

Q3 2020 Kenya Banks' Earnings Update – I&M Holdings PLC

- I&M reported KES.4.6Bn in **Profit After Tax** Q3 2020, a 30.8% decline compared to KES.6.7Bn Q3 2019 largely attributable to an overall upsurge in operating expenses.
- **Earnings Per Share** (EPS) declined to KES.5.27 from KES.7.62 over the same period in 2019.
- Despite a 59.2% decrease in loans and advances to banks (KES.21.2Bn), **asset book** increased 6.3% to KES.344.7Bn mainly supported by 6.7% growth in the **loans and advances** to customers, KES.185.7Bn.
- **Customer deposits** increased 7.0% to KES.252.8Bn compared to KES.236.2Bn Q3 2019.
- **Net interest income** declined marginally by 1.7% to KES.10.5Bn with a 3.0% increase in **interest income** (KES.19.7Bn) compared to an 8.9% increase in **interest expense** (KES.9.3Bn).
- **Non-Funded Income (NFI)** down 8.3% to KES.2.8Bn (Q3 2019 – KES.3.1Bn) as a result of a 5.9% dip in fees and commission income (KES.3.0Bn).
- **Total Operating expenses** up 8.8% to KES.7.3Bn compared to KES.6.7Bn Q3 2019.
- **Cost to Income Ratio** (CIR) deteriorated to 50.9% from 43.6% owing to an increase in operating expenses.

FY2020 Outlook

- The corona virus pandemic poses significant risks to the banking sector operating environment which is expected to have a negative impact on I&M's financial performance.
- We expect NFI to be the main area of business growth for the lender thus compensating for the slow growth in interest income.
- With the heightened risk in private sector lending, the bank is likely to increase its holdings in Government securities.
- Like most banks, I&M bank will be concerned on how to manage credit risks with increased caution on lending especially to SMEs and retail clients.
- We expect the bank's asset quality to deteriorate due to increased credit defaults as households and corporates become stressed owing to COVID-19 pandemic related pressure on the economy.
- Asset quality deterioration also means an increase in impairment costs and thus total operating expenses which will erode the bank's FY2020 profitability.