

I&M Defies Sector Trends with Strong Interest Income growth – EPS jumps 16.5% to Kes 2.71

In Q1 2026, I&M Group stood out as one of the few lenders to defy prevailing industry trends and post double-digit growth in interest income. The growth in funded income, coupled with only a marginal increase in interest expense despite stronger deposit mobilization, significantly supported earnings expansion during the quarter. As a result, profitability remained strong, with Profit Before Tax (PBT) rising by 9.9% y/y to KES 6.24Bn from KES 5.68Bn, while Profit After Tax (PAT) climbed 19.4% to KES 5.04Bn from KES 4.22Bn. Consequently, Earnings Per Share (EPS) increased by 20.1% y/y to KES 2.71 from KES 2.26, underscoring strong bottom-line growth and improved shareholder returns.

At the bourse, the counter has maintained a sustained upward rally, although it has underperformed the Nairobi All Share Index (NASI) across most timeframes, except for the 3-month comparison.

We maintain a HOLD stance for recent entrants, while recommending profit-taking for investors currently sitting on double-digit gains.

Recommendation:	HOLD
Bloomberg Ticker:	IMH KW
Share Stats	
Current Price	50.25
3-Month Av	49.78
6 Month Av	47.38
12 Month Av	41.35
52 Week High	51.50
52 Week Low	29.55
Issued shares (Bn)	1.74
Market Cap (KES Bn)	87.44
Market Cap (USD Mn)	0.67
P/E	1.93
PB	0.07
EPS	2.71

Income Statement

Total Income: I&M Group delivered a strong Q1 2026 earnings performance, with total operating income rising by 24.4% y/y to KES 16.14Bn from KES 12.97Bn in Q1 2025.

Net interest income (NII) increased by 31.0% y/y to KES 12.29Bn from KES 9.38Bn, underpinned by strong interest income growth and a relatively stable funding cost base. Interest income rose by 19.3% y/y to KES 18.47Bn from KES 15.48Bn, while interest expense increased marginally by just 1.2% to KES 6.17Bn from KES 6.10Bn.

The growth in **interest income** was largely driven by a sharp increase in returns from government securities which surged by 49.9% y/y to KES 6.69Bn from KES 4.46Bn, reflecting increased allocation to high-yield fixed income assets and continued appetite for government paper. Interest income from loans and advances also rose by 6.0% to KES 11.08Bn from KES 10.46Bn, supported by growth in the loan book.

On the funding side, the relatively contained rise in **interest expense** was supported by lower deposit costs which declined by 6.7% y/y to KES 4.81Bn from KES 5.15Bn, reflecting the easing interest rate environment. However, interest expense on placements rose sharply by 65.2% to KES 1.04Bn from KES 0.63Bn.

Non-funded income (NFI) grew by 7.1% y/y to KES 3.85Bn from KES 3.59Bn, reflecting continued resilience in transactional revenues, fees, and commissions.

Operating Expenses: Cost pressures remained elevated during the quarter, with total operating expenses increasing by 35.8% y/y to KES 9.90Bn from KES 7.29Bn, outpacing revenue growth. The increase was largely driven by a sharp 63.1% rise in loan loss provisions (LLP) to KES 2.61Bn from KES 1.60Bn, reflecting a more cautious provisioning stance amid prevailing macroeconomic uncertainties.

Periods	I&M Group	NASI
3mtd Price Δ	2.34%	-4.51%
6mtd Price Δ	9.84%	12.47%
YTD Δ	18.51%	11.58%
Y/Y Δ	47.79%	55.08%

NII	31.04%
Provisions	63.14%
Opex	35.77%
Opex Excl. LLPs	28.08%
PBT	8.84%
PAT	19.41%
Loans	9.96%
Govt. Securities	33.59%
Shareholders' Funds	23.46%

Balance Sheet

Total Assets: The balance sheet expanded significantly during the quarter, with total assets rising by 30.6% y/y to KES 742.51Bn from KES 568.41Bn in Q1 2025.

The growth was supported by strong expansion in both government securities holdings and the loan book. **Loans and advances** increased by 10.0% y/y to KES 322.92Bn from KES 293.66Bn, reflecting improved credit uptake amid easing lending rates and improving business activity.

Government securities rose sharply by 33.6% y/y to KES 203.58Bn from KES 152.39Bn, underscoring increased allocation toward relatively lower-risk fixed income assets amid elevated uncertainty and higher entry points on other securities.

Deposits: Customer deposits recorded robust growth of 25.8% y/y to KES 512.10Bn from KES 407.04Bn, highlighting strong deposit mobilization and continued customer confidence in the franchise. Borrowings increased by 37.1% y/y to KES 13.46Bn from KES 9.82Bn, indicating a higher reliance on external funding to support balance sheet expansion.

Consequently, total liabilities rose by 32.6% y/y to KES 611.92Bn from KES 461.46Bn.

Shareholders' funds Shareholders' funds increased strongly by 23.5% y/y to KES 123.30Bn from KES 99.87Bn, supported by retained earnings and sustained profitability growth.

<u>Interest Income</u>	<u>Q1 2025</u>	<u>Q1 2026</u>
Loans	10.46	11.08
Government Securities	4.46	6.69
Placements	0.54	0.55
Other Interest Income	0.02	0.14
Total	15.5	18.5

<u>Interest Expense</u>	<u>Q1 2025</u>	<u>Q1 2026</u>
Deposits	5.15	4.81
Placements	0.63	1.04
Other Expenses	0.32	0.32
Total	6.10	6.17

Key Ratios

- **Yield on interest-earning assets** declined to 13.38% from 14.80%, reflecting the easing interest rate environment and repricing of earning assets during the period.
- **Cost of funds** improved significantly to 4.48% from 6.85%, largely driven by lower deposit costs and improved funding efficiency.
- Consequently, **Net Interest Margin (NIM)** expanded by 48bps to 9.06% from 8.57%, highlighting stronger margin performance despite lower asset yields.
- Net interest income contribution to operating income moderated slightly to 76.95% from 78.04%, while non-funded income contribution improved to 23.05% from 21.96%, reflecting gradual diversification of the group's revenue streams.
- **Cost-to-income ratio (CIR)** deteriorated to 61.33% from 56.21%, mainly due to elevated provisioning costs and higher operating expenses during the quarter. Similarly, CIR excluding loan loss provisions rose to 45.16% from 43.87%, indicating underlying operational cost pressures.
- **Cost of risk** increased to 16.17% from 12.34%, reflecting a more cautious provisioning stance amid prevailing macroeconomic uncertainties despite improving asset quality metrics.
- **Asset quality** strengthened, with the NPL ratio declining to 9.99% from 10.92%, reflecting easing credit risk pressures and improved loan book performance.
- **Liquidity** improved significantly, with the loan-to-deposit ratio declining to 63.06% from 72.15%, driven by stronger growth in customer deposits relative to loans and advances.
- **Profitability** remained strong, with return on average equity (ROaE) improving to 17.54% from 16.39%, while return on average assets (ROaA) rose to 2.99% from 2.78%.

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Balance Sheet	Q1 2025	Q1 2026	%Δ Y-Y
Government Securities	152.39	203.58	33.59%
Loans and Advances	293.66	322.92	9.96%
Total Assets	568.41	742.51	30.63%
Customer Deposits	407.04	512.10	25.81%
Borrowing	9.82	13.46	37.10%
Total Liabilities	461.46	611.92	32.61%
Shareholder's Funds	99.87	123.30	23.46%

Income Statement	Q1 2025	Q1 2026	%Δ Y-Y
Interest Income	15.48	18.47	19.29%
Interest Expense	6.10	6.17	1.21%
NII	9.38	12.29	31.04%
NFI	3.59	3.85	7.14%
Total Income	12.97	16.14	24.43%
Loan Loss provision	(1.60)	(2.61)	63.14%
Staff Costs	(2.37)	(2.92)	23.15%
Total Operating expenses	(7.29)	(9.90)	35.77%
Opex excl Provision	(5.69)	(7.29)	28.08%
PBT	5.68	6.24	9.87%
PAT	4.22	5.04	19.41%
EPS	2.33	2.71	16.45%

Ratios	Q1 2025	Q1 2026	pp. Δ Y-Y
Yield from interest-earning assets	14.80%	13.38%	-1.41%
Cost of funds	6.85%	4.48%	-2.36%
Cost of risk	12.34%	16.17%	3.84%
Net Interest Margin	8.57%	9.06%	0.48%
Net Interest Income as % of operating income	78.04%	76.95%	-1.09%
Non-Funded Income as a % of operating income	21.96%	23.05%	1.09%
Cost to Income Ratio	56.21%	61.33%	5.12%
CIR without LLP	43.87%	45.16%	1.29%
Cost to Assets	1.00%	0.98%	-0.02%
NPL Ratio	10.92%	9.99%	-0.93%
Loan to Deposit Ratio	72.15%	63.06%	-9.09%
Return on average equity	16.39%	17.54%	1.16%
Return on average assets	2.78%	2.99%	0.20%

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Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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