DCB BANK

Ref. No.CO:CS:HVB:2011-12:190 February 13, 2012

National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East),
Mumbai – 400051

Dear Sirs,

Re: General Q & A about Development Credit Bank Limited (DCB Bank)

Ref: NSE symbol: DCB.

In the attachment please find General Q & A about Development Credit Bank Limited (DCB Bank) which we request you to take on record.

This may be taken in compliance of Clause 36 (7) and other applicable clauses, if any, of the Listing Agreement.

Thanking you,

Yours faithfully,

For Development Credit Bank Limited

H. V. Barve
Company Secretary &
Compliance Officer

Encl: As above.

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General Q&A about DCB Bank - Mr. Murali M Natrajan, Managing Director & CEO of DCB Bank (Development Credit Bank Ltd.)

1. **Is DCB Bank planning to be acquired or merged with another bank?**

   We have no plans to merge or be acquired by another bank. DCB Bank is an important strategic business for our promoter AKFED (Aga Khan Fund for Economic Development). In the last 3 years, the Bank has done well to deal with the issues of NPAs and losses. The Bank has returned to profits since Q2 FY 2010-11. We are confident of organically growing the Bank.

2. **What about AKFED stake dilution?**

   We have submitted a roadmap to the Reserve Bank of India for dilution of AKFED stake to 10 percent by end of March 2014. The plan is to issue new capital for branch expansion and growth which will result in dilution of AKFED stake. At present, AKFED holds 23.06% of DCB Bank. We are confident that even after dilution we will continue to have the support of AKFED.

3. **What is your outlook for Q4 FY 2011-12?**

   In this quarter, maintaining NIMs has become challenge for two reasons - (a) The Priority Sector Lending Advances are coming at a very fine pricing resulting in negligible margins (b) Deposit rates are ruling at high levels due to tight liquidity conditions causing steep increase in Cost of Funds. Therefore, we expect at least 25 to 40 bps NIM reduction in Q4 FY 2011-12 which in turn will impact Net Interest Income for a few months. However, on a steady state basis we expect to operate at NIMs of 300 to 325 bps. We are doing well in Retail Mortgages, MSME/ SME which are the chosen areas of growth. Overall, we are targeting Advances growth of 15 to 17 percent and Deposits growth of 18 to 20 percent for FY 2011-12. While we have maintained CASA balances above 30%, month on month growth has been a challenge this year as customers are getting induced by attractive Term Deposit rates.

4. **What are your challenges? What are DCB Bank's ambition, growth plans and business strategy?**

   As a result of small Balance Sheet size we have a high Cost/ Income ratio. To address this issue we plan to grow the Total Income faster than Total Costs. If we are able to do that for 3 years or so then the Cost/ Income ratio is likely to be around 60%. As our Balance Sheet and Operating Profits are small and the current macro-environment is uncertain we need to be extra cautious in our approach. Our aim is to grow the Balance Sheet carefully and in a systematic manner taking measured risks.

   In terms of ambition, subject to capital raising and market conditions, the management team is confident of doubling the Balance Sheet and delivering ROE of 13 to 14 percent in 3 to 4 years.

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DCB Bank's main target market is self-employed segment. The strategy is to rely on Retail Term Deposits and CASA to support the Advances growth. The intention is to keep CASA at 30% or above so as to maintain NIMs at 300 to 325 bps. Advance growth will mainly come from secured lending. The main thrust will be on Retail Mortgages, Working Capital and Term Loans to MSME/ SME. Overtime, we expect Retail Mortgages to contribute 30 to 35% and MSME/ SME to contribute 35 to 40%. The balance would be mid Corporate and Agri & Inclusive Banking (AIB).

To facilitate the Balance Sheet growth, overtime, we intend to be present in the top 40 cities of India. This is likely to help CASA and MSME/ SME business. We would like to grow to 150 to 160 branch network in 3 to 4 years and expand the ATM network to around 400.

Our plan is to open rural branches in clusters in Gujarat, Maharashtra, Orissa, Madhya Pradesh and Tamil Nadu as part of AIB initiative. This is likely to assist in meeting the Priority Sector Lending.

We also focus on Non Funded Income (Fees). The main contributors are Processing Fees, Bancassurance, Trade, Foreign Exchange and CASA related transaction charges.

5. Are you planning to increase the Savings Account interest rate?

At the moment we have no plans for increasing the Savings Account interest rate. However, in case a few large banks decide to increase the Savings Account interest rate then we may have to follow. As of now, new CASA customer acquisition volumes have not been majorly impacted by increase in Savings Account interest rate by a few banks. We are offering competitive Term Deposit rates and customers who have funds in Savings Accounts can enjoy these higher rates by transferring their funds to Term Deposits.

6. Do you have any plans for new business or products?

Recently, we have created a separate business division within the Retail Liabilities for tapping Non Resident Indian deposits. We are offering competitive interest rate for NRE Deposits. The initial volumes are encouraging. We are also planning to re-enter the Commercial Vehicle Loans business in a limited manner.

7. How do you plan to reduce the NPAs?

As of December 31, 2011, the Gross NPA was 5.67 percent as compared to 7.07 percent as on December 31, 2010. Similarly, as of December 31, 2011, the Net NPA was 1.03 percent as compared to 1.30 percent as on December 31, 2010. We are making steady progress in reducing NPAs. As of now Retail Mortgages, MSME, SME and AIB portfolio is doing fine. We are consistently achieving recoveries from the fully provided Personal Loans portfolio which was one of the main causes of high gross NPA. In the current FY 2011-12 we have faced some challenges in the Corporate book which is why we have not seen more reduction in Gross NPA. The provision coverage is at 87.38 percent. We are confident of making continuous progress in reducing NPAs.

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8. When and how much capital do you plan to raise?

The CRAR under Basel II as on December 31, 2011 was at 13% (Tier I 11.15%). At the moment, DCB Bank has adequate capital. Depending upon investor response, we plan to raise Rs 100 crore to 150 crore of Tier I Capital. This will support the branch expansion and Advances growth for at least 18 months. The market conditions have been uneven and unpredictable therefore it has not been easy to raise capital. We are continuing to make efforts and we hope to complete the capital raising in the next 6 to 8 months. We may choose either or both, Preferred Allotment and QIP to raise capital, with appropriate approvals.

9. How long do you plan to continue in DCB Bank?

I started a new journey with DCB Bank in April 2009. So far, along with my team and with the support of Chairman / Board we have been able to achieve what we set out to accomplish 3 years ago. We are now entering a new phase. We have a long way to go. I love banking and financial services. I am passionate about creating value for customers. My personal ambition is to build DCB Bank to a meaningful and respectable size in the next 5 to 7 years. We have a strong management team which is aligned to the strategy and long term goals of DCB Bank. I am motivated to come to work every day. So far we have received good feedback from the Chairman, Board and AKFED (promoter). As long as the Board is satisfied with my performance I would like to continue with DCB Bank. Of course MD & CEO appointment and renewal is subject to regulatory approvals.

10. What keeps you awake at night?

The challenges and excitement of running DCB Bank keeps me and the team awake at night.