Q3 2020 Kenya Banks' Earnings Update – Diamond Trust Bank Ltd (DTB Group)

- DTB reported KES.4.0Bn in **Profit After Tax** Q3 2020, a 28.4% decline compared to KES.2.6Bn Q3 2019 largely attributable to declines in interest income and an increase in operating expenses.
- **Earnings Per Share** (EPS) declined to KES.14.40 from KES.20.10 over the same period in 2019.
- Despite a 2.2% decline in **holdings of government securities** to KES.95.4Bn (Q3 2019 – KES.97.4Bn), investment in other securities grew 28.9% to KES.38.7Bn (Q3 2019 – KES.30.0Bn) leading to a 3.0% increase in the **asset book**.
- **Loans and advances** grew by a modest 7.1% to KES.205.6Bn as the bank took up a conservative lending approach to manage credit risk.
- **Customer deposits** increased 1.8% to KES.288.2Bn compared to KES.283.1Bn Q3 2019.
- **Total Interest Income** declined 3.4% as a result of 3.3% fall in interest income from loans and advances to KES.14.3Bn along with 1.1% decrease in interest income from government securities to KES.9.2Bn.
- **Interest expense** went down by 8.9% to KES.9.8Bn compared to KES.10.7Bn Q3 2019, attributable to 8.3% reduction in interest costs on customer deposits and a 12.3% dip in other interest expenses.
- **Non-Funded Income (NFI)** surged 15.3% to KES.5.0Bn from KES.4.4Bn on the back of a 37.3% rise in foreign exchange trading income and 17.7% increase in fees and commissions on loans and advances.
- **Loan loss provisions** up 232.1% to KES.2.9Bn compared to KES.870Mn Q3 2019, resulting in a 30.4% escalation in total operating expenses.
- **Asset Quality - Gross Non-Performing Loans** (NPLs) increased marginally by 0.7% to KES.18.0Bn from KES.17.9Bn due to increased customer defaults associated with the pandemic.

FY2020 Outlook

- We expect the bank to record an overall decline in profitability FY2020 mainly due to the significant increase in loan loss provision expense.
- We expect the bank to continue focusing on NFI growth as well as increasing its holdings in government securities to drive business growth to full potential.
- The lender is likely to increase its loan loss provisions due to the increased risk of default by borrowers, resulting to increased operating costs. This, coupled with declining interest income is likely to result in a decline in profit after tax FY2020.
- We anticipate the bank to engage in selective lending to prevent further deterioration of the asset quality.
- We further anticipate the bank to implement additional cost management strategies to contain operating expenses.
- The bank paid out KES.2.7 as dividend FY2019 but there is a high likelihood that it will cut dividend payments FY2020.