

Valuation Summary

- DTB is currently trading at a P/B of 1.0x and a P/E of 5.4x, vs an industry average of 1.3x and 6.2x, respectively.

Key highlights during H1'2016

- Launched of digital 'DTB 24/7' branch concept that aims at providing a round- the- clock banking services to the customers
- DTB bank plans to launch Huduma Card, which will support payments for all services within Huduma Centres and consequently to be used as a government payment platform for all rendered services such as payment of tender supplies

Income Statement

- Core earnings per share grew by 11.3% to Kshs 13.6 from Kshs 12.2 in H1'2015, against our projection of Kshs 12.8. The growth in EPS was driven by a 30.8% growth in total operating revenue to Kshs 12.1 bn despite a 49.3% increase in total operating expenses to Kshs 6.8 bn
- Total operating revenue grew by 30.8% to Kshs 12.1 bn from Kshs 9.2 bn in H1'2015 driven by net interest income growth of 39.3% to Kshs 9.6 bn from Kshs 6.9 bn in H1'2015, and a 6.0% growth Non-funded income to Kshs 2.5 bn, from Kshs 2.4 bn in H1'2015
- Non-funded income grew by 6.0% to Kshs 2.5 bn, from Kshs 2.4 bn in H1'2015, supported by a 14.2% growth in fees and commissions from loans. The current revenue mix stands at 79:21, Funded to Non-Funded Income
- Total operating expenses grew by 49.3% to Kshs 6.8 bn from Kshs 4.6 bn on account of a 249.6% rise in loan loss provision (LLP) to Kshs 2.2 bn from Kshs 0.6 bn in H1'2015 a 23.3% growth in other operating expenses to Kshs 1.9 bn from Kshs 1.6 bn in H1'2015. Excluding LLP, the operating expenses grew by 17.4% to Kshs 4.6 bn from Kshs 3.9 bn. The high growth in expenses led to an increase in cost to income ratio to 56.5% from 49.5%
- PAT growth grew by 11.3% to Kshs 3.6 bn from Kshs 3.3 bn in H1'2015 against our projection of 4.9% growth

Balance Sheet

- Total assets grew by 29.0% to Kshs 301.9 bn from Kshs 234.1 bn in H1'2015 supported by a 124.5% growth in allocation to government securities which stood at Kshs 78.6 bn from Kshs 34.9 bn to take advantage of the rising interest rate environment, and a 10.2% growth in loan and advances to Kshs 178.5 bn from Kshs 162.0 bn in H1'2015
- Customer deposits grew by 24.7% to Kshs 216.1 bn from Kshs 173.3 bn in H1'2015 benefiting from the flight to safety by depositors from smaller banks after closure of Chase Bank in Q2'2016, in line with than our estimates of a 24.8% growth. Loans to deposit ratio declined to 82.6% from 93.5% in H1'2015
- Total liabilities increased by 30.8% to Kshs 261.0 bn from Kshs 199.6 bn in H1'2015 with borrowings increasing by 23.9% to Kshs 24.8 bn from Kshs 20.0 bn in H1'2015
- Gross NPL ratio stood at 4.0% from 1.4% in H1'2015, with the bank generally increasing provisions across its loan book
- Yield from interest earning assets increased to 7.1% from 6.5% in H1'2015, while cost of funds increased to 3.2% from 2.8% in H1'2015 supported by the high lending rates and high cost of deposits, respectively. Net interest margin improved to 9.1% from 8.8% in H1'2015
- DTB is currently sufficiently capitalized with core capital to risk weighted assets ratio at 17.1%, 9.1% above the statutory requirement
- DTB currently operates at a RoA and RoE of 2.6% and 20.7%, down from 2.9% and 22.2% in H1'2015.

Key Take outs:

- a) The results were in line with our expectations, with DTB delivering good growth in earnings
- b) Loan loss provision, synonymous with the industry trend, continues to cut back growth for DTB. However, we expect stabilization in provisions going forward
- c) Regional business and alternative channels remain the strong areas for growth for DTB and we expect the bank to leverage on these two areas for future growth.

Below is a summary of the key line items in the balance sheet and income statement

Figures in Kshs billions unless otherwise stated

Balance Sheet Items	FY'2015	H1'2015	H1'2016	y/y change	H1'2016e	Projected %y/y change	Variance in Growth Actual vs. Expected
Government Securities	47.1	34.9	78.6	125.4%	44.5	27.6%	97.7%
Net Loans and Advances	177.5	162.0	178.5	10.2%	188.0	16.0%	-5.8%
Total Assets	271.6	234.1	301.9	29.0%	295.2	26.1%	2.9%
Customer Deposits	194.1	173.3	216.1	24.7%	216.3	24.8%	-0.1%
Total Liabilities	233.3	199.6	261.0	30.8%	252.5	26.5%	4.3%
Shareholders' Funds	34.1	31.0	36.3	17.2%	38.6	24.4%	-7.2%

Income Statement	FY'2015	H1'2015	H1'2016	y/y change	H1'2016e	Projected %y/y change	Variance in Growth Actual vs. Expected
Net Interest Income	15.2	6.9	9.6	39.3%	9.6	39.9%	-0.6%
Net non-Interest Income	4.7	2.4	2.5	6.0%	3.8	58.5%	-52.6%
Total Operating income	19.9	9.2	12.1	0.45	13.4	44.7%	0.6%
Loan Loss provision	2.2	0.6	2.2	249.6%	1.5	134.7%	114.9%
Total Operating expenses	10.3	4.6	6.8	49.3%	8.5	85.8%	-36.5%
Profit before tax	9.6	4.7	5.3	12.6%	4.9	4.5%	8.2%
Profit after tax	6.6	3.3	3.6	11.3%	3.4	4.9%	6.3%

Balance Sheet Ratios	H1'2015	H1'2016
Loan to Deposit Ratio	93.5%	82.6%
Return on average equity	22.2%	20.7%
Return on average assets	2.9%	2.6%
Cost of funding	2.8%	3.2%
Yield from interest-earning assets	6.5%	7.1%
Net Interest Margin	6.7%	6.8%
Cost to Income Ratio	49.5%	56.5%