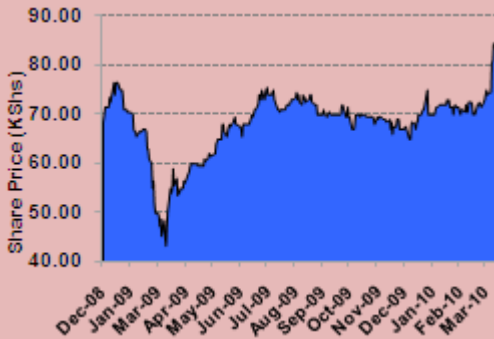




# Earnings Announcement

Diamond Trust Bank: Share Price Movement



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## Diamond Trust Bank Audited Group Statements For Full Year Ended 31<sup>st</sup> December, 2009

### Highlights

- ✓ Profit before tax up 24% to Kshs 2.0 bn
- ✓ Total operating income up 38% to Kshs 5.1 bn
- ✓ Recovery in Q4 lending grows loan book
- ✓ Despite competition for deposits net interest margin rises to 6.5%
- ✓ Total non performing loans up 50% to Kshs 593 mn
- ✓ Expansion and staff costs raise cost base 49%
- ✓ Total deposits up 17% to Kshs 55.0 bn from previous year
- ✓ Loan book up 25% to Kshs 42.3 bn from previous year
- ✓ EPS up 22% to Kshs 7.67. Final dividend of Kshs 1.55 proposed (with a 2.1% yield) and the books closure date is 27<sup>th</sup> May, 2010
- ✓ Current share price up 7.1% to Kshs 75.00 since December 2009 against a 23.4% gain in the NSE 20 Index (Jan to Mar)

### Report Summary

1::	General Review
2::	Asset Quality
3::	Conclusions

**18 MARCH 2010**

## 1:: GENERAL REVIEW OF DIAMOND TRUST BANK RESULTS

Income Statement (Ksh mn)			
	Dec 2008	Dec 2009	
Interest Income	4,696	6,461	38%
Interest Expenses	2,257	2,942	30%
Net Interest Income	2,439	3,520	44%
Non Interest Income	1,236	1,552	25%
Operating Income	3,675	5,071	38%
Bad Debts Charge	197	299	52%
Operating Expenses	1,851	2,762	49%
Profit Before Tax	1,627	2,010	24%
Profit After Tax	1,024	1,250	22%
Earnings Per Share	6.28	7.67	
Dividend Per Share	1.40	1.55	
Balance Sheet (Ksh mn)			
	Dec 2008	Dec 2009	
Total Assets	56,146	66,679	19%
Loans and Advances	34,063	42,451	25%
Government Securities	10,161	9,227	-9%
Shareholders' Funds	7,020	8,088	15%

Selected Performance Ratios			
	Industry	DTBK	DTBK
	Dec-08	Dec-08	Dec-09
Interest Margin	11.4%	11.5%	11.9%
Net Interest Margin	8.0%	6.0%	6.5%
NFI to Total Income	40.7%	33.6%	30.6%
NFI to Operating Cost	0.73x	0.67x	0.56x
Cost to Income	55.9%	50.4%	54.5%
Loss Provision to Income	8.5%	5.4%	5.9%
Operating Margin	35.6%	44.3%	39.6%
Earnings Margin	24.8%	27.9%	24.7%
ROE	24.6%	18.7%	19.4%
ROA	2.8%	2.2%	2.0%
Leverage (assets:equity)	7.0x	8.0x	8.2x
Loans to Deposits	72.4%	74.3%	77.2%
Government Securities To Total Assets	17.9%	18.1%	13.8%

Analysis of Non Interest Income Streams			
	Full Yr 08	Full Yr 09	Full Yr 09
	Growth	Growth	Ksh mn
Commissions Inc	66.3%	19.6%	848
Forex Inc	156.7%	25.1%	611
Other Income	129.5%	133.9%	93
Commission Income to Non Interest Income			
Full Yr 06	Full Yr 07	Full Yr 08	Full Yr 09
71.6%	67.3%	57.3%	54.6%

Source: Diamond Trust Bank Published Annual Results

\*Industry figures for '09 ROE, ROA and Leverage are estimates

### Core income streams continue double digit growth

Interest income registered good growth and average growth over the last three years was 50% versus 52% for interest expenses. All income streams performed better as reflected in the interest margin that rose 0.4%; interest expenses didn't hinder growth in the net interest margin (up 0.5%) despite the continued use of high cost deposit funds. Kenyan banks in '09 were operating in a hostile environment as reflected in household lending that grew marginally by 4.8% y-o-y to Dec. '09. A large portion of DTBK lending in '08 (~26%) comprised loans to households while the other key segment was wholesale & retail trade (up 38% in '09). DTBK seems to have profited from private sector lending in Q4.

### Growth in bad debts charge depresses the operating margin

There was a significant rise in the loan loss provision which is consistent with the increase in risk weighted assets and the management's prudent approach to bad debt provisioning.

### Non interest income growth still not significant

The income contribution from non interest income (NFI) was not as spectacular as previous years where the three year average growth in NFI was around 56%. The contribution from the bank's treasury department (forex trading) continued to add new growth to this income stream while commissions income grew well (below three year average of 41%) driven by ordinary fee commissions as loan fee growth remained largely flat.

DTBK's leverage ratio has risen quickly since '07 from 6.6x to 8.2x as its balance sheet expanded, but we believe that the bank has adequate capital to increase lending for the next 12 month. This is important because there are signs that private sector lending will pick up in '10 and thus a high capital base will allow the bank's top-line income to grow unimpeded. Based on the government recent commitment to bring down long term rates we expect lending rates to decline in '10. We estimate the WAIR rose 50bp from 11.4% to 11.9%, while the net WAIR rose 60bp from 5.7% to 6.3% during '09, supporting the net interest margin

### Cost base still feeling the pressure from regional expansion

The bank's cost income ratio rose marginally during the period by 4.1% largely due to high operating and staff costs. Over the past few years the bank has placed a lot of emphasis on its IT infrastructure and we believe this has helped keep the costs of regional expansion somewhat low. We expect operating costs to grow slower in '10 as DTBK continues to attract regional deposits

## 2:: ASSET QUALITY

*“With prudent lending comes lower gross NPLs decline and zero NPL exposure”*

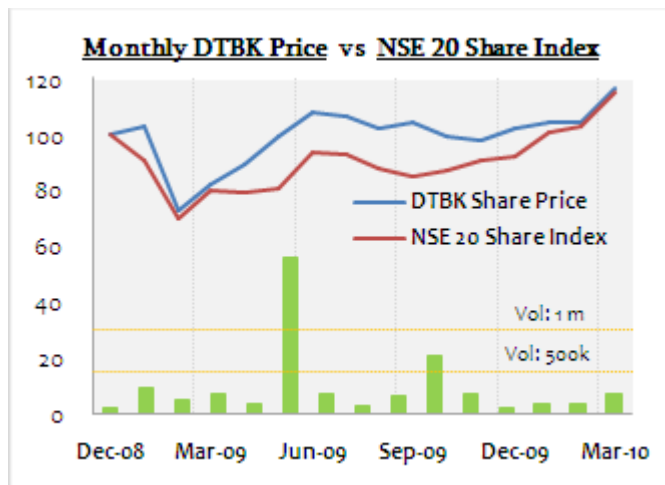
Other Disclosures (Ksh mn)			
<i>Diamond Trust Bank</i>	Dec-08	Dec-09	
Gross NPLs	660	637	-4%
Interest in Suspense	265	44	-83%
Total NPLs	395	593	50%
Loan Loss Provision	283	337	19%
Net NPLs	112	255	128%
Net Exposure	0	0	
Risk Weighted Assets	28,526	32,310	13%
Selected NPL & Capital Ratios			
<i>Diamond Trust Bank</i>	Ind. '09	Dec-08	Dec-09
Total NPLs / Total Loans	6.8%	1.2%	1.4%
NPL Coverage	45.0%	71.7%	N/A
Core Capital to RWA	18.9%	15.6%	15.4%
Total Capital to RWA	19.5%	19.8%	19.0%
Liquidity Ratio	39.8%	41.3%	33.6%

### Despite dip in gross NPLs, net NPLs rise

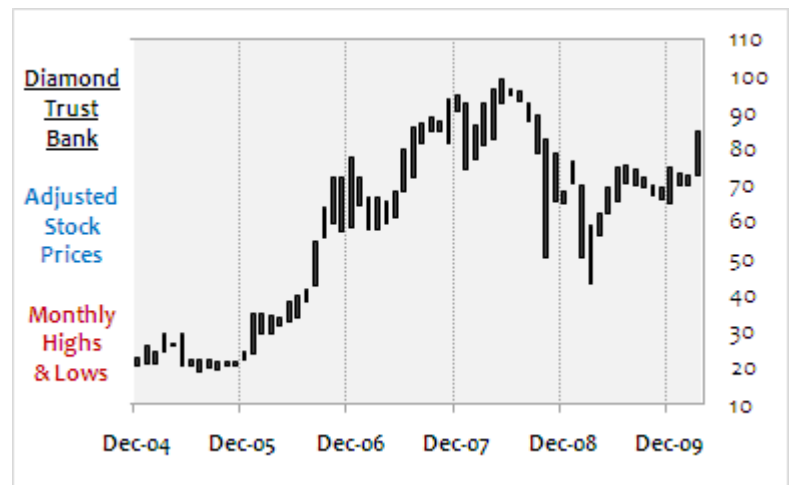
The bank recorded a large rise in bad loans (net NPLs) as a result of recording lower interest in suspense; but, the total NPL to total loans ratio rose marginally by 20bp to 1.4%, firmly below the industry average. The net NPL exposure was zero as the realizable value of securities held covered customer advances.

The bank's capital ratios remain high relative to the '09 industry average due to higher earnings retention (they have adopted a conservative dividend policy paying about 20-30% of earnings). DTBK supplementary capital consists of long term borrowings (a mix of senior and subordinate loans) advanced by IFC (a major shareholder of the bank). We anticipate DTBK will have enough capital and liquidity in '10 to expand its balance sheet and will not need to source fresh capital from the capital market.

**Stock Details** | Sector: Finance & Investment | Share Price: Ksh 75.00 | Trailing PE: 9.8x | Div Yield: 2.07%



Source: NSE



Source: NSE

## 3:: CONCLUSIONS

### Positive Outlook

We expect the management to continue to expand regionally and this may provide the bank with reduced economic risk exposure to the Kenyan economy (where it derives 76% and 80% respectively of its operating income & trading profits). We expect the bank's top-line growth to continue contingent on the recovery of GDP growth and its key loan segments, which should reflect positively in the loan book. The Central Bank of Kenya is expected to place more pressure on banks in '10 to lower long term lending rates especially considering the lowering of yields on long term bonds. Competition for deposits between the Treasury and commercial banks will keep the bank's interest margins narrow. We expect the cost base to rise only marginally given the current low inflation environment. Using a blend of PBV and PE multiples we estimate DTBK's fair value at Kshs74.88 and recommend a **hold** decision as we expect the retention of the '09 dividend policy throughout '10.

**Stock Data Sheet**
**\*Pricing as at March 18, 2010**
**\*\*Fiscal Year End: December**
**Brief Profile**

The bank is among the Top Tier 1 banks in Kenya with a market value over \$170 mn. DTBK owns nine subsidiaries that operate more than 29 branches in Kenya, Tanzania, Uganda and Burundi.

**Large Shareholders as at Year End**

	2006	2007	2008
AKFED	20.21	17.32	17.32
Habib Bank Limited	3.72	9.72	10.00
Barclays (K) Nom. A/C IFC	10.06	9.85	9.85

**Key Banking Ratios (%)**

	2007	2008	2009e
Industry Market Share			
Total Assets	3.8	4.7	4.9
Deposit Liabilities	3.9	4.9	5.2
Net Advances	4.7	5.1	5.6
Bank Accounts	0.6	0.6	-

**Kenyan Banking Peer Comparison (latest 12 month figures) - Ksh mn**

	Mkt Cap	Op. Inc	Profit	ROA	ROE	PBV	Branches	ATMs
CFC Stanbic Bank	12,179	7,063	752	1.0	6.3	0.6	15	31
Diamond Trust Bank	12,228	5,071	1,250	2.0	19.4	1.5	29	22
NIC Bank Group	12,402	3,876	1,086	2.4	18.2	1.8	14	20

Cost to Income	51.5	50.4	54.5
NFI to Total Inc	26.9	33.6	30.6
Leverage	6.6x	8.0x	8.2x
Loans to Deposits	79.0	74.3	77.2

**Trading History**

	2002	2003	2004	2005	2006	2007	2008	2009
Inflation Adj Return%	15.2	222.1	-8.2	32.6	122.6	40.1	-36.1	-4.4
Share Price %	11.1	250.0	0.0	44.0	152.9	52.1	-27.5	2.2
NSE 20 Index %	0.6	100.9	7.6	41.2	37.4	-4.7	-35.3	-7.8
Market Cap - Sh m	795	2783	2783	4006	10132	15407	11168	11413

**Growth Trends**

	1 Yr	3 Yr	Ind
	2009	07-09	2009e
Operating Income %	38.0	50.0	13.9
Operating Costs %	49.2	53.1	13.2
Pre Tax Profit %	23.6	44.2	15.6

**Valuation (x)**

	2002	2003	2004	2005	2006	2007	2008	2009
Price/Earnings (P/E)	10.5	20.8	15.5	13.6	21.5	22.3	10.9	11.1
NSE-20 Index (P/E)	11.4	20.0	15.3	15.3	16.8	16.1	11.5	8.4
PBV (Diamond Trust)	0.6	2.1	1.9	2.4	3.5	2.8	1.6	1.4
PBV (NSE Banks)	1.0	2.8	2.6	2.7	4.3	3.9	2.4	1.9

**Returns Analysis**

	1 Yr	3 Yr	Ind
	2009	07-09	2009e
Return on Assets %	2.0	2.2	2.8
Return on Equity %	19.4	18.5	24.6
ROE/Annual Inflation	2.1	1.7	2.7
Revenue/Head-Ksh m	12.8	10.1	5.2
Profit per Head-Ksh m	3.2	2.7	1.3

**Margins**

	2002	2003	2004	2005	2006	2007	2008	2009
Interest Margin %	11.2	8.7	8.5	12.0	11.5	12.1	11.5	11.9
Net Interest Margin %	7.2	6.6	6.4	6.9	6.4	6.8	6.0	6.5
Int. Spread % (est.)	4.0	2.1	2.1	5.1	5.1	5.4	5.5	5.4
Earnings Margin %	17.1	21.7	22.7	25.7	32.3	29.3	27.9	24.7

**Operating Cost Management**

NFI to Operating Cost	0.6x	0.6x	0.7x
Salaries to Total Inc	25.3	24.8	27.5

**Inc Statement-Kshmn**

	2006	2007	2008	2009	Q1 '09	Q2 '09	Q3 '09	Q4 '09
Net Interest Inc	1079	1721	2439	3520	790	799	876	1055
Non Interest Inc	431	634	1236	1552	408	351	381	411
Operating Costs	770	1212	1851	2762	668	661	734	699
Loan Loss Provision	59	67	197	299	87	73	47	92
Net Income	488	740	1126	1354	255	269	285	546
EPS (Ksh)	3.38	4.24	6.28	7.67	1.56	1.65	1.75	3.35
DPS (Ksh)	1.00	1.40	1.40	1.55	-	-	-	0.20
Issued Shares Mn	140	163	163	163	163	163	163	163
Bk Value per Share	20.52	33.60	43.06	49.61	44.69	44.94	46.69	49.61

**Asset Quality**

Net NPL (% CHG)	128.2	105.6	23.3
NPL as % total loans	1.4	1.1	6.8

**Balance Sheet-Kshmn**

Loans & Advances	13833	23182	34063	42452	37153	37419	38574	42452
Net NPLs	30	68	112	255	157	66	131	255
Deposit Liabilities	16952	29347	45853	54955	49615	53006	50595	54955
Asset Base	21737	35998	56146	66679	60676	64047	61975	66679
Shareholders' Funds	2868	5479	7020	8088	7287	7326	7612	8088
Liquidity %	35.0	33.4	41.3	33.6	42.5	41.9	32.7	33.6
Capital Adequacy %	19.7	19.1	19.8	19.0	18.5	17.5	17.9	19.0

**Financial Position as at 31st December 2009**

	Ksh million	Dec-08	Dec-09
Net Loans & Advances		<u>34,063</u>	<u>42,452</u>
Government Securities		10,161	9,227
Placements with Banks		5,455	7,392
Cash and Bank Balances		3,889	4,571
Intangible Assets		253	309
Other Assets		2,325	2,729
<b>Total Assets</b>		<b>56,146</b>	<b>66,679</b>
Deposit Liabilities		<u>45,853</u>	<u>54,955</u>
Borrowed Funds		1,958	2,293
Other Liabilities		1,314	1,343
<b>Total Liabilities</b>		<b>49,125</b>	<b>58,591</b>
Minority Interests		1,115	1,090
<b>Total Equity</b>		<b>7,020</b>	<b>8,088</b>

## GLOSSARY OF TERMS USED IN DOCUMENT

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**Deposits/Deposit Liabilities** – Refers to both customer deposits and deposits due to other banking institutions

**Bad Debts Charge** – Also known as loan loss provision in the income statement

**Government Securities** – Treasury bills and bonds (both domestic and foreign)

**Core Capital Ratio** – Tier 1 capital as a percentage of deposit liabilities

**Capital Adequacy Ratio** – (Tier 1 + Tier 2 capital) as a percentage of total risk weighted assets

**Interest Spread** – Difference between interest margin and net interest margin

**NFI** – Non Funded Income or Non Interest Income (comprising commissions, forex income & others)

**NPL** – Net Non Performing Loans (adjusted for interest suspended and loan loss provisions)

**ROE** – Return on Equity (annualized only where interim figures are available)

**ROA** – Return on Assets (annualized only where interim figures are available)

**PBV** – Refers to Price-to-Book Value (Formula: Market Capitalization / Shareholders Funds)

**Inflation Adj Returns** – Real returns adjusted to reflect the country’s overall average annual inflation

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