rate Sensitivity is also made applicable to the duration of Equity calculations. Last bucket for both liabilities and assets is approximated as above 15 years (Maximum 20 years).

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 monthly basis. Bank also calculates on a monthly 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.

2. Quantitative disclosures - Impact of interest rate risk

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.)	216.08
2.2 Economic value perspective - percentage and quantum of decrease in market value of equity on account of 1% uniform increase in interest rate	6.52% ₹414.98 Cr

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

TABLE DF - 11: ADDITIONAL DISCLOSURES AS PER ICAAP

1. Qualitative disclosures

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'.

2. Quantitative Disclosures

	Amount in ₹ Crore
2.1 Additional capital requirements under ICAAP	
Credit risk -over and above Pillar I capital charge	0.00
Sectoral credit concentration risk	49.49
Geographical credit concentration risk	60.82
Interest rate risk	0.00
Liquidity risk	0.00
2.2 Overall capital adequacy of solo Bank (With aggregate of capital charge under Pillar I and Pillar II of Basel II norms)	14.33%

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 2013		

II Capital raised during the year (Amount in Rs. Thousands)

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

III Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total of Liabilities	710495727	Total Assets	710495727

Sources of Funds:

Paid up Capital	1710587	Reserves and Surplus	61936003
Secured Loans	NIL	Unsecured Loans	51869908
Deposits	576148633		

Application of funds

Net fixed assets	3974746	Investments	211545909
Advances	440967029	Miscellaneous Expenditure	NIL
Net Current Assets	35177447	Accumulated Losses	NIL

IV Performance of Bank (Amount in Rs. Thousands)

Turnover	68320055	Total Expenditure	53724512
Profit before Tax	11937576	Profit after tax	8381676
Earning per share	Rs.49	Dividend @ 90%	1539528
	(Annualised)	(Proposed)	

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

Suresh Kumar
Chairman

Prof. Abraham Koshy
Director

Nilesh S Vikamsey
Director

Dr. K Cherian Varghese
Director

Sudhir M Joshi
Director

K M Chandrasekhar
Director

KOCHI,
27 April 2013

Section 212

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 2013
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)	₹141,180
b) for the previous financial year (Amount in thousands)	₹(73748)
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

Suresh Kumar
Chairman

Prof. Abraham Koshy
Director

Nilesh S Vikamsey
Director

Dr. K Cherian Varghese
Director

Sudhir M Joshi
Director

K M Chandrasekhar
Director

KOCHI,
27 April 2013

Directors' Report

Dear Shareholders,

Your Directors have pleasure in presenting the 18th Annual Report of Fedbank Financial Services Limited (FedFina) with the audited statement of accounts for the year ended 31st March, 2013.

FINANCIAL HIGHLIGHTS

(₹ in Crores)

Particulars	2012-13	2011-12
Gross Income	88.79	37.69
Profit/Loss (-) before Depreciation and Taxation	21.97	(5.21)
Depreciation	3.76	2.08
Profit /Loss (-) before Tax	18.21	(7.29)
Provision for Tax	4.09	0.08
Profit / Loss (-) after Tax	14.12	(7.37)
Appropriations		
Transfer to Reserve Fund	2.82	0.00
Transfer to General Reserve	0.00	0.00
Proposed Dividend	7.06	0.00
Corporate Dividend Tax	1.20	0.00
Balance Carried to Balance Sheet	(1.52)	(4.55)

FINANCIAL AND OPERATIONAL REVIEW

Your Company is primarily into lending against gold ornaments, property 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 the operations.

The Financial Year 2012-13 has been a landmark year for your company with Gross Income being the highest ever for the company.

During the financial year 2012-13, gross advances stood at ₹ 459 Crore as against ₹ 324 Crore in the previous year. During the financial year 2012-13, your Company's retail disbursements against gold ornaments were at ₹ 895 Crore as against ₹ 696 Crore in the previous year. During the financial year 2012 -13, your Company launched a new product - Loan against Property (LAP) in the Second half of the financial year and disbursement for the same stood at ₹ 4.37 Crore being a soft launch.

As detailed in the 'Financial Highlights' section above, Gross Income of your Company increased from ₹ 37.69 Crore in 2011-12 to ₹ 88.79 Crore in 2012-13 registering a growth of 136% YOY. Profit before Tax was at ₹ 18.21 Crore in 2012-13 as compared to ₹ 7.29 Crore of Loss in 2011-12. The company grew its network from 142 branches to 172 branches.

There have been a few instances of fraud in gold loans by way of pledging stolen /spurious gold ornaments involving an aggregate amount of ₹ 1.03 Crore, as reported in the 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.

Other NBFC specific products are being considered for financing.

Employee Productivity

Business per employee of the company during the year has grown to ₹ 11.25 Lakh from 6.81 Lakh in the previous fiscal year.

Profit per employee of the company during the year has grown to ₹ 1.79 Lakh from per employee loss of ₹ 1.33 Lakh in the previous fiscal year.

Loan Asset Quality

Your Company's gross NPA and Net NPA (Including technically written off accounts) improved to 1.60% and 0.53% respectively as against 2.04% and 1.42 % as at the end of March, 2012.

The Company had taken stringent measures to contain fresh accretion to the NPA portfolio.

APPROPRIATION

Capital and Reserves of the Company as on March 31, 2013 stood at ₹ 192.29 Crore. During the financial year 2012-13 the Company transferred ₹ 2.82 Crore to Statutory Reserve created U/S 45-IC of Reserve Bank of India Act, 1934.

DIVIDEND

Your Board is pleased to recommend a final dividend of ₹ 0.37 per equity share on the paid up equity capital of the Company. It has been recommended after covering unabsorbed depreciation of the previous financial year. On approval by the Members at the ensuing Annual General Meeting, the said dividend would be paid to the holding company.

The total cash outflow exclusive of tax on account of equity dividend for the year 2012-13 would be ₹ 7.06 Crore.

RESOURCE MOBILISATION

Your Company started diversifying its funding sources and got sanction from other banks for its resource needs. Commercial Banks continued their support of the Company's assets growth. As of 31St March 2013, borrowings from banks were ₹ 280.02 Crore. 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.

PUBLIC DEPOSITS

The Company has not accepted any public deposits and as such, no amount on account of principal or interest on public deposits was outstanding as on the date of Balance Sheet.

CAPITAL ADEQUACY RATIO

The Company's capital adequacy ratio was 39.82% as on 31st March 2013 which is significantly above the threshold limit as prescribed by the Reserve Bank of India.

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.

RBI GUIDELINES

The Company has complied with the regulations of Reserve Bank of India as on 31st March 2013 as are applicable to it as a Non-Banking Finance Company.

HUMAN RESOURCES

Being a service-oriented company, your company considers human resources as the biggest asset. As of 31st March 2013, your company has more than 800 employees on payroll at various management levels. Your management is committed to providing a wholesome work environment and support with training programs and workshops. Average age of employees of your company is 30 years.

BOARD OF DIRECTORS

The Board consists of five members including the Chairman.

Mr. Suresh Kumar and Mr. Mohammad Yousuf Khan, 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. Suresh Kumar and Mr. Mohammad Yousuf Khan 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 re-appointed as a Manager of the Company with effect from 1st October 2012 for the period of one year under the provisions of Companies Act which was confirmed by shareholders in last general meeting.

Mr. Pradosh Kumar Mohapatra is having a 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.

At its meeting on the 25th of April 2013, based on recommendations of the Nomination Committee of Federal Bank Ltd (FBL), Board has considered and decided that, pending a strategic review and re-orientation of Fedfina's businesses and operating models, the leadership of FedFina, during this interim period, be entrusted to Mr. Ashok Das. He has been appointed as an Interim President of Fedfina with effect from 8th May 2013.

During the financial year 2012-13, the Board met 4 times.

AUDIT COMMITTEE

The Audit committee consists of Mr. P. H. Ravikumar (Chairman), Mr. P. C. Cyriac and Mr. Shyam Srinivasan. During the financial year 2012-13, the committee met 4 times.

RISK MANAGEMENT COMMITTEE

The Risk Management committee consists of Mr. P. C. Cyriac, Mr. P. H. Ravikumar and Mr. Shyam Srinivasan as its members.

NOMINATION COMMITTEE

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

REMUNARATION COMMITTEE

The Remuneration Committee consists of Mr. Suresh Kumar, Mr. PH Ravikumar and Mr. PC Cyriac 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 re-appointment as 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 2013-14 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.

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: 04/06/2013 **Suresh Kumar**
Place: Mumbai *Chairman*

Independent Auditor's Report

To the Members of
Fedbank Financial Services Limited

Report on the Financial Statements

We have audited the accompanying financial statements of **FEDBANK FINANCIAL SERVICES LIMITED** ("the Company"), which comprise the Balance Sheet as at March 31st, 2013, and the Profit and Loss Statement, and Cash flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) In the case of the Balance Sheet, of the state of affairs of the Company as at March 31st, 2013;

(b) In the case of the Profit and Loss Statement, of the profit for the year ended on that date; and

(c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

As required by section 227(3) of the Act, 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;

b. 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 and proper returns adequate for the purposes of our audit have been received from branches not visited by us;

c. the Balance Sheet, Profit and Loss Statement, and Cash Flow Statement dealt with by this Report are in agreement with the books of account and with the returns received from branches not visited by us;

d. in our opinion, the Balance Sheet, Profit and Loss Statement, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;

e. on the basis of written representations received from the directors as on March 31st , 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31st , 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For VARMA & VARMA
Chartered Accountants
FRN 004532S

R. KESAVADAS
Partner
M. No. 23862

Place: Mumbai
Date : 25/04/2013

Annexure to the Auditor's Report

ANNEXURE REFERRED TO IN PARAGRAPH 1 UNDER THE HEADING "REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS" OF OUR INDEPENDENT AUDIT REPORT OF EVEN DATE ON THE FINANCIAL STATEMENTS OF FEDBANK FINANCIAL SERVICES LIMITED FOR THE YEAR ENDED 31ST MARCH 2013

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.

Annexure to the Auditor's Report (Contd...)

10 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.

11 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.

12 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.

13 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.

14 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.

15 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.

16 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.

17 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.

18 The company has not issued any debentures, and hence the reporting requirements under clause 4(xix) of the order are not applicable.

19 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.

20 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 12 branches of the Company involving an aggregate amount of ₹103.45 Lakhs, in respect of which an amount aggregating to ₹98.75 Lakhs is outstanding as at 31st March 2013. We are informed that legal action for recovery has been initiated in all the cases and provision has been made in the books of accounts towards the amount involved.

For VARMA & VARMA
Chartered Accountants
FRN 004532S

R. KESAVADAS
Partner
M. No. 23862

Place: Mumbai
Date : 25/04/2013

Balance Sheet as at 31st March 2013

(in Thousands of ₹)

	Note No.	As at 31 March 2013	As at 31 March 2012
I EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share Capital	2.1	1,900,000	1,900,000
(b) Reserves & Surplus	2.2	22,940	(35,653)
(2) Non-current Liabilities			
(a) Long-term Provisions	2.3	2,526	1,217
(3) Current Liabilities			
(a) Short-term Borrowings	2.4	2,800,245	1,596,039
(b) Trade Payables	2.5	51,539	26,892
(c) Other Current Liabilities	2.6	35,134	55,737
(d) Short-term Provisions	2.7	117,623	26,678
Total		**4,930,007**	**3,570,910**
II ASSETS			
(1) Non-current Assets			
(a) Fixed Assets	2.8		
(i) Tangible Assets	2.8.1	124,950	106,900
(ii) Intangible Assets	2.8.2	21,100	2,051
(iii) Capital Work-in Progress	2.8.3	-	24,508
(iv) Intangible Assets Under Development	2.8.3	2,739	12,510
(b) Deferred Tax Assets (Net)	2.24	11,887	-
(c) Long-term Loans and Advances	2.9	95,085	56,561
(2) Current Assets			
(a) Trade Receivables	2.10	7,981	10,734
(b) Cash and Bank Balances	2.11	102,358	82,130
(c) Short-term Loans and Advances	2.12	4,560,025	3,267,568
(d) Other Current Assets	2.13	3,882	7,948
Total		**4,930,007**	**3,570,910**
Significant Accounting Policies and Notes on Accounts	1 & 2		

Dilip Maloo
Head - Finance & Company Secretary

P. K. Mohapatra
COO & Manager

As per our separate report of even date attached

For and on behalf of the Board

For Varma & Varma
Chartered Accountants
FRN 004532S

Suresh Kumar
Chairman

P. H. Ravikumar
Director

Shyam Srinivasan
Director

R.KESAVADAS
Partner
M.No.23862

Place: Mumbai
Date: 25/04/2013

Place: Mumbai
Date: 25/04/2013

Statement of Profit and Loss for the year ended 31st March 2013

(in Thousands of ₹)

		Note No.	Year ended 31 March 2013	Year ended 31 March 2012
I.	INCOME			
	(a) Revenue from Operations	2.14	884,553	375,799
	(b) Other Income	2.15	3,353	1,091
	Total		887,906	376,890
II	EXPENDITURE			
	(a) Employee Benefit Expenses	2.16	212,518	155,957
	(b) Financial Costs	2.17	213,494	102,776
	(c) Depreciation and Amortization Expenses	2.8	37,608	20,790
	(d) Other Expenses	2.18	242,209	170,260
	Total		705,829	449,783
III	Profit/(Loss) before tax	(I -II)	182,077	(72,893)
IV	Provision for Taxes			
	(1) Current Tax		52,784	-
	(2) Deferred Tax Gain[Refer Note 2.24]		(11,887)	853
V	Profit/ (Loss) for the Year	(III-IV)	141,180	(73,746)
	Earnings Per Equity Share (EPS)	2.19		
	(1) Basic		0.74	(1.12)
	(2) Diluted		0.74	(1.12)
	Significant Accounting Policies and Notes on Accounts	1 & 2		

Dilip Maloo
Head - Finance & Company Secretary

P. K. Mohapatra
COO & Manager

As per our separate report of even date attached

For and on behalf of the Board

For Varma & Varma
Chartered Accountants
FRN 004532S

Suresh Kumar
Chairman

P. H. Ravikumar
Director

Shyam Srinivasan
Director

R.KESAVADAS
Partner
M.No.23862

Place: Mumbai
Date: 25/04/2013

Place: Mumbai
Date: 25/04/2013

Cash Flow Statement for the year ended 31st March 2013

(in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit / (Loss) before tax as per P&L Account	**182,078**	**(72,893)**
Adjustments for		
Finance Cost	213,494	104,336
Interest on fixed deposits with Federal Bank	(2,314)	(715)
Provision for Standard Assets	3,001	7,570
Provision for Loss Assets	6,059	14,981
Provision for Sub Standard Asset	(1,842)	4,881
Provision for Bad Debts	(557)	
Depreciation	37,608	20,790
Operating Profit before Working Capital changes	437,527	78,950
Adjustments for Working Capital Changes		
Trade Receivables	2,752	15,145.73
Short-term Loans and Advances	(1,287,054)	(3,205,971)
Other Current Assets	4,045	4,865.69
Long term Loans & Advances	(41,419)	(21,066)
(Increase)/ Decrease in Receivables	(1,321,675)	(3,207,026)
Long-term Provisions	1,309	(381)
Trade Payables	24,647	7,465
Other Current Liabilities	(3,192)	(15,880)
Short-term Provisions	1,697	(1,426)
Increase/(Decrease) in Trade/Other payables	24,461	(10,222)
Cash generated from Operations	(859,687)	(3,138,298)
Taxes (paid) / refunded	(58,186)	3,634
Cash Flow before extraordinary items	(917,873)	(3,134,664)
Extraordinary items	-	-
Net Cash inflow / (outflow) from Operating Activities	**(917,873)**	**(3,134,664)**
B. CASH FLOW FROM INVESTMENT ACTIVITIES		
Purchase of fixed assets	(54,946)	(101,508)
Investment in Fixed Deposits	(573)	211,854
Interest on fixed deposits	2,335	704
Net Cash inflow / (outflow) from Investment Activities	**(53,184)**	**111,050**

Cash Flow Statement for the year ended 31st March 2013 *(Contd...)*

(in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
C. CASH FLOW FROM FINANCING ACTIVITIES		
Interest Expenses	(213,494)	(104,336)
Cash Credit	1,204,206	1,596,039
Proceeds from Issue of fresh Equity Shares	-	1,550,000
Net Cash inflow / (outflow) from Financing activities	**990,712**	**3,041,703**
D. NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**19,655**	**18,090**
Opening Balance of Cash and Cash Equivalents	60,851	42,761
Closing Balance of Cash and Cash Equivalents	**80,506**	**60,851**

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

As per our separate report of even date attached

For Varma & Varma
Chartered Accountants
FRN 004532S

For and on behalf of the Board

Suresh Kumar
Chairman

P. H. Ravikumar
Director

Shyam Srinivasan
Director

R.KESAVADAS
Partner
M.No.23862

Place: Mumbai
Date: 25/04/2013

Place: Mumbai
Date: 25/04/2013

Significant Accounting Policies

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 the undiscounted amount are recognized as an expenses in the Profit & Loss Statement 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 Profit & Loss Statement for the Year.

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 Profit & Loss Statement 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 Profit and Loss Statement for the period in which they occur.

Significant Accounting Policies

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 Profit & Loss Statement 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.

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.1. SHARE CAPITAL

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Authorised Capital:		
19,00,00,000 (19,00,00,000) Equity Shares of ₹10 each	19,00,000	19,00,000
Issued, Subscribed and Paid Up Capital:		
19,00,00,000 (19,00,00,000) Equity Shares of ₹ 10 each fully paid-up.	19,00,000	19,00,000

Terms/rights attached to Equity shares:

The Company has only one class of Equity shares having face value of ₹ 10 each/- per share. Each holder of Equity shares is entitled to one vote per share. All of the above shares are held by the Holding Company, The Federal Bank Ltd and its nominees.

In the event of liquidation of the company, the holders of Equity shares will be entitled to receive remaining assets of the company, after distribution of all preferential amounts. The distribution will be in proportion to the number of Equity shares held by the shareholders.

2.1.1 Reconciliation of the number of shares issued, subscribed and paid up at the beginning and at the end of the year

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
No Of Shares Outstanding at the beginning of the year	1,90,000	35,000
Add Additional Shares Issued During the Year	-	1,55,000
Less Shares Forfeited/Bought Back During the year	-	-
No Of Shares Outstanding at the end of the year	1,90,000	1,90,000

2.1.2 Number of shares held by each shareholder holding more than 5% shares in the company:

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Equity Shares Held by holding company		
- Federal Bank Limited	1,90,000	1,90,000

2.2. RESERVES & SURPLUS

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
(a) Reserves		
i) Statutory Reserve		
Balance at the beginning of the year	8,412	8,412
Add: Transferred from Profit & Loss Statement (Note 2.2.1)	28,236	-
	36,648	8,412
ii) General Reserve		
Balance at the beginning of the year	1,470	1,470
(b) Surplus in the Profit and Loss Statement		
Balance at the beginning of the year	(45,535)	28,211
Add : Net Profit / (Loss) after tax for the year	1,41,180	(73,746)
Less : Appropriations		
Transfer to Statutory Reserve(Note 2.2.1)	(28,236)	-
Proposed Final Equity Dividend Amount Per Share ₹ 0.37 (Previous Year Nil) (Note 2.2.2)	(70,590)	-
Tax on Proposed Equity Dividend	(11,997)	-
	(15,178)	(45,535)
Total of Reserves & Surplus	**22,940**	**(35,653)**

2.2.1. Statutory Reserve represents the Reserve fund created under Section 45-IC of the Reserve Bank of India Act, 1934.During the current financial year an amount of Rs 28,236 (previous year Nil) representing 20% of net profit is transferred to the fund for the year.

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.2. RESERVES & SURPLUS *(Contd...)*

2.2.2. The dividend proposed by the Board of Directors is subject to the approval of the share holders in the ensuing Annual General meeting.

2.3. LONG TERM PROVISIONS

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Provision for employee benefits (Refer Note 2.3.1)		
Provision for Compensated Absences	1,809	883
Provision for Gratuity	717	334
	2,526	1,217

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

a) **Defined Contribution Plan:**

During the year, the Company has recognized in the Profit and Loss Statement in Note 2.16 - Employee Benefit Expenses.

(in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
Provident Fund	10,138	5,481
Employee State Insurance	3,012	1,777
Total	13,150	7,258

b) **Defined Benefit Plan :**

Gratuity (Unfunded) & Long term employee Benefits- Compensated absences-Vesting (Unfunded).

(in Thousands of ₹)

Particulars	Gratuity		Compensated Absences	
	Current year	Previous year	Current year	Previous year
i Reconciliation of opening and closing balances of defined benefit Obligation :				
1 Defined Benefit Obligation as at the beginning of the year	400	763	2168	1,393
2 Current Service cost	594	295	3,357	1,949
3 Interest Cost	32	61	178	97
4 Actuarial (gains) / losses	(252)	(719)	(1581)	(928)
5 Benefits paid	-	-	(176)	(343)
6 Short Term Compensated Absence Liability	-	-	640	
7 Present value of Defined Benefit Obligation as at the end of the year	774	400	(4,586)	2,168
ii Changes in the fair value of plan assets representing reconciliation of opening and closing balances thereof are as follows :				
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	-	-	176	343
5 Benefits paid	-	-	(176)	(343)
6 Fair value of Plan assets as at the end of the year.	-	-	-	-
7 Short Term Compensated Absence Liability	-	-	640	
8 Funded Status	(774)	(400)	(4,586)	(2,168)

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.3. LONG TERM PROVISIONS *(Contd...)*

b) Defined Benefit Plan : *(Contd...)*

(in Thousands of ₹)

Particulars	Gratuity		Compensated Absences	
	Current year	Previous year	Current year	Previous year
iii Reconciliation of Present Value of Defined Benefit Obligation and fair value of plan assets showing amount recognized in the Balance Sheet :				
1 Present value of Defined Benefit Obligation	774	400	4,586	2,168
2 Fair value of plan assets	-	-	-	-
3 Funded status	(774)	(400)	(4,586)	(2,168)
4 Unrecognized Past Service Costs	-	-	-	-
5 Net asset/(Liability) recognized in Balance Sheet	(774)	(400)	(4,586)	(2,168)
iv Expenses recognized in the profit and loss statement for the year ended 31st March,2013				
1 Current Service cost	594	295	3,357	1,949
2 Interest cost	32	61	178	97
3 Expected return on plan assets	-	-	-	-
4 Past Service cost	-	-	-	-
5 Actuarial Losses/(Gains)	(252)	(719)	(1,581)	(928)
6 Short Term Compensated Absence Liability	-	-	640	
7 Total expense recognized in the Profit & Loss Statement	374	(363)	2,594	1,118
v Principal Actuarial Assumptions :				
1 Discount Rate (%)	7.95%	8.57%	7.95%	8.57%
2 Expected Return on plan assets (%)	-	-	-	-
3 Salary Escalation (%)	10%	10%	10%	10%
4 Mortality	LIC (1994-96) Ultimate	LIC (1994-96) Ultimate	LIC (1994-96) Ultimate	LIC (1994-96) Ultimate
vi Experience History				
1 (Gain)/Loss due on obligation due to change in assumption	154	(475)	172	(73)
2 Experience (Gain)/Loss on Obligation	(406)	(244)	(1753)	(855)
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

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Loans Repayable on demands from Banks :		
From IDBI.(Note No 2.4.1)	3,20,030	2,50,082
From Karur Vysya Bank.(Note No 2.4.1)	2,00,514	-
Loans and advances from related parties :		
Cash Credit From Federal Bank Ltd.(Note No 2.4.1)	22,79,701	13,45,957
	28,00,245	**15,96,039**

2.4.1. The above facilities are secured by way of Pari passu charge on Gold Loan Receivables.

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.5. TRADE PAYABLES

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Trade Payables –(Refer Note 2.5.1)	51,539	26,892
	51,539	**26,892**

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

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Liability Towards Capital Contracts/goods	4,090	21,502
Security Deposit – Rental (Refer Note 2.6.1)	1,610	3,072
Other Payables:		
Withholding Tax and Other Statutory Dues	4,707	3,396
Employee Related Payables	16,703	2,324
Payable for Expenses	7,774	25,443
Others	250	-
	35,134	**55,737**

2.6.1. Security Deposits include ₹1,610 thousands (previous year ₹30,72 thousands) received from The Federal Bank Ltd (Holding company).

2.7. SHORT TERM PROVISIONS

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Provision for Employee benefits: (Refer Note No 2.3.1)		
Provision for Compensated Absences	2,777	1,628
Provision for Gratuity	57	67
Other Provisions (Refer Note 2.7.1)		
Provision Against Non Performing Assets (Refer Note 2.7.2)	21,517	17,300
Contingent Provision Against Standard Assets (Refer Note 2.7.3)	10,685	7,683
Proposed Equity Dividend (Note No 2.2.1)	70,590	-
Provision for Tax on proposed Equity Dividend	11,997	-
	1,17,623	**26,678**

2.7.1. **Movement of Provision for Standard and Non-Performing Assets**

As per the non Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, Company has created provision for Standard assets as well as Non Performing Assets.

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Provision for Standard Assets		
Standard Assets	42,73,857	30,59,722
Provision at the beginning of the year	7,683	113
Additional provision made during the year	3,001	7,570
Provision at the close of the year	**10,685**	**7,683**
Provision for Non-Performing Assets		
Secured and Considered Doubtful	32,497	48,808
Un Secured and Considered Doubtful	11,662	12,419
Total Non Performing Assets	44,159	61,227
Provision at the beginning of the year	17,300	-
Additional provision made during the year	4,217	17,300
Provision at the close of the year	**21,517**	**17,300**

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.7. SHORT TERM PROVISIONS *(Contd...)*

2.7.2. Provision against non Performing Assets have been classified in accordance with RBI Guidelines, and 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 2.12).

2.7.3. Contingent Provision of ₹ 3,017 thousands (₹ 7,570 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.

2.8. FIXED ASSETS

2.8.1. Tangible Fixed Assets

(in Thousands of ₹)

	Gross Block (at cost)				Depreciation/Amortisation				Net Block	
Description	As on 1st April 2012	Additions for the Year	Deduction for the Year	As on 31st March 2013	As on 1st April 2012	For the Year	Deduction for the Year	As on 31st March 2013	As on 31st March 2013	As on 31st March 2012
Leasehold Improvements - Interior Furnishings	74,627	16,882	4,084	87,426	10,887	14,316	587	24,616	62,810	63,740
	(18,102)	(56,525)	-	(74,627)	(275)	(10,612)	-	(10,887)	(63,740)	(17,827)
Furniture & Fixtures	22,858	11,479	-	34,337	5,991	4,528	-	10,519	23,818	16,867
	(11,258)	(11,600)	-	(22,858)	(1,991)	(4,000)	-	(5,991)	(16,867)	(9,267)
Vehicles - Cars	1,714	998	1,714	998	1,293	210	1,333	170	828	421
	(1,714)	-	-	(1,714)	(1,146)	(147)	-	(1,293)	(421)	(568)
Office Equipments	19,280	9,629	115	28,795	3,051	3,002	49	6,004	22,790	16,228
	(3,381)	(15,898)	-	(19,279)	(1,214)	(1,837)	-	(3,051)	(16,228)	(2,167)
Computers	14,831	10,514	-	25,345	5,187	5,454	–	10,641	14,704	9,644
	(2,299)	(12,532)	-	(14,831)	(1,773)	(3,414)	-	(5,187)	(9,644)	(526)
Total Tangible Fixed Assets	**1,33,310**	**49,502**	**5,912**	**1,76,900**	**26,409**	**27,510**	**1,969**	**51,950**	**1,24,950**	**1,06,900**
	(36,754)	**(96,555)**	**-**	**(1,33,309)**	**(6,399)**	**(20,010)**	**-**	**(26,409)**	**(1,06,900)**	**(30,355)**

2.8.2. Intangible Assets

(in Thousands of ₹)

	Gross Block (at cost)				Depreciation/Amortisation				Net Block	
Description	As on 1st April 2012	Additions for the Year	Deduction for the Year	As on 31st March 2013	As on 1st April 2012	For the Year	Deduction for the Year	As on 31st March 2013	As on 31st March 2013	As on 31st March 2012
Computer Software	2,863	25,651	–	28,514	812	6,601	–	7,413	21,100	2,051
	(700)	(2,163)		(2,863)	(32)	(780)	-	(812)	(2,051)	(668)
Total Intangible Assets	**2,863**	**25,651**	**-**	**28,514**	**812**	**6,601**	**–**	**7,413**	**21,100**	**2,051**
	(700)	**(2,163)**	**-**	**(2,863)**	**(32)**	**(780)**	**-**	**(812)**	**(2,051)**	**(668)**

2.8.3. Capital Work In Progress

(in Thousands of ₹)

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	24,508	9,149	12,510	-
Additions during the Year	-	54,393	2,739	12,510
Transferred to Fixed Assets	(24,508)	(39,034)	(12,510)	-

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.9. LONG TERM LOANS AND ADVANCES

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Secured & Considered Good:		
Loan Against Property	43,399	-
Unsecured & Considered Good:		
Capital Advances	60	2,955
Security Deposits - Rental	42,194	44,371
Pre Paid Expenses	591	394
Withholding and Other Taxes Receivables	8,841	8,841
	95,085	56,561

2.10. TRADE RECEIVABLES

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Trade receivables outstanding for a period less than six months from due date		
Other Debts (Refer Note 2.10.1)	7,724	10,734
Due for a period exceeding six months from the date they are due for payment		
Unsecured & Considered Good (Refer Note 2.10.1)	257	-
	7,981	10,734

2.10.1. Trade receivables include amount due from The Federal Bank Ltd (Holding Company) ₹7,540 thousands (Previous year - ₹10,734 thousands).

2.11. CASH AND BANK BALANCE

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Cash & Cash Equivalents:		
- Cash in hand	63,645	55,293
- Current Accounts	16,861	5,558
Other Bank Balances:		
- Deposit Accounts (Refer Note No 2.11.1)	21,852	21,279
	1,02,358	82,130

2.11.1. Balance in Fixed Deposit Accounts have maturity period of less than or up to twelve months.

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.12. SHORT TERM LOANS AND ADVANCES

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Secured		
(a) Considered Good		
Loans against Gold (Note 2.12.1)	42,30,457	30,61,284
Interest Receivable	2,68,904	1,22,106
	44,99,361	31,83,390
(b) Considered Doubtful		
Loans against Gold (Refer Note 2.7.1 & Note 2.12.1)	32,497	56,955
	32,497	56,955
Unsecured		
(a) Considered Good		
Advance to Employees	202	798
Prepaid Expenses	3,506	3,665
Withholding and Other Taxes Receivables (Net of Provision)	12,177	17,579
Advances for Supplies & Services	620	909
	16,505	22,952
(b) Considered Doubtful		
Loans against Gold (Refer Note 2.7.1 & Note 2.12.1)	11,662	4,272
	11,662	4,272
	45,60,025	32,67,568

2.12.1. Disclosure required as per Reserve Bank of India Notification No. DNBS.CC.PD.No. 265/03.10.01/2011-12 dated March 21,2012

(in Thousands of ₹)

Particulars	As on 31 March 2013	As on 31 March 2012
Loans granted against collateral of gold Jewellery	42,74,616	31,22,511
Total assets of the Company	49,30,007	35,70,910
Percentage of Loans granted against collateral of gold jewellery to Total Assets	86.71%	87.44%

2.13. OTHER CURRENT ASSETS

(in Thousands of ₹)

Particulars	As at 31 March 2013	As at 31 March 2012
Interest Receivable on Fixed Deposits	334	355
Service Tax Input Credit Receivable	1,998	145
Reimbursement receivable from the Holding company	1,039	7,272
Other Receivables (Refer Note 2.13.1)	2,004	2,562
Less:- Provision	(2,004)	(2,562)
Un - Billed Revenue	511	176
	3,882	7,948

2.13.1. Other Receivables represents amounts recoverable pursuant to fraud at one of the branches of the company during the previous financial year, which is being actively pursued for recovery. Full provision has been made in the accounts as a matter of abundant caution.

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.14. REVENUE FROM OPERATIONS

(in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
(a) Retail Finance		
Interest/Other Charges on Gold Loans	8,36,784	2,98,837
Interest/Other Charges on Loan Against Property	1,674	-
(b) Other Financial Services		
Commission Income	44,399	55,702
(c) Fees for Provision of Facilities/ Services	1,696	21,260
	8,84,553	3,75,799

2.15. OTHER INCOME

(in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Interest on fixed deposits	2,314	715
Interest on Income Tax Refunds	834	314
Profit on sale of Fixed assets	73	-
Miscellaneous Income	132	62
	3,353	1,091

2.16. EMPLOYEE BENEFIT EXPENSES

(in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Salaries and other allowances	1,93,826	1,45,857
Contribution to Provident and other Funds	13,151	7,258
Staff Welfare Expenses	5,541	2,842
	2,12,518	1,55,957

2.17. FINANCE COSTS

(in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Interest on Cash Credit Facility	52,434	86,893
Discount on Commercial Paper	1,60,704	14,816
Processing Fees	356	1,067
	2,13,494	1,02,776

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.18. OTHER EXPENSES

(in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Electricity Charges	4,691	2,676
Rent	69,962	46,313
Repairs & Maintenance		
Buildings	-	-
Machinery	536	84
Others	7,518	2,843
Postage, Telephones &Telegram	9,098	5,411
Travelling & Conveyance Expenses	14,099	7,739
Insurance	5,546	1,838
Rates & Taxes	1,939	6,410
Legal & Professional Charges	10,606	3,158
Advertisement & Business Promotion	3,204	3,500
Commission Paid	9,276	12,307
Sourcing Expenses	370	1,845
Office Expenses	4,473	5,069
Printing & Stationery	6,990	3,241
Recruitment Charges	2,580	2,930
Exclusivity Fees refundable (Refer Note 2.18.1)	-	7,872
Provision for Loss Assets(Refer Note 2.7.2)	6,059	12,419
Provision for Sub Standard Assets (Net of Recovery)	(1,842)	4,881
Provision for Standard Assets (Note 2.7.3)	3,001	7,570
Provision for Bad Debts (Net of Recovery)	(557)	2,562
Bad Debts Written Off (Note 2.18.2)	26,006	-
Security Expenses	24,323	12,405
Valuation Charges	28,572	14,249
Interest Waive off	3,106	55
Miscellaneous Expenses (Refer Note No 2.18.3)	2,652	2,882
	2,42,209	**1,70,260**

2.18.1. In the 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

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 profit and loss Statement.

2.18.2. During the Financial year, the net balance of ₹ 26,006 thousands recoverable from the auctioned Gold Loan accounts have been written off in the Financials.

2.18.3. Miscellaneous Expenses Include Payment to Auditors (Net of Service Tax) (in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Audit fees	500	250
Other services	10	150
Out of pocket expenses reimbursed	129	40
Total	**639**	**440**

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.19. EARNINGS PER SHARE (BASIC AND DILUTED):

(in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
Profit / (Loss) after taxation (₹ Thousands)	1,41,180	(73,746)
Weighted average No. of Equity Shares (Thousands)	1,90,000	65,750
Basic & Diluted Earnings per Share (₹)	0.74	(1.12)

2.20. RELATED PARTY DISCLOSURES

(i) List of Related parties and the nature of relationship:

a) Holding Company

The Federal Bank Limited

b) Key Management Personnel

P K Mohapatra, Manager

(ii) Transactions -

(in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
(a) Holding Company		
Transactions during the year:		
Interest Income from Fixed Deposits	2,315	715
Commission Income	41,414	52,858
Interest paid on Cash Credit Facility	50,908	86,811
Re-imbursements of Expenses by Holding Company	10,432	31,432
Rent Recovered	1,060	3,360
Rent paid	3,724	4,681
Security deposit adjusted	-	24
Electricity Expenses paid	30	69
Reimbursement of Salary to Holding Company	1,243	1,254
Proposed Dividend	70,590	-
Closing Balances in:		
- Fixed Deposit Accounts	21,851	21,279
- Interest On Fixed Deposit with Bank	335	-
- Current Account – Receivable/(Payable)	15,073	2,613
- Borrowings Cash credit facility	22,79,701	13,45,957
- Account Receivable	9,089	18,006
- Account Payable	1,297	644
- Security Deposit (Sub-lease of Premises)	1,610	3,072
(b) Key Management Personnel		
Remuneration to Manager	1,996	732

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.21. 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:

(in Thousands of ₹)

	Distribution		Retail Finance		Total	
Business Segments	Year ended 31.03.2013	Year ended 31.03.2012	Year ended 31.03.2013	Year ended 31.03.2012	Year ended 31.03.2013	Year ended 31.03.2012
Segment Revenue	44,399	55,702	8,38,458	2,98,837	8,82,857	3,54,539
Segment Expenditure	53,881	90,350	3,69,149	2,06,267	4,23,031	2,96,617
Allocated Expenditure	5,682	6,312	37,858	33,245	43,541	39,556
Result	**(15,164)**	**(40,960)**	**4,31,451**	**59,325**	**4,16,286**	**18,366**
Unallocated Income (Net)					(24,218)	12,047
Interest Income					3,148	1,029
Interest Expenses					2,13,138	1,04,335
Profit before Tax					1,82,078	(72,893)
Income Taxes					40,897	853
Net Profit					**1,41,180**	**(73,746)**
Other Information						
Segment Assets	21,441	31,276	48,24,693	34,83,809	48,46,134	35,15,085
Unallocated Assets					83,873	55,824
Total Assets	**21,441**	**31,276**	**48,24,693**	**34,83,809**	**49,30,007**	**35,70,909**
Segment Liabilities	6,275	8,770	28,43,197	16,62,457	28,49,473	16,71,227
Unallocated Liabilities					1,57,594	35,337
Total Liabilities	**6,275**	**8,770**	**28,43,197**	**16,62,457**	**30,07,067**	**17,06,564**
Capital Expenditure	853	157	22,294	98,173	23,147	98,330
Unallocated Capital Expenditure					31,800	28,257
Depreciation/ Amortisation	958	1,342	36,650	18,918	37,608	20,260
Unallocated Depreciation					-	530

The Company has only Domestic Geographic Segment.

2.22. 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)

(in Thousands of ₹)

Particulars	Amount Outstanding	Amount Overdue
Liabilities side :		
1 Loans and advances availed by the non-banking financial company inclusive of interest accrued thereon but not paid:		
(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	28,00,245	NIL

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.22. *(Contd...)*

(in Thousands of ₹)

Particulars	Amount Outstanding
Assets side :	
2. Break-up of Loans and Advances including bills receivables [other than those included in (4) below] :	
(a) Secured	42,73,857
(b) Unsecured	44,159
3 Break up of Leased Assets and stock on hire and other assets counting towards AFC activities	
(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 Break-up of Investments :	
Current Investments :	
1 Quoted :	
(i) Shares : (a) Equity	NIL
(b) Preference	NIL
(ii) Debentures and Bonds	NIL
(iii) Units of mutual funds	NIL
(iv) Government Securities	
(v) Others (please specify)	NIL
2 Unquoted :	
(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
Long Term investments :	
1. Quoted :	
(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
2. Unquoted :	
(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

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.22. *(Contd...)*

5. Borrower group-wise classification of assets financed as in (2) and (3) above : (in Thousands of ₹)

Category	Amount net of provisions*		
	Secured	Unsecured	Total
1. Related Parties			
(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	42,73,857	44,159	43,18,015
Total	**42,73,857**	**44,159**	**43,18,015**

* Contingent Provision on Standard Assets has not been netted off as per prudential norms

6 Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted):

Category	Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
1. Related Parties		
(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
Total	**NIL**	**NIL**

7. Other information (in Thousands of ₹)

(i) Gross Non-Performing Assets	
(a) Related parties	Nil
(b) Other than related parties	44,159
(ii) Net Non-Performing Assets	
a) Related parties	Nil
b) Other than related parties	22,642
(iii) Assets acquired in satisfaction of debt	Nil

2.23. Disclosure in balance sheet required as per Reserve Bank of India Circular No. DNBS (PD) CC No 125 / 03.05.002/2008-09 dated August 1, 2008 issued by the Reserve Bank of India.

2.23.1. Capital to Risk Assets Ratio (CRAR):

Particulars	As at 31 March 2013	As at 31 March 2012
	%	%
i) CRAR	39.82	54.15
ii) CRAR - Tier I capital	39.59	53.92
iii) CRAR - Tier II Capital	0.22	0.23

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.23. *(Contd...)*

2.23.2. Exposure to Real Estate Sector (in Thousands of ₹)

Particulars	Year ended 31 March 2013	Year ended 31 March 2012
a) Direct exposure		
(i) Residential Mortgages -		
Lending fully secured by mortgages on residential property	28,524	-
(ii) Commercial Real Estate -		
Lending secured by mortgages on commercial real estate's (office buildings, retail space, multipurpose commercial premises)	14,875	-
b) Indirect Exposure		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	-	-

2.23.3. Asset Liability Management :

Maturity pattern of certain items of assets and liabilities as at 31st March, 2013. (As compiled by the management)

(in Thousands of ₹)

	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
Liabilities :									
Borrowings from banks	-	-	-	2,00,514	25,99,731	-	-	-	28,00,245
					(15,96,039)				(15,96,039)
Market Borrowings	-	-	-	-	-	-	-	-	-
Assets :									
Advances (Considered good)	8,67,944	12,55,304	6,99,637	10,31,864	3,77,793	5,353	7,062	28,900	42,73,857
	(7,01,916)	(7,37,338)	(3,70,640)	(7,40,582)	(5,10,808)	-	-	-	(30,61,284)
Investments	-	-	-	-	-	-	-	-	-
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)

Figures in brackets are related to the previous year.

2.24. As per the requirement of the Accounting Standard - 22, the Company has recognised a deferred tax asset, which consist of the following:

Category	Deferred Tax Asset/(Liability)		
	At the beginning of the year	Credits/(Charge) during the year the year	At the close of the year
Deferred Tax Asset:			
Timing Difference on account of :			
Depreciation on Fixed Assets	-	2,516	2,516
Disallowances under IT			
- Leave Encashment	-	1,487	1,487
- Gratuity	-	251	251
- Provision for Bad Debts		650	650
- Provision for Sub Standard Assets	-	6,981	6,981
Net Deferred Tax Asset	-	**11,887**	**11,887**

The Company has not recognized any deferred tax asset on provision for standard assets as the Company is of the opinion that such provision does not give rise to a timing difference which has a reasonable certainty of its reversal in future.

Notes forming part of the Financial Statements

2. NOTES ON ACCOUNTS

2.25. During the year the company has voluntarily altered the repayment pattern for certain category of gold loan to the benefit of the borrower from a monthly interval to an annual repayment. The company has obtained a legal opinion that as this rescheduling was initiated by the Company and not the borrower it will not be considered as restructuring of loans as contemplated in the "Non-Banking Financial (Non - Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007" and hence no change in the classification of such borrowers are required. As at the year end and amount of ₹ 1,58,200 thousand including interest receivable is outstanding in respect of such accounts.

2.26. During the year the Company has revised the funding norms in respect of gold loans to bring in line with the industry practice by adding making charges and taxes resulting in an overall increase over the gold price, as against the earlier practice of considering only the gold price.

2.27. The fall in the price of gold post the year end has not been considered for the purpose of valuing the security of gold loan accounts, since in the opinion of the management, this erosion is temporary in nature and adequate margin exists for majority of the gold loan accounts. In respect of certain gold loan accounts considered doubtful of recovery, whose security value as at the year-end has exceeded the total dues including interest, the same have not been recognized as Income, as such excess relates to Interest Income.

2.28. Previous year's figures have been regrouped / reclassified wherever necessary, to make them comparable with the current year's figures.

Dilip Maloo
Head - Finance & Company Secretary

P. K. Mohapatra
COO & Manager

For and on behalf of the Board

Suresh Kumar
Chairman

P. H. Ravikumar
Director

Shyam Srinivasan
Director

Place: Mumbai
Date: 25/04/2013

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

R.KESAVADAS
Partner
M.No.23862

Place: Mumbai
Date: 25/04/2013

Independent Auditors' Report

To the Board of Directors of
The Federal Bank Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **THE FEDERAL BANK LIMITED** ("the Bank"), its subsidiary and associate (the Bank, its subsidiary and associate constitute "the group"), which comprise the Consolidated Balance Sheet as at 31st March, 2013, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Bank's Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with the accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Bank's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, and based on the consideration of the report of the other auditors on the financial statements / financial information of the subsidiary referred to below in the Other Matter paragraph, the aforesaid 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 31 March, 2013;

(b) in the case of the Consolidated Profit and Loss Account, of the profit of the Group for the year ended on that date; 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.

Emphasis of Matter

We draw attention to Note No.1.9 of Schedule 18 to the consolidated financial statements which describes proportionate charge of pension liability of the Bank amounting to ₹33.68 Crore to the Consolidated Profit and Loss Account and the balance unamortised pension liability of ₹ 67.36 Crore as at 31st March 2013, included in Schedule 11 to the consolidated financial statements to be amortised over the next two years, pursuant to the exemption from the application of the provisions of the Accounting Standard (AS) 15, Employee Benefits, granted by the Reserve Bank of India and made applicable to the Bank vide letter no. DBOD No.BP.BC.15896 / 21.04.018 / 2010-11 dated April 8, 2011.

Our report is not qualified in respect of this matter.

Other Matters

1. We did not audit the financial statements of a subsidiary, whose financial statements/financial information reflect total assets (net) of ₹493 Crore as at 31st March, 2013, total revenues of ₹88.79 Crore and net cash flows amounting to ₹1.97 Crore for the year ended on that date, as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us by the Management and our opinion, in so far as it relates to the amounts and disclosures included in respect of this subsidiary, is based solely on the reports of the other auditors.
2. The consolidated financial statements also include the Group's share of net profit of ₹ 2.45 Crore for the year ended 31st March, 2013 in respect of an associate based on its unaudited financial information. On the basis of the information and explanations provided by the Management, it is expected that there should be no material impact on the consolidated financial statements consequent to any possible adjustments to the unaudited financial statements in respect of the aforesaid entity, since the size of this entity in the context of the Group is not significant.

Our report is not qualified in respect of these matters.

For Deloitte Haskins & Sells	**For M P Chitale & Co.**
Chartered Accountants	*Chartered Accountants*
(Registration No.008072S)	(Registration No. 101851W)
M. Ramachandran	**Ulhas Chitale**
Partner	*Partner*
(Membership No.16399)	(Membership No. 32292)

KOCHI,
27 April, 2013.

Consolidated Balance Sheet as at 31 March 2013

(in Thousands of ₹)

	Schedule No.	As at 31 March 2013	As at 31 March 2012
CAPITAL AND LIABILITIES			
Capital	1	1,710,587	1,710,471
Reserves and Surplus	2	60,940,561	54,212,470
Deposits	3	576,111,708	489,347,329
Borrowings	4	52,390,452	42,660,423
Other Liabilities and Provisions	5	18,776,224	17,511,692
Total		**709,929,532**	**605,442,385**
ASSETS			
Cash and Balances with Reserve Bank of India	6	27,488,606	24,296,759
Balances with banks and money at call and short notice	7	9,776,731	11,086,993
Investments	8	208,544,939	171,020,202
Advances	9	443,274,247	379,458,519
Fixed assets	10	4,120,796	3,370,343
Other assets	11	16,724,213	16,209,569
Total		**709,929,532**	**605,442,385**
Contingent liabilities	12	302,459,180	358,494,040
Bills for collection		12,266,208	11,893,140
Significant Accounting Policies	17		
Notes on Accounts	18		
Schedules referred to above form an integral part of the Consolidated Balance Sheet			

Krishnakumar K
Assistant General Manager

Girish Kumar Ganapathy
Company Secretary

In terms of our report attached

For Deloitte Haskins & Sells
Chartered Accountants
Firm Reg. No. 008072S

M Ramachandran
Partner
Membership No. 16399
Place: Kochi
Date: 27 April, 2013

For M P Chitale &Co.
Chartered Accountants
Firm Reg. No. 101851W

Ulhas Chitale
Partner
Membership No. 32292

For and on behalf of the Board of Directors

P C John
Executive Director & CFO

Shyam Srinivasan
Managing Director & CEO

Suresh Kumar
Chairman

Prof. Abraham Koshy
Nilesh S Vikamsey
Dr. K Cherian Varghese
Sudhir M Joshi
K M Chandrasekhar
Directors

Consolidated Profit and Loss Account for the year ended 31 March 2013

(in Thousands of ₹)

	Schedule No.	Year ended 31 March 2013	Year ended 31 March 2012
I. INCOME			
Interest earned	13	62,463,207	55,817,210
Other income	14	6,646,394	5,321,972
Total		69,109,601	61,139,182
II. EXPENDITURE			
Interest expended	15	42,089,395	36,066,661
Operating expenses	16	12,235,925	10,080,639
Provisions and contingencies		6,282,225	7,276,832
Share of (profit)/loss of Associate		(24,506)	177,774
Total		60,583,039	53,601,906
III. PROFIT/LOSS			
Net profit for the year		8,526,562	7,537,276
Add Profit b/f from Previous Year			
- relating to holding company		1,862,112	(689,936)
- relating to subsidiary company		(45,535)	28,211
		10,343,139	6,875,551
IV. APPROPRIATIONS			
Transfer to Revenue Reserve		1,721,400	988,800
Transfer to Statutory Reserve		2,095,500	1,942,000
Transfer to Capital Reserve		229,500	54,017
Transfer to Special Reserve (sec 36(1)(viii) of IT Act)		337,000	285,000
Transfer to Reserve under Sec 45 IC of RBI Act		28,236	-
Provision for proposed dividend		1,539,528	1,539,424
Provision for Dividend Tax		261,643	249,733
Balance carried over to Balance Sheet		4,130,332	1,816,577
Total		10,343,139	6,875,551
Earnings per Share (Basic and Diluted) (₹)		49.85	44.07
(Face value of ₹10/- each)			
(Refer Note 1.2 of Schedule 18)			
Significant Accounting policies	17		
Notes on Accounts	18		
Schedules referred to above form an integral part of the Consolidated Profit and Loss account			

Krishnakumar K
Assistant General Manager

Girish Kumar Ganapathy
Company Secretary

In terms of our report attached

For and on behalf of the Board of Directors

For Deloitte Haskins & Sells
Chartered Accountants
Firm Reg. No. 008072S

For M P Chitale &Co.
Chartered Accountants
Firm Reg. No. 101851W

P C John
Executive Director & CFO

Shyam Srinivasan
Managing Director & CEO

Suresh Kumar
Chairman

Prof. Abraham Koshy
Nilesh S Vikamsey
Dr. K Cherian Varghese
Sudhir M Joshi
K M Chandrasekhar
Directors

M Ramachandran
Partner
Membership No. 16399
Place: Kochi
Date: 27 April, 2013

Ulhas Chitale
Partner
Membership No. 32292

Consolidated Cash Flow Statement for the year ended 31 March 2013

(in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before taxes	**12,130,020**	**11,465,229**
Adjustments for:		
Depreciation on Fixed Assets	824,582	587,435
Depreciation on Investments	(435,681)	327,822
Provision for Non Performing Investments	67,500	-
Provision for Non Performing Assets (Including Bad Debts)	1,892,846	2,217,694
Provision on Standard Assets	493,400	364,500
(Profit)/ Loss on sale of fixed assets (net)	(1,981)	(3,316)
(Income) / Loss From Joint Venture	(24,506)	177,774
Provision for Restructured assets	676,826	343,552
Provision for Other Contingencies	(36,925)	95,311
	15,586,081	**15,576,001**
Adjustments for working capital changes:-		
(Increase)/ Decrease in Investments	(4,035,093)	(13,940,545)
(Increase)/ Decrease in Advances	(65,708,574)	(62,098,155)
(Increase)/ Decrease in Other Assets	241,085	(4,059,201)
Increase/ (Decrease) in Deposits	86,764,379	59,462,785
Increase/ (Decrease) in Other liabilities and provisions	761,117	1,483,962
Direct taxes paid	(5,001,087)	(6,090,483)
Net Cash Generated from Operating Activities	**28,607,908**	**(9,665,636)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(1,588,331)	(1,035,426)
Proceeds from Sale of Fixed Assets	13,200	7,969
Investment in Associate	(0)	(260,000)
(Increase)/ Decrease in Held to Maturity Investments	(33,096,957)	(13,246,205)
Net Cash Used in Investing Activities	**(34,672,088)**	**(14,533,662)**

Cash Flow Statement for the year ended 31st March 2013 *(Contd...)*

(in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital	116	-
Proceeds from Share Premium	4,777	-
Repayment of Subordibate Debt	(760,000)	-
Increase/(Decrease) in Borrowings (Excluding Subordinate Debt)	10,490,029	23,776,797
Dividend Paid	(1,789,157)	(1,689,759)
Net Cash generated from financing Activities	**7,945,765**	**22,087,038**
Increase/(Decrease) in Cash & Cash Equivalents	**1,881,585**	**(2,112,260)**
Cash and Cash Equivalents at the beginning of year	**35,383,752**	**37,496,012**
Cash and Cash Equivalents at the end of year	**37,265,337**	**35,383,752**

Note:

Cash and cash equivalents comprise of cash on hand (including foreign currency notes), Balances with Reserve Bank of India, Balance with Banks and Money at Call and Short notice (Refer schedules 6 and 7 of the Consolidated Balance sheet).

Krishnakumar K
Assistant General Manager

Girish Kumar Ganapathy
Company Secretary

In terms of our report attached

For Deloitte Haskins & Sells
Chartered Accountants
Firm Reg. No. 008072S

M Ramachandran
Partner
Membership No. 16399
Place: Kochi
Date: 27 April, 2013

For M P Chitale &Co.
Chartered Accountants
Firm Reg. No. 101851W

Ulhas Chitale
Partner
Membership No. 32292

For and on behalf of the Board of Directors

P C John
Executive Director & CFO

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Managing Director & CEO

Suresh Kumar
Chairman

Prof. Abraham Koshy
Nilesh S Vikamsey
Dr. K Cherian Varghese
Sudhir M Joshi
K M Chandrasekhar
Directors

Schedules forming part of Consolidated Balance Sheet

Schedule: 1 **SHARE CAPITAL** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
Authorised Capital	2,000,000	2,000,000
[20,00,00,000 (Previous year 20,00,00,000) Equity Shares of Rs 10 each]		
Issued Capital	1,713,295	1,713,179
[17,13,29,541 (Previous year 17,13,17,910) Equity Shares of Rs 10/- each]		
Subscribed, Called up and Paid up Capital	1,710,591	1,710,475
[17,10,59,132 (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 and issue of 11631 ESOS shares under ESOS 2010] (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 82,588 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)		
Less: Calls in arrears	4	4
Total	1,710,587	1,710,471

Schedules forming part of Consolidated Balance Sheet

Schedule: 2 **RESERVES AND SURPLUS**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Statutory Reserve		
Opening balance	10,694,676	8,752,676
Additions during the year	2,095,500	1,942,000
	12,790,176	**10,694,676**
II. Capital Reserves		
(a) Revaluation Reserve		
Opening balance	54,142	56,328
Deductions during the year	2,077	2,186
	52,065	**54,142**
(b) Others		
Opening balance	1,656,193	1,602,176
Additions during the year	229,500	54,017
	1,885,693	**1,656,193**
	1,937,758	**1,710,335**
III. Share premium		
Opening balance	24,755,856	24,755,856
Additions during the year	4,777	-
	24,760,633	**24,755,856**
IV. Revenue and Other Reserves		
a) Revenue Reserve		
Opening Balance	11,206,341	10,217,541
Additions during the year	1,721,400	988,800
	12,927,741	**11,206,341**
b) Other Reserves		
Investment Fluctuation Reserve		
Opening Balance	1,897,200	1,897,200
Additions during the year	-	-
	1,897,200	**1,897,200**
c) Special Reserve (As per section 36(1)(viii) of Income Tax Act)		
Opening balance	1,820,600	1,535,600
Addition during the year	337,000	285,000
	2,157,600	**1,820,600**
V. Contingency Reserve		
Opening balance	301,003	301,003
Addition during the year	-	-
	301,003	**301,003**
VI. Reserve Fund		
Balance as per last Balance Sheet	8,412	8,412
Transferred from Profit and Loss Account	28,236	-
	36,648	**8,412**
VII. General Reserve		
Balance as per last Balance Sheet	1,470	1,470
Transferred from Profit and Loss Account	-	-
	1,470	**1,470**
VIII. Balance in Profit and Loss Account	4,130,332	1,816,577
Total	60,940,561	54,212,470

Schedules forming part of Consolidated Balance Sheet

Schedule: 3 **DEPOSITS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
A. I. Demand Deposits		
i. From Banks	592,963	126,997
ii. From Others	28,481,366	25,329,485
	29,074,329	**25,456,482**
II. Savings Bank Deposits	127,431,909	109,299,457
III. Term Deposits		
i. From Banks	6,276,618	4,762,050
ii. From Others	413,328,852	349,829,340
	419,605,470	**354,591,390**
Total	**576,111,708**	**489,347,329**
B. I. Deposits of branches in India	576,111,708	489,347,329
II. Deposits of branches outside India	-	-
Total	**576,111,708**	**489,347,329**

Schedule: 4 **BORROWINGS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Borrowings in India		
i. Reserve Bank of India	3,300,000	900,000
ii. Other Banks #	842,544	832,082
iii. Other institutions and agencies ##	34,339,160	27,639,733
	38,481,704	**29,371,815**
II. Borrowings outside India	13,908,748	13,288,608
Total	**52,390,452**	**42,660,423**
Secured borrowings included in I and II above	5,517,742	3,248,227

\# Borrowings from other banks include Subordinated Debt of ₹322,000 Thousands (Previous Year ₹582,000 Thousands) in the nature of Non Convertible Debentures

\## Borrowings from other Institutions and agencies include Subordinated Debt of ₹1,978,000 Thousands Previous Year ₹ 2,478,000 Thousands) in the nature of Non Convertible Debentures

Schedule: 5 **OTHER LIABILITIES AND PROVISIONS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Bills Payable	302,265	205,190
II. Inter - office adjustments (Net)	1,856,540	1,636,847
III. Interest accrued	687,622	2,658,532
IV. Others (including provisions)*	15,929,797	13,011,123
Total	**18,776,224**	**17,511,692**
***Includes :-**		
(a) Contingent provision against standard assets	2,464,466	1,968,064
(b) Proposed Dividend	1,539,528	1,539,424
(c) Tax on Proposed Dividend	261,643	249,733
(d) Deferred Tax Liability (Net)	-	641,900

Schedules forming part of Consolidated Balance Sheet

Schedule: 6 **CASH AND BALANCES WITH RESERVE BANK OF INDIA**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Cash in hand (including foreign currency notes)	5,352,150	4,013,736
II. Balance with Reserve Bank of India		
i. in Current Accounts	22,136,456	20,283,023
ii. in Other Accounts	-	-
Total	**27,488,606**	**24,296,759**

Schedule: 7 **BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. In India		
i. Balances with banks		
a. in Current Accounts	1,006,049	403,847
b. in Other Deposit Accounts	5,885,600	4,231,800
ii. Money at call and short notice		
a. With Banks	-	1,000,000
b. With other institutions	-	4,045,707
Total	6,891,649	9,681,354
II. Outside India		
i. in Current Accounts	170,832	133,764
ii. in Other Deposit Accounts	2,714,250	1,271,875
iii. Money at call and short notice	-	-
Total	2,885,082	1,405,639
Grand Total (I and II)	9,776,731	11,086,993

Schedule: 8 **INVESTMENTS**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Investments in India in :		
i. Government Securities ## **	145,750,543	115,312,413
ii. Other approved Securities	-	-
iii. Shares	2,564,217	1,907,292
iv. Debentures and Bonds	8,017,423	9,603,502
v. Joint Venture $	979,031	954,525
vi. Others (Mutual Funds, Commercial Paper etc.) @	51,233,725	43,242,470
Total	**208,544,939**	**171,020,202**
II. Investments outside India	-	-
Grand Total (I and II)	**208,544,939**	**171,020,202**
Gross Investments	208,690,427	171,513,070
Less: Depreciation/ Provision for Investments	145,488	492,868
Net Investments	**208,544,939**	**171,020,202**

Includes securities costing ₹1,447,241 Thousands (previous year ₹1,478,176 Thousands) pledged for clearing facility and margin requirements

@ Includes priority sector shortfall deposits ₹24,997,387 Thousands (previous year ₹20,433,228 Thousands)

** Net of Repo borrowing of ₹ 14,700,000 Thousands (previous year ₹ 26,250,000 Thousands) under the Liquidity Adjustment Facility in line with the RBI requirements

$ represents investment accounted as an associate in line with AS -23 - Accounting of Investments in Associates in consolidated Financial Statements , as notified under the Companies (Accounting Standards) Rules, 2006 [Refer Schedule 17, Note 2.2 (iv)]

Schedules forming part of Consolidated Balance Sheet

Schedule: 9 **ADVANCES (NET OF PROVISIONS)** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
A. i. Bills purchased and discounted	14,938,824	18,538,117
ii. Cash credits, overdrafts and loans repayable on demand	267,418,289	218,730,956
iii. Term loans	160,917,134	142,189,446
Total	**443,274,247**	**379,458,519**
B. i. Secured by tangible assets $	343,134,821	264,680,049
ii. Covered by Bank/Government guarantees #	26,926,169	28,641,138
iii. Unsecured	73,213,257	86,137,332
Total	**443,274,247**	**379,458,519**
C. I. Advances in India		
i. Priority Sector	114,956,971	121,884,584
ii. Public Sector	22,666,528	28,175,847
iii. Banks	29,641	44,636
iv. Others	305,621,107	229,353,452
Total	**443,274,247**	**379,458,519**
II. Advances outside India	-	-
Grand Total (C I and C II)	**443,274,247**	**379,458,519**

$ Includes Advances against book debts

Includes advances against L/Cs issued by banks

Schedule: 10 **FIXED ASSETS** (in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I OWNED ASSETS		
a. Premises		
Gross Block		
At the beginning of the year	2,205,630	2,192,717
Additions during the year	25,919	12,913
Deductions during the year	-	-
Closing Balance	**2,231,549**	**2,205,630**
Depreciation		
As at the beginning of the year	568,870	507,890
Charge for the year	59,145	60,980
Deductions during the year	-	-
Depreciation to date	628,015	568,870
Net Block	**1,603,534**	**1,636,760**
b. Other fixed assets (including furniture and fixtures)		
Gross Block		
At the beginning of the year	4,812,631	3,875,983
Additions during the year	1,562,412	1,022,513
Deductions during the year	112,864	85,865
Closing Balance	**6,262,179**	**4,812,631**
Depreciation		
As at the beginning of the year	3,082,882	2,635,453
Charge for the year	767,514	528,641
Deductions during the year	101,645	81,212
Depreciation to date	3,748,751	3,082,882
Net Block	**2,513,428**	**1,729,749**

Schedules forming part of Consolidated Balance Sheet

Schedule: 10 **FIXED ASSETS** *(Contd...)*

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
II ASSETS GIVEN ON LEASE		
Gross Block		
At the beginning of the year	31,013	31,013
Additions during the year	-	-
Deductions during the year	-	-
Closing Balance	**31,013**	**31,013**
Depreciation		
As at the beginning of the year	27,179	27,179
Charge for the year	-	-
Deductions during the year	-	-
Depreciation to date	27,179	27,179
Net Block	**3,834**	**3,834**
Total (I & II)	**4,120,796**	**3,370,343**

* Includes buildings constructed on leasehold land at different places having original cost of ₹655,216 Thousands and Written down value of ₹549,014 Thousands with remaining lease period varying from 61 -73 years.

Schedule: 11 **OTHER ASSETS**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Inter - office adjustments (net)	-	-
II. Interest accrued	4,273,812	3,995,024
III. Tax paid in advance/tax deducted at source (Net of provision)	5,694,828	6,204,886
IV. Stationery and Stamps	29,734	26,918
V. Non-banking assets acquired in satisfaction of claims	27,858	31,061
VI. Others @	6,697,981	5,951,680
Total	**16,724,213**	**16,209,569**
@ Includes Deferred Tax Asset (Net)	1,265,787	-

Schedule: 12 **CONTINGENT LIABILITIES**

(in Thousands of ₹)

	As at 31 March 2013	As at 31 March 2012
I. Claims against the Bank not acknowledged as debts	7,301,798	6,611,455
II. Liability on account of outstanding forward exchange contracts	245,319,772	304,316,064
III. Guarantees given on behalf of constituents - in India	36,966,166	35,336,490
IV. Acceptances, endorsements and other obligations	12,338,376	11,884,826
V. Other items for which the Bank is contingently liable	533,068	345,205
Total	**302,459,180**	**358,494,040**

Schedules forming part of Consolidated Profit and Loss Account

Schedule: 13 **INTEREST EARNED** (in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
I. Interest/discount on advances/bills	47,144,177	42,130,923
II. Income on investments	14,645,987	13,157,376
III. Interest on balances with Reserve Bank of India and other inter-bank funds	563,557	348,836
IV. Others	109,486	180,075
Total	**62,463,207**	**55,817,210**

Schedule: 14 **OTHER INCOME** (in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
I. Commission, exchange and brokerage	3,051,515	2,518,534
II. Profit on sale of investments (Net)	2,057,560	820,706
III. Profit on revaluation of investments (Net)	-	-
IV. Profit on sale of land, buildings and other assets (Net)	1,981	3,316
V. Profit on foreign exchange transactions (Net)	793,960	842,086
VI. Income earned by way of dividends etc. from companies in India	58,874	51,246
VII. Miscellaneous income	682,504	1,086,084
[Includes Recoveries in assets written off ₹ 4,812.13 lakh (previous year ₹ 8,573.78 lakh)		
Total	**6,646,394**	**5,321,972**

Schedule: 15 **INTEREST EXPENDED** (in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
I. Interest on deposits	38,373,181	33,312,085
II. Interest on Reserve Bank of India/Inter bank borrowings	779,355	485,465
III. Others	2,936,859	2,269,111
Total	**42,089,395**	**36,066,661**

Schedule: 16 **OPERATING EXPENSES** (in Thousands of ₹)

	Year ended 31 March 2013	Year ended 31 March 2012
I. Payments to and provisions for employees	6,477,112	5,594,495
II. Rent, taxes and lighting	1,400,148	996,170
III. Printing and stationery	133,436	106,931
IV. Advertisement and publicity	130,125	164,010
V. Depreciation on Bank's property	826,659	589,621
Less: Depreciation on revaluation of Premises transferred from Revaluation Reserve	2,077	2,186
	824,582	587,435
VI. Directors' fees, allowances and expenses	7,738	6,964
VII. Auditors' fees and expenses (including branch auditors fees and expenses)	53,354	45,431
VIII. Law charges	68,537	52,802
IX. Postage, Telegrams, Telephones etc	332,303	281,600
X. Repairs and maintenance	446,598	376,146
XI. Insurance	478,227	437,209
XII. Other expenditure	1,883,765	1,431,446
Total	**12,235,925**	**10,080,639**

Schedules forming part of the Consolidated Financial Statements

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013**

1. Corporate information

The Federal Bank Limited ('FBL' or the 'Bank') together with its subsidiary and associate (collectively, the Group) is a diversified financial services group providing a wide range of banking and financial services including commercial banking, retail banking, project and corporate finance, working capital finance, insurance and treasury products and services. Operations of the Group are spread all over India.

The Bank was incorporated in 1931 as Travancore Federal Bank Limited to cater to the banking needs of Travancore Province by a small group of local citizens. It embarked on a phase of sustained growth under the leadership of Late K.P. Hormis. The bank is governed by Banking Regulation Act, 1949 and other applicable acts/ regulations.

2. Basis of Consolidation and significant accounting policies

2.1. Basis of accounting and preparation of consolidated financial statements

The consolidated financial statements of the Bank, its subsidiary and associate (together the 'Group') have been prepared in accordance with the Generally Accepted Accounting Principles in India (Indian GAAP) to comply with the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006 (as amended) and the relevant provisions of the Companies Act, 1956. The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the previous year.

2.2. Principles of consolidation

(i) The consolidated financial statements relate to the Federal Bank Limited ('FBL' or the 'Bank'), its subsidiary company and associate. The details of subsidiary and associate entities are given below:

Name of the entity	Relationship	Country of Incorporation	Ownership held by	% of Holding and voting power either directly or indirectly through subsidiary as at	
				31 March, 2013	31 March, 2012
Fedbank Financial Services Limited (FFSL or Subsidiary)	Subsidiary Company	India	The Federal Bank Limited	100	100
IDBI Federal Life Insurance Company Limited (Associate)	Associate	India	The Federal Bank Limited	26	26
			IDBI Bank Limited	48	48
			Ageas Insurance International N.V	26	26

(ii) The financial statements of the subsidiary company and associate used in the consolidation are drawn up to the same reporting date as that of the Bank i.e., 31 March, 2013. These have been consolidated based on latest available financial statements.

(iii) The financial statements of the Bank and its subsidiary company have been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses, after eliminating intra-group balances, intra-group transactions and resulting unrealised profits or losses, unless cost cannot be recovered.

(iv) The consolidated financial statements include the share of profit of the associate company which have been accounted by using equity method as per AS 23 Accounting for Investments in Associates in Consolidated Financial Statements. Accordingly, the share of profit of the associate company has been added to the cost of investment.

(v) The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Bank's separate financial statements.

(vi) 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.

Schedules forming part of the Consolidated Financial Statements

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

2.3. Use of estimates

The preparation of the consolidated financial statements in conformity with Indian GAAP requires the Management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) and the reported income and expenses during the year. The Management believes that the estimates used in preparation of the financial statements are prudent and reasonable. Future results could differ due to these estimates and the differences between the actual results and the estimates are recognised in the periods in which the results are known / materialise.

2.4 Advances

Advances are classified into performing assets (Standard) and non-performing assets ('NPAs') as per the Guidelines issued by Reserve Bank of India (RBI) and are stated net of specific provisions made towards NPAs and floating provisions. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Provisions for NPAs are made over and above the minimum required as per the guidelines of the RBI on matters relating to prudential norms.

Advances shown in the Balance Sheet are net of (a) bills rediscounted and (b) provisions made for non performing advances.

Loss assets and unsecured portion of doubtful assets are provided / written off as per the RBI guidelines.

Amounts recovered against debts written off are recognised in the profit and loss account.

For restructured/rescheduled assets, provision is made in accordance with the guidelines issued by the RBI, which requires the diminution in the fair value of the assets to be provided at the time of restructuring.

A general provision for standard advances is made @ 0.25% in case of direct advances to agricultural and SME sectors, 1 % in respect of advances classified as commercial real estate, 2.75 % in respect of certain class of restructured assets and 0.40% for all other advances as prescribed by the RBI.

2.5 Country risk

In addition to the provisions required to be held according to the asset classification status, provisions are held for individual country exposure (other than for home country). The countries are categorised into seven risk categories namely insignificant, low, moderate, high, very high, restricted and off-credit and provision is made on exposures exceeding 180 days on a graded scale ranging from 0.25% to 100%. For exposures with contractual maturity of less than 180 days, 25% of the normal provision requirement is held. If the country exposure (net) of the Bank in respect of each country does not exceed 1 % of the total funded assets, no provision is maintained on such country exposure.

2.6 Investments

Classification

In accordance with the RBI guidelines, investments are categorised into "Held for Trading" (HFT), "Available for Sale" (AFS) and "Held to Maturity" (HTM) and further classified under six groups, viz. Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Subsidiaries/joint ventures and other investments for the purposes of disclosure in the Balance Sheet.

a) Investments which are held for sale within 90 days from the date of purchase are classified as "Held for Trading".

b) Investments which the bank intends to hold till maturity are classified as "Held to Maturity".

c) Investments which are not classified in either of the above two categories are classified as "Available for Sale".

Acquisition Cost

Transaction costs including brokerage and commission pertaining to acquisition of investments are charged to the Profit and Loss Account.

Broken period interest is charged to the Profit and Loss Account.

Cost of investments is computed based on the weighted average cost method.

Valuation

The valuation of investments is made in accordance with the RBI Guidelines:

a) Held for Trading/Available for Sale – Each security in this category is valued at the market price or fair value and the net depreciation of each group is recognised in the Profit and Loss account. Net appreciation, if any, is ignored.

Schedules forming part of the Consolidated Financial Statements

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

The market value of investments where current quotations are not available is determined as per the norms prescribed by RBI.

b) Held to Maturity – These are carried at their acquisition cost. Any premium on acquisition of government securities are amortised over the remaining maturity period of the security. Any diminution, other than temporary, in the value of such securities is provided for.

c) Repurchase and reverse repurchase transactions – These are accounted as outright sale and outright purchase respectively. The difference between the clean price of the first leg and the clean price of the second leg is recognised as interest income / interest expense over the period of the transaction. However, depreciation in their value, if any, compared to their original cost, is provided for.

d) In respect of securities included in any of the three categories of investments where interest / principal is in arrears, for more than 90 days, income thereon is not reckoned and appropriate provision for the depreciation in the value of the investments is made, as per prudential norms applicable to non-performing investments. Debentures / Bonds in the nature of advances are subjected to usual prudential norms applicable to advances.

e) Market value of investments where current quotations are not available, is determined as per the norms prescribed by the RBI as under:

- in case of unquoted bonds, debentures and preference shares where interest/dividend is received regularly (i.e. not overdue beyond 90 days), the market price is derived based on the YTM for Government Securities as published by Fixed Income Money Market and Derivatives Association of India (FIMMDA) / Primary Dealers Association of India (PDAI) and suitably marked up for credit risk applicable to the credit rating of the instrument. The matrix for credit risk mark-up for each categories and credit ratings along with residual maturity issued by FIMMDA is adopted for this purpose;
- in case of bonds and debentures (including Pass Through Certificates) where interest is not received regularly (i.e. overdue beyond 90 days), the valuation is in accordance with prudential norms for provisioning as prescribed by RBI;
- equity shares, for which current quotations are not available or where the shares are not quoted on the stock exchanges, are valued at break-up value (without considering revaluation reserves, if any) which is ascertained from the company's latest Balance Sheet. In case the latest Balance Sheet is not available, the shares are valued at Re 1 per company;
- units of Venture Capital Funds (VCF) held under AFS category where current quotations are not available are marked to market based on the Net Asset Value (NAV) shown by VCF as per the latest audited financials of the fund. In case the audited financials are not available for a period beyond 18 months, the investments are valued at Re 1 per VCF. Investment in unquoted VCF after 23rd August, 2006 are categorised under HTM category for the initial period of three years and valued at cost as per RBI guidelines;
- Investment in security receipts are valued as per the Net Asset Value (NAV) obtained from the issuing Reconstruction Company /Securitisation Company.

Investments in subsidiaries/Associates are categorised as HTM and assessed for impairment to determine permanent diminution, if any, in accordance with the RBI guidelines.

All investments are accounted for on settlement date, except investments in equity shares which are accounted for on trade date as the corporate actions are effected in equity on the trade date.

Transfer between Categories

Transfer between categories is done at the lower of the acquisition cost / book value / market value on the date of the transfer and the depreciation, if any, on such transfer is fully provided for.

Profit or Loss on Sale / Redemption of Investments

1) Held for Trading and Available for Sale – Profit or loss on sale / redemption is included in the Profit and Loss account.

2) Held to Maturity – Profit or loss on sale / redemption of investments is included in the Profit and Loss account. In case of profits, the same is appropriated to Capital Reserve after adjustments for tax and transfer to statutory reserve in accordance with RBI guidelines.

Schedules forming part of the Consolidated Financial Statements

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

Repo and Reverse Repo Transactions

In respect of Repo transactions under Liquidity Adjustment Facility (LAF) with RBI, monies borrowed from RBI are credited to investment account and reversed on maturity of the transaction. Costs thereon are accounted for as interest expense. In respect of reverse Repo transactions under LAF, monies paid to RBI are debited to investment account and reversed on maturity of the transaction. Revenues thereon are accounted as interest income.

2.7 Foreign currency transactions

Transactions denominated in foreign currencies are accounted for at the rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated at the Balance Sheet date at rates notified by Foreign Exchange Dealers Association of India ('FEDAI'). All profits/losses resulting from year end revaluations are recognised in the Profit and Loss Account.

Outstanding forward exchange contracts including currency swaps undertaken to hedge foreign currency assets/ liabilities, funding swaps and spot exchange contracts are revalued at quarter end exchange rates notified by FEDAI for specified maturities and at interpolated rates for contracts of interim maturities The resulting gains or losses on revaluation are included in the Profit and Loss Account in accordance with RBI/FEDAI guidelines. The forward exchange contracts of longer maturities where exchange rates are not notified by FEDAI are revalued at the forward exchange rates implied by the swap curves in respective currencies. The resultant gains or losses are recognised in the Profit and Loss Account.

Currency futures contracts are marked to market using daily settlement price on a trading day, which is the closing price of the respective futures contracts on that day. While the daily settlement price is computed based on the last half an hour weighted average price of such contract, the final settlement price is taken as the RBI reference rate on the last trading day of the futures contract or as may be specified by the relevant authority from time to time. All open positions are marked to market based on the settlement price and the resultant marked to market profit/loss is daily settled with the exchange.

Contingent liabilities on account of foreign exchange contracts, guarantees, acceptances, endorsements and other obligations denominated in foreign currencies are disclosed at closing rates of exchange notified by FEDAI.

2.8 Derivative transactions

The Bank recognises all derivative contracts at the fair value, on the date on which the derivative contracts are entered into and are re-measured at fair value as at the Balance Sheet or reporting dates. Derivatives are classified as contingent Assets/ Liabilities. In respect of derivative contracts that are marked to market, negative market value is recognised in the Statement of Profit and Loss in the relevant period. Contingent liabilities on account of derivative contracts denominated in foreign currencies are reported at closing rates of exchange notified by FEDAI at the Balance Sheet date.

2.9 Fixed assets and depreciation

Fixed assets are carried at cost of acquisition less accumulated depreciation and impairment, if any. Cost includes freight, duties, taxes and incidental expenses related to the acquisition and installation of the asset.

Capital work-in-progress includes cost of fixed assets that are not ready for their intended use and also includes advances paid to acquire fixed assets.

Premises which were revalued are stated at such values on revaluation and the appreciation credited to the Revaluation Reserve.

Depreciation is provided on the written down value from the date of addition at the rates prescribed in Schedule XIV to the Companies Act, 1956 except in the following cases where higher rate of depreciation has been provided on a straight – line basis.

Asset	Rate of Depreciation
Computers and Accessories, Mobile Phones, EPABX	33.33%
Software Expenditure	33.33%
Improvements to leased premises	20.00%

Schedules forming part of the Consolidated Financial Statements

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

In the case of Subsidiary Company, Leasehold improvements are depreciated @ 18.10% using WDV method.

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 Revaluation Reserve to the Profit and Loss Account.

All fixed assets individually costing less than ₹ 5,000 are fully depreciated in the year of installation.

Depreciation on assets sold during the year is recognised on a pro-rata basis till the date of sale.

2.10 Impairment of Assets

The carrying amounts of assets are reviewed at each Balance Sheet date to ascertain if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

2.11 Non-Banking Assets

Non-Banking assets acquired in settlement of debts /dues are accounted at the lower of their cost of acquisition or net realisable value.

2.12 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, balances with Reserve Bank of India and Balances with Other Banks / institutions and money at call and short notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

2.13 Revenue Recognition

Interest income is recognised on an accrual basis except interest income on non-performing assets, which is recognised on receipt in accordance with AS-9, Revenue Recognition as notified under the Companies (Accounting Standards) Rules, 2006 and the RBI guidelines.

Guarantee commission, commission on letter of credit and annual locker rent fees are recognised on a straight line basis over the period of contract. Other fees and commission income are recognised when due, except in cases where the bank is uncertain of ultimate collection.

Dividend is accounted on an accrual basis when the right to receive the dividend is established.

Gain or loss arising on sale of NPAs is accounted as per the guidelines prescribed by the RBI, which require provisions to be made for any deficit (where sale price is lower than the net book value), while surplus (where sale price is higher than the net book value) is ignored.

Loan Syndication fee is accounted for on completion of the agreed service and when right to receive is established.

Unpaid funded interest on term loans are accounted on realisation as per the guidelines of RBI.

The bank imports gold coins on a consignment basis for selling to its customers. The difference between the sale price to customers and cost of purchase is included in other income.

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

2.14 Finance Lease

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,

Schedules forming part of the Consolidated Financial Statements

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

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.

2.15 Retirement and Other Employee Benefits

The Bank

a) Provident Fund:

The contribution made by the bank to The Federal Bank Employees Provident Fund, administered by the trustees is charged to Profit and Loss account.

b) Pension Fund:

The contribution towards The Federal Bank Employees' Pension Fund, managed by trustees, is determined on actuarial basis on projected unit credit method as on the Balance Sheet date and is recognised in the accounts. However, the liability arising on account of re-opening of pension option to existing employees who had joined prior to 29th September 1995 and not exercised the option earlier, is amortised over a period of five years commencing from the financial year 2010-11 as permitted by the Reserve Bank of India.

Employees who had joined the services of the Bank with effect from April 01, 2010 are covered under Defined Contributory Pension Scheme (DCPS). In respect of such employees the bank contributes 10% of the Basic Pay plus Dearness Allowance and the expenditure thereof is charged to Profit and Loss account

c) Gratuity

The bank makes annual contribution to The Federal Bank Employees' Gratuity Trust Fund administered and managed by the Trustees. The cost of providing such 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 recognised in the Statement of Profit and Loss in the period in which they occur. The retirement benefit obligation recognised in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the schemes.

d) Compensation for absence on Privilege / Sick / Casual Leave and Leave Travel Concession (LTC)

The employees of the bank are entitled to compensated absence on account of privilege / sick / casual leave as per the leave rules. The bank measures the long term expected cost of compensated absence as a result of the unused entitlement that has accumulated at the balance sheet date based on actuarial valuation and such costs are recognised in the accounts.

The employees are also eligible for LTC as per the rules. The estimated cost of unused entitlement as on the Balance Sheet date based on actuarial valuation is provided for.

The Subsidiary

a) The company has defined contribution plans for employees comprising of Government Provident Fund and Employee State Insurance. The contributions paid/payable to these plans during the year are charged to Statement of Profit and Loss for the Year.

b) The net present value of the obligation for un-funded 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 and Loss for the period in which they occur.

Schedules forming part of the Consolidated Financial Statements

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

2.16 Debit card reward points

Provision for probable redemption of debit card reward points is made on an estimated basis.

2.17 Employee Stock Option Scheme

The Bank has formulated Employee Stock Option Scheme (ESOS) 2010 in accordance with Securities and Exchange Board of India (Employee Stock Option Scheme) Guidelines, 1999. The Scheme provides for grant of options to Employees of the Bank to acquire Equity Shares of the Bank that vest in a graded manner and that are to be exercised within a specified period. In accordance with the SEBI Guidelines and the guidance note on "Accounting for Employee Share based payments" issued by the ICAI, the excess, if any, of the market price of the share preceding the date of grant of the option under ESOS over the exercise price of the option is amortised on a straight line basis over the vesting period.

2.18 Taxation

Income tax expense is the aggregate amount of current tax and deferred tax charge. Current year taxes are determined in accordance with the Income tax Act, 1961. Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the taxes on income levied by same governing taxation laws. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. The impact of changes in the deferred tax assets and liabilities is recognised in the Profit and Loss Account.

Deferred tax assets are recognised and reassessed at each reporting date, based upon the Management's judgement as to whether realisation is considered as reasonably certain. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax asset can be realised against future profits.

2.19 Segment Reporting

Business Segments have been identified and reported taking into account, the target customer profile, the nature of product and services, the differing risks and returns, the organization structure, the internal business reporting system and guidelines issued by RBI vide notification dated April 18, 2007. The Bank operates in the following business segments;

a) Treasury

The treasury services segment primarily consists of interest earnings on investments portfolio of the bank, gains or losses on investment operations and earnings from foreign exchange business. The principal expenses of the segment consist of interest expense on funds borrowed and other expenses.

b) Corporate / Whole Sale Banking

The Corporate / Whole sale Banking segment provides loans and other banking services to segment identified on the basis of RBI guidelines. Revenues of this segment consist of interest earned on exposure exceeding ₹ 5 Crore per customer and the charges / fees earned from other banking services to these customers. The principal expenses of the segment consist of interest expense on funds borrowed and other expenses.

c) Retail Banking

The Retail Banking segment provides loans and other banking services to customers other than Corporate / Whole Sale Banking customers, identified on the basis of RBI guidelines. Revenues of this segment consist of interest earned on Loans made to such customers and the charges / fees earned from other banking services from them. The principal expenses of the segment consist of interest expense on funds borrowed and other expenses.

Schedules forming part of the Consolidated Financial Statements

Schedule: 17 **SIGNIFICANT ACCOUNTING POLICIES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2013** *(Contd...)*

d) Other Banking Operations

This segment includes income from para banking activities such as debit cards, third party product distribution and associated costs.

e) The Operations of Subsidiary has been classified under 'Retail Banking'.

Geographic Segment

The Group operates only in India.

2.20 Earnings per Share

The Group reports basic and diluted earnings per share in accordance with AS 20, Earnings per Share, as notified by the Companies (Accounting Standards) Rules, 2006. Basic earnings per share is computed by dividing the net profit after tax by the weighted average number of equity shares outstanding for the year.

Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were converted or exercised during 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.

2.21 Provisions, contingent liabilities and contingent assets

A provision is recognised when the Group has a present obligation as a result of past event where it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimates.

A disclosure of contingent liability is made when there is:

- a possible obligation arising from a past event, the existence of which will be confirmed by occurrence or non-occurrence of one or more uncertain future events not within the control of the Bank; or
- a present obligation arising from a past event which is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

2.22 Service tax input credit

Service tax input credit is accounted for in the books in the period in which the underlying service received is accounted and when there is no uncertainty in availing / utilising the credits.

2.23 Net Profit

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

(a) provision/ Write off of Non – Performing Assets as per the norms prescribed by RBI;

(b) Provision for Taxes;

(c) Depreciation/ Write off of Investments; and

(d) Other usual, necessary and mandatory provisions, if any

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENS**

1.1. 'Provisions and Contingencies' recognised in the Profit and Loss Account include:

(₹ in Crore)

For the year ended / As at	31 March 2013	31 March 2012
i) Provision towards NPAs (net)	189.64	221.77
ii) Provision for depreciation Investments	(41.49)	34.86
iii) Provision for Non Performing Investments	6.75	-
iv) Provision for Standard Assets	49.64	36.45
v) Provision for Taxation :		
Current Tax	520.09	305.90
Deferred tax	(160.41)	86.89
vi) Provision towards present value of sacrifice on restructuring, expected wage revision, other contingencies etc.	64.00	41.81
Total	**628.22**	**727.68**

1.2. Earnings per Share ('EPS')

Particulars	31 March 2013	31 March 2012
Weighted average number of equity shares used in computation of basic earnings per share (in 000's)	171,059	171,047
Weighted average number of equity shares used in computation of diluted earnings per share (in 000's)	171,059	171,047
Nominal Value of share (in ₹)	10	10
Basic earnings per share (in ₹)	49.85	44.07
Diluted earnings per share (in ₹)	49.85	44.07
Earnings used in the computation of basic and diluted earnings per share (₹ in Lakhs)	85,265.62	75,372.76

1.3. Employee Stock Option Scheme ("ESOS"):

(i) Shareholders of the bank had approved Employee Stock Option Scheme (ESOS) through postal ballot, the result of which was announced on December 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:

	Number of Options	
	2012-13	2011-12
Outstanding at the beginning of the year	3,035,875	-
Surrendered during the year	-	-
Granted during the year*	2,448,475	3,472,020
Exercised during the year	11,631	-
Forfeited/lapsed during the year	26,440	436,145
Outstanding at the end of the year	5,446,279	3,035,875
Options exercisable	1,460,370	-

* ESOS granted on 5th November 2012 with vesting period of 1,2,3 and 4 years. Exercise period of 5 years and exercise price of ₹474/-

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 ₹ 12.73 Crore (Previous Year: ₹ 19.73 Crore)

The modified basic and diluted earnings per share for the year, had the company followed Fair Value Method of accounting for ESOS compensation cost, would be ₹ 48.25 and ₹ 48.09 (Previous Year: ₹ 44.26 and ₹ 44.16) respectively.

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

(ii) Dividend paid on shares issued on exercise of stock options

The Bank may allot shares between the Balance Sheet date and record date for the declaration of dividend pursuant to the exercise of any employee stock options. These shares will be eligible for full dividend for the year ended 31 March 2013, if approved at the ensuing Annual General Meeting. Dividend relating to these shares has not been recorded in the current year.

1.4 Segment Reporting (AS 17)

In terms of the Accounting Standard 17 of ICAI, the Group's operations are classified into four business segments and the information on them is as under.

(₹ in Crore)

	Treasury		Corporate/Whole sale Banking		Retail Banking		Other Banking Operations		Total	
Business Segment	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Revenue	1813.60	1530.30	2169.73	1992.10	2886.83	2552.23	40.80	39.29	6910.96	6113.92
Result (net of provisions)	287.61	42.13	254.70	257.01	635.10	845.20	33.15	19.97	1210.56	1164.31
Unallocated expense									-	--
Operating profit (PBT)									1210.56	1164.31
Income taxes									360.35	392.80
Share of Loss/Profit of associate									2.45	-17.78
Extraordinary profit/loss									-	--
Net Profit									**852.66**	**753.73**
Other Information										
Segment Assets	24616.62	20342.52	22045.64	19958.93	23137.72	18709.22	69.28	557.58	69869.26	59568.25
Unallocated assets									1123.69	975.99
Total assets									**70992.95**	**60544.24**
Segment liabilities	22155.15	18304.57	20412.75	18629.58	21552.68	17604.23	0.00	0.00	64120.58	54538.38
Unallocated liabilities									607.26	413.56
Total liabilities									64727.84	54951.94

Geographic Segment Information

The Bank operates within India

1.4. Related Party Disclosures

a) Details of Related Parties:

Name of the Party	Nature of Relationship
IDBI Federal Life Insurance Company Limited	Associate
Sri. Shyam Srinivasan, Managing Director & CEO	Key Management Personnel
Sri. P C John, Executive Director & CFO	Key Management Personnel

b) Significant transactions with related parties:

	Key Management Personnel#	
Particulars	31 March 2013	31 March 2012
Remuneration	1.49	1.09
Dividend Paid	*	*

Asterisk denotes figures below ₹ 1 Lakh

During the year 2012-13, 143 Thousands (Previous Year : 523 Thousands) number of Stock Options under " ESOS 2010" Scheme were granted to MD & CEO and Executive Director & CFO

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

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

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

1.6. Fixed Assets

a) Fixed Assets as per Schedule 10 include Intangible Assets relating to Software and System Development Expenditure which are as follows:

(₹ in Crore)

Particulars	31 March 2013	31 March 2012
Gross Block		
At the beginning of the year	39.67	26.84
Additions during the year	33.64	12.83
Deductions during the year	0.00	0.00
Closing Balance	73.31	39.67
Depreciation / Amortisation		
At the beginning of the year	31.94	25.71
Charge for the year	5.30	6.23
Deductions during the year	0.00	0.00
Depreciation to date	**37.24**	**31.94**
Net Block	**36.07**	**7.73**

b) Land and premises include flats ₹ 0.37 Crore (previous year: ₹ 0.37 Crore), written down value ₹ 0.17 Crore (previous year: ₹ 0.18 Crore), taken possession of and being used by the Bank, for which documentation/registration formalities are to be completed.

c) Revaluation of Fixed Assets

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 Revaluation Reserve. Depreciation for the year on the net addition to value on such revaluation of assets at ₹ 0.21 Crore (Previous year: ₹ 0.22 Crore) has been transferred from Revaluation Reserve to Profit & Loss Account. There has been no revaluation of assets during this year.

1.7. Deferred Tax Assets / Liability

The major components of deferred tax assets and deferred tax liabilities are as under:

(₹ in Crore)

		31 March 2013	31 March 2012
Deferred Tax Liability			
Tax effect of items constituting deferred tax liability:			
(i) Interest accrued by not due		111.81	102.24
(ii) Depreciation on Fixed Asset		5.22	5.73
(iii) Depreciation on Investments		151.85	243.32
	(A)	**268.88**	**351.29**
Deferred Tax Asset			
Tax effect of items constituting deferred tax assets:			
(i) Interest/premium paid on purchase of securities		56.29	47.22
(ii) Provision for Standard Assets		83.34	47.00
(iii) Others		225.47	171.76
	(B)	**365.10**	**265.98**
Net Deferred tax liability/ (Asset)	**(A-B)**	**(96.22)$**	**85.31**
Less: Deferred Tax on disallowance of provision for NPA and others by the Income Tax Department		**30.36**	**21.12**
Net Deferred tax liability/ (Asset)		**(126.58)**	**64.19 $**

$ Net Deferred Asset of ₹160.41 Crore credited to the Consolidated Profit and Loss Account.

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

1.8 Employee Benefits

a) Defined Contribution Plan

The Bank

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.

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 whereas they will be eligible for Defined Contributory Pension Scheme (DCPS) in line with the New Pension Scheme introduced for employees of Central Government. Employee shall contribute 10% of their Pay and Dearness Allowance towards DCPS and the Bank will also make a matching contribution. There is no separate Provident Fund for employees joining on or after 01/04/2010.

The Subsidiary

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 and Loss for the year.

The Group Makes Provident Fund, Employee State Insurance Scheme Contributions and Defined Contributory Pension Scheme for Qualifying Employees. Under the schemes, the Group is required to contribute a specified percentage of the payroll costs to fund the benefits. The Group recognised ₹1.38 Crore (Previous year: ₹ 0.96 Crore) for provident fund contributions, ₹ 0.30 Crore (Previous Year ₹ 0.18 Crore) for Employee State Insurance Scheme Contributions and ₹ 5.69 Crore. (Previous year: ₹ 2.94 Crore) for DCPS in the consolidated Profit and Loss Account. The Contributions payable to these plans by the group are at the rates specified in the Rules of the Schemes.

b) Defined benefit plan

The Group offers the following employee benefit schemes to its employees:

i. Gratuity

ii. Superannuation/Pension

Gratuity

The Bank

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.

The Subsidiary

The net present value of the obligation for un-funded 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 and Loss for the period in which they occur.

Superannuation / Pension

The Bank

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.

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

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 Group's financial statements as at March 31, 2013.

i) Change in benefit obligations:

(₹ in Crore)

Particulars	Gratuity Plan				Pension Plan	
	FBL		FFSL		FBL	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Projected benefit obligation, beginning of the year	225.25	203.51	0.04	0.08	598.76	589.34
Service Cost	12.00	10.94	0.06	0.03	42.18	49.16
Interest cost	18.20	16.38	0.00	0.00	46.14	46.48
Actuarial (gain)/ loss	6.85	15.97	(0.02)	(0.07)	8.98	(1.25)
Benefits paid	(22.17)	(21.55)	--	--	(111.94)	(84.97)
Projected benefit obligation, end of the year	240.13	225.25	0.08	0.04	584.12	598.76

ii) Change in plan assets

(₹ in Crore)

Particulars	Gratuity Plan				Pension Plan	
	FBL		FFSL		FBL	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Plan assets at beginning of the year at fair value	198.87	184.69	-	-	422.62	404.04
Expected return on plan assets	16.90	15.70	-	-	35.92	34.34
Actuarial gain/(loss)	28.07	20.04	-	-	78.27	1.31
Employer's Contributions	--	--	-	-	19.30	67.90
Benefits paid	(22.17)	(21.56)	-	-	(111.94)	(84.97)
Plan assets at end of the year, at fair value	221.67	198.87	-	-	444.17	422.62

ii) Reconciliation of present value of the obligation and the fair value of the plan assets

(₹ in Crore)

Particulars	Gratuity Plan				Pension Plan	
	FBL		FFSL		FBL	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Fair value of plan assets at the end of the year	221.67	198.87	-	-	444.17	422.62
Present value of the defined benefit obligations at the end of the period	240.13	225.25	0.08	0.04	584.12	598.76
Liability recognized in the Balance Sheet	18.46	26.38	(0.08)	(0.04)	139.95@	176.14

@ Includes amount payable on account of transitional liability due to second option for pension ₹67.36 Crore.

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

iv) Gratuity / pension cost for the year ended 31 March, 2013

(₹ in Crore)

Particulars	Gratuity Plan				Pension Plan	
	FBL		FFSL		FBL	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Service cost	12.00	10.94	0.06	0.03	42.18	49.16
Interest cost	18.20	16.38	0.00	0.00	46.14	46.48
Expected return on plan assets	16.90	15.70	0.00	0.00	35.92	34.34
Actuarial (gain)/loss	5.16	(4.07)	(0.02)	(0.07)	5.75	(2.56)
Employee Cost	18.46	7.55	0.04	(0.04)	58.15	58.74
Amortisation Cost	-	-	-	-	33.68	33.68
Net Cost Debit to Profit and Loss Account	-	-	-	-	91.83	92.42
Amount not debited in profit and loss account, but carried over to be amortised in future years *	-		-		67.36	101.04
Actual return on plan assets	18.59		16.91		39.15	35.66

* See Note No. 1.9 of Schedule 18.

v) Investment details of plan Assets

(₹ in Crore)

Particulars	Gratuity Plan				Pension Plan	
	FBL		FFSL		FBL	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Central and state Government bonds	46.53	49.06	-	-	137.37	141.27
Other debt securities	29.51	31.14	-	-	90.47	92.49
Balance in Saving bank account with the Bank	2.87	2.10	-	-	6.33	9.17
Net current assets	2.21	2.42	-	-	6.68	6.80
Balance with LIC #	140.55	114.15	-	-	203.32	172.89
Total	**221.67**	**198.87**	-	-	**444.17**	**422.62**

\# In the absence of detailed information regarding plan assets which is funded with Life Insurance Corporation of India, the composition of each major category of plan assets, the percentage or amount for each category to the fair value of plan assets has not been disclosed.

vi) Experience adjustments

i) Gratuity Plan

a) FBL

(₹ in Crore)

	2012-13	2011-12	2010-11	2009-10	2008-09
Defined Benefit Obligations	240.13	225.25	203.51	181.73	153.03
Plan Assets	221.67	198.87	184.69	181.73	153.03
Surplus/Deficit	-18.46	-26.38	-18.82	0.00	0.00
Experience adjustments on Plan Liabilities	17.02	0.03	13.89	40.36	(0.96)
Experience Adjustments on Plan Assets	22.33	0.64	(0.26)	(0.10)	(0.57)

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

b) FFSL

(₹ in Crore)

	2012-13	2011-12	2010-11	2009-10	2008-09
Defined Benefit Obligations	0.08	0.04	0.08	NA	NA
Plan Assets	Nil	Nil	Nil	NA	NA
Surplus/Deficit	(0.08)	(0.04)	0.08	NA	NA
Experience adjustments on Plan Liabilities	(0.04)	(0.02)	0.03	NA	NA
Experience Adjustments on Plan Assets	Not Applicable	Not Applicable	Not Applicable	NA	NA

NA – Not Available

ii) Pension Plan

a) FBL

(₹ in Crore)

	2012-13	2011-12	2010-11	2009-10	2008-09
Defined Benefit Obligations	584.12	598.76	589.34	195.38	161.02
Plan Assets	444.17	422.62	404.04	195.38	161.02
Surplus/Deficit	-139.95	-176.14	-185.30	0.00	0.00
Experience adjustments on Plan Liabilities	(1.22)	450.11	0.59	(0.22)	4.73
Experience Adjustments on Plan Assets	1.38	0.96	(0.37)	(0.72)	(1.45)

vii) Assumptions

(₹ in Crore)

Particulars	Gratuity Plan				Pension Plan	
	FBL		FFSL		FBL	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Discount rate	8.50%	8.50%	7.95%	8.57%	8.50%	8.50%
Annuity rate per Rupee	-	-	-	-	126.18297	125.65445
Salary escalation rate	5.00%	5.50%	10.00%	10.00%	5.00%	5.50%
Estimated rate of return on plan assets	8.50%	8.50%	-	-	8.50%	8.50%
Employee Turnover			Not Available	Not Available		
Above 45 (Age in Years)	0.6%	0.6%			0.6%	0.6%
29 to 45 (Age in Years)	0.3%	0.3%		0.3%	0.3%	
Below 29 (Age in Years)	0.1%	0.1%			0.1%	0.1%

The estimates of future salary increases considered in actuarial valuation take account of inflation, seniority, promotion and other relevant factors.

The expected rate of return on plan assets is based on the average long-term rate of return expected on investments of the Fund during the estimated term of the obligations.

The bank expects to contribute ₹ 29.02 Crore (Previous Year ₹ 18.83 Crore) and ₹ 63.96 Crore (Previous Year ₹ 50.58 Crore) as gratuity and pension respectively for the year 2013-14

The above information is as certified by the actuary and relied upon by the auditors.

c) Leave Encashment/ Sick Leave / Leave Travel Concession / Unavailed Casual Leave

The Bank

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

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

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.

A sum of ₹ 9.93 Crore (Previous year: ₹ 1.14 Crore) has been provided towards the above liabilities in accordance with AS 15 (Revised) based on actuarial valuation.

The Subsidiary

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 Profit and Loss Statement for the period in which they occur.

The Acturial liability of compensated absences of accumulated privilege, sick, casual leaves and leave travel concession of the employees of the Group is given below:

Particulars	As at 31 March 2013	
	FBL	FFSL
Privilege leave	113.53	0.46
Sick leave	27.18	-
Leave Travel Concession	9.87	-
Casual Leave	2.23	-
Total actuarial liability	**152.81**	**0.46**
Assumptions		
Discount rate	8.50%	7.95%
Salary escalation rate	5.00%	10.00%

Particulars	As at 31 March 2012	
	FBL	FFSL
Privilege leave	106.69	0.22
Sick leave	24.63	-
Leave Travel Concession	9.52	-
Casual Leave	2.04	-
Total actuarial liability	**142.88**	**0.22**
Assumptions		
Discount rate	8.50%	8.57%
Salary escalation rate	5.50%	10.00%

1.9 The net liability arising on exercise of second option for Pension by employees (other than separated / retired employees) actuarially determined during Financial Year 2010-11 at ₹168.43 Crore is amortised equally over a period of five years pursuant to the exemption from the application of the provisions of the Accounting Standard (AS) 15, Employee Benefits, granted by the Reserve Bank of India and made applicable to the Bank vide letter no. DBOD No.BP.BC.15896 / 21.04.018 / 2010-11 dated April 8, 2011. Accordingly, an amount of ₹33.68 Crore (Previous Year: ₹ 33.68 Crore), being proportionate amount is charged to Consolidated Profit and Loss Account for the year and the balance unamortised pension liability of ₹67.36 Crore (Previous Year: ₹ 101.04 Crore) is to be amortised over the next two years.

1.10. Provisions and Contingencies

a) Movement in provision for frauds included under other liabilities:

(₹ in Crore)

	31 March 2013	31 March 2012
Balance at the beginning of the year	3.83	3.65
Additions during the year	1.27	0.18
Reductions on account of payments during the year	-	-
Reductions on account of reversals during the year	-	-
Balance at the end of the year	**5.10**	**3.83**

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

b) Movement in provision for debit card reward points:

(₹ in Crore)

	31 March 2013	31 March 2012
Balance at the beginning of the year	0.17	-
Provision made during the year	3.37	0.17
Reductions during the year	0.01	*
Balance at the end of the year	**3.53**	**0.17**

Asterisk denotes figures below ₹ 1 Lakh.

c) Movement in provision for other contingencies (including derivatives):

(₹ in Crore)

	31 March 2013	31 March 2012
Balance at the beginning of the year	38.37	30.50
Provision made during the year	5.05	9.35
Reductions during the year	10.60	1.48
Balance at the end of the year	**32.82**	**38.37**

d) Movement in floating provisions:

(₹ in Crore)

Particulars	Standard Assets Provisions		NPA Provision	
	2012-13	2011-12	2012-13	2011-12
Opening balance	38.00	38.00	179.52	179.52
Provision made during the year	-	-	-	-
Draw down from provision	-	-	-	-
Closing balance	38.00	38.00	179.52	179.52

1.11 Description of contingent liabilities:

a) Claims against the Group not acknowledged as debts

These represent claims filed against the group in the normal course of business relating to various legal cases currently in progress. These also include demands raised by income tax and other statutory authorities and disputed by the group.

b) Liability on account of forward exchange and derivative contracts

The Bank enters into foreign exchange contracts, currency swaps, Forward exchange contracts and currency futures on its own account. Bank enters into Forward exchange contracts for customers. Forward exchange contracts are commitments to buy or sell foreign currency at a future date at the contracted rate. Currency swaps are commitments to exchange cash flows by way of interest/principal in two currencies, based on ruling spot rates. Interest rate swaps are commitments to exchange fixed and floating interest rate cash flows. Currency Futures contract is a standardized, exchange-traded contract, to buy or sell a certain underlying currency at a certain date in the future, at a specified price.

c) Guarantees given on behalf of constituents

As a part of its banking activities, the Bank issues guarantees on behalf of its customers to enhance their credit standing. Guarantees represent irrevocable assurances that the Bank will make payments in the event of the customer failing to fulfill its financial or performance obligations.

d) Acceptances, endorsements and other obligations

These include documentary credit issued by the Bank on behalf of its customers and bills drawn by the Bank's customers that are accepted or endorsed by the Bank.

e) Other items

Other items represent stock of gold on consignment basis

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

1.12 Statement of information relating to subsidiary companies (In terms of Government of India, Ministry of Corporate Affairs General Circular No: 2/2011, No: 5/12/2007-CL III dated 8th February, 2011) in compliance with section 212 of the Companies Act, 1956 for the year ended 31 March, 2013 and 31 March, 2012

(₹ in Crore)

Name of the subsidiary	Fedbank Financial Services Limited
Period of the financial statements considered	31 March 2013
Currency	INR
Share Capital including share application money	190.00
Reserves	2.29
Total Assets	493.00
Total Liabilities	300,71
Details of Non-current and Current Investment	Nil
Turnover (Net)	88.79
Profit/ (Loss) before taxation	18.21
Provision for taxation	4.09
Profit/ (Loss) after taxation	14.12
Proposed Dividend (Including Corporate Dividend Tax)	8.26

(₹ in Crore)

Name of the subsidiary	Fedbank Financial Services Limited
Period of the financial statements considered	31 March 2012
Currency	INR
Share Capital including share application money	190.00
Reserves	(3.56)
Total Assets	357.10
Total Liabilities	170.66
Details of Non-current and Current Investment	Nil
Turnover (Net)	7.69
Profit/ (Loss) before taxation	(7.29)
Provision for taxation	0.08
Profit/ (Loss) after taxation	(7.37)
Proposed Dividend (Including Corporate Dividend Tax)	Nil

Notes :

The Consolidated financial statements are in compliance with applicable Accounting Standards in India.

In compliance with the requirements of Clause 32 of the Listing Agreement, the consolidated financial statements are duly audited by the auditors.

Schedules forming part of the Consolidated Financial Statements

Schedule: 18 **NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENS** *(Contd...)*

1.13. Additional disclosure

Additional statutory information disclosed in the separate financial statements of the Bank and subsidiary have no material bearing on the true and fair view of the consolidated financial statements and the information pertaining to the items which are not material have not been disclosed in the consolidated financial statements.

1.14. Figures of previous year were audited by Joint Central Statutory Auditors other than current Joint Central Statutory Auditors "Deloitte Haskins & Sells and M P Chitale & Co." Figures for the previous year have been regrouped and reclassified, where necessary to conform to current year's presentation.

For and on behalf of the Board of Directors

Krishnakumar K *Assistant General Manager*	P C John *Executive Director & CFO*	Shyam Srinivasan *Managing Director & CEO*
Girish Kumar Ganapathy *Company Secretary*	Suresh Kumar *Chairman*	Prof. Abraham Koshy *Director*
	Nilesh S Vikamsey *Director*	Dr. K Cherian Varghese *Director*
Place: Kochi Date : 27 April 2013	Sudhir M Joshi *Director*	K M Chandrasekhar *Director*

Meaningful Financial Inclusion, Ernakulam district- Dr. D Subbarao, Governor- RBI, Shri Oommen Chandy (Chief Minister, Kerala), and Shri. K M Mani (Finance Minister, Kerala) are seen interacting with Shri Shyam Srinivasan, MD & CEO in the presence of Shri. P C John (Rtd Executive Director), Shri. Thampy Kurian (Addl General Manager), Shri. Hibi Eden (MLA), Shri. P.I Shaik Pareeth (IAS, District Collector) during their visit to Federal Bank stall.

Shri Shyam Srinivasan, MD & CEO launched the IDA Master Premium Debit card by handing over the first card to Dr M Raveendranath (President, IDA Kerala Chapter) during the IDA Conference held at Lulu convention centre, Trichur.

Inauguration of 1000th Branch of Federal Bank at Muthoor, Thiruvalla by Senior most Metropolitan Bishop of the Mar Thoma Church His Grace The Most Rev. Dr. Philipose Mar Chrysostom Mar Thoma Valiya Metropolitan in the presence of His Grace the Most Rev. Dr. Joseph Mar Thoma Metropolitan (Present Head of Mar Thoma Church), Ms Linda Thomas Vanchipalam (Municipal Chairperson, Thiruvalla), Shri. P. C. Cyriac (Rtd Chairman) and Shri Shyam Srinivasan (MD & CEO).

Inauguration of Federal Manipal School of Banking at Bangalore by Shri Abraham Chacko (Executive Director) in the presence of Shri Radhakrishnan Nair (Chief Human Resources Officer) and other officials from the Bank and Manipal Global Education Services.

Federal Bank won Mastercard Innovation Award for the Cash Passport Travel Card under Prepaid Programme Category. Seen in the picture are Shri Aravind K (CM), Shri Sumoth C (CM), Shri Vikas Varma (Mastercard - Area Head /South Asia) and Shri Dileep B (CM).

Federal Bank launched its facility for making online religious offering on behalf of the devotees of Padmanabha Swamy Temple. Seen at the launch programme are Shri. Shyam Srinivasan, MD & CEO in the presence of Shri V K Harikumar (Executive Officer – Sree Padmanabha Swamy Temple Trust), Shri C P Sasidharan (Deputy General Manager) and others.

Inauguration of Br. Kohima by Shri. Temjen Toy, (IAS, Commissioner & Secretary, Works & Housing Dept. Kohima, Nagaland) in the presence of Rev. Dr. James Thoppil (Bishop of Kohima Diocese), Shri. Debadutta Parija (AGM) and others.

Shri M Manoharan (DGM) exchanges the memorandum of agreement with Smt. Mythili, Chief Engineer, Tamilnadu Generation & Distribution Corporation Ltd (TANGEDCO) for Online Payment of Electricity Bills through FedNet.

Inauguration of Federal Bank's "Money Exchange Bureau" at the domestic terminal of Trivandrum International Airport by Shri Abraham Chacko, (Executive Director) in the presence of Shri S S Balan (Joint General Manager- Operations, Airport Authority of India), Shri C P Sasidharan (DGM) and others.

IMPS promotional campaign' – August 2012 -Shri. Sunny. K. P (DGM) receiving the NPCI award from Dr K. Ramakrishnan (Chief Executive, IBA) for the Bank being the highest contributor in terms of transaction number in the month of August 2012 in the presence of Shri. D. Sampath (Addl General Manager) and others.

As part of CSR activities, Bank donated a vehicle to Alpha Pain Clinic, Kochi. Dr. V. P. Gangadharan, Oncologist representing Alpha Pain Clinic, Cochin Centre received the keys of vehicle from Shri. Raju Hormis (Head – CSR).

Inauguration of branch Ayarkunnam by Shri. Oommen Chandy, Chief Minister of Kerala in the presence of Fr. Varghese Kalayil (Vicar, St. Sebastian's church), Shri. P. C. John, (Rtd Executive Director), Shri Thomas K U, (AGM) and others.

Rededication of Br. Ranebennur by Shri K H Shivakumar (KAS, Tahshildhar), in the presence of Shri Rajan R (AGM) and others.

Inauguration of Br.Kundapura by Dr.M T Reju (Deputy Commissioner & District Magistrate, Udupi) in the presence of Shri. Abu George (AGM), Sri.K Radhakrishna Shenoy (Managing Trustee, Pete Sri Venkataramana Temple), Sri.Sachidananda Chathra (Managing Director, Sri Durgamba) and others.

Shri Shyam Srinivasan, MD & CEO at 'The Economic Times – Banking Technology Conclave 2012'.

Inauguration of Br Mecheri by Shri S S Asawale (Sr. Vice President, Steel and Rolling Mills- JSW Steel Ltd) in the presence of Shri Srinivasan. K (AGM), Shri K. Ramasamy (Dist. Chairperson Lions Club), Shri S.K Elangovan (Secretary, Kaavery Educational Institutions and Hon Chairman of Shreenivasa Educational Trust) and others.

Rededication of Corporate Banking Branch, Mumbai by Shri. H. R. Khan (Dy. Governor, Reserve Bank of India) in the presence of Shri. Shyam Srinivasan, MD & CEO, Shri. Abraham Chacko (Executive Director) and others.

Rededication of Br. Bangalore/ St Marks Road is inaugurated by Shri. Shyam Srinivasan, MD & CEO, in the presence of Shri.Harish Bijoor (CEO- M/s Harish Bijoor Consults), Shri.Rostow Ravanan (CFO- M/s MindTree) and others.

Federal Bank won IDRBT Banking Technology Excellence Awards for year 2011-12- Best Bank Award among Small Banks for 'Mobile Banking and Electronic Payments' and Best Bank Award among Small Banks for 'CRM and Business Intelligence Initiatives'. Mr Shyam Srinivasan, MD & CEO received the award at the hands of Dr. D. Subbarao, RBI Governor in the presence of Mr. Ajith Kumar K. K, (Deputy General Manager).

FEDERAL BANK
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