

**CREDIT RATING ANNOUNCEMENT****GCR affirms Diamond Trust Bank Kenya Limited's rating of A+(KE); Outlook Stable.**

Johannesburg, 31 May 2018 -- Global Credit Ratings ("GCR") has affirmed Diamond Trust Bank Kenya Limited's long-term and short-term national scale ratings of A+(KE) and A1(KE) respectively; with the outlook accorded as Stable. The ratings are valid until May 2019.

**SUMMARY RATINGS RATIONALE**

Global Credit Ratings has accorded the above credit ratings to Diamond Trust Bank Kenya Limited ("DTB" or "the group") based on the following key criteria:

The ratings accorded to DTB reflect its long history, its growing franchise in a challenging operating environment, and robust regional footprint (representing operations in Kenya, Uganda, Tanzania, and Burundi). GCR has also taken into consideration the acquisition of Habib Bank Limited ("HBL") effective September 2017. Furthermore, the ratings are supported by strong capitalisation and improving liquidity. Offsetting these key rating strengths is weakening asset quality and a decline in profitability.

The group's capitalisation metrics improved, with total regulatory capital growing by 12.2% during FY17 (FY16: 11.0%), to KES54.6bn supported by retained earnings and the acquisition of HBL Kenya. The group's total capital adequacy ratio ("CAR") increased to 23.3% at FY17 (FY16: 20.2%), well above the prevailing regulatory minimum of 14.5% at FY17 and the highest CAR amongst the Top 11 banks in Kenya. DTB's capitalisation provides an adequate buffer against unexpected losses in the short- and medium-term.

The group saw an improvement in its liquidity position at FY17, with the ratio of liquid assets/short-term funding at 52.3% (FY16: 48.9%) and the net advances/total funding ratio decreasing to 64.5% (FY16: 68.4%). The group manages liquidity risk through internal models and calculations carried out by the Asset and Liability Committee. DTB ensures that there is sufficient liquidity to meet maturing deposit obligations and withdrawals and absorb any short-term or medium-term unplanned cash withdrawals resulting from financial and/or economic stress.

Total liability funding grew by 9.4% to KES303.9bn at FY17 (FY16: 21.5%). The group is predominantly funded by customer deposits, which contributed a higher 87.6% (FY16: 85.7%) of the funding base at FY17. Borrowings declined to 5.7% of the funding base at FY17 from 7.9% at FY16.

The group's asset quality metrics weakened in FY17 with gross non-performing loans ("NPLs") increasing significantly by 115.6% to KES13.1bn at FY17 (FY16: 41.6% increase), which was mainly attributed to economic challenges in East African economies, resulting in a cash crunch, reduced investments and reclassification of stressed loans which went into default status during the review period. Consequently, the gross NPL ratio increased to 6.3% at FY17 from 3.1% at FY16 but remained below the market average of 10.8%. The group's collateral against its NPL book is considered adequate with a specific provision coverage of 63.1% of NPLs at FY17 (FY16: 82.1%).

The group's profitability declined with net profit before tax decreasing by 8.2% to KES10.1bn (FY16: KES11.0bn) as a result of a decline in interest income and an 8.5% decrease in trading income, while operating expenditure grew by 14.8%. Consequently, the group's ROaA and ROaE decreased to 2.0% and 15.5% at FY17 (FY16: 2.6% and 20.6%) respectively.

The group's ratings could be positively impacted by a significant improvement in asset quality, and profitability metrics coupled by an improvement in the operating environment. The ratings could be negatively affected by a sustained reduction in asset quality, further decline in earnings power and erosion of the bank's capital base.

### NATIONAL SCALE RATINGS HISTORY

Initial rating (September 2011)

Long-term: A+(KE); Short-term: A1(KE)

Outlook: Stable

Last rating (May 2017)

Long-term: A+(KE); Short-term: A1(KE)

Outlook: Stable

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### APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions updated March 2017

Kenya Banks Statistical Bulletin (December 2017)

DTB rating reports (2011-17)

### RATING LIMITATIONS AND DISCLAIMERS

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### SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

Diamond Trust Bank Kenya Limited participated in the rating process via face-to-face management meetings, telephone conversations and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Diamond Trust Bank Kenya Limited with no contestation of the ratings.

Information received from Diamond Trust Bank Kenya Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2017
- four years of comparative numbers;
- Unaudited interim results at 31 March 2018;
- Budgeted financial statements for 2018;
- Corporate governance and enterprise risk framework

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

### GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Credit Rating Agency	An entity that provides credit rating services.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.



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Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.

For a detailed glossary of terms please click [here](#)

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