FitchRatings

Banks
Universal Commercial Banks
Kenya

I&M Group Plc/I&M Bank LIMITED

Update

Key Rating Drivers

I&M Group Plc's (I&M Group) and I&M Bank LIMITED's (I&M Bank) Long-Term Issuer Default Ratings (IDRs) are driven by their standalone creditworthiness, as expressed by their Viability Ratings (VRs) of 'b'. The Negative Outlooks on both entities' IDRs mirror the Outlook on the sovereign rating. This reflects the concentration of their operations within Kenya and significant exposure to sovereign debt.

I&M Group's and I&M Bank's National Long-Term Ratings of 'A+(ken)' are two notches below those of their peers, KCB Group PLC and KCB Bank Kenya Limited, and NCBA Group PLC and NCBA Bank Kenya Plc, due to weaker domestic franchise, profitability and funding stability.

VRs Equalised with Group VR: The VRs of I&M Group, a non-operating bank holding company (BHC), and I&M Bank, its core operating subsidiary, are the same as the 'group VR' based on the consolidated assessment of I&M Group. I&M Bank represents the majority (end-1Q24: 72%) of I&M Group's consolidated assets. I&M Group's VR also reflects no double leverage at the BHC, and high capital and liquidity fungibility within the group.

Challenging Operating Conditions: Kenya's operating environment has been affected by high interest rates aimed at curbing inflation and the accumulation of public-sector arrears, which led to the banking sector's non-performing loans (NPLs) ratio rising to a high 16.1% at end-4M24. Large holdings of government debt securities (end-2023: 1.9x banking sector equity) add further pressure given the Negative Outlook on the sovereign rating.

Tier 1 Banking Group: I&M Group's business profile is underpinned by its established banking franchise in Kenya and growing regional businesses, which provide some competitive advantages and revenue diversification. I&M Bank is a tier 1 bank in Kenya, with a moderate domestic market franchise of around 6% of sector loans and deposits at end-2023.

High Exposure to the Sovereign: I&M Group's investments in Kenya's government securities represented the majority of its securities holdings and accounted for a high 130% of its Fitch Core Capital (FCC) at end-2023. Single-obligor and industry concentrations are also high, reflecting the size and nature of the domestic economy.

Weak Asset Quality: I&M Group's regulatory NPL ratio (end-1Q24: 10.8%) is slightly lower than that of larger peers, but we expect it to rise in 2024 due to increased borrowers' debt servicing costs in a high interest-rate environment. Coverage of NPLs by total loan loss allowances was only moderate at 58% at end-1Q24.

Strong Pre-Impairment Profitability: I&M Group's operating profit/risk-weighted assets (RWAs) ratio of 3.9% in 3M24 (annualised; 2023: 3%) remained below that of larger peers due to historically higher RWAs density (95% at end-2023; sector average: 75%). We expect impairment charges to remain high in 2024, but the group's pre-impairment profitability (8.3% of average loans in 3M24, annualised) should cushion higher credit costs.

Reasonable Capital Buffers: I&M Group's FCC ratio (end-1Q24: 16.6%; end-2023: 16%) has been supported by sound internal capital generation and the deflation of the FC component of RWAs in 1Q24. The regulatory core (end-1Q24: 15%) and total capital (18.3%) ratios are comfortably above their regulatory minimum requirements (10.5% and 14.5%, respectively).

Deposit-Funded: Customer deposits made up 87% of liabilities at end-1Q24 and are price- and confidence-sensitive. Liquidity is good, as evidenced by a reasonable loans/deposits ratio of 81% at end-1Q24.

Ratings

I&M Group Plc

Foreign Currency

Long-Term IDR	B
Short-Term IDR	B
Viability Rating	b
Government Support Rating	ns

National Ratings

National Long-Term Rating	A+(ken)
National Short-Term Rating	F1(ken)

I&M Bank LIMITED

Foreign Currency

Long-Term IDR	B
Short-Term IDR	B
Viability Rating	b
Government Support Rating	b-

National Ratings

National Long-Term Rating	A+(ken)
National Short-Term Rating	F1(ken)

Sovereign Risk (Kenya)

Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B
Country Ceiling	B

Outlooks

Long-Term Foreign-Currency IDRs	Negative
National Long-Term Ratings	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

Bank Rating Criteria (March 2024)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Publishes I&M Group Plc's 'B' IDR; Outlook Negative (December 2023)

Fitch Affirms Kenya at 'B'; Outlook Negative (February 2024)

Kenya's Fiscal Challenges Persist as External Risks Ease (June 2024)

Kenyan Banks' Strong Profitability to Cushion Moderate Asset-Quality Weakening (February 2024)

African Banks Resilient to Continued Challenging Operating Conditions (November 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A sovereign downgrade could result in a downgrade of the Long-Term IDRs and VRs of I&M Group and I&M Bank. Absent a sovereign downgrade, a downgrade could result from greater-than-expected asset quality pressure, as indicated by the impaired loans ratio rising above 20%, if this results in a marked weakening in profitability and low buffers over minimum capital requirements.

A rise in double leverage above 120% on a sustained basis or regulatory restrictions on I&M Bank channelling dividends or other cash flows to its BHC would put pressure on I&M Group's VR.

A downgrade of both entities' National Ratings would result from a weakening of their creditworthiness relative to that of other Kenyan issuers.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

The Outlooks on the Long-Term IDRs could be revised to Stable if the Outlook on Kenya's Long-Term IDRs is revised to Stable. An upgrade of the Long-Term IDRs and VRs would require a sovereign upgrade.

An upgrade of both entities' National Ratings would result from a strengthening of their creditworthiness relative to that of other Kenyan issuers.

Significant Changes from Last Review

Sovereign Remains on Negative Outlook

Fitch affirmed Kenya's Long-Term IDRs of 'B' with Negative Outlooks on 16 February 2024. The Negative Outlooks reflect the sovereign's large funding needs, ongoing risks to external finances, high domestic financing costs, expensive external commercial borrowing, and challenges in fiscal consolidation, despite the government's stronger commitment to narrow the budget deficit.

The ratings are supported by the authorities' fiscal consolidation plans and monetary tightening, anchored by an IMF programme, recent recovery in the macroeconomic environment and strong medium-term growth prospects. The ratings are constrained by weak governance, high interest payments, a narrow revenue base and high external debt.

Kenya has had funding support from official creditors, particularly the IMF and World Bank, and issued a USD1.5 billion Eurobond in February 2024 in order to buy back the majority of its USD2 billion Eurobond maturing on 24 June 2024. These developments contributed to the Kenyan shilling appreciating materially (by 22% since the beginning of the year) to KES128.7/USD as of 14 June 2024, which should help reduce inflation pressures.

The Kenyan banking sector has high exposure to the sovereign through government securities held for revenue and liquidity purposes, which equalled 1.9x the banking sector's equity at end-2023. This is the case for most banking sectors in sub-Saharan Africa. High sovereign exposure relative to capital leaves Kenyan banks' solvency sensitive to losses imposed on creditors in the event of a sovereign default.

Higher Interest Rates Benefitting NIMs

Inflation peaked at 9.2% in March 2023, and was persistently above the Central Bank of Kenya's (CBK) target band of 2.5%–7.5%, before starting to reduce in 2H23, reaching 5.1% in May 2024 due to monetary policy tightening and shilling exchange rate appreciation. The CBK maintained the central bank rate at 13% in June 2024.

High interest rates are positive for the banking sector's net interest margins as loans are predominantly extended at floating rates and reprice fairly quickly. However, higher interest rates have weighed on borrowers' debt-servicing capacity and accentuated loan quality risks, contributing to the increase in the banking sector's regulatory NPL ratio to 16.1% at end-4M24, which is consistent with our forecast. However, the banking sector's pre-impairment operating profit (estimated at 8.5% of average loans in 2023) is strong, providing a large buffer to absorb rising impairment charges and support capitalisation despite continued loan growth.

Pending Public Sector Bills

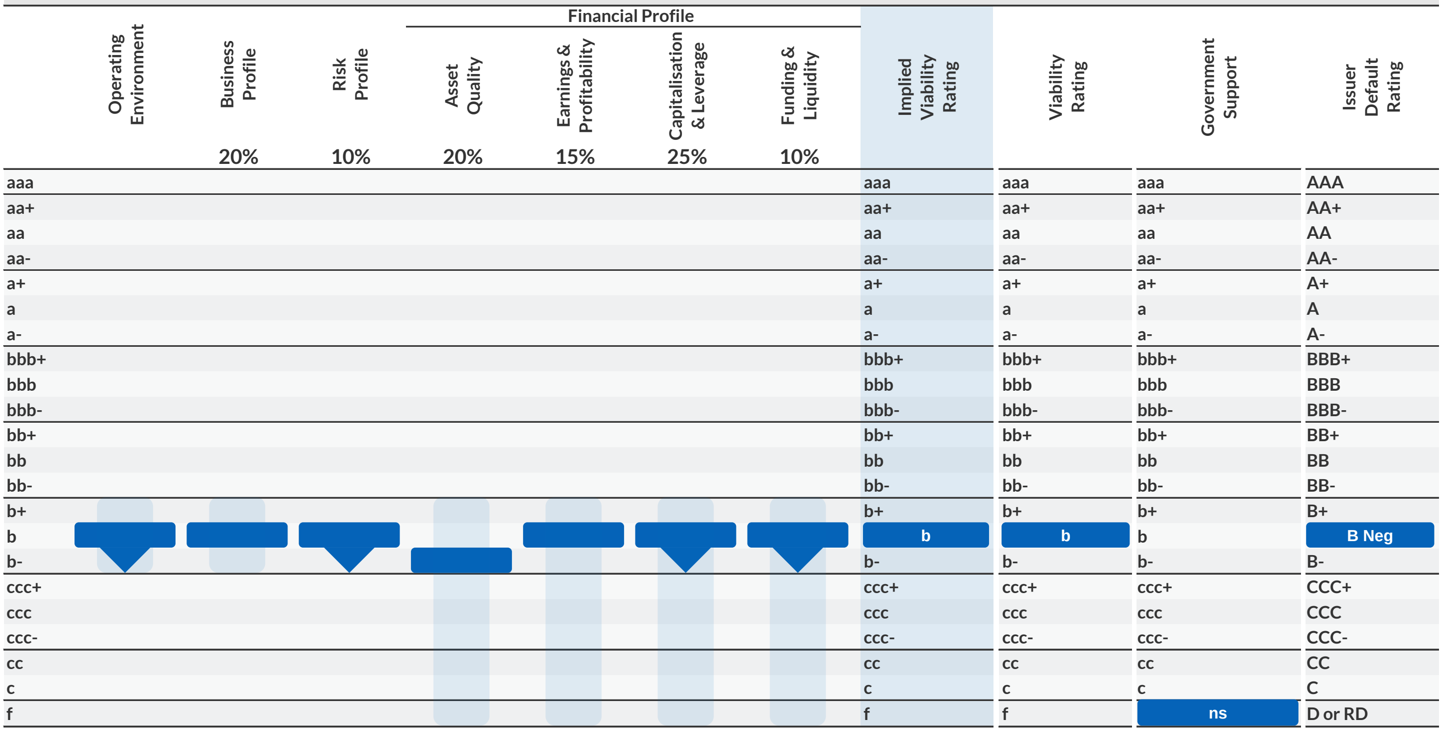
Pending public sector bills to contractors, service providers and public sector employees (almost USD4 billion equivalent at end-2023, or 3.3% of 2023 GDP) have weakened borrowers' repayment capacity in recent years, contributing to the banking sector's high NPL ratio. The government set up a Pending Bills Verification Committee in early 2024 to evaluate the pending bills, some of which date back to July 2005. However, the National Treasury has not allocated funds for repayment of the bills in the latest supplementary budget. Fitch expects the banking sector's NPL ratio will remain heightened until these repayments begin.

Ratings Navigator

I&M Group Plc

ESG Relevance:

Banks
Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Financials

Financial Statements

	31 Mar 24		31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
	1st quarter	1st quarter	12 months	12 months	12 months	12 months
	(USDm)	(KESm)	(KESm)	(KESm)	(KESm)	(KESm)
	Unaudited	Unaudited	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement						
Net interest and dividend income	64	8,387	28,631	22,945	20,877	15,600
Net fees and commissions	15	1,975	5,950	5,292	4,410	3,843
Other operating income	10	1,378	8,386	7,508	4,391	3,784
Total operating income	89	11,740	42,967	35,744	29,678	23,226
Operating costs	39	5,101	19,429	15,519	13,064	9,813
Pre-impairment operating profit	50	6,639	23,538	20,225	16,614	13,413
Loan and other impairment charges	12	1,537	6,857	5,223	4,188	2,458
Operating profit	39	5,102	16,681	15,002	12,426	10,955
Other non-operating items (net)	—	—	-1	-10	-13	-3
Tax	11	1,503	3,335	3,409	3,789	2,539
Net income	27	3,598	13,345	11,584	8,624	8,413
Other comprehensive income	-43	-5,641	4,064	-1,542	-1,121	596
Fitch comprehensive income	-16	-2,043	17,409	10,042	7,503	9,009
Summary balance sheet						
Assets						
Gross loans	2,361	311,129	325,205	256,028	224,489	200,354
– Of which impaired	256	33,709	35,711	26,515	22,637	23,596
Loan loss allowances	149	19,647	13,874	17,438	13,869	12,963
Net loans	2,212	291,482	311,331	238,590	210,620	187,391
Interbank	411	54,131	59,177	21,467	15,518	18,335
Derivatives	—	—	774	957	343	71
Other securities and earning assets	893	117,646	124,448	117,726	130,419	106,818
Total earning assets	3,515	463,259	495,729	378,740	356,899	312,615
Cash and due from banks	225	29,711	41,276	22,818	27,547	19,403
Other assets	303	39,993	42,715	35,250	30,735	26,081
Total assets	4,044	532,963	579,719	436,809	415,181	358,100
Liabilities						
Customer deposits	2,913	383,877	416,674	312,336	296,747	262,681
Interbank and other short-term funding	219	28,912	39,499	18,153	19,114	6,763
Other long-term funding	111	14,603	18,271	16,795	19,546	14,773
Trading liabilities and derivatives	—	—	—	—	—	36
Total funding and derivatives	3,243	427,392	474,445	347,284	335,407	284,253
Other liabilities	90	11,914	9,574	7,875	5,726	5,784
Total equity	711	93,657	95,700	81,650	74,048	68,063
Total liabilities and equity	4,044	532,963	579,719	436,809	415,181	358,100
Exchange rate		USD1 = KES131.8005	USD1 = KES156.4618	USD1 = KES123.373529	USD1 = KES113.141177	USD1 = KES109.171765

Source: Fitch Ratings, Fitch Solutions, I&M Group

Key Ratios

	31 Mar 24	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	3.9	3.0	3.5	3.3	3.5
Net interest income/average earning assets	7.0	6.5	6.2	6.3	5.3
Non-interest expense/gross revenue	44.2	46.5	44.2	44.9	41.1
Net income/average equity	15.3	15.5	15.4	12.2	13.3
Asset quality					
Impaired loans ratio	10.8	11.0	10.4	10.1	11.8
Growth in gross loans	-4.3	27.0	14.1	12.1	7.5
Loan loss allowances/impaired loans	58.3	38.9	65.8	61.3	54.9
Loan impairment charges/average gross loans	1.9	2.3	2.2	2.0	1.4
Capitalisation					
Fitch Core Capital ratio	16.6	16.0	17.2	18.0	19.7
Tangible common equity/tangible assets	16.6	15.4	17.4	16.5	17.7
Net impaired loans/Fitch Core Capital	16.1	24.8	12.1	13.0	17.0
Funding and liquidity					
Gross loans/customer deposits	81.1	78.1	82.0	75.7	76.3
Customer deposits/total non-equity funding	89.8	87.8	89.9	88.5	92.4

Source: Fitch Ratings, Fitch Solutions, I&M Group

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	b
Actual jurisdiction D-SIB GSR	b
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	B/ Negative
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Negative
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence   Moderate influence   Lower influence

I&M Group's GSR of 'no support' reflects Fitch's view that government support is unlikely to extend to a non-operating holding company given its low systemic importance and a liability structure that may be more politically acceptable to be bailed in.

I&M Bank's GSR of 'b-' is one notch below Kenya's D-SIB GSR of 'b' given the bank's only-moderate systemic importance (end-2023: around 6% market share of domestic deposits).

We believe that the Kenyan authorities have a strong propensity to support the banking system, reflecting our view that the authorities have an incentive to maintain financial stability in order to preserve Kenya's position as a regional financial hub.

The authorities' ability to support banks is constrained by Kenya's limited financial flexibility, as captured by its Long-Term IDR of 'B'. However, the ability to support banks is influenced positively by the banking system's small size (with total assets and private sector credit at end-2023 equivalent to 50% and 25% of 2023 GDP, respectively), a fragmented market structure, high foreign ownership and only-moderate foreign-currency external funding.

Environmental, Social and Governance Considerations

FitchRatings **I&M Group Plc**

Banks
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Credit-Relevant ESG Derivation

I&M Group Plc has 5 ESG potential rating drivers
- I&M Group Plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.