

Below is a summary of I&M Group's FY'2024 performance:

Balance Sheet Items	FY'2023	FY'2024	y/y change
Government Securities	78.1	102.3	31.0%
Net Loans and Advances	311.3	287.1	(7.8%)
Total Assets	579.7	581.3	0.3%
Customer Deposits	416.7	412.2	(1.1%)
Deposits/Branch	5.0	4.2	(15.4%)
Total Liabilities	484.0	479.6	(0.9%)
Shareholders' Funds	88.2	94.5	7.1%

Balance Sheet Ratios	FY'2023	FY'2024f	% y/y change
Loan to Deposit Ratio	74.7%	69.6%	(5.1%)
Government Securities to Deposit Ratio	18.7%	24.8%	6.1%
Return on average equity	15.9%	14.9%	(1.0%)
Return on average assets	2.6%	2.4%	(0.2%)

Income Statement (Kshs Bn)	FY'2023	FY'2024f	y/y change
Net Interest Income	28.6	37.6	31.2%
Net non-Interest Income	14.1	13.7	(2.8%)
Total Operating income	42.7	51.2	20.0%
Loan Loss provision	(6.9)	(7.8)	13.8%
Total Operating expenses	(27.2)	(31.3)	15.2%
Profit before tax	16.7	20.8	24.6%
Profit after tax	13.3	16.7	24.8%
Core EPS	7.6	9.3	21.9%
Dividend Per Share	2.55	3.0	17.6%
Dividend Payout Ratio	31.6%	29.8%	(1.8%)
Dividend Yield	11.6%	9.3%	(2.3%)

Income Statement Ratios	FY'2023	FY'2024f	% pointschange
Yield from interest-earning assets	13.0%	15.4%	2.4%
Cost of funding	5.4%	6.7%	1.3%
Net Interest Margin	7.4%	8.5%	1.1%
Net Interest Income as % of operating income	67.1%	73.3%	6.3%
Non-Funded Income as a % of operating income	32.9%	26.7%	(6.3%)
Cost to Income Ratio	63.7%	61.2%	(2.6%)
Cost to Income Ratio without LLP	47.6%	45.9%	(1.7%)
Cost to Assets	3.5%	4.0%	0.5%

Capital Adequacy Ratios	FY'2023	FY'2024f	% points change
Core Capital/Total Liabilities	19.2%	20.7%	1.5%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	11.2%	12.7%	1.5%
Core Capital/Total Risk Weighted Assets	14.5%	16.8%	2.3%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	4.0%	6.3%	2.3%
Total Capital/Total Risk Weighted Assets	18.9%	20.2%	1.3%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	4.4%	5.7%	1.3%
Liquidity Ratio	44.7%	51.6%	6.9%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	24.7%	31.6%	6.9%

Income Statement

- Core earnings per share grew by 21.9% to Kshs 9.3, from Kshs 7.6 in FY'2023, driven by the 20.0% increase in total operating income to Kshs 51.2 bn, from Kshs 42.7 bn in FY'2023, which outpaced the 15.2% increase in total operating expenses to Kshs 31.3 bn from Kshs 27.2 bn in FY'2023,
- The 20.0% increase in total operating income was mainly driven by a 31.2% growth in Net Interest Income (NII) to Kshs 37.6 bn, from Kshs 28.6 bn in FY'2023. The performance was however weighed down by a 2.8% decrease in Non- Interest Income (NFI) to Kshs 13.7 bn from Kshs 14.1 bn in FY'2023,
- Interest income grew by 35.0% to Kshs 68.1 bn from Kshs 50.5 bn in FY'2023, mainly driven by a 63.3% increase in interest income from deposits and placements to Kshs 3.2 bn from Kshs 2.0 bn in FY'2023 coupled with a 38.6% increase in interest income from government securities to Kshs 16.6 bn from Kshs 12.0 bn in FY'2023 and 32.3% increase in interest income from loans and advances to Kshs 48.3 bn from Kshs 36.5 bn in FY'2023. As such, the Yield on Interest-Earning Assets (YIEA) increased by 2.4% points to 15.4% from 13.0% recorded in FY'2023, attributable to the faster 35.0% growth in trailing interest income to Kshs 68.1 bn, from Kshs 50.5 bn in FY'2023, compared to a slower 14.2% Increase in average interest earning assets to Kshs 443.4 bn, from Kshs 388.4 bn in FY'2023,
- Interest expenses rose by 39.9% to Kshs 30.5 bn from Kshs 21.8 bn in FY'2023, mainly driven by a 49.1% increase in interest expense from deposits and placements to Kshs 3.5 bn from Kshs 2.4 bn in FY'2023 coupled with a 44.0% increase in interest expense from customer deposits to Kshs 25.4 bn from Kshs 17.6 bn in FY'2023. Consequently, Cost of funds (COF) increased by 1.3% points to 6.7% from 5.4% recorded in FY'2023, owing to a faster 39.9% increase in Trailing interest expense to Kshs 30.5 bn from Kshs 21.8 bn recorded in FY'2023, compared to a 12.4% increase in average interest-bearing liabilities to Kshs 454.4 bn from Kshs 404.4 bn in FY'2023. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) increased by 1.1% points to 8.5% from 7.4% in FY'2023, attributable to a faster 31.2% increase in trailing net interest income to Kshs 37.6 bn from Kshs 28.6 bn recorded in FY'2023, which outpaced the 14.2% growth in average interest earning assets,

- Non-Funded Income (NFI) decreased by 2.8% to Kshs 13.7 bn from Kshs 14.1 bn in FY'2023, mainly driven by a 34.6% decrease in forex trading income to Kshs 3.6 bn, from Kshs 5.5 bn in FY'2023, highlighting the bank's decreased foreign exchange margins. Total fees and commissions also decreased by 5.0% to Kshs 2.6 bn from Kshs 2.7 bn in FY'2023. The revenue mix shifted to 73:27, from 67:33 for the funded to Non-funded income owing to the faster 31.2% growth in Funded Income compared to a 2.8% decrease in the Non-Funded Income,
- Total operating expense increased by 15.2% to Kshs 31.3 bn in FY'2024, from Kshs 27.2 bn in FY'2023, mainly attributable to 21.3% increase in staff cost to Kshs 9.1 bn, from Kshs 7.5 bn in FY'2023, coupled with the 12.4% increase in other operating expenses to 14.4 bn from 12.9 in FY 2023. Notably, loan loss provisions expense increased by 13.8% to Kshs 7.8 bn, from 6.9 bn in FY'2023,
- Cost to Income Ratio (CIR) decreased by 2.6% points to 61.2% from 63.7% in FY'2023, owing to the slower 15.2% increase in total operating expenses, which was outpaced by the 20.0% increase in total operating income. Notably, CIR without LLP decreased by 1.7% points to 45.9%, from 47.6% recorded in FY'2023,
- Profit before tax increased by 24.6% to Kshs 20.8 bn, from Kshs 16.7 bn recorded in FY'2023, with effective tax rate increasing by 0.2% to remain relatively unchanged from the 28.6% recorded in FY'2023, leading to a 24.8% increase in profit after tax to Kshs 16.7 bn in FY'2024, from Kshs 13.3 bn in FY'2023.
- The Board of Directors recommended a final dividend of Kshs 1.7 per share, in addition to an interim dividend of Kshs 1.3 paid during the year, leading to a total dividend of Kshs 3.0 per share in FY'2024, from a total dividend of 2.55 in FY'2023. The payout ratio and dividend yield came in at 29.8% and 9.3% respectively in FY'2024.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 0.3% to Kshs 581.3 bn, from Kshs 579.9 bn in FY'2023, mainly driven by a 31.0% increase in governments securities holdings to Kshs 102.3 bn, from 78.1 bn in FY'2023, however weighed down by a 7.8% decrease in net loans and advances to Kshs 287.1 bn, from Kshs 311.3 bn in FY'2023. Total liabilities declined by 0.9% to Kshs 479.6 bn from Kshs 484.0 bn in FY'2023, mainly driven by a 23.0% decline in borrowings to Kshs 14.1 bn, from Kshs 18.3 bn in FY'2023, coupled with the 20.5% decrease in placements to Kshs 21.0 bn from Kshs 26.5 bn in FY'2023 and a 1.1% decrease in customer deposits to Kshs 412.2 bn, from Kshs 416.7 bn in FY'2023. With 97 branches, compared to 83 branches in FY'2023, deposits per branch decreased by 15.4% to Kshs 4.2 bn, from Kshs 5.0 bn in FY'2023,
- The 1.1% decline in customer deposits, which was outpaced by the 7.8% decline in net loans led to a decrease in the loan to deposits ratio to 69.6%, from 74.7% in FY'2023,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 11.5% in FY'2024, from 10.7% in FY'2023, attributable to a 0.4% increase in Gross non-performing loans to Kshs 35.5 bn, from Kshs 35.4 bn in FY'2023, relative to the 6.6% decrease in gross loans to Kshs 309.2 bn, from Kshs 331.1 bn recorded in FY'2023,
- General Provisions (LLP) increased by 13.8% to Kshs 17.6 bn in FY'2024 from Kshs 15.5 bn in FY'2023. The NPL coverage increased to 62.3% in FY'2024, from 55.8% in FY'2023, attributable to the 13.8% increase in general provisions coupled with the 6.2% increase in interest in suspense to Kshs 4.5 bn from 4.2 bn in FY 2023 which outpaced by the 0.4% increase in Gross Non-performing Loans to Kshs 35.5 bn, from Kshs 35.4 bn in FY'2023.
- Shareholders' funds increased by 7.1% to Kshs 94.5 bn in FY'2024, from Kshs 88.2 bn in FY'2023, supported by a 28.1% increase in retained earnings to Kshs 11.7 bn, from Kshs 9.1 bn in FY'2023,

- I&M Group remains capitalized with a core capital to risk-weighted assets ratio of 16.8%, 6.3% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 20.2%, exceeding the statutory requirement of 14.5% by 5.7% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.4%, and a Return on Average Equity (ROaE) of 14.9%.

Key Take-Outs:

1. **Increased earnings** - Core earnings per share (EPS) grew by 21.9% to Kshs 9.3, from Kshs 7.6 in FY'2023, driven by the 20.0% increase in total operating income to Kshs 51.2 bn, from Kshs 42.7 bn in FY'2023, which outpaced the 15.2% increase in total operating expenses to Kshs 31.3 bn from Kshs 27.2 bn in FY'2023,
2. **Deteriorated asset quality** –The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 11.5% in FY'2024, from 10.7% in FY'2023, attributable to a 0.4% increase in Gross non-performing loans to Kshs 35.5 bn, from Kshs 35.4 bn in FY'2023, relative to the 6.6% decrease in gross loans to Kshs 309.2 bn, from Kshs 331.1 bn recorded in FY'2023,
3. **Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 0.3% to Kshs 581.3 bn, from Kshs 579.9 bn in FY'2023, mainly driven by a 31.0% increase in governments securities holdings to Kshs 102.3 bn, from 78.1 bn in FY'2023, however weighed down by a 7.8% decrease in net loans and advances to Kshs 287.1 bn, from Kshs 311.3 bn in FY'2023,
4. **Declaration of dividends** - The Board of Directors recommended a final dividend of Kshs 1.7 per share, in addition to an interim dividend of Kshs 1.3 paid during the year, leading to a total dividend of Kshs 3.0 per share in FY'2024, from a total dividend of 2.55 in FY'2023. The payout ratio and dividend yield came in at 29.8% and 8.7% respectively in FY'2024, and,
5. **Reduced lending**- Customer net loans and advances decreased by 7.8% to Kshs 287.1 bn in FY'2024, from Kshs 311.3 bn in FY'2023 attributed to increased credit risk with high NPLs in the industry, with the lender preferring to limit customer lending.

Going forward, the factors that would drive the bank's growth would be:

- **The iMara Strategy** - The Group has focused on growing customer deposits and loans through the iMara strategy. Part of the initiative includes opening more branches across the country to expand market reach. The initiative emphasizes a customer-centric approach, innovative product offerings and strategic partnerships to drive long-term value for stakeholders. By aligning with evolving financial trends and customer needs, iMara aims to solidify the bank's position as a leading financial institution in Kenya.
- **Digital Innovation** – The group introduced innovative solutions such as digital banking platforms and free transaction rates from the bank to M-Pesa. By investing in digital banking platforms and automations, the bank aims to streamline services, reduce operational costs, and improve financial inclusion. Mobile and internet banking will enable I&M to expand its customer base and remain competitive in Kenya's rapidly evolving banking sector. The free transaction rates to M-Pesa particularly attract the young customer base.

Valuation Summary

- We are of the view that I&M Group is a "sell" with a target price of Kshs 31.4 representing a downside of 5.4%, from the current price of Kshs 32.4 as of 28th March 2025, inclusive of a dividend yield of 9.3%



I&M Group – FY'2024
28th March, 2025

- I&M Group is currently trading at a P/TBV of 0.6x and a P/E of 3.2x vs an industry average of 0.7x and 3.7x respectively.