

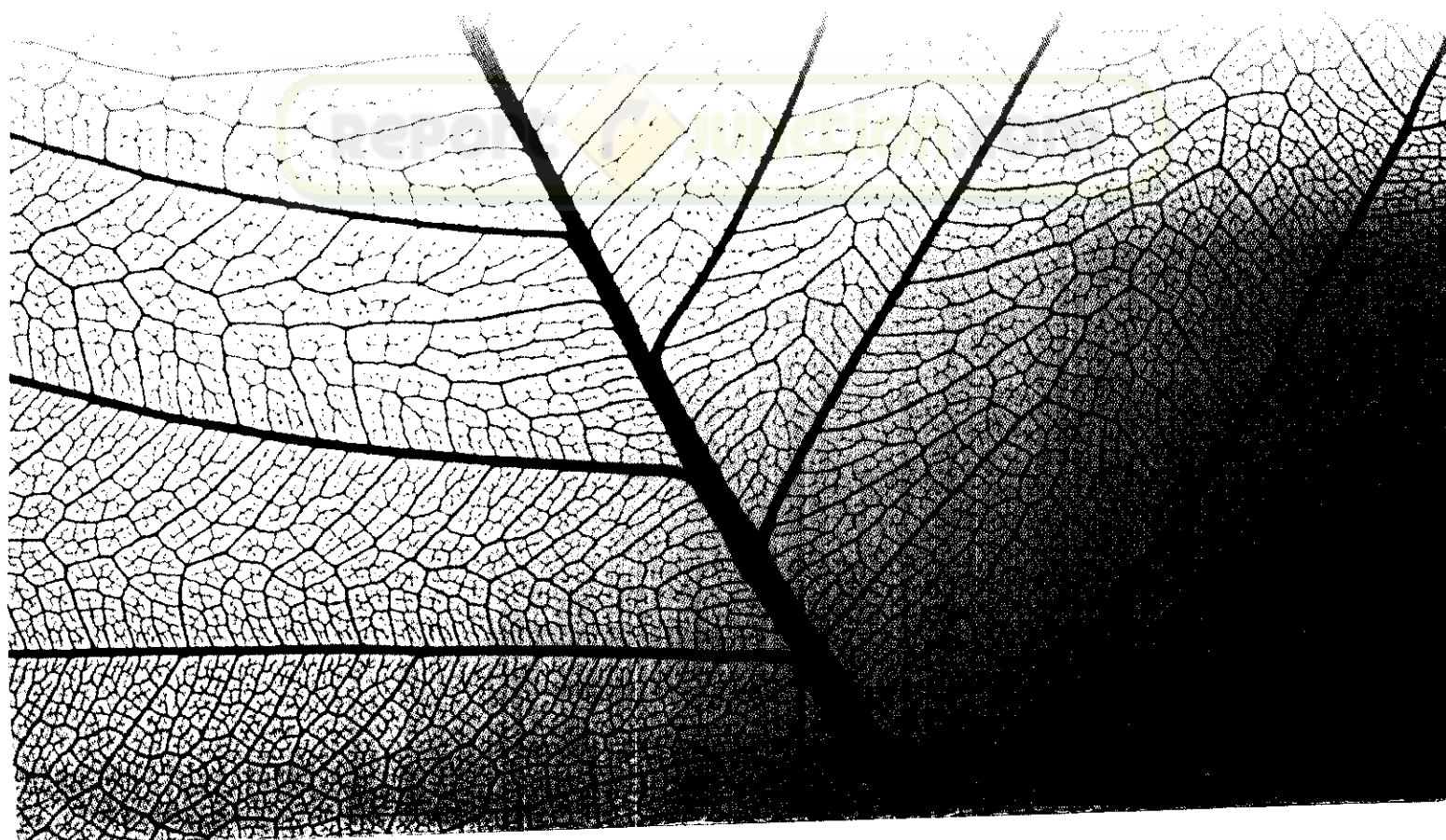


DEVELOPMENT CREDIT BANK LIMITED

Developing happy futures together

annual report 1998 - 99

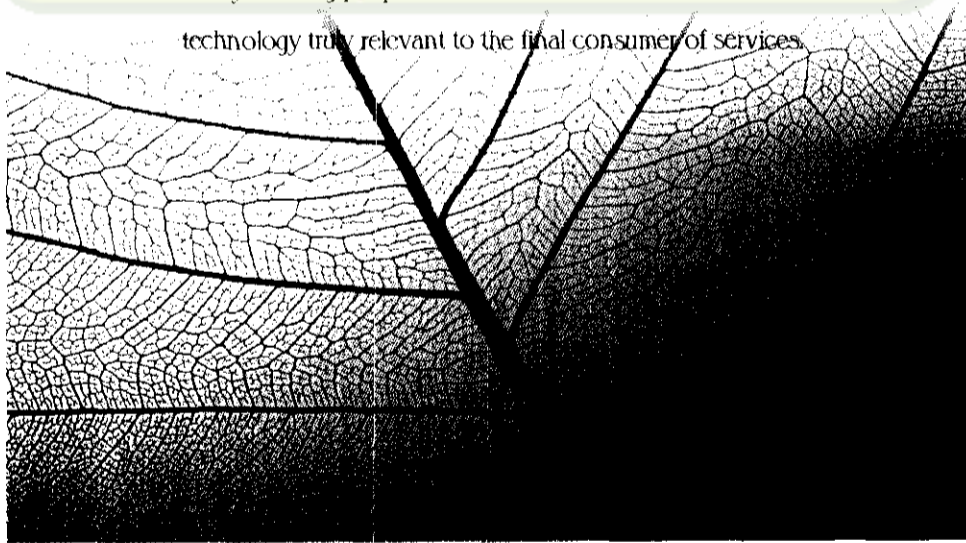
The Fractals of Efficient Banking



Seemingly chaotic behaviour have very complex orderly patterns. These are known as fractals – repeated iterations of fairly simple initial conditions leading to complex structures. Fractals demonstrate that dynamic 'chaos' is fully consistent with an order of brilliant uniqueness. Take the veins of a leaf – randomly generated with a unique ordering or a spectacular landscape – they are all created as a result of *the fractal behaviour of nature.*

Dynamic chaos is apparent all around us. In nature, in human behaviour, in consumer patterns, in corporate structures.

At DCB, we like to think we are internalising the fractal like quality of structure; using the transition from self-same to self-similar in new and creative ways. Using people and machines in combinations which make technology truly relevant to the final consumer of services.





DEVELOPMENT CREDIT BANK LIMITED
annual report 1998-99

Directors and Senior Management

Chairman

Mr. Naushad I. Padamsee

Directors

Mr. A.H. Dossani
Mr. H.A. Dossani
Dr. H.A. Kajani
Mr. S.H. Karim
Mr. S.V. Khoja
Mr. N.S. Maknojia
Mr. J.N. Maredia
Mr. A.H. Merchant
Mr. A.A. Poonawala
Mr. M.R. Prasla
Mr. H.G. Rahimtoola
Mr. H.B. Rajan

Senior Management

General Managers

Mr. D.A. Muljani
Mr. K. Kamalakaran

Dy. General Managers

Mr. N. Kumar Ratan
Mr. S.L. Maheshwari
Mr. R.K. Puranik
Mr. B.B. Mistry
Mr. J.C. Choudhry

Asst. General Managers

Mr. S.P. Mehta
Mr. S.M. Bora
Mr. D.B. Pisolkar
Mr. A.V. Kaku
Mr. R.S. Kohli
Mr. B.V.R. Sarma
Mr. V. Y. Babu
Mr. V.R. Rao
Mr. G.H. Pillai
Mr. D. Gunalan

Managing Director & Chief Executive

Mr. Siddharth Sitholey

Company Secretary

Mr. H.V. Barve

Consultants

Dr. A.C. Shah
Mr. L.G. Kulkarni

Statutory Auditors

M/s. Habib & Co., Mumbai
M/s. Chokshi & Chokshi, Mumbai

Registered Office

154, S.V. Patel Road (East),
Dongri, Mumbai 400 009

Central Administrative Office

204, Raheja Centre,
Nariman Point, Mumbai 400 021

Internet : <http://www.dcbi.com>

E-mail : dcb@giabm01.vsnl.net.in



DEVELOPMENT CREDIT BANK LIMITED
annual report 1998-99

Notice to Members

Notice is hereby given that the Fourth Annual General Meeting of the members of **Development Credit Bank Limited** will be held at **Birla Matushri Sabhagar, 19 Marine Lines, Mumbai 400 020** on Thursday, 30th September, 1999 at 4.00 P.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet of the Bank as at 31st March, 1999 and the Profit and Loss Account for the financial year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare Final Dividend on Equity Shares.
3. To appoint a Director in place of Mr. A. H. Dossani who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. H. A. Dossani who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint a Director in place of Mr. S.V. Khoja who retires by rotation and being eligible, offers himself for reappointment.
6. To appoint a Director in place of Mr. A.H. Merchant who retires by rotation and being eligible, offers himself for reappointment.
7. To appoint the Auditors and fix their remuneration and in that connection to consider and, if thought fit, to pass with or without modification(s), the following Resolution as an Ordinary Resolution :
"RESOLVED THAT M/s. Gokhale & Sathe, Chartered Accountants, Mumbai be and are hereby appointed as the Statutory Auditors of the Bank to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting on a remuneration of such sum(s) as may be fixed by the Board of Directors, in addition to reimbursement of all out-of-pocket expenses in connection with the audit of the accounts of the Bank."

SPECIAL BUSINESS

8. Appointment of Branch Auditors

To consider and, if thought fit, to pass with or without modification(s), the following Resolution as an Ordinary Resolution :

"RESOLVED THAT pursuant to the provisions of Section 228 of the Companies Act, 1956, the Board of Directors of the Bank be and is hereby authorised to appoint, in consultation with the Auditors, the Branch Auditors as and when required, to audit the Accounts in respect of the Branch Offices of the Bank, on such terms and conditions as it may deem fit and to fix their remuneration."

9. Appointment of Mr. Brian Wilson as Director of the Bank

To consider and, if thought fit, to pass with or without modification(s), the following Resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. Brian Wilson be and is hereby appointed as Director of the Bank."

By Order of the Board of Directors
For DEVELOPMENT CREDIT BANK LTD.

Registered Office :

154, S.V. Patel Road (East),
Dongri, Mumbai 400 009.

July 29, 1999

H.V. Barve
Company Secretary

NOTES :

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.**
2. The instrument appointing the proxy, in order to be effective, should be duly stamped, completed and signed and deposited at the Registered Office of the Bank not less than 48 hours before the commencement of the meeting.
3. **MEMBER/PROXY SHOULD BRING THE ATTENDANCE SLIP SENT HERewith, DULY FILLED IN, FOR ATTENDING THE MEETING.**
4. The relative Explanatory Statement, pursuant to Section 173 (2) of the Companies Act, 1956 in respect of Items No. 7, 8 and 9 is annexed hereto.
5. The Register of Members and Share Transfer Books of the Bank will remain closed from Thursday, 16th September, 1999 to Thursday, 30th September, 1999 (both days inclusive).

DEVELOPMENT CREDIT BANK LIMITED
annual report 1998-99

6. Subject to the provisions of Sections 206 and 206A of the Companies Act, 1956, the dividend on the Equity Shares as recommended by the Board of Directors, if declared at the meeting, will be payable to those members whose names appear on the Bank's Register of Members on 30th September, 1999.
7. **MEMBERS ARE REQUESTED TO ADDRESS ALL THEIR CORRESPONDENCE INCLUDING CHANGE OF ADDRESS, MANDATES, ETC. TO DEVELOPMENT CREDIT BANK LTD., SHARE DEPARTMENT, PJI CORNER, 139, SHAIDA MARG, DONGRI, MUMBAI 400 009.**

ANNEXURE TO THE NOTICE

EXPLANATORY STATEMENT as required under Section 173(2) of the Companies Act, 1956, annexed to and forming part of the Notice dated July 29, 1999.

ITEM NO. 7

M/s. Habib and Company, Mumbai and M/s. Chokshi & Chokshi, Mumbai were reappointed as Joint Auditors by the shareholders at the Third Annual General Meeting of the Company. Both these firms of Auditors have been the Statutory Auditors of the Bank for the previous four consecutive years. The relevant guidelines of Reserve Bank of India restrict the term of appointment of Auditors to four years. The Board has placed on record its deep sense of appreciation for the services rendered by M/s. Habib & Company, Mumbai and M/s. Chokshi & Chokshi, Mumbai during their association with the Company as Joint Auditors.

The Board recommends the appointment of M/s. Gokhale & Sathe, Chartered Accountants, Mumbai as the Statutory Auditors of the Company.

The Company has received a letter dated July 12, 1999 from M/s. Gokhale & Sathe, Chartered Accountants, informing that their appointment, if made, will be within the limit specified in Section 224 (1-B) of the Companies Act, 1956. Approval of Reserve Bank of India for appointment of M/s. Gokhale & Sathe, Chartered Accountants has been received vide their letter Ref. DBS.ARS. No. 3/08:37:005/99-2000 dated July 3, 1999. Both these letters are available for inspection by the members at the Registered Office of the Bank between 11.00 a.m. and 1.00 p.m. on all working days. None of the Directors is interested in the said Resolution.

ITEM NO. 8

Section 228 of the Companies Act, 1956, requires that where the Company in General Meeting decides to have

the accounts of a Branch Office audited other than by the Statutory Auditors, the Company in that meeting shall for the audit of those accounts appoint a person(s) qualified for the appointment as auditors of the Company under Section 226 of the Companies Act, 1956 or the Company in that meeting shall authorise the Board of Directors to appoint such person(s) in consultation with the Statutory Auditors. The Branch Auditors' remuneration and terms of appointment may be fixed by the Company in General Meeting or by the Board of Directors if so authorised by the Company in General Meeting. For operating convenience, the Board of Directors seeks from the shareholders in General Meeting authority to appoint such Branch Auditors in consultation with the Statutory Auditors for audit of accounts of the Branches of the Bank and to fix the terms and conditions and remuneration of such Branch Auditors. The Board recommends the approval of the resolution at Item No. 8 of the accompanying notice. None of the Directors is interested in the said Resolution.

ITEM NO. 9

In accordance with the provisions of the Bank's Articles of Association, the Bank has received notice in writing complying with the statutory requirements in this regard, signifying the intention to propose the candidature of Mr. Brian Wilson, Secrétaire de Son Altesse l'Aga Khan, Aiglemont, France. Mr. Brian Wilson when appointed, will be liable to retire by rotation.

Mr. Wilson is an expert on financial matters and is presently associated as Director, Financial Services with Aga Khan Fund for Economic Development (AKFED) who are holders of 13.55% of Bank's share capital. He has rich experience of Industry and Banking.

The Board recommends approval of the resolution at Item No. 9 of the accompanying Notice.

Notice received as above will be available for inspection by the members at the Registered Office of the Bank between 11.00 a.m. and 1.00 p.m. on all working days.

By Order of the Board of Directors
For DEVELOPMENT CREDIT BANK LTD.

Registered Office :

154, S.V. Patel Road (East),
 Dongri, Mumbai 400 009.

July 29, 1999

H.V. Barve
Company Secretary

DEVELOPMENT CREDIT BANK LIMITED
annual report 1998-99

Directors' Report

Development Credit Bank (DCB) has emerged over the last four years as a transformed organisation with tremendous potential for growth. Successfully implementing an ongoing process of Organizational Re-engineering, the Bank is poised to reap benefits at all levels of operation – local, national and international. Your Directors are pleased to present to you the Annual Report and Audited Statement of Accounts for the year ended March 31, 1999.

1. Global Business Redefined

Information is the new raw material. And as that material is applied to products, everything changes.

In the past decade, information has cascaded through the service industry, transforming the product, the processes by which it is offered, the economics of the industry, and ultimately what it means to be a service organisation – in our case financial service. This outcome is the product of neither intervention nor investment but of innovation, the rise of a new generation of banking institutions who call themselves the paperless, peopleless industry. By applying information to service, they redefined the economics of the industry. They changed the design of banking operations, they changed the relationship of the workforce with the customers. They combined Research and Technology to present before us an industry which has fundamentally changed.

Technology has blurred our traditional distinctions and ways of understanding the business world – it has brought in paradoxes. For instance, conversation – traditionally regarded as a waste of time – is in fact the key resource for competing on time. It is through conversations today that knowledge workers also create relationships with customers. And in a world of expanding customer choice, it is such relationships and the affiliations they engender that are the true sources of new value.

Development Credit Bank is also redefining its operational process from mass production to mass customization – yet another paradox. But the new economy is founded on paradox. The revolution in information and communications technologies makes

knowledge the new competitive resource, but knowledge only flows through the technology; it actually resides in people – in knowledge workers. We therefore have to create an environment that allows knowledge workers to learn – from their own experience, from each other, from business partners, from customers.

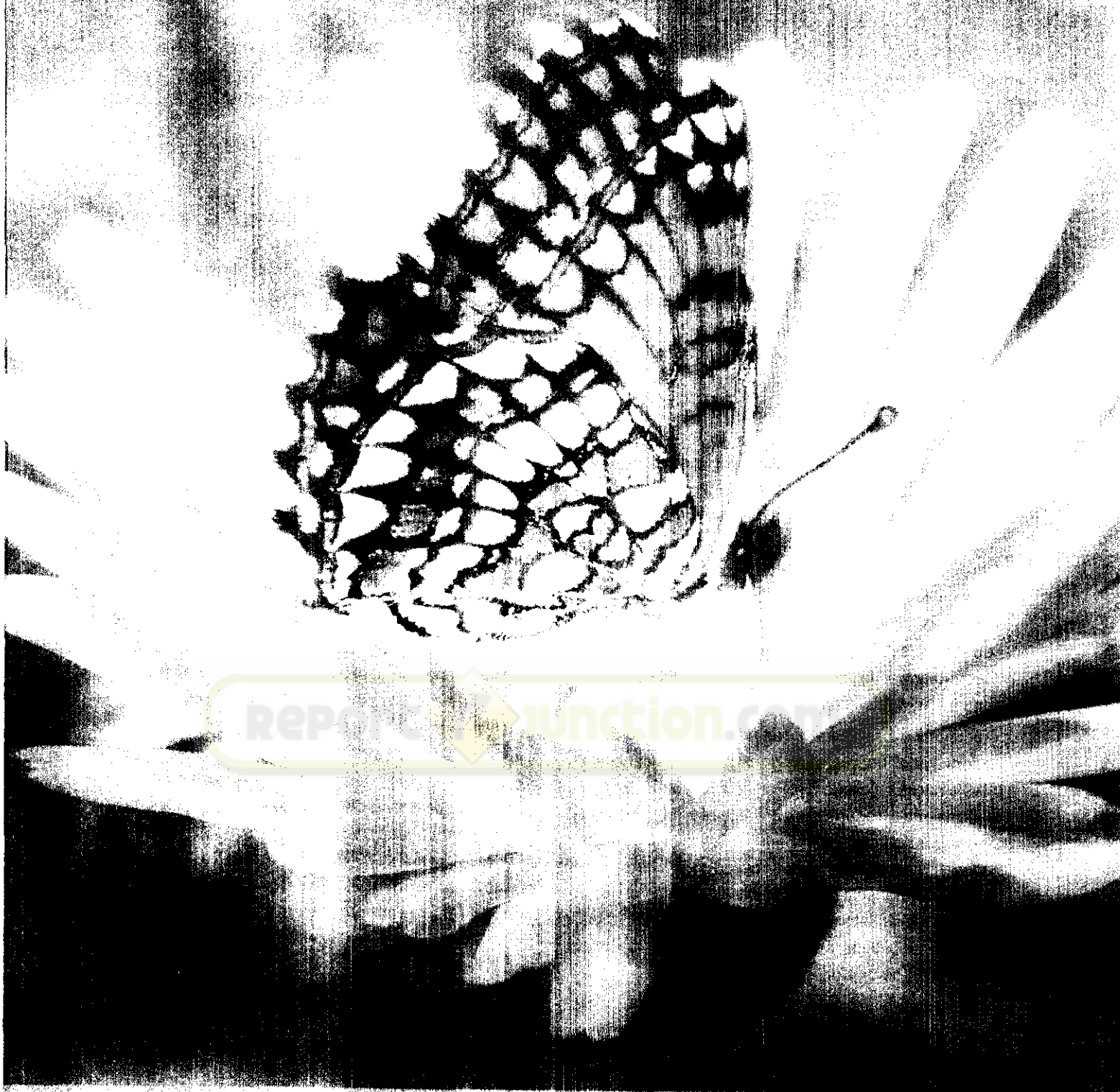
2. National Economic Scene

The national economic scene during the past two years was dominated by recessionary trends in the industrial sector. The rate of growth in industrial production during the fiscal 1998-99 was at its lowest – a dismal 3.9%. Production statistics available for the first two months of the current fiscal however, provide some evidence of industrial recovery. Production of cement and steel, the basics needed for infrastructural development, shows a healthy increase of 20% and 13% respectively. Prospects are brightening in the automobile sector and its ancillaries, with sales outpacing production in both heavy and light commercial vehicles. With Reliance Petroleum's 27 million tonnes refinery project at Jamnagar going on stream, the domestic output of petroleum products aims to reduce dependence on imports.

The fiscal 1998-99 has witnessed a record agricultural production of 201 million tonnes including enhanced output of pulses, oil seeds and sugarcane. Procurement by government agencies during the first two months of the current fiscal reached a peak of over 14 million tonnes. Wheat stocks continue to be at a very high level. This was reflected in the outstanding food credit of the banking system taking a quantum leap of 32% from Rs. 16,816 crore as at March 26, 1999 to Rs. 22,221 crore as at June 18, 1999. This boost has resulted in the Central Government making a policy announcement in May 1999 to allow exports of wheat upto one million tonnes.

Inflation, representing the year-on-year increase in the wholesale price index, declined to 1.19 % for the week ended July 24, 1999, the lowest ever recorded since 1980.

The Indian Meteorological Department has forecast



Partnership

Like the relationships in nature that give to each other, DCB has enduring partnerships with its customers, shareholders, technology partners and other alliances.



DEVELOPMENT CREDIT BANK LIMITED annual report 1998-99

that the current year is expected to be the eleventh successive normal monsoon year. Consequently, agricultural production during the current fiscal is also expected to be good, and is likely to usher in a consumer-led demand growth. The Centre for Monitoring Indian Economy has therefore projected a 6% growth in the Index of Industrial Production, during the current year, as against 3.9% recorded in 1998-99.

The infrastructural topography of the country will get a face-lift with the proposed commissioning of two grandiose highway projects : the '*Golden Quadrilateral Project*' linking the four metro cities of Delhi, Calcutta, Chennai and Mumbai and the '*North-South East-West Expressway Project*', linking Srinagar (North) with Kanyakumari (South) and Silchar (East) with Saurashtra (West). The World Bank is reportedly awaiting completion of feasibility studies on some stretches of the National Highways NH2 and NH45 before deciding to sanction a loan of US\$ 1 billion for their upgradation.

Capital Market

The principal feature of the capital market in the recent years has been the shift in investor preference from equity to debt-related papers. Riding on the budget bonanza of tax exemption status granted to Mutual Fund dividends, the Mutual Funds Industry has been able to mobilise substantial funds from investors. This differential advantage of the 'Mutual Funds' dividends is likely to have an adverse effect on the banking industry's efforts at deposit mobilisation, especially from the well-informed urban household sector.

However, there is prevailing political instability due to a continued '*caretaker government*' at the centre. The recent Kargil conflict will also add to the country's financial burden by way of fresh taxation. Notwithstanding the above two factors, the mood in the financial markets including capital market is upbeat and the Bombay Stock Exchange Sensex has reached record heights, showing a renewal of investor interest in equities after a gap of several years. The Sensex, the barometer of the Indian Capital Market, after scaling the all time high of 4810 on July 15, 1999 started consolidating between 4500-4800 levels.

3. Banking Scene

Banking Reform is an objective which Reserve Bank of India has been pursuing for the past few years. The banking scene during 1998-99 was dominated by Reserve Bank's pre-occupation to control the volatility in the external value of the Rupee and to reverse the upward trend in the rate of inflation. The Rupee-Dollar exchange rate, which had become highly volatile during August 1998 stabilised at around Rs. 42.50 - Rs. 43.20. Inflation also ebbed to a low level.

The most important development in the banking industry which will have far reaching implications in the future is the Reserve Bank's mandate to banks to operationalise the guidelines issued on '*Asset Liability Management*', to ensure coverage of 100% of assets and liabilities by April 1, 2000. This is expected to bring about radical changes in the pricing of various banking products. As if to signify the evolution of this development, Reserve Bank has permitted banks to quote different PLRs for different maturities.

Reserve Bank has further tightened the prudential norms to bring them at par with international norms. Banks will have to provide for prudential provision at 0.25% on '*Standard Assets*' beginning with the current fiscal, to be stepped up to 0.50% in the next year. The time span for migration of '*substandard assets*' to the '*doubtful*' category has been reduced from 24 months to 18 months. Even Gilt-edged securities will henceforth attract a risk weightage of 2.5% as against '*nil*' at present.

The aggregate deposits of scheduled commercial banks registered a growth of 18.48% (from Rs. 6,05,410 crore to Rs. 7,17,271 crore) during the fiscal 1998-99. Non-food credit however, lagged behind, recording a growth rate of 12.06% (from Rs. 3,11,594 crore to Rs. 3,49,187 crore) during the same period. Data for the first quarter of the current fiscal indicate further deceleration in credit growth : while deposits increased by 2.02%, non-food credit declined by 0.51%.

To enhance the depth of government securities market, Reserve Bank has allowed some more