

Below is a summary of DTB-K Bank's H1'2024 performance:

Balance Sheet Items	H1'2023	H1'2024	y/y change
Government Securities	136.1	124.3	(8.7%)
Net Loans and Advances	281.2	267.9	(4.7%)
<b>Total Assets</b>	<b>579.2</b>	<b>585.4</b>	<b>1.1%</b>
Customer Deposits	418.0	431.9	3.3%
Deposits Per branch	3.1	2.8	(9.5%)
Total Liabilities	496.6	501.1	0.9%
<b>Shareholders' Funds</b>	<b>72.4</b>	<b>74.6</b>	<b>3.0%</b>

Key Ratios	H1'2023	H1'2024	% point change
Loan to Deposit ratio	67.3%	62.0%	(5.2%)
Government Securities to Deposits ratio	32.6%	28.8%	(3.8%)
Return on Average Equity	10.2%	11.3%	1.1%
Return on Average Assets	1.4%	1.4%	0.1%

Income Statement	H1'2023 (Kshs bn)	H1'2024 (Kshs bn)	y/y change
Net interest Income	13.1	14.2	8.3%
Net non-interest income	5.5	6.4	15.1%
<b>Total Operating income</b>	<b>18.7</b>	<b>20.6</b>	<b>10.3%</b>
Loan loss provision	3.3	3.6	11.1%
<b>Total Operating expenses</b>	<b>5.4</b>	<b>6.1</b>	<b>13.1%</b>
Profit before tax	<b>12.7</b>	<b>14.2</b>	<b>12.1%</b>
<b>Profit after tax</b>	<b>6.0</b>	<b>6.3</b>	<b>4.3%</b>
<b>Core EPS</b>	<b>4.4</b>	<b>4.9</b>	<b>11.5%</b>

Income Statement Ratios	H1'2023	H1'2024	y/y change
Yield from interest-earning assets	9.9%	11.4%	1.6%
Cost of funding	4.8%	6.1%	1.3%
Net Interest Spread	5.0%	5.3%	0.3%
Net Interest Income as % of operating income	70.3%	69.0%	(1.3%)
Non-Funded Income as a % of operating income	29.7%	31.0%	1.3%
Cost to Income Ratio (CIR)	68.1%	69.2%	1.1%
CIR without provisions	50.6%	51.6%	1.0%
Cost to Assets	4.8%	5.6%	0.8%
Net Interest Margin	5.3%	5.7%	0.4%

Capital Adequacy Ratios	H1'2023	H1'2024	% points change
Core Capital/Total Liabilities	21.6%	18.2%	(3.4%)
Minimum Statutory ratio	8.0%	8.0%	
<b>Excess</b>	<b>13.6%</b>	<b>10.2%</b>	<b>(3.4%)</b>
Core Capital/Total Risk Weighted Assets	18.5%	17.6%	(0.9%)
Minimum Statutory ratio	10.5%	10.5%	
<b>Excess</b>	<b>8.0%</b>	<b>7.1%</b>	<b>(0.9%)</b>
Total Capital/Total Risk Weighted Assets	19.3%	19.1%	(0.2%)
Minimum Statutory ratio	14.5%	14.5%	
<b>Excess</b>	<b>4.8%</b>	<b>4.6%</b>	<b>(0.2%)</b>
Liquidity Ratio	52.2%	52.6%	0.4%
Minimum Statutory ratio	20.0%	20.0%	
<b>Excess</b>	<b>32.2%</b>	<b>32.6%</b>	<b>0.4%</b>

### **Income Statement**

- Core earnings per share grew by 11.5% to Kshs 17.4, from Kshs 15.6 in H1'2023, driven by the 10.3% increase in total operating income to Kshs 20.6 bn, from Kshs 18.7 bn in H1'2023. However, the performance was weighed down by a 12.1% increase in total operating expenses to Kshs 14.2 bn from Kshs 12.7 bn in H1'2023,
- The 10.3% increase in total operating income was mainly driven by a 15.1% growth in Non Interest Income (NFI) to Kshs 6.4 bn, from Kshs 5.5 bn in H1'2023, coupled with the 8.3% increase in Net Interest Income (NII) to Kshs 14.2 bn from Kshs 13.1 bn in H1'2023,
- Interest income grew by 17.9% to Kshs 29.3 bn from Kshs 24.9 bn in H1'2023, mainly driven by a 21.4% growth in interest income from loans and advances to Kshs 16.0 bn from Kshs 13.2 bn in H1'2023, coupled with a 10.7% increase in interest income from government securities to Kshs 12.7 bn, from Kshs 11.5 bn in H1'2023. However, the Yield on Interest-Earning Assets (YIEA) increased to 11.4% from 9.9% recorded in H1'2023, mainly attributable to the faster 25.1% increase in trailing interest income to Kshs 57.8 bn, from Kshs 46.2 bn in H1'2023, compared to an 8.1% increase in average interest earning assets to Kshs 505.3 bn, from Kshs 467.6 bn in H1'2023,
- Interest expenses rose by 28.6% to Kshs 15.2 bn from Kshs 11.8 bn in H1'2023, mainly driven by a 27.5% increase in interest expense on customer deposits to Kshs 12.0 bn from Kshs 9.4 bn in H1'2023, coupled with a 76.2% increase in interest expense from placements to Kshs 2.0 bn, from Kshs 1.2 bn recorded in H1'2023. Consequently, Cost of funds (COF) increased by 1.3% points to 6.1% from 4.8% recorded in H1'2023, owing to a 36.7% increase in Trailing interest expense to Kshs 29.1 bn from Kshs 21.3 bn recorded in H1'2023, compared to an 8.3% increase in average interest bearing liabilities to Kshs 477.2 bn from Kshs 440.7 bn in H1'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 0.4% points to 5.7% from 5.3% in H1'2023, attributable to a 15.3% increase in trailing net interest income to Kshs 28.7 bn from Kshs 24.9 bn recorded in H1'2023, compared to the 8.1% growth in average interest earning assets to Kshs 505.3 bn, from Kshs 467.6 bn in H1'2023,
- Non-Funded Income (NFI) increased by 15.1% to Kshs 6.4 bn from Kshs 5.5 bn in H1'2023, mainly driven by a 27.8% increase in other fees to Kshs 1.8 bn from Kshs 1.4 bn in H1'2023, coupled with a 2.1% increase in income from fees and commissions on loans to remain relatively unchanged from the Kshs 1.0 bn in H1'2023. Foreign exchange trading income, however, decreased by 5.3% to Kshs 2.6 bn from Kshs 2.8 bn in H1'2023, indicating reduced foreign exchange trading margins. The revenue mix shifted to 69:31 from 70:30 for the funded to Non-funded income owing to the slower 8.3% growth in Funded Income compared to a 15.1% increase in the Non Funded Income,
- Total operating expenses increased by 12.1% to Kshs 14.2 bn from Kshs 12.7 bn in H1'2023, driven by an 11.5% increase in staff costs to Kshs 4.5 bn from Kshs 4.1 bn recorded in H1'2023, coupled with a 13.1% increase in other operating expenses to Kshs 6.1 bn, from Kshs 5.4 bn recorded in H1'2023 together with the 11.1% increase in loan loss provisions to Kshs 3.6 bn, from Kshs 3.3 bn recorded in H1'2023. The increase in provisioning is despite the reducing credit risk as a result of improved economic environment as evidenced by the average H1'2024 Purchasing Managers Index (PMI) of 50.0, up from an average of 48.7 in H1'2023,
- Cost to Income Ratio (CIR) increased by 1.1% points to 69.2% from 68.1% in H1'2023, owing to the faster 12.1% increase in total operating expenses, which outpaced the 10.3% increase in total operating income. Notably, CIR without LLP increased by 1.0% points to 51.6% from 50.6% recorded in H1'2023, and,
- Profit before tax increased by 4.3% to Kshs 6.3 bn, from Kshs 6.0 bn recorded in H1'2023, with effective tax rate decreasing to 22.6% in H1'2024 from 27.6% in H1'2023, leading to an 11.5% increase in profit after tax Kshs 4.9 bn, from Kshs 4.4 bn recorded in H1'2023.

### **Balance Sheet**

- The balance sheet recorded a slight expansion as total assets grew by 1.1% to Kshs 585.4 bn, from Kshs 579.2 bn in H1'2024, driven by a 107.9% increase in placements to Kshs 41.9 bn, from 20.1 bn in H1'2023, coupled with a 6.3% increase in other assets to Kshs 27.9 bn, from Kshs 26.3 bn in H1'2023,

- Total liabilities rose slightly by 0.9% to Kshs 501.1 bn from Kshs 496.6 bn in H1'2024, driven by a 3.3% growth in customer deposits to Kshs 431.9 bn, from Kshs 418.0 bn in H1'2023, coupled with the 135.8% increase in other liabilities to Kshs 30.4 bn, from Kshs 12.9 bn in H1'2023,
- The 3.3% growth in customer deposits as compared to the 4.7% increase in loans led to a decrease in the loan to deposits ratio to 62.0%, from 67.3% in H1'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.5% in H1'2024, from 12.3% in H1'2023, attributable to a 5.6% increase in Gross non-performing loans to Kshs 38.6 bn, from Kshs 36.5 bn in H1'2023, compared to the 4.4% decline in gross loans to Kshs 285.0 bn, from Kshs 298.1 bn recorded in H1'2023,
- General Provisions (LLP) increased by 5.1% to Kshs 16.4 bn in H1'2024 from Kshs 15.6 bn in H1'2023. The NPL coverage ratio decreased to 44.4% in H1'2024, from 46.4% in H1'2023, attributable to the 25.4% increase in general provisions, in contrast to the 45.6% decrease in interest in suspense to Kshs 0.7 bn, from Kshs 1.3 bn in H1'2023, in contrast to the 5.6% increase in gross non performing loans,
- Shareholders' funds increased by 3.0% to Kshs 74.6 bn in H1'2024, from Kshs 72.4 bn in H1'2023, supported by an 8.5% increase in retained earnings to Kshs 4.3 bn, from Kshs 4.0 bn in H1'2023,
- DTB-K remains capitalized with a core capital to risk-weighted assets ratio of 17.6%, 7.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 19.1%, exceeding the statutory requirement of 14.5% by 4.6% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 1.3%, and a Return on Average Equity (ROaE) of 11.3%.

**Key Take-Outs:**

1. **Increased earnings** - Core earnings per share (EPS) grew by 11.5% to Kshs 17.4, from Kshs 15.6 in H1'2023, driven by the 10.3% increase in total operating income to Kshs 20.6 bn, from Kshs 18.7 bn in H1'2023. However, the performance was weighed down by a 12.1% increase in total operating expenses to Kshs 14.2 bn from Kshs 12.7 bn in H1'2023
2. **Deteriorated asset quality** – The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.5% in H1'2024, from 12.3% in H1'2023, attributable to a 5.6% increase in Gross non-performing loans to Kshs 38.6 bn, from Kshs 36.5 bn in H1'2023, compared to the 4.4% decline in gross loans to Kshs 285.0 bn, from Kshs 298.1 bn recorded in H1'2023
3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets grew by 1.1% to Kshs 585.4 bn, from Kshs 579.2 bn in H1'2024, driven by a 107.9% increase in placements to Kshs 41.9 bn, from 20.1 bn in H1'2023, coupled with a 6.3% increase in other assets to Kshs 27.9 bn, from Kshs 26.3 bn in H1'2023,

Going forward, the factors that would drive the bank's growth would be:

- **Revenue Diversification.** The lender has a great opportunity to explore the growth of its non-funded income streams, which grew by 15.1% to Kshs 6.4 bn, from Kshs 5.5 bn in H1'2023. They have, over the years, launched a number of products and continue to simultaneously offer differentiated products for diaspora bankers, micro and small enterprises, home and vehicle insurance, bancassurance, and the DTB Weza platform which makes overdrafts much more accessible,

**Valuation Summary**

- We are of the view that Diamond Trust Bank is a “**Buy**” with a target price of Kshs 65.2 representing an upside of 55.1%, from the current price of 45.3 as of 30<sup>th</sup> August 2024, and,
- DTB-K Bank is currently trading at a P/TBV of 0.2x and a P/E of 1.6x vs an industry average of 0.8x and 3.7x respectively.