

**Key highlights during the quarter**

- I&M Holdings announced plans to acquire 65.0% stake of Burbidge Capital for an undisclosed price. This move by I&M Holdings is set to diversify their revenue from the core banking business to non-funded income, which currently stands at 25% vs. an industry average of 26.3%
- CDC PLC, the UK's development finance institution acquired a 10.7% stake in I&M Holdings as DEG and Proparco exited their combined stake of 6.3% and 4.4%, respectively
- I&M Bank Ltd and MobiKash partnered to launch I&M Karibu brand in March 2016, a deal that saw the bank offer agency banking services through MobiKash agent outlets to widen its coverage market

**Income Statement:**

- Profit after tax grew by 10.3% y/y to Kshs 1.7 bn from Kshs 1.6 bn in Q1'2015 driven by a 12.5% growth in total operating revenue, which outpaced a 11.3% growth in operating expenses
- Operating revenue grew 12.5% to Kshs 3.9 bn from Kshs 3.4 bn in Q1'2015, which was supported by a 14.9% growth in net interest income to Kshs 2.9 bn from Kshs 2.6 bn in Q1'2015. Interest income grew 14.5% to Kshs 5.1 bn from Kshs 4.5 bn marginally faster than interest expense growth of 14.0% to Kshs 2.2 bn from Kshs 1.9 bn in Q1 2015 The growth in interest income was driven by an 11.3% growth in the company loan book
- Non-funded income grew by 5.9% to Kshs 1.0 bn from Kshs 0.9 bn in Q1'2015 supported by: (i) a 16.9% growth in forex trading income to Kshs 348.5 mn from Kshs 298.2 mn in 2015 and (ii) a 2.9% growth in fees and commissions to Kshs 513.8 mn from Kshs 499.5 mn. This resulted in a funded income to non-funded income revenue mix of 75:25
- Operating expenses grew by 11.3% to Kshs 1.4 bn from Kshs 1.3 bn on account of increased loan loss provision that grew 52.4% to Kshs 219.9 mn from Kshs 144.3 mn in Q1'2015 as well as an 8.3% growth in other operating expenses to Kshs 402.9mn from Kshs 372.9 mn in Q1'2015. The slower growth in expense, relative to operating income, led to a decrease in cost to income ratio to 36.0% from 36.4% in Q1'2015

**Balance Sheet:**

- The bank's balance sheet recorded a steady growth of 11.4% with total assets growing to Kshs 175.3 bn from Kshs 157.3 bn supported by an 11.3% loan book growth to Kshs 117.4 bn from Kshs 105.5 bn in Q1'2015. Loans growth was outpaced by customer deposits growth of 15.7% to Kshs 122.1bn from Kshs 105.5 bn in Q1'2015, leading to a decrease in LDR to 96.1% from 100% in Q1'2015 below the industrial average of 82.5%
- The yield from the bank's interest earning assets in Q1'2016 stood at 3.3%, while the cost of funds came in at 1.5%, resulting in a net interest margin of 1.8%, 10 bps higher from the 1.7% recorded in Q1'2015
- The bank's non-performing loans increased by 138.5% during the period to Kshs 5.8 bn from Kshs 2.4 bn in 2015 leading to an increase in NPLs to Loan ratio to 5.5% from 2.6% in Q1'2015.
- The bank's return on average equity stood at 7.2% from 7.1% in Q1'2015, while the return on average assets came in at 1.1% from 1.0% in Q1'2015
- I&M bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio at 18.7%, 4.2% above the statutory requirement

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	FY 2015	Q1'2015	Q1'2016	y/y change
Net Loans and Advances	102.2	105.5	117.4	11.3%
Government Securities AFS	16.0	16	17	6.2%
Government Securities HTM	15.3	19.3	19.5	0.8%
<b>Total Assets</b>	<b>147.8</b>	<b>157.3</b>	<b>175.3</b>	<b>11.4%</b>
Customer Deposits	103.7	105.5	122.1	15.7%
Borrowings	12.3	15	14.8	-1.2%
<b>Total Liabilities</b>	<b>121.7</b>	<b>134.6</b>	<b>148</b>	<b>10.0%</b>
Shareholders' funds	26.2	22	26.4	20.1%
<b>Total Liabilities and Shareholders' funds</b>	<b>147.8</b>	<b>157.3</b>	<b>175.3</b>	<b>11.4%</b>

Income Statement	FY 2015	Q1'2015	Q1'2016	y/y change
Interest Income	18.0	4.5	5.1	14.50%
Interest Expense	7.9	1.9	2.2	14.00%
<b>Net interest income</b>	<b>10.1</b>	<b>2.6</b>	<b>2.9</b>	<b>14.90%</b>
Non-Interest income	3.1	0.9	1	5.90%
<b>Total Operating income</b>	<b>13.2</b>	<b>3.5</b>	<b>3.9</b>	<b>12.50%</b>
Loan loss provision	0.6	0.1	0.2	52.40%
<b>Total Operating expenses</b>	<b>4.8</b>	<b>1.3</b>	<b>1.4</b>	<b>11.30%</b>
Profit after tax	5.8	1.6	1.7	10.30%

Ratios	Q1'2015	Q1'2016
Loan to Deposit Ratio	100.0%	96.1%
Return on average equity	7.1%	7.2%
Return on average assets	1.0%	1.1%
Yield on interest-earning assets	3.1%	3.3%
Cost of funding	1.4%	1.5%
Cost to Income	36.4%	36.0%

Capital Adequacy Ratios	Q1'15	Q1'16
Core Capital/Total Liabilities	21.14%	21.98%
Minimum Statutory ratio	8.00%	8.00%
<b>Excess</b>	<b>13.14%</b>	<b>13.98%</b>
Core Capital/Total Risk Weighted Assets	15.54%	16.80%
Minimum Statutory ratio	10.50%	10.50%
<b>Excess</b>	<b>5.04%</b>	<b>6.30%</b>
Total Capital/Total Risk Weighted Assets	18.32%	18.73%
Minimum Statutory ratio	14.50%	14.50%
<b>Excess</b>	<b>3.82%</b>	<b>4.23%</b>
Liquidity Ratio	31.81%	35.10%
Minimum Statutory ratio	20.00%	20.00%
<b>Excess</b>	<b>11.81%</b>	<b>15.10%</b>