

Below is a summary of DTB-K Q3'2021 performance;

Balance Sheet (bns)	Q3'2020	Q3'2021	y/y change
Government Securities	134.1	130.5	(2.7%)
Net Loans and Advances	205.6	205.6	(0.0%)
Total Assets	394.0	434.4	10.3%
Customer Deposits	288.2	323.7	12.3%
Total Liabilities	324.9	359.9	10.8%
Shareholders' Funds	62.8	67.5	7.5%

Balance sheet ratios	Q3'2020	Q3'2021	% point change
Loan to Deposit Ratio	71.4%	63.5%	(7.9%)
Return on average equity	9.2%	6.8%	(2.5%)
Return on average assets	1.4%	1.1%	(0.4%)

Income Statement(mns)	Q3'2020	Q3'2021	y/y change
Net Interest Income	13.9	14.7	5.9%
Net non-Interest Income	5.03	4.79	(4.9%)
Total Operating income	18.9	19.5	3.0%
Loan Loss provision	2.9	3.1	6.0%
Total Operating expenses	12.4	12.1	(2.0%)
Profit before tax	6.60	7.43	12.6%
Profit after tax	4.3	5.2	20.1%
Core EPS	15.5	18.6	20.1%

Income Statement Ratios	Q3'2020	Q3'2021	% point change
Yield from interest-earning assets	9.3%	9.2%	(0.1%)
Cost of funding	4.2%	4.1%	(0.1%)
Net Interest Spread	5.1%	5.2%	0.1%
Net Interest Income as % of operating income	73.4%	75.5%	2.1%
Non-Funded Income as a % of operating income	26.6%	24.5%	(2.0%)
Cost to Income Ratio (CIR)	65.2%	62.0%	(3.2%)
CIR without provisions	50.0%	46.3%	(3.7%)
Cost to Assets	4.1%	4.7%	0.6%
Net Interest Margin	5.5%	5.4%	(0.1%)

Capital Adequacy Ratios	Q3'2020	Q3'2021
Core Capital/Total Liabilities	23.3%	22.2%
Minimum Statutory ratio	8.0%	8.0%
Excess	15.3%	14.2%
Core Capital/Total Risk Weighted Assets	19.2%	20.7%
Minimum Statutory ratio	10.5%	10.5%
Excess	8.7%	10.2%
Total Capital/Total Risk Weighted Assets	20.8%	22.1%
Minimum Statutory ratio	14.5%	14.5%
Excess	6.3%	7.6%
Liquidity Ratio	53.6%	60.1%
Minimum Statutory ratio	20.0%	20.0%

Excess	33.6%	40.1%
Adjusted Core Capital/Total Liabilities	24.1%	22.3%
Adjusted Core Capital/Total RWA	19.6%	20.9%
Adjusted Total Capital/Total RWA	21.2%	22.2%

Income Statement

- The bank's core earnings per share increased by 20.1% to Kshs 18.6, from Kshs 15.5 in Q3'2020, higher than our expectations of a 6.2% increase to Kshs 16.4. The growth was driven by the 5.9% increase in total operating income, coupled with the 2.0% decline in total operating expenses to Kshs 12.1 bn, from Kshs 12.4 bn in Q3'2020. The variance in the core earnings per share increase against our expectation was mainly attributable to the 5.9% increase in Net-Interest Income (NII) to Kshs 14.7 bn, from Kshs 13.9 bn recorded in Q3'2020, against our expectations of a 6.3% decrease to Kshs 13.0 bn in Q3'2021,
- Total operating income increased by 3.0% to Kshs 19.5 bn, from Kshs 18.9 bn in Q3'2020 mainly driven by a 5.9% increase in the Net Interest Income (NII) to Kshs 14.7 bn, from Kshs 13.9 bn in Q3'2020. The increase in total operating income was however weighed down by a 4.9% decrease in Non-Funded Income (NFI) to Kshs 4.8 bn, from Kshs 5.0 bn in Q3'2020,
- Interest income increased by 6.0% to Kshs 25.1 bn, from Kshs 23.7 bn in Q3'2020 driven by a 19.1% increase in interest income from government securities to Kshs 11.0 bn, from Kshs 9.2 bn in Q3'2020, coupled with a 60.3% increase in Interest income from deposit placements to Kshs 188.0 mn, from Kshs 117.3 mn in Q3'2020. The increase was however weighed down by a 2.8% decline in interest income from loans and advances to Kshs 13.9 bn, from Kshs 14.3 bn in Q3'2020. The Yield on Interest-Earning Assets (YIEA) declined marginally to 9.3%, from 9.2% in Q3'2020, attributable to a 1.5% increase in trailing interest income, which was outpaced by the 2.6% increase in average interest-earning assets to Kshs 351.6 bn, from Kshs 342.6 bn in Q3'2020,
- Interest expense rose by 6.2% to Kshs 10.4 bn, from Kshs 9.8 bn in Q3'2020, following a 10.0% increase in interest expense on customer deposits to Kshs 9.2 bn, from Kshs 8.4 bn in Q3'2020. The increase was however mitigated by a 37.3% decline in interest expense on placement liabilities to Kshs 305.7 mn, from Kshs 487.2 mn in Q3'2020. Cost of funds on the other hand declined marginally by 0.1% points to 4.1%, from 4.2% in Q3'2020, owing to the 3.3% increase in trailing interest expenses, which was outpaced by a 6.6% growth in average interest-bearing liabilities, an indication that the bank was able to mobilize cheaper deposits. Net Interest Margin (NIM) declined to 5.4%, from 5.5% in Q3'2020 attributable to the 1.5% increase in trailing interest income which was outpaced by the 2.6% increase in average interest-earning assets,
- Non-Funded Income (NFI) declined by 4.9% to Kshs 4.8 bn, from Kshs 5.0 bn in Q3'2020 driven by a 14.9% decline in fees and commissions on loans to Kshs 1.0 bn, from Kshs 1.1 bn in Q3'2020 coupled with a 6.4% decline in foreign exchange trading income to Kshs 1.8 bn, from Kshs 1.9 bn in Q3'2020. The decline was however mitigated by the 13.5% increase in other fees and commissions to Kshs 1.5 bn, from Kshs 1.3 bn recorded in Q3'2020. Notably, total fees and commissions increased marginally by 0.3% to Kshs 2.44 bn, from Kshs 2.43 bn recorded in Q3'2020. The revenue mix shifted to 75:25 funded to non-funded income from 73:27, owing to the 5.9% growth in NII as compared to the 4.9% decline in NFI,
- Total operating expenses declined by 2.0% to Kshs 12.1 bn, from Kshs 12.4 bn in Q3'2020, driven by the 8.5% decrease in other operating expenses to Kshs 5.4 bn from Kshs 5.9 bn. The decline was weighed down by a 6.0% increase in Loan Loss Provisions (LLP) to Kshs 3.1 bn, from Kshs 2.9 bn in Q3'2020. Similarly, Staff costs increased by 2.2% to Kshs 3.7 bn, from Kshs 3.6 bn in Q3'2020,
- Cost to Income Ratio (CIR) improved to 62.0%, from 65.2% in Q3'2020 owing to the 3.0% increase in operating income to Kshs 19.5 bn, from Kshs 18.9 bn in Q3'2020, coupled with the 2.0% decrease in operating expenses to Kshs 12.1 bn, from Kshs 12.4 bn in Q3'2020. Similarly, Cost to Income ratio

without LLP improved to 46.3%, from 50.0% in Q3'2020, an indication of improved efficiency levels, and,

- Profit before tax increased by 12.6% to Kshs 7.4 bn, from Kshs 6.6 bn in Q3'2020. Profit after tax increased by 20.1% to Kshs 5.2 bn in Q3'2021, from Kshs 4.3 bn recorded in Q3'2020, with the effective tax rate declining to 30.1%, from 34.5% in Q3'2020.

Balance Sheet

- The balance sheet recorded an expansion as Total Assets increased by 10.3% to Kshs 434.4 bn, from Kshs 394.0 bn recorded in Q3'2020. This growth was largely driven by a 34.0% growth in placements to Kshs 15.7 bn, from Kshs 11.7 bn in Q3'2020. Government securities on the other hand declined by 2.7% to Kshs 134.1 bn, from Kshs 130.5 bn in Q3'2020 while net loans and advances declined marginally by 0.03% to Kshs 205.55 bn, from Kshs 205.60 bn in Q3'2020, Total liabilities grew by 10.8% to Kshs 359.9 bn, from Kshs 324.9 bn in Q3'2020, driven by a 12.3% increase in deposits to Kshs 323.7 bn, from Kshs 288.2 bn in Q3'2020, coupled with a 0.3% increase in borrowings to Kshs 20.3 bn from Kshs 20.2 bn in Q3'2020. Deposits per branch increased by 19.3% to Kshs 2.5 bn from Kshs 2.1 bn, as the number of branches declined to 130 in Q3'2021, from 138 in Q3'2020, The bank closed some of its branches in an attempt to consolidate its physical footprint as some of them were in close proximity to each other,
- Loans to deposit ratio declined to 63.5%, from 71.4% in Q3'2020, owing to the faster 12.3% growth in deposits, compared to the marginal 0.03% growth in the net loans during the period,
- Gross Non-Performing Loans (NPLs) rose by 36.0% to Kshs 25.7 bn in Q3'2021, from Kshs 18.9 bn recorded in Q3'2020. Consequently, the NPL ratio rose to 11.9%, from 8.7% recorded in Q3'2020, driven by the 36.0% growth in gross NPLs coupled with the 0.8% decline in gross loans,
- General Loan Loss Provisions increased by 44.0% to Kshs 9.4 bn, from Kshs 6.5 bn in Q3'2020. On the other hand, the NPL coverage (having added interest in suspense) decreased to 40.0% in Q3'2021, from 62.5% in Q3'2020,
- Shareholders' funds increased by 7.5% to Kshs 67.5 bn in Q3'2021, from Kshs 62.8 bn largely due to the 9.7% increase in the retained earnings to Kshs 56.0 bn, from Kshs 51.2 bn in Q3'2020,
- Diamond Trust Bank is currently sufficiently capitalized with a core capital to risk-weighted assets ratio of 20.7%, 10.2% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio was 22.1%, exceeding the 14.5% statutory requirement by 7.6% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 20.9%, while total capital to risk-weighted assets came in at 22.2%, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.1%, and a Return on Average Equity (ROaE) of 6.8%.

Key Take-Outs:

1. **Asset Quality** - The bank's asset quality deteriorated, with the NPL ratio increasing to 11.9% in Q3'2021, from 8.7% in Q3'2020, driven by the 36.0% growth in gross NPLs coupled with the 0.8% decline in gross loans. The NPL ratio has been deteriorating since the onset of the COVID-19 pandemic attributable to the faster growth in gross NPLs as opposed to the growth in gross loans. The growth in gross NPLs can be attributed to the effects of the pandemic on the economy given that the bank lends mostly to the tourism and Real Estate sectors which were hardest hit. We note that this quarters NPL ratio is the highest it has ever been and in our view, DTB-K should proactively manage its loan book and improve its credit assessment in order to bring down this high NPL ratio, and,
2. There was an improvement in efficiency levels as the cost to income ratio improved to 62.0% from 65.2% in Q3'2020. Similarly, Cost to income ratio without LLP improved to 46.3% from 50.0% in Q3'2020, an indication of improving efficiency.

Going forward, we expect the bank's growth to be driven by:

- I. **Minimized Costs** – DTB Continues to focus on fee income driven by digital products and services offerings through strategic partnerships that lead to the bank's expansion. The banks is also keen on procuring cheaper funds in order to lower their interest expenses. We expect the bank to keep up the cautious lending to minimize further erosion of the asset quality and to guard their profitability.

Valuation Summary

- We are of the view that Diamond Trust Bank Kenya is a **“Hold”** with a target price of Kshs 60.2, representing an upside of 5.6%, from the current price of Kshs 57.0 as of 26th November 2021,
- Diamond Trust Bank Kenya is currently trading at a P/TBV of 0.2x and a P/E of 3.6x vs an industry average of 0.5x and 5.5x, respectively.