

Below is a summary of Absa Bank Kenya's Q1'2026 performance:

| Balance Sheet              | Q1'2025 (Kshs bn) | Q1'2026 (Kshs bn) | y/y change   |
|----------------------------|-------------------|-------------------|--------------|
| Government Securities      | 144.0             | 174.5             | 21.2%        |
| Net Loans and Advances     | 308.4             | 303.8             | (1.5%)       |
| <b>Total Assets</b>        | <b>520.2</b>      | <b>571.3</b>      | <b>9.8%</b>  |
| Customer Deposits          | 371.2             | 399.1             | 7.5%         |
| Deposit per Branch         | 4.9               | 4.5               | (8.2%)       |
| Total Liabilities          | 427.7             | 465.2             | 8.8%         |
| <b>Shareholder's Funds</b> | <b>92.5</b>       | <b>106.1</b>      | <b>14.6%</b> |

| Balance sheet ratios             | Q1'2026 | Q1'2025 | % points change |
|----------------------------------|---------|---------|-----------------|
| Loan to Deposit Ratio            | 83.1%   | 76.1%   | (7.0%)          |
| Govt Securities to Deposit ratio | 38.8%   | 43.7%   | 4.9%            |
| Return on average equity         | 25.2%   | 44.0%   | 18.8%           |
| Return on average assets         | 4.1%    | 8.0%    | 3.9%            |

| Income Statement              | Q1'2025 (Kshs bn) | Q1'2026 (Kshs bn) | y/y change     |
|-------------------------------|-------------------|-------------------|----------------|
| Net Interest Income           | 11.3              | 10.4              | (7.9%)         |
| Net non-Interest Income       | 4.5               | 4.3               | (5.2%)         |
| <b>Total Operating income</b> | <b>15.8</b>       | <b>14.7</b>       | <b>(7.1%)</b>  |
| Loan Loss provision           | (1.5)             | (1.5)             | (0.6%)         |
| Total Operating expenses      | (7.0)             | (7.2)             | 2.4%           |
| <b>Profit before tax</b>      | <b>8.8</b>        | <b>7.5</b>        | <b>(14.7%)</b> |
| <b>Profit after tax</b>       | <b>6.2</b>        | <b>5.3</b>        | <b>(13.9%)</b> |
| <b>Core EPS</b>               | <b>1.1</b>        | <b>1.0</b>        | <b>(13.9%)</b> |

| Income statement ratios                      | Q1'2025 | Q1'2026 | % points change |
|--|---------|---------|-----------------|
| Yield from interest-earning assets           | 13.9%   | 11.5%   | (2.4%)          |
| Cost of funding                              | 4.4%    | 3.2%    | (1.1%)          |
| Net Interest Spread                          | 0.9%    | 0.7%    | (0.2%)          |
| Net Interest Margin                          | 10.1%   | 8.7%    | (1.4%)          |
| Cost of Risk                                 | 9.3%    | 10.0%   | 0.7%            |
| Net Interest Income as % of operating income | 71.4%   | 70.8%   | (0.6%)          |
| Non-Funded Income as a % of operating income | 28.6%   | 29.2%   | 0.6%            |
| Cost to Income                               | 44.3%   | 48.9%   | 4.5%            |
| Cost to Income (Without LLPs)                | 35.0%   | 38.9%   | 3.9%            |
| Cost to Assets                               | 1.1%    | 1.0%    | (0.1%)          |

| Capital Adequacy Ratios                 | Q1'2025      | Q1'2026      | % points change |
|---|--------------|--------------|-----------------|
| Core Capital/Total Liabilities          | 20.5%        | 21.4%        | 0.9%            |
| Minimum Statutory ratio                 | 8.0%         | 8.0%         | 0.0%            |
| <b>Excess</b>                           | <b>12.5%</b> | <b>13.4%</b> | <b>0.9%</b>     |
| Core Capital/Total Risk Weighted Assets | 17.3%        | 18.6%        | 1.3%            |
| Minimum Statutory ratio                 | 10.5%        | 10.5%        | 0.0%            |

|  |              |              |             |
|--|--------------|--------------|-------------|
| <b>Excess</b>                            | <b>6.8%</b>  | <b>8.1%</b>  | <b>1.3%</b> |
| Total Capital/Total Risk Weighted Assets | 20.4%        | 21.0%        | 0.6%        |
| Minimum Statutory ratio                  | 14.5%        | 14.5%        | 0.0%        |
| <b>Excess</b>                            | <b>5.9%</b>  | <b>6.5%</b>  | <b>0.6%</b> |
| Liquidity Ratio                          | 46.9%        | 53.2%        | 6.3%        |
| Minimum Statutory ratio                  | 20.0%        | 20.0%        | 0.0%        |
| <b>Excess</b>                            | <b>26.9%</b> | <b>33.2%</b> | <b>6.3%</b> |

### Income Statement

- Core earnings per share declined by 13.9% to Kshs 1.0 , from Kshs 1.1 in Q1'2026, driven by the 7.1% decrease in total operating income to Kshs 14.7 bn, from Kshs 15.8 bn in Q1'2025, coupled with 2.4% increase in total operating expense to Kshs 7.2 bn from Kshs 7.0 bn in Q1'2025.
- The 7.1% decrease in total operating income was mainly driven by a 7.9% decline in net interest income to Kshs 10.4 bn, from Kshs 11.3 bn in Q1'2025, coupled with 5.2% decrease in net non-interest income to Kshs 4.3 bn in Q1'2026, from Kshs 4.5 bn in Q1'2025.
- Interest income declined by 10.2% to Kshs 13.5 bn from Kshs 15.1 bn in Q1'2026, mainly driven by a 13.2% decline in interest income from loans and advances to Kshs 10.0 bn, from Kshs 11.5 bn in Q1'2025. The performance was however cushioned by a 54.2% increase in interest income from deposits and placements with banking institutions to Kshs 0.6 bn, from Kshs 0.4 bn in Q1'2025. As such, the Yield on Interest-Earning Assets (YIEA) decreased by 2.4% points to 11.5% from 13.9% recorded in Q1'2026, attributable to the decline of 11.6% in trailing interest income to Kshs 56.1 bn, from Kshs 63.5 bn in Q1'2025, compared to a 6.7% Increase in average interest earning assets to Kshs 488.6 bn, from Kshs 457.8 bn in Q1'2025,
- Interest expenses declined by 17.1% to Kshs 3.1 bn from Kshs 3.8 bn in Q1'2025, mainly driven by 19.2% decrease in interest expense on customer deposits to Kshs 2.7 bn from Kshs 3.4 bn in Q1'2025. Consequently, Cost of funds (COF) decreased by 1.1% points to 3.2% from 4.4% recorded in Q1'2025, owing to a 21.2% decrease in trailing interest expense to Kshs 13.7 bn from Kshs 17.4 bn recorded in Q1'2025, compared to a 6.2% increase in average interest-bearing liabilities to Kshs 424.9 bn from Kshs 400.2 bn in Q1'2025. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 1.4% points to 8.7% from 10.1% in Q1'2025, attributable to a 8.0% decrease in trailing net interest income to Kshs 42.4 bn from Kshs 46.1 bn recorded in Q1'2025, which outpaced` the 6.7% growth in average interest earning assets,
- Non-Funded Income (NFI) decreased by 5.2% to Kshs 4.3 bn from Kshs 4.5 bn in Q1'2025, mainly driven by a 17.9% decrease in FX trading income to Kshs 1.3 bn, from Kshs 1.5 bn in Q1'2025. The revenue remained unchanged at 71:29, for the funded to Non-funded income,
- Total operating expense increased by 2.4% to Kshs 7.2 bn, from Kshs 7.0 bn in Q1'2025, mainly attributable to 33.8% increase in staff cost to Kshs 3.9 bn, from Kshs 2.9 bn in Q1'2025. This performance outweighed the 30.8% decrease in other operating expenses to Kshs 1.8 bn from Kshs 2.6 bn recorded in Q1'2025, coupled with a 0.6% marginal decrease in loan loss provisions to Kshs 1.46 bn in Q1'2026 from Kshs 1.47 bn in Q1'2025.
- Cost to Income Ratio (CIR) increased by 4.5% points to 48.9% from 44.3% in Q1'2025, supported by 2.4% increase in total operating expenses. The performance was however weighed down by 7.1% decrease in total operating income, Notably, CIR without LLP increased by 3.9% points to 38.9%, from 35.0% recorded in Q1'2025,

- Profit before tax decreased by 14.7% to Kshs 7.5 bn, from Kshs 8.8 bn recorded in Q1'2025, with effective tax rate decreasing to 29.1%, from 29.8% in Q1'2025, leading to a 13.9% decrease in profit after tax to Kshs 5.3 bn in Q1'2026, from Kshs 6.2 bn in Q1'2025.
- The Board of Directors did not recommend an interim dividend for the period consistent with Q1'2025.

### **Balance Sheet**

- The balance sheet recorded an expansion as total assets increased by 9.8% to Kshs 571.3 bn, from Kshs 520.2 bn in Q1'2026, mainly driven by 21.2% increase Government securities to Kshs 174.5 bn, from 144.0 bn in Q1'2025. Net loans and advances decreased by 1.5% to Kshs 303.8 bn, from Kshs 308.4 bn in Q1'2025. Total liabilities increased by 8.8% to Kshs 465.2 bn from Kshs 427.7 bn in Q1'2025, mainly driven by a 7.5% increase in customer deposits to Kshs 399.1 bn, from Kshs 371.2 bn in Q1'2025, compared with the 8.2% decrease in borrowings to Kshs 3.0 bn, from Kshs 3.5 bn in FY'2024. With 84 branches, compared to 76 branches in Q1'2025, deposits per branch decreased 8.2% to Kshs 4.5 bn, from Kshs 4.9 bn in Q1'2025,
- The 7.5% increase in customer deposits, compared to the 1.5% decrease in net loans led to a decrease in the loan to deposits ratio to 76.1%, from 83.1% in Q1'2025,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 11.6% in Q1'2026, from 13.1% in Q1'2025, attributable to a 13.5% decrease in Gross non-performing loans to Kshs 38.1 bn, from Kshs 44.0 bn in Q1'2025, relative to the 2.3% decrease in gross loans to Kshs 38.1 bn, from Kshs 44.0 bn recorded in Q1'2025,
- General Provisions (LLP) decreased by 18.4% to Kshs 17.1 bn in Q1'2026 from Kshs 21.0 bn in Q1'2025. The NPL coverage increased to 66.6% in Q1'2026, from 65.2% in Q1'2025, attributable to the 18.4% decrease in general provisions, and the 13.5% decrease in Gross Non-performing Loans to Kshs 38.1 bn, from Kshs 44.0 bn in Q1'2025 which outpaced the 6.5% increase in interest in suspense to Kshs 8.3 bn from 7.8 bn in Q1'2025.
- Shareholders' funds increased by 14.6% to Kshs 106.1 bn in Q1'2025, from Kshs 92.5 bn in Q1'2025, supported by a 13.7% increase in retained earnings to Kshs 92.0 bn, from Kshs 80.9 bn in Q1'2025,
- Absa Bank Group remains capitalized with a core capital to risk-weighted assets ratio of 18.6%, 8.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 21.0%, exceeding the statutory requirement of 14.5% by 6.5% points, and,
- The bank currently has a Return on Average Assets (ROaA) of 8.0%, and a Return on Average Equity (ROaE) of 44.0%.

### **Key Take-Outs:**

- 1. Decreased earnings** - Core earnings per share declined by 13.9% to Kshs 1.0, from Kshs 1.1 in Q1'2026, driven by the 7.1% decrease in total operating income to Kshs 14.7bn, from Kshs 15.8 bn in Q1'2025, coupled with 2.4% increase in total operating expense to Kshs 7.2 bn from Kshs 7.0 bn in Q1'2025,
- 2. Improved asset quality** – The bank's Asset Quality improved, with Gross NPL ratio decreasing to 11.6% in Q1'2026, from 13.1% in Q1'2025, attributable to a 13.5% decrease in Gross non-performing loans to Kshs 38.1 bn, from Kshs 44.0 bn in Q1'2025, relative to the 2.3% decrease in gross loans to Kshs 38.1 bn, from Kshs 44.0 bn recorded in Q1'2025.
- 3. Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 9.8% to Kshs 571.3 bn, from Kshs 520.2 bn in Q1'2026, mainly driven by a 44.1% increase in cash and bank

balance to Kshs 41.1 bn, from 28.5 bn in Q1'2025. Net loans and advances decreased by 1.5% to Kshs 303.8 bn, from Kshs 308.4 bn in Q1'2025.

- 4. Increased Government Holdings** – Government Securities increased by 21.2% to Kshs 174.5 bn from Kshs 144.0 bn recorded in Q1'2025, owing to a 6.8% decrease in government securities interest income to Kshs 3.0 bn from Kshs 3.2 bn recorded in Q1'2025.

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

- **Strong Customer Base** – Absa Bank still retains a loyal yet diverse customer base that includes cooperatives, SMEs, retail customers, and government institutions. We anticipate that the bank will keep leveraging on this base to improve its loan book which this year decreased by 1.5% to Kshs 303.8 bn from Kshs 308.4 bn in Q1'2025.
- **Diversified products** – The bank has continued to leverage digital transformation as a strategy to enhance financial services and customer experience. This expansion in digital distribution has led to an increase in digital loan disbursements and growth in consumer business through the Timiza digital platform, significantly contributing to its financial performance. Additionally, the lender's subsidiary divisions, particularly asset management and insurance, not only diversify the bank's revenue streams but also provide additional value-added services to customers, enhancing overall client retention and satisfaction.

#### **Valuation Summary**

- We are of the view that Absa Bank is an "accumulate" with a target price of Kshs 33.0 representing an upside of 16.3%, from the current price of 28.8 as of 30<sup>th</sup> May 2026.
- Absa Bank is currently trading at a P/TBV of 1.5x and a P/E of 3.6x vs an industry average of 1.1x and 5.7x respectively.