DCB BANK

Ref. No.CO:CS:HVB:2015-16:160 October 13, 2015

BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400 023.

National Stock Exchange of India Limited,
Exchange Plaza, Bandra Kurla Complex,
Bandra (E),
Mumbai – 400 051.

Dear Sirs,

Re: General Q & A about DCB Bank Limited

BSE Scrip Code No.: 532772 **NSE SYMBOL: DCBBANK**

In the attachment please find the General Q & A providing information about the performance, business strategy and outlook through answers to some of the frequently asked questions. The same would be uploaded on the website of the Bank.

Thanking you,

Yours faithfully,

For DCB Bank Limited

H.V. Barve
Company Secretary &
Compliance Officer

Encl: As above

DCB BANK

General Q & A about DCB Bank - Mr. Murali M. Natrajan, Managing Director & CEO of DCB Bank Limited. (Please also refer to Investor Presentation – October 2015)

1. **What has been the Bank's progress in the last few years?**
We implemented a new strategy and approach in June 2009. Thanks to the support provided by the Board, the promoter and the investors, the Bank has made a lot of progress in the last six and a half years.

Let me share with you some data points. In June 2009 Deposits were at Rs.4,571 crores. The same reached Rs.13,557 crores as on September 2015. In June 2009, Net Advances were Rs.3,103 crores and declining. As of September 2015, Net Advances are at Rs.11,181 crores.

CASA balances have more than doubled since June, 2009. From Rs.1,530 crores in June, 2009 we are at Rs. 3,267 crores in September, 2015.

We had only 80 branches in June, 2009. Now we are at 160 branches as on September 2015.

We have made steady progress in growing our P&L. This has helped us to wipe out Rs 335 crores of accumulated losses that existed in June 2009.

In the light of weak economic conditions, we decided to be cautious in Advances growth. We have been proactively managing stress accounts. This has helped to contain GNPA and NNPA. We have also been making adequate provisions for NPAs.

The Shareholder Equity has increased from Rs 566 crores in June 2009 to Rs 1,678 crores in September 2015. We have been successful in raising Tier I and Tier II capital. Our statutory reserve has gone up by approximately Rs.130 crores since June, 2009.

Overall, the progress has been satisfactory.

2. **Going forward what is going to be to the approach? Are there any changes?**

We believe we have a come a long way and we have crossed a big chasm. We want to ensure that we continue to gain momentum since we have wiped out accumulated losses. Competition is intensifying from both new and existing players. We need to respond. We have to strengthen our technology and customer experience. We have to be alert to possible disruptive ideas.

We are a self-employed / small business oriented bank. Self-employed segment in India presents a large and profitable opportunity. Given our limited network we prefer to concentrate on neighborhood banking. We have a comprehensive product range to serve the self-employed / small business segment.

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Corp. & Reg. Office: 6th Floor, Tower A, Peninsula Business Park, Senapati Bapat Marg, Lower Parel, Mumbai – 400013
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Given the above background, in our recently concluded Board meeting we have agreed to make a few important changes to our go-forward approach which is outlined below:

(a) Install 150+ additional branches within 12 months. (Earlier plan was to grow 25 to 30 branches every year). Therefore, the Bank aims to have more than 300 branches by December, 2016.
(b) Invest heavily in customer facing and frontline enabling technologies (This will help to tackle emerging competition)
(c) Proliferation of smart phones, success of Aadhaar, new technologies, contemporary initiatives by NPCI, etc. is creating an exciting phase in banking. Therefore, we plan to partner with select start-up companies that may have disruptive banking concepts. (This will enable us to participate in any transformational or revolutionary ideas)
(d) Form alliances with entities to enhance product / distribution. This will help us to strengthen our franchise.

We have started working on all of the above.

We believe that the main impact on P&L by pursuing the new approach as outlined above will be on account of frontloading implementation of 150+ branches within 12 months. We estimate that, P&L (post tax) will be negatively impacted by approximately Rs. 9 to 15 crores in FY 2016, Rs. 50 to 65 crores in FY 2017 and Rs. 20 to 35 crores in FY 2018. Thereafter, the initiative is likely to produce positive impact on P & L (post tax).

If all goes well, the initiative of implementing 150+ branches implementation is likely to break even in 24 to 30 months and payback in 44 to 50 months. We plan to track the impact of the above mentioned investments separately.

In the last 2 to 3 years we have installed approximately 80 branches. Our current branch expansion experience indicates that if properly executed, branches generally achieve break even between 18 to 22 months and payback in 36 to 40 months.

Cost / Income ratio, ROA and ROE will get negatively impacted due to the gestation period of the new 150+ branches. In the coming 24 to 30 months, depending upon the speed and quality of implementation we expect the Cost / Income ratio to worsen by 5% to 11%, ROA may be in the range of 50 bps to 60 bps and ROE may continue to be below 10%.

After 24 to 30 months we expect steady improvement in Cost / Income ratio, ROA and ROE. In early part of FY 2020, including 150+ additional branches, the target is to achieve Cost / Income ratio below 55%, ROA of 100 bps and ROE of 14%. If the implementation continues as per plan, in FY 2021, we hope to achieve Cost / Income ratio of 50%, ROA of 120 bps and ROE of 16%.

While near term P&L may be negatively impacted, our estimates indicate that Balance Sheet and P & L (post tax) could be better by approximately 30% to 40% by FY 2022 as compared to our current approach of steadily increasing branch network.

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Obviously there is execution risk associated with the new approach. We need to have a strong implementation plan to ensure success. We believe we have the talent and capability to double our branch network in one year. We have created detailed metrics to measure and monitor our performance.

There could be other risks as well. For example competition may increase affecting NIMs and volume, NPAs could worsen due to environment issues and regulatory framework may change as well.

While the intention is to add 150+ branches in the next 12 months, the pace of implementation may be adjusted based on our performance, experience and market conditions.

We are going to retain the following from the current approach:

a) Rely on CASA and Retail Deposits (reduce dependence on bulk deposits)
b) Grow NRI deposits
c) Concentrate on Tier 2 to Tier 6 locations
d) Create a diversified and secured lending portfolio and limit unsecured exposures
e) Loans portfolio target mix - Mortgages 40% to 45%, MSME / SME – 15% to 20%, Corporate – 20% to 25%, Agri / Inclusive Banking – 15% to 20%, Other Retail – 5% to 10%
f) Cross sell Bancassurance, Mutual Funds, Trade, FX and Cash Management in order to generate steady granular fee income

3. Q2 FY 2016 Financial Performance

a) Profit After Tax Rs.37 crore versus Rs.41 crore in Q2 FY 2015
b) Operating Profit Rs.78 crore versus Rs.60 crore in Q2 FY 2015 (up 31%)
c) Net Interest Income Rs.150 crore versus Rs.118 crore in Q2 FY 2015 (up 27%)
d) Other Income Rs.49 crore versus Rs.37 crore in Q2 FY 2015 (up 32%)
e) Operating Income up by 29% as compared to Q2 FY 2015
f) Total Costs up by 27% as compared to Q2 FY 2015 (on account of new branches and additional headcount)
g) Deposits up by 24% as compared to Q2 FY 2015
h) Net Advances up by 27% as compared to Q2 FY 2015
i) Provisions (other than tax) up by 58% due to increase in NPAs. H1 FY 2016 provision at Rs.40 crore versus Rs.37 crore for H1 FY 2015
j) Headcount at 3,674 versus 3,184 as compared to Q2 FY 2015
k) Branches at 160 versus 142 as compared to Q2 FY 2015
l) ATMs at 373 versus 252 as compared to Q2 FY 2015
m) NIMs 3.79% versus 3.81% in Q1 2016 (3.72% for FY 2015)
n) GNPA at 1.99% versus 1.96% in Q1 FY 2016 and 1.90% in Q2 FY 2015
o) NNP at 1.16% versus 1.22% in Q1 FY 2016 and 1.07% in Q2 FY 2015
p) Fresh slippages Rs.62 crore; upgrades / recoveries Rs.37 crore and write off Rs.7 crore
q) Capital Adequacy Index Basel III 13.63%
r) Cost / Income ratio 61% versus 61% in Q2 FY 2015

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4. What is the outlook for NPAs?

The environment has not improved much in the last many months. It is taking longer to recover over dues due to cash flow challenges faced by the customers. For the Bank, both GNPA and NNPA have increased steadily. Part of the reason for increase in NPAs is also because of seasoning of Mortgages, MSME, SME and AIB.

Recovery efforts have been intensified. However, legal cases are taking a long time to achieve closure. Even customers who are ready to settle are not easily finding eager investors to buy their business.

We believe that Mortgages, MSME, SME and AIB portfolio NPAs should remain within acceptable range. In the Corporate portfolio, at any point in time, two or three accounts show a lot of stress. This has been the situation for the last few years. We are working hard to manage the risks and the accounts are being monitored carefully.

5. NIMs

Our NIMs have been stable. However, there are a few factors that are likely to affect the NIMs in the coming months.

(a) As the credit growth opportunities are limited, there is a price war going on in all products and segments. At times, pricing for risk is ignored.

(b) Towards the end of the year, pressure will build up for Priority Sector Lending

(c) RBI is likely to change the Base Rate calculation methodology. In case, Base Rate methodology moves to marginal costs, we may be impacted by 50 to 75 bps in the short run. This is because we are sourcing longer tenor term deposits to bridge the ALM gap created by Mortgages portfolio. We believe that average cost of funds methodology is more appropriate for calculating Base Rate. If average cost of funds is used for Base Rate, customer rates move up or down gradually as the term deposit portfolio gets repriced.

6. Restructure Portfolio

Our Bank is not a member of CDR. We are selective in restructuring loans. As of September 30, 2015 the restructured standard portfolio is approximately Rs. 47 crores comprising of 5 accounts.

7. Fee Income

We have a lot of scope for improvement. Since our exposure to Corporate loans is limited, we do not have many big ticket fee opportunities. We have stepped our efforts in improving fee income through Bancassurance, Mutual Funds, FX, Trade, ATMs and Cash Management. We are confident of achieving 12% to 14% per annum core fee income growth.

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8. CASA Ratio

We are growing CASA balances in a steady manner. The new branches are beginning to contribute to CASA growth. We are confident of 14% to 16% per annum CASA growth.

Our aim is to maintain CASA ratio of atleast 25%. However, the retail term deposit growth is faster in order to fund the overall Advances growth. This is resulting in lower CASA ratio.

9. Headcount

As of September 30, 2015 the headcount is at 3,674. If we fully implement the 150+ new branches plan, then headcount is likely to be in the range of 5,400 to 5,800 in 12 to 14 months.

In the current competitive environment – hiring, training and retaining talent requires intensive efforts. Also, we need to have a sharp focus on employee costs and productivity.

10. Capital Raising

We raised Tier I Capital of Rs.250 Cr. through QIP in October, 2014. The current capital position is strong. If we are able to successfully implement our new approach, we may choose to raise capital in the next 12 to 15 months.

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