



Development Credit Bank Ltd.

October 2009

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DCB at a Glance

Financial Performance & Challenges

Business Strategy & Way Forward

Annexure

▪ **Deep roots in India**

- ☞ Present since 1930s as a co-operative bank, converted into a private sector commercial bank in 1995
- ☞ Only co-operative bank in India to have been converted into a commercial bank
- ☞ Distribution network of 80 branches across 28 cities, 115 ATMs and caters to approximately six hundred thousand customer base (as on March 31, 2009)

▪ **Strong promoter- Aga Khan Fund for Economic Development (AKFED)**

- ☞ Present in 16 countries employing over 30,000 people
- ☞ Promoter group holds 26.25% stake in DCB (as on September 30, 2009)

▪ **Comprehensive product range and infrastructure**

- ☞ Business model focused on achieving a balance between Retail, SME and mid-Corporate
- ☞ Wide range of banking products across all businesses
- ☞ Modern systems and infrastructure to support growth- Finacle, FinnOne, CMS, Internet and Mobile banking

▪ **Traditional customer base**

- ☞ High correlation between DCB branch network and presence of traditional customer base in India - Maharashtra, Gujarat & AP
- ☞ Provides us access to low cost deposits
- ☞ Stability consequent to a loyal customer base

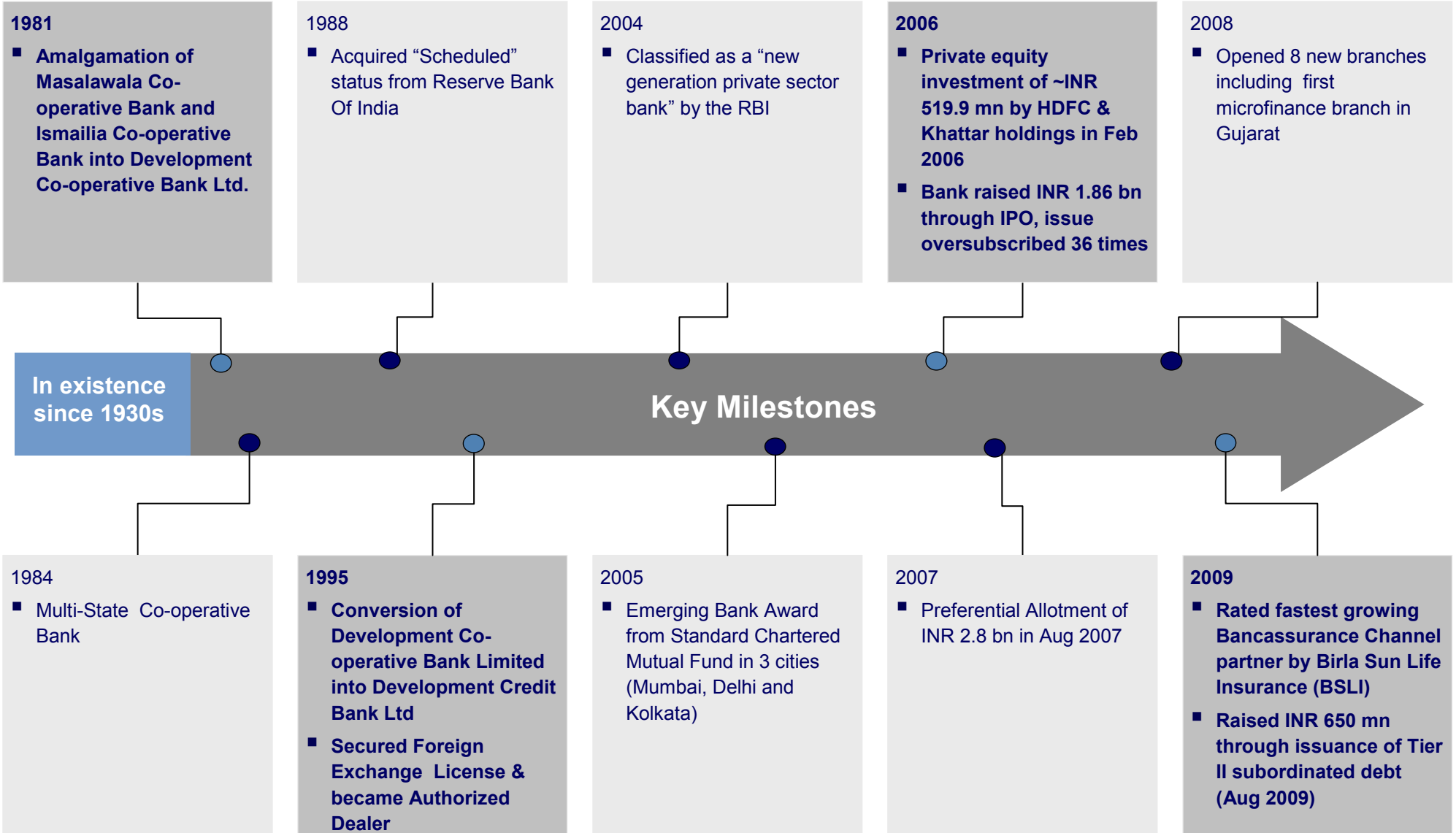
▪ **Continued focus on building a low cost deposit franchise with strong capital position (as on September 30, 2009)**

- ☞ CASA of 36.77 % and CAR of 15.90 % (14.85% under Basel II)

▪ **Strong management team and board**

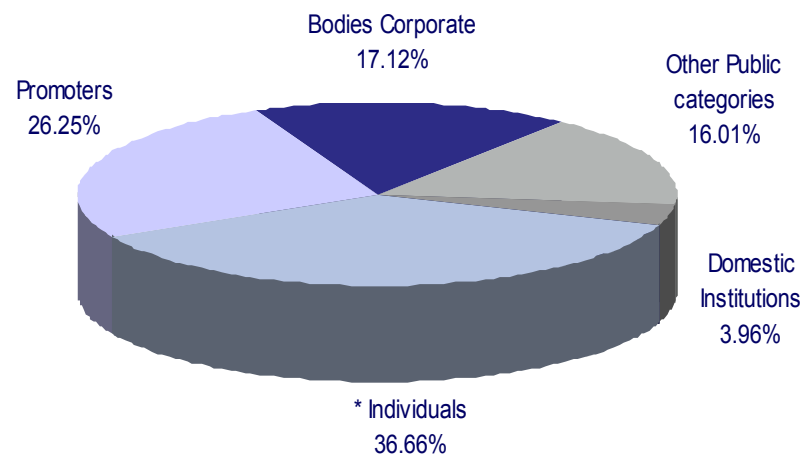
- ☞ Nasser Munjee, Chairman: Ex- Executive Director – HDFC, Instrumental in setting up IDFC & sits on the boards of many large Indian companies
- ☞ Murali M. Natrajan, MD & CEO: Worked in Standard Chartered Bank (Global Head – SME Banking), Citibank, American Express; strong Retail & SME experience in India & abroad

Key Milestones



Shareholding pattern (as on September 30, 2009)

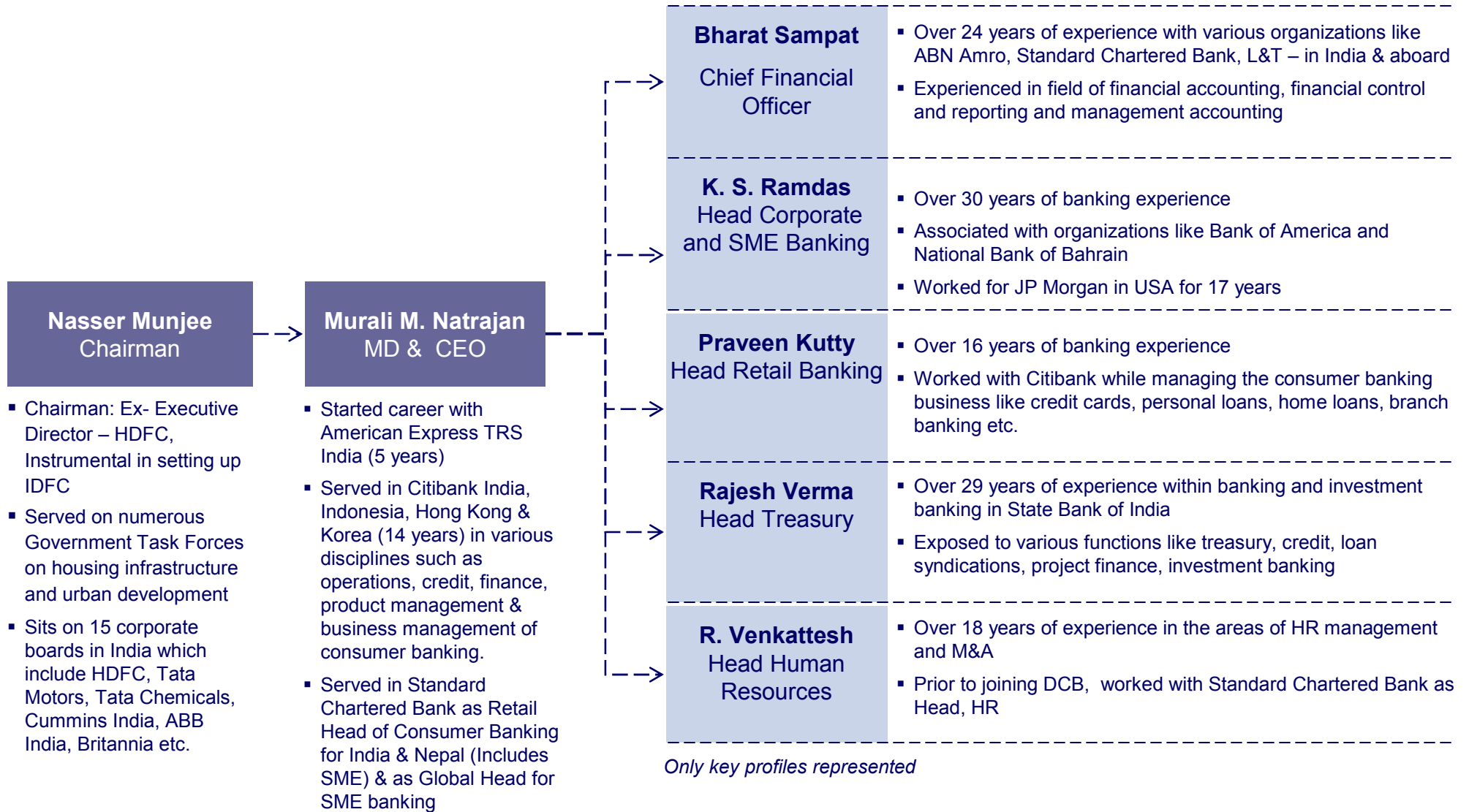
Total shares outstanding (TSO): 176.00 mn



* Includes individual shareholders holding nominal share capital up to INR 0.1 Mn (29.31%) and in excess of INR 0.1 Mn (7.35%)

- Promoter
 - ☞ Aga Khan Fund for Economic Development (AKFED) is an international development agency which operates 16 countries around the world
- Key institutional shareholders
 - ☞ Al Bateen Investment Co LLC: 4.20%
 - ☞ Tata Capital: 3.74%
 - ☞ DCB Investments: 3.01%
 - ☞ HDFC Ltd.: 2.30%
- Large retail shareholder base
 - ☞ 160 K individual shareholders each holding nominal share capital up to INR 0.10 Mn
 - ☞ Hold 51.59 Mn shares representing 29.31% of TSO

Strong Management Team & Ability to Attract Talent



DCB at a Glance

Financial Performance & Challenges

Business Strategy & Way Forward

Annexure

Key challenges faced

- * Meltdown in the international financial market leading to economic stress in the domestic market
- * Bank's asset quality during FY 09 deteriorated (gross and net NPAs increased to 8.78% and 3.88% respectively) mainly attributable to unsecured Personal Loans & few Corporate Loans.
- * Exit of Retail assets (Personal Loans, Commercial Vehicle & Construction Equipment) and de-risking of Corporate book resulted in reduction in interest and fee income.
- * Unsecured Personal Loan portfolio as on March 31, 2009: INR 3,296 mn
- * Provisions of INR 1,634 mn made in FY 09

What went well?

- * NIM maintained at 2.86%
- * CASA ratio improved to 30.95% up from 24.24%
- * Robust Bancassurance business – up 45% year on year
- * Retail Deposits contribution increased from 51.95% to 67.88%, liquidity well managed
- * Strong performance in lending to Agri / Microfinance
- * Retail Unsecured / Total Retail advances down to 24.93% from 40.69%

Action steps to mitigate risks and improve performance

- * Exited from Personal Loans, Commercial Vehicle & Construction Equipment Business in mid 2008
- * De-risking of corporate banking portfolio
- * Focus on low cost deposit growth and reduction of bulk deposits
- * Timely collections and recovery actions
- * Reduction of operating expenses & streamlining manpower requirement

Outlook

- * Personal Loans provision is expected to stabilize and then start to decline
- * Capital released from declining asset products (eg. personal loans) to be used to grow Home Loans, SME, mid Corporate and Agri / Microfinance
- * In the near term, interest income is expected to decline before trending up as assets start to build up
- * Cost reduction initiatives to gradually take effect
- * Focus on improving the operating profit in later part of the year
- * Both Tier I and Tier II capital options to be pursued in order to support further growth

Financial Performance



Key P&L items (INR mn)	FY 08-09	Q1 FY 10	Q2 FY 10
Net interest income	1,972	353	315
Other income	1,201	227	341
Total income	3,173	580	656
Operating Profit	753	57	157
Provisions	(1,634)*	(409)	(326)
Net profit / (Loss)	(881)	(353)	(169)
Key Ratios			
Advances	32,740	31,048	29,631
CASA	30.95%	33.46%	36.77%
Deposits	46,469	45,714	45,025
Networth	5,324	5,019	4,874
Book value per share	30.55	28.59	27.69
Key ratios			
	FY 08-09	Q1 FY 10	Q2 FY 10
Profitability ratios			
Return on assets	(1.30%)	(2.41)**	(1.19)**
Return on equity	(15.14%)	(27.03%)	(13.56%)
Capital ratios			
Capital adequacy	13.44%	13.52%	15.90%
Tier I	11.62%	11.70%	12.48%
Tier II	1.82%	1.82%	3.42%
Other ratios			
Net NPA	3.88%	4.69%	4.67%
Credit deposit ratio	70.46%	67.92%	65.81%
Cost income ratio	76.27%	90.02%	76.18%

Note: Financial numbers are rounded off to nearest whole number

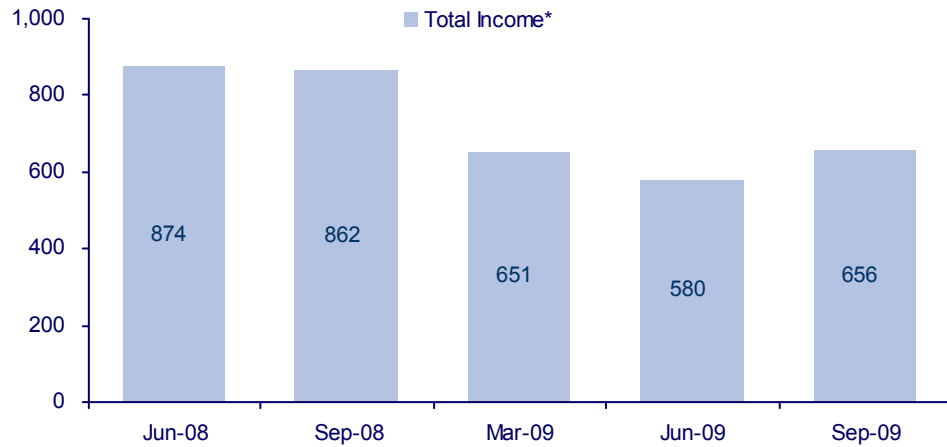
- Includes provision of INR 991 mn made in Q4 FY 09
- **Annualised Numbers

- ✓ Q2 FY 10 net loss of INR 169 mn is 52.12% lower than Q1 FY10 net loss of INR 353mn
- ✓ Reduction in Unsecured Personal Loan to Total Retail portfolio from 24.93% as on March 31, 2009 to 20.11% as on September 30, 2009
- ✓ More than 13% growth in Corporate & SME advances as compared to March 31, 2009
- ✓ Launched Home Loans at 7.95% p.a. fixed interest rate for the first year
- ✓ Retail Deposits to Total Deposits has increased from 67.88% as at March 31, 2009 to 82.56% as at September 30, 2009
- ✓ CASA ratio improved from 30.95% as at March 31, 2009 to 33.46% as at June 30, 2009 and further improved to 36.77% as on September 30, 2009
- ✓ Tier II sub debt rating upgraded to: BBB Stable by CRISIL and A- Stable by Brickworks - INR. 650 mn raised
- ✓ Significant all round reduction in Total Cost base

Key Financial Items

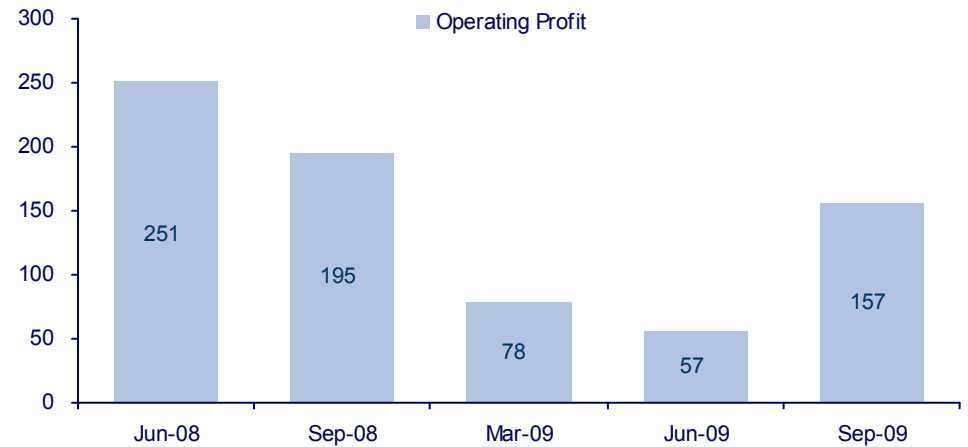


Income INR Mn

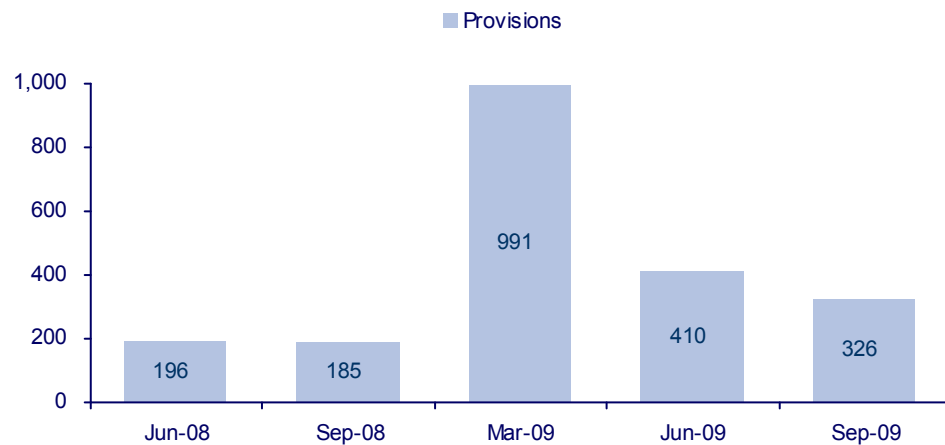


*Total income net of interest expense

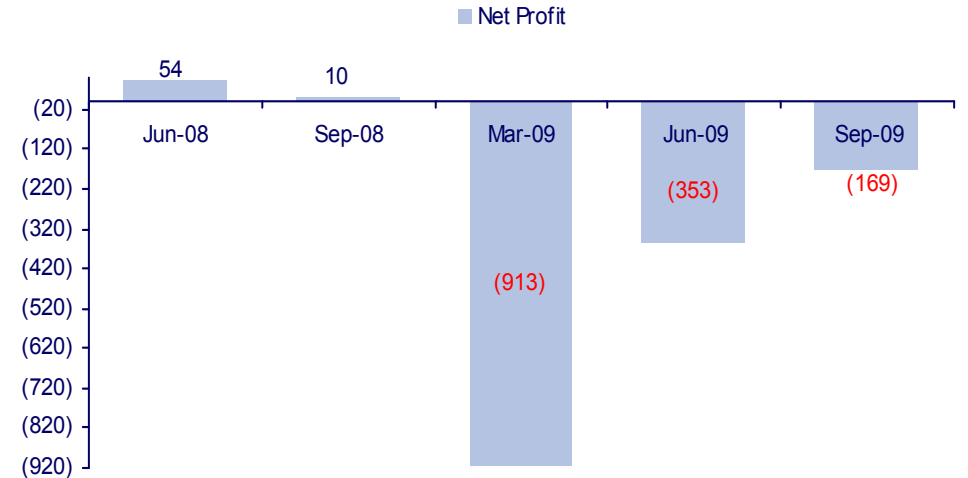
Operating Profit INR Mn



Provision INR Mn



Net Profit INR Mn



Note: Financial numbers are for respective quarters end and rounded off to nearest whole number

DCB at a Glance

Financial Performance & Challenges

Business Strategy & Way Forward

Annexure

- Grow Retail, Micro SME, SME, mid- Corporate & Agri / Microfinance with a “customer centric approach”, Concentrate on secured lending & diversified portfolio

- Retail – Branch Centric
 - Low cost deposits (CASA / Term)
 - Secured lending (Home Loans, Loan Against Property, LATD)
 - Micro SME (Branch Asset)
 - Traditional customer base
 - Third party fee income

- Treasury – Balance Sheet management, opportunity for gains within acceptable risk appetite

- Relentless focus on Costs / Income Ratio and Service

- Stringent mechanism for managing Credit and Operational risks

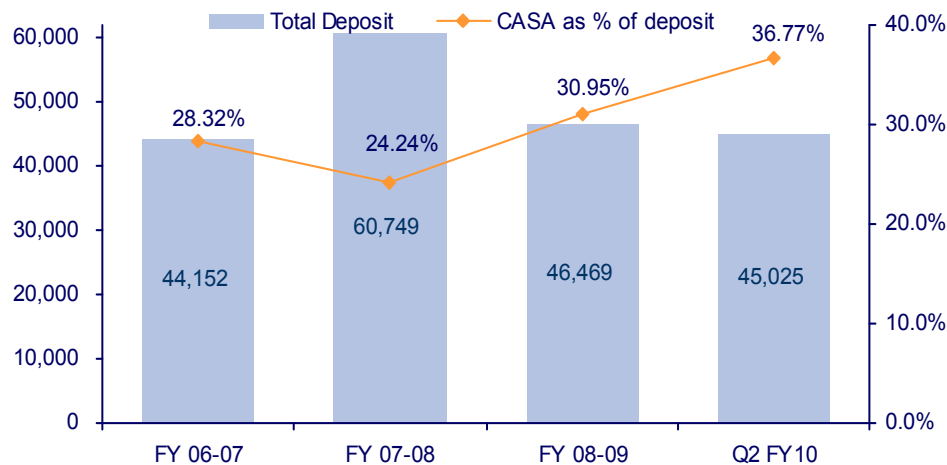
- Continuously improve people quality and delivery

Thrust on Low Cost Retail Deposits through Branch Network



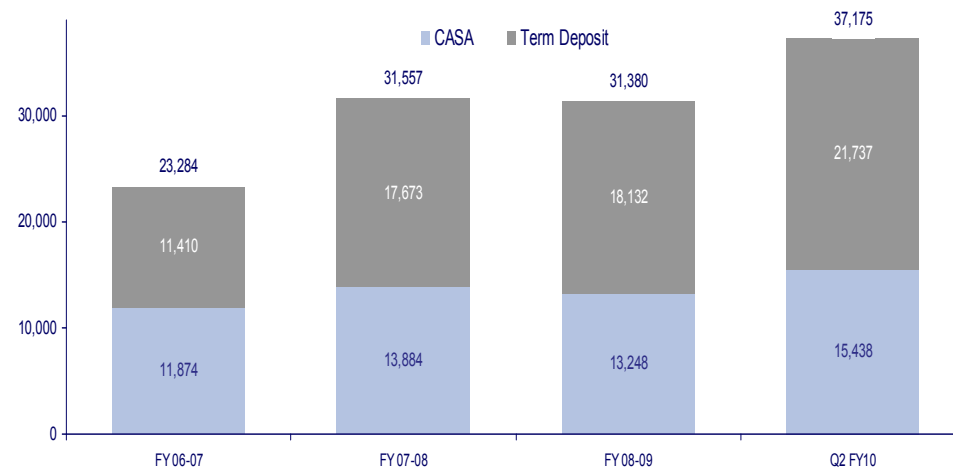
Deposit

INR Mn



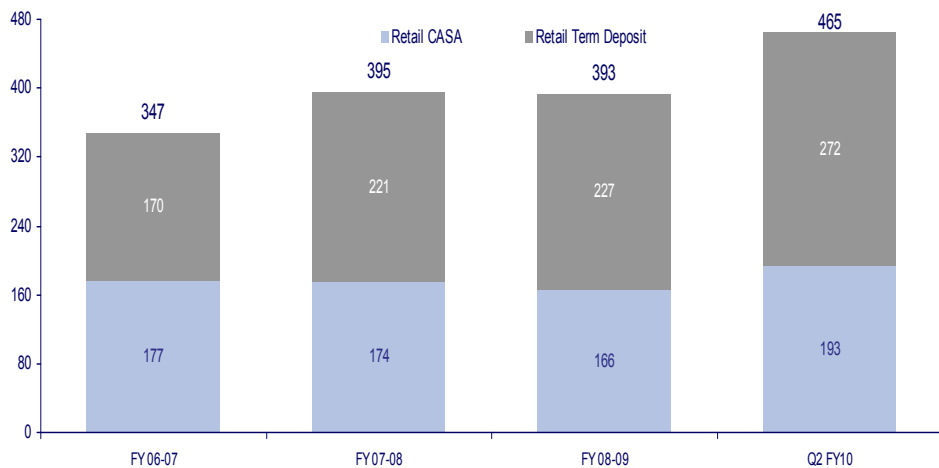
Retail CASA & Term Deposit

INR Mn



Retail Deposits per branch

INR Mn



Key Developments

- **Granularity** – Contribution of bulk Term deposit to total Retail Term deposit reduced – 57.14% as on March 30, 2008 to 17.56% as on Sept. 30, 2009
- **Product Mix** – CASA ratio has improved from 22.66% on March 30, 2005 to 36.77% as on Sept. 30, 2009
- **Productivity** – Retail deposit per branch were INR 395 Mn & INR 393 Mn as at March 31, 2008 and March 31, 2009. As at September 30, 2009 this has further increased to INR 465 Mn per branch
- **Orientation** – Balanced performance scorecard rolled out for branches – CASA & deposits carry maximum weight
- **Success Factors** – Focus on Traditional customer base, Winbacks & Quality Acquisition yield positive results

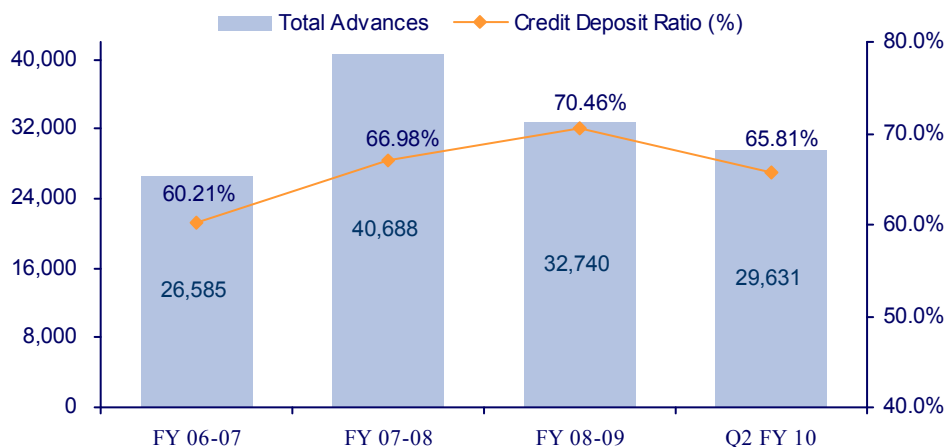
Note: Financial numbers are rounded off to nearest whole number

Focus on Building a Diversified and Secured Loan Portfolio



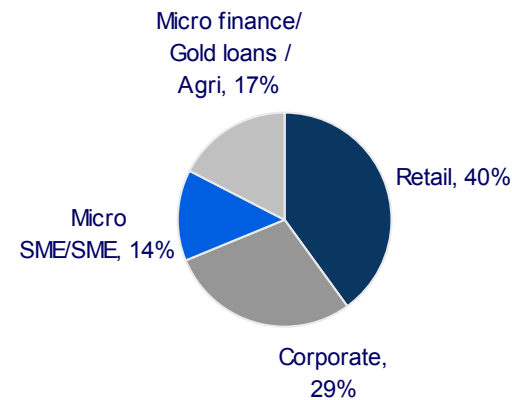
Net Advances

INR Mn



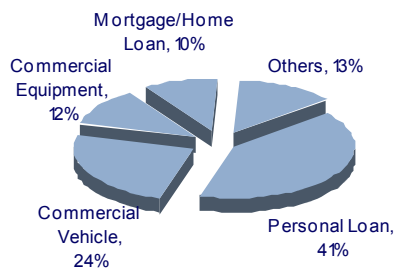
Portfolio Mix

March 09

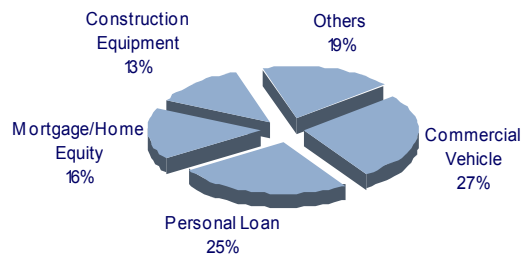


Net Retail Portfolio Mix

March 08



March 09



Key Developments

- **Exited from Unsecured Personal Loans, Commercial Vehicle & Construction Equipment Business** in mid 2008. Eliminated Third Party origination
- Strengthened **Collections & Recoveries**
- **De-risking** of stressed Corporate & SME assets
- Creation of separate unit to **grow Agri / Microfinance**
- Embarked on strategy to **build diversified & secured loan portfolio**
- **Unsecured Personal Loans ratio reduced** to 20.11% as on September 30, 2009 from 36.00% as on June 30, 2008

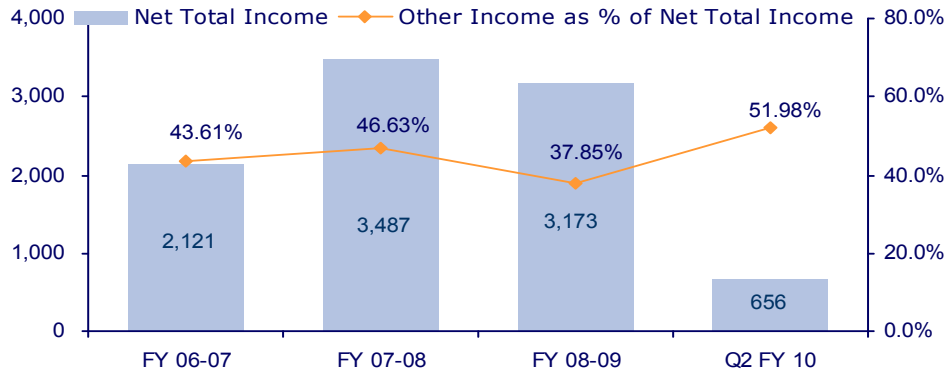
Note: Financial numbers are rounded off to nearest whole number

Good Balance between Interest Income & Fees



Net Total income*

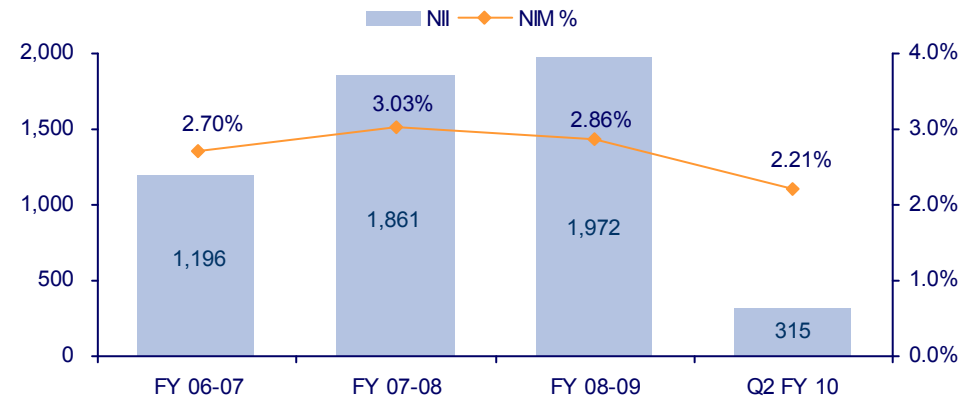
INR Mn



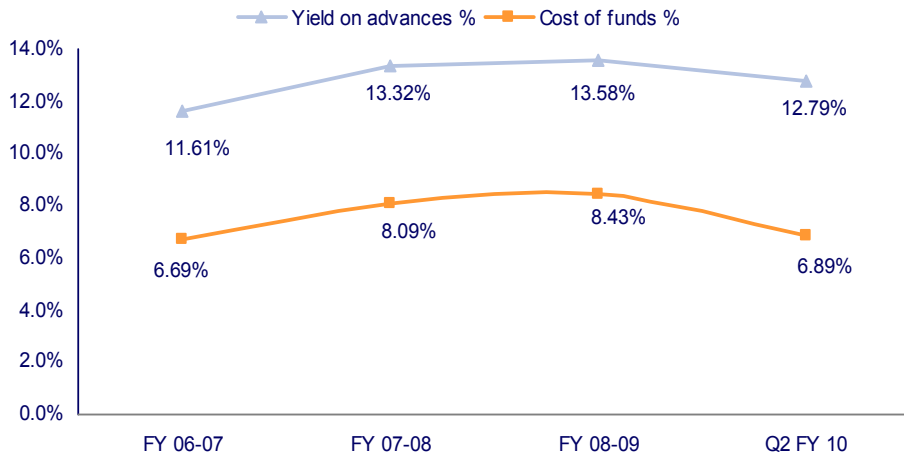
* Net interest income (NII) + non interest income

Net interest income (NII)

INR Mn



Yield on Advances and Cost of Funds



Key Developments

- For the quarter ended September 30, 2009 non-interest income was 51.98% of net total income
- Continued focus on **Bancassurance**
- Creating a 'common kitchen' (Cash, Trade, FX, credit) for corporate & SME lending

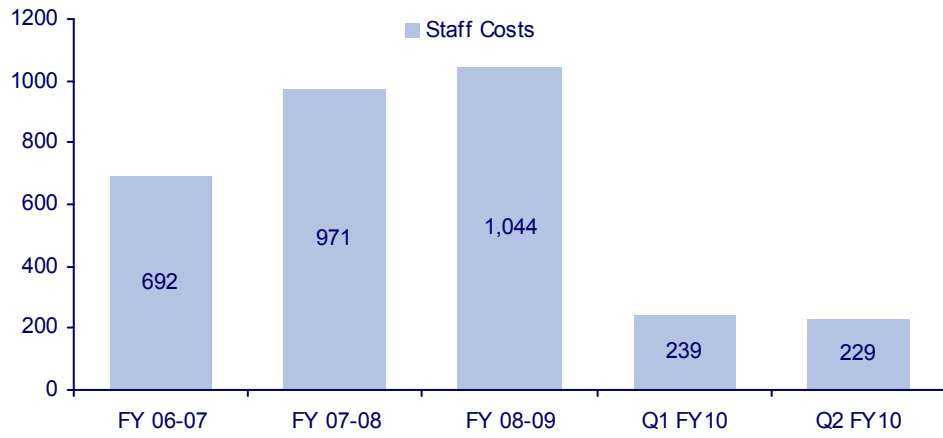
Note: Financial numbers are rounded off to nearest whole number

Major Drive to Improve Cost Productivity/ Efficiency



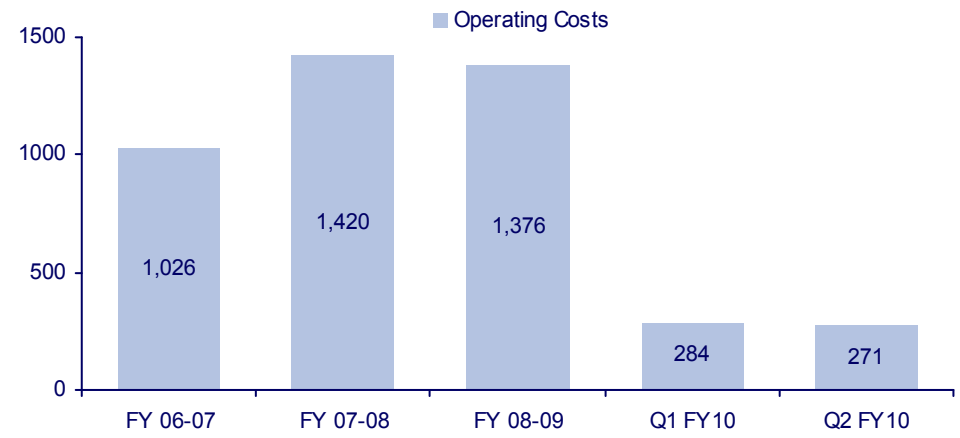
Staff Cost

INR Mn



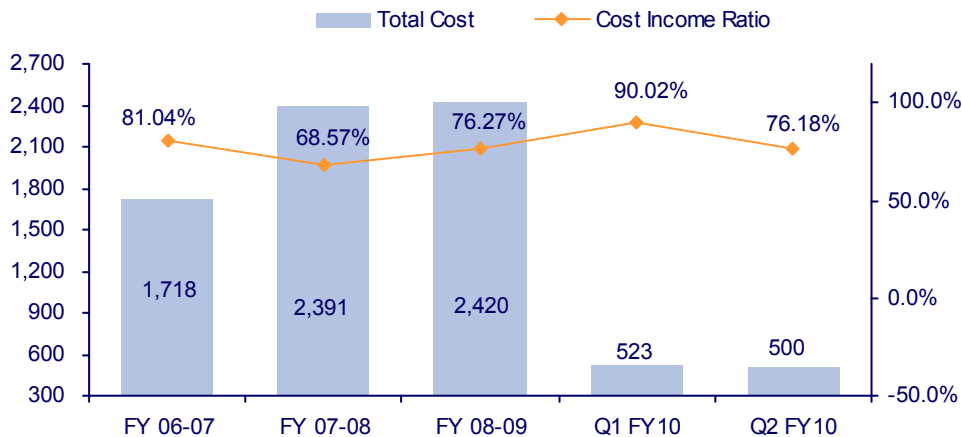
Operating Cost

INR Mn



Total Cost

INR Mn



Key Developments

- **Total headcount reduced** from 2,235 as on April 30, 2008 to 1,942 as on March 31, 2009 & further to 1,554 on September 30, 2009
- **Operating cost decreased** to INR 271 mn in Q2 FY10
- Line by line cost & organizational review completed which has resulted in overall cost reduction
- Initiated operational process improvements for better service delivery
- **Completed capacity planning** for growth in Operations and Technology

Note: Financial numbers are rounded off to nearest whole number

GOAL

- Return to month on month profit
- Increase balance sheet size
- (Reduce) Cost / Income ratio
- To improve ROE numbers

Approach

- Sensible growth. Balance portfolio mix with emphasis on secured lending.
- Rational participation in Corporate Banking. Selective exposure to Agri / Microfinance
- Focus on retail deposits
- Income before Costs
- Discipline in execution (Strategy / Credit / Operations / Costs)

Positioning

- Neighbourhood bank for micro and macro SMEs with special emphasis on Traditional customer base. Wide range of banking products. Deepen customer relationship...“Small bank, personal touch”

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Key Balance Sheet Items



INR Mn

INR Mn	Mar-07	Mar-08	Mar-09	Sep-09
Networth	3,161	6,189	5,324	4,874
Deposits	44,152	60,749	46,469	45,025
Borrowings	1,544	4,268	3,455	1,488
Other liabilities & provisions	3,570	4,362	3,523	3,898
Cash, Inter-bank, etc	3,293	6,734	2,801	3,262
Investments	18,466	21,346	16,217	19,087
Advances	26,585	40,688	32,740	29,631
Fixed assets	815	998	1,489	1,418
Other assets	2,081	2,128	2,450	2,068

	Mar-07	Mar-08	Mar-09	Sep-09
CA	5,279	6,330	6,664	7,989
SA	7,223	8,395	7,717	8,566
TD	31,650	46,024	32,088	28,470
Total deposits	44,152	60,749	46,469	45,025
CASA	28.32%	24.24%	30.95%	36.77%

Note: Financial numbers are rounded off to nearest whole number

Key P&L Items



INR Mn

INR Mn	Mar-07	Mar-08	Mar-09	H1 FY10
Net interest income	1,196	1,861	1,972	668
Other income	925	1,626	1,201	568
Net Total income	2,121	3,487	3,173	1,236
Operating expenses	(1,718)	(2,391)	(2,420)	(1,023)
Provisions & contingencies	(329)	(713)	(1,634)	(735)
Total expenses	(2,047)	(3,104)	(4,054)	(1,758)
PAT	74	383	(881)	(522)

Note: Financial numbers are rounded off to nearest whole number

Key Ratios



	Mar-07	Mar-08	Mar-09	H1 FY10
Yield on advances	11.61%	13.32%	13.58%	12.79%
Cost of funds	6.69%	8.09%	8.43%	6.89%
Net NPA / Net advances	1.64%	0.66%	3.88%	4.67%
Return on assets	0.16%	0.60%	(1.30%)	(1.81%)
Return on equity	3.24%	8.12%	(15.14%)	(20.30%)
Book value per share (INR)	21.24	35.51	30.55	27.69
Credit-deposit ratio	60.21%	66.98%	70.46%	65.81%
Cost income ratio	81.04%	68.57%	76.27%	82.77%
Capital adequacy ratio	11.34%	13.38%	13.44%	15.90%

Note: Financial numbers are rounded off to nearest whole number

Thank you