



Absa Bank Kenya Q1'2026 Earnings Note

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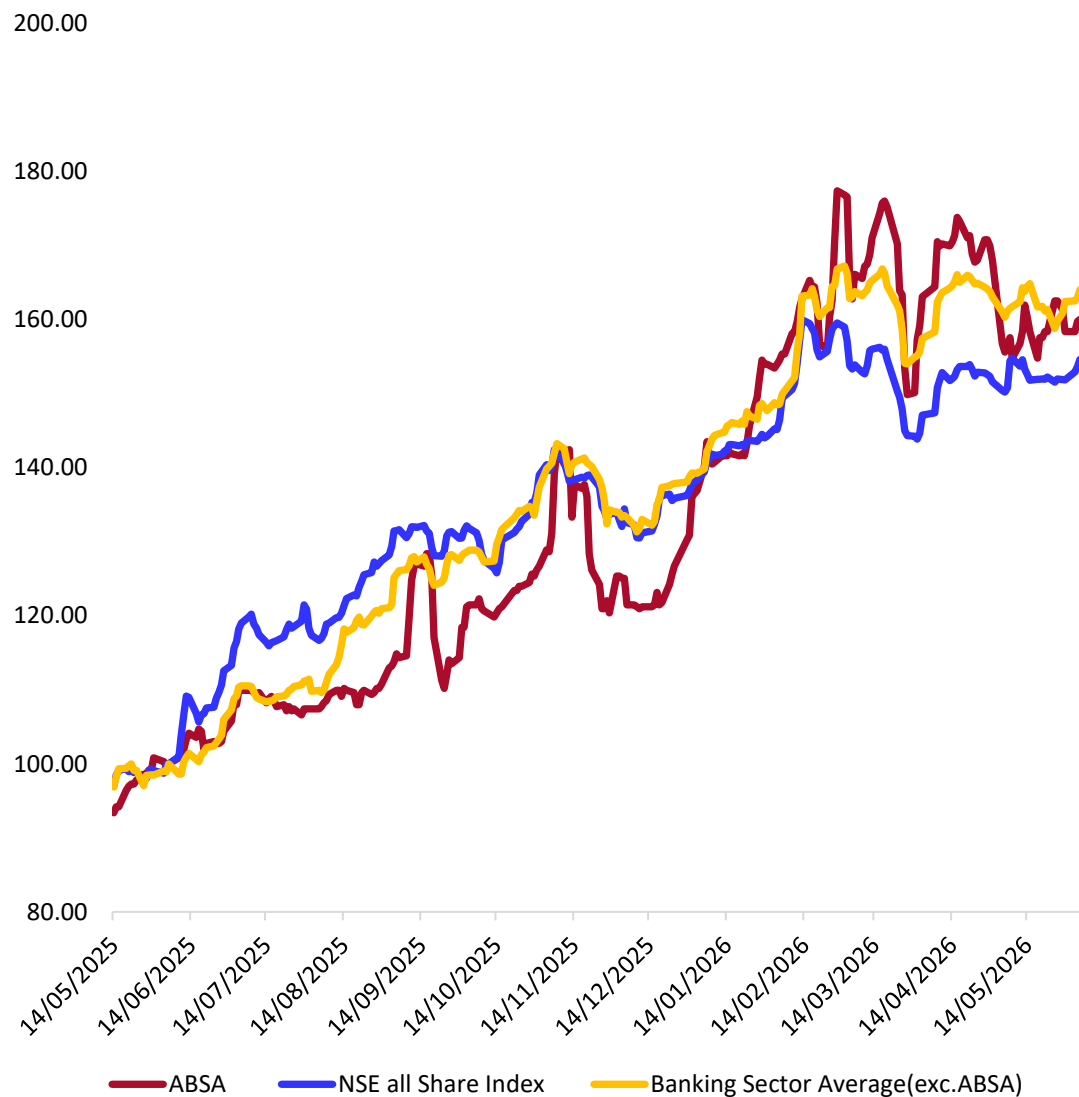
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Summary



Normalized Share price movement of ABSA bank Vs Banking Sector stocks and the Market



Last Price –4 th June 2026 in KES	29.05
Valuation Estimate in KES :	32.60
Upside	12.22%
Recommendation	HOLD
52-Week High	33.00
52-Week Low	17.95
52-Week Price Return	72.6%
Year-to-Date Price Return	25.9%
Price to Earnings Ratio (P/E)	6.88
Price to Book Ratio (P/B)	1.49

Source: Bloomberg and Faida Analysis

We recommend a **HOLD** on ABSA Bank Kenya with a fair value of KES 32.60, representing an **upside of 12.22%** on the 4th June 2026 closing price of KES 29.05.

We recommend a HOLD on Absa due to its strong deposit franchise and improving asset quality that support stability but rising costs and Revenue compression lag the Bank relative to its peers, the stance is clear wait for evidence of expense normalization and a trough in net interest margins before adding exposure.

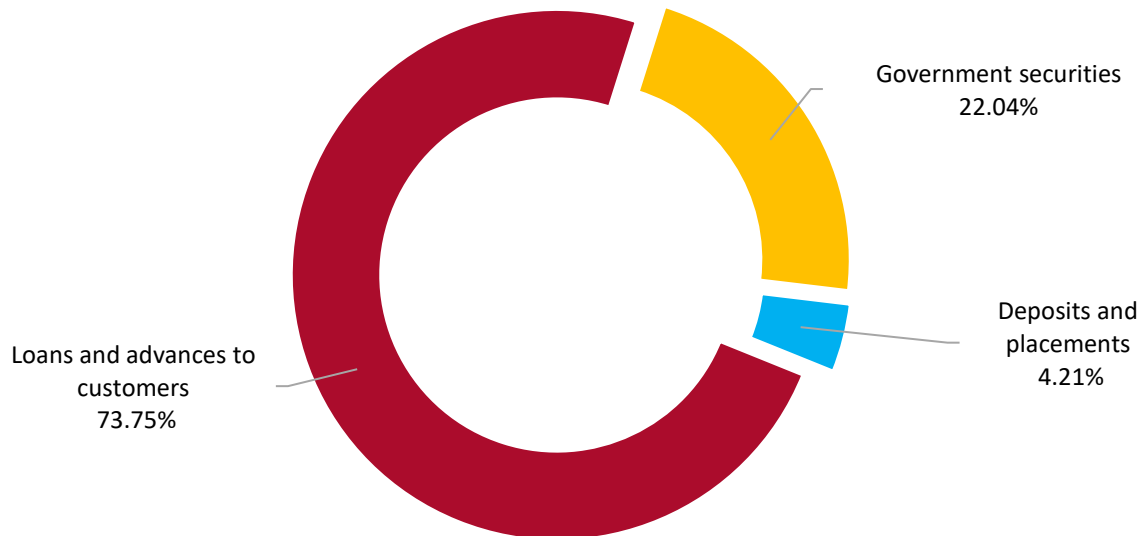
Interest Income

Interest Income declined by 10.19% to KES 13.52 billion in Q1'2026 from KES 15.05 billion in Q1'2025. This was mainly driven by a significant 13.21% drop in loans and advances to KES 9.97 billion from KES 11.49 billion in Q1'2025, a reduction of KES 1.52 billion.

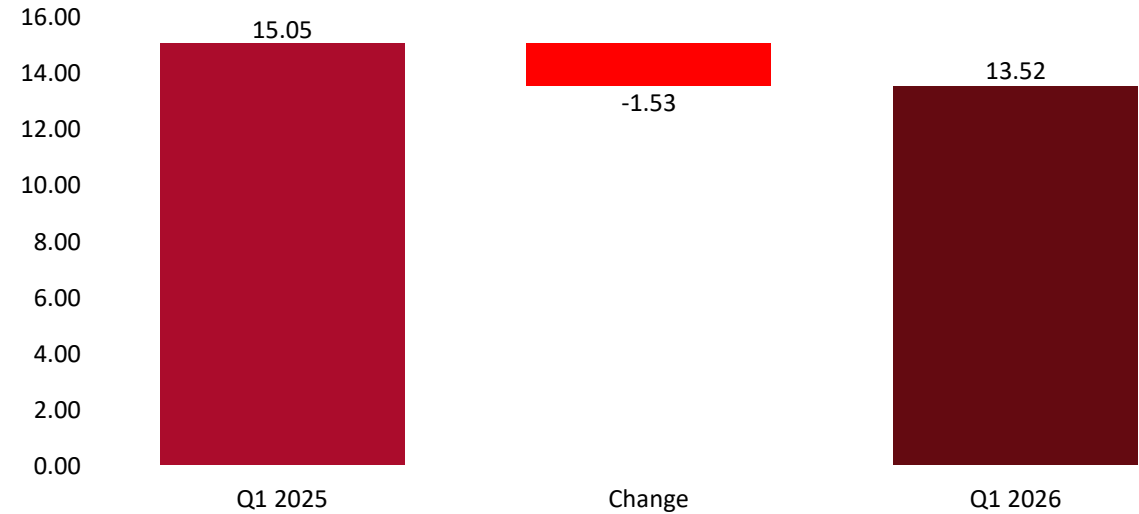
The decline was however buffered by Deposits and placements with banking institutions which rose by 54.17% to KES 569.39 million in Q1'2026 from KES 369.33 million in Q1'2025.

Income from government securities registered a decline of 6.8% to KES 2.98 billion in Q1'2026 from KES 3.20 billion in Q1'2025.

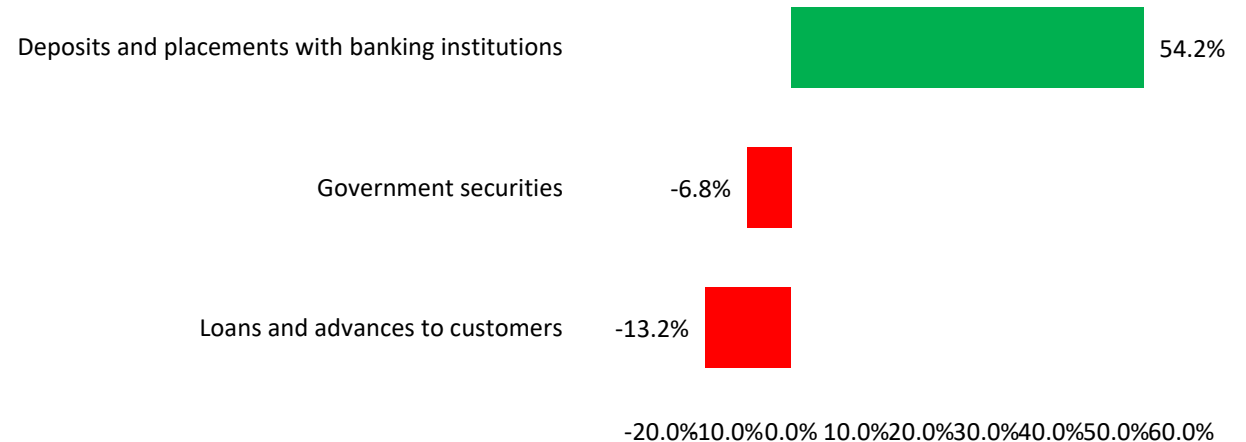
Interest Income Composition Q1'2026



Decline in Interest Income (KES Billions)



Interest Income growth rate (%)



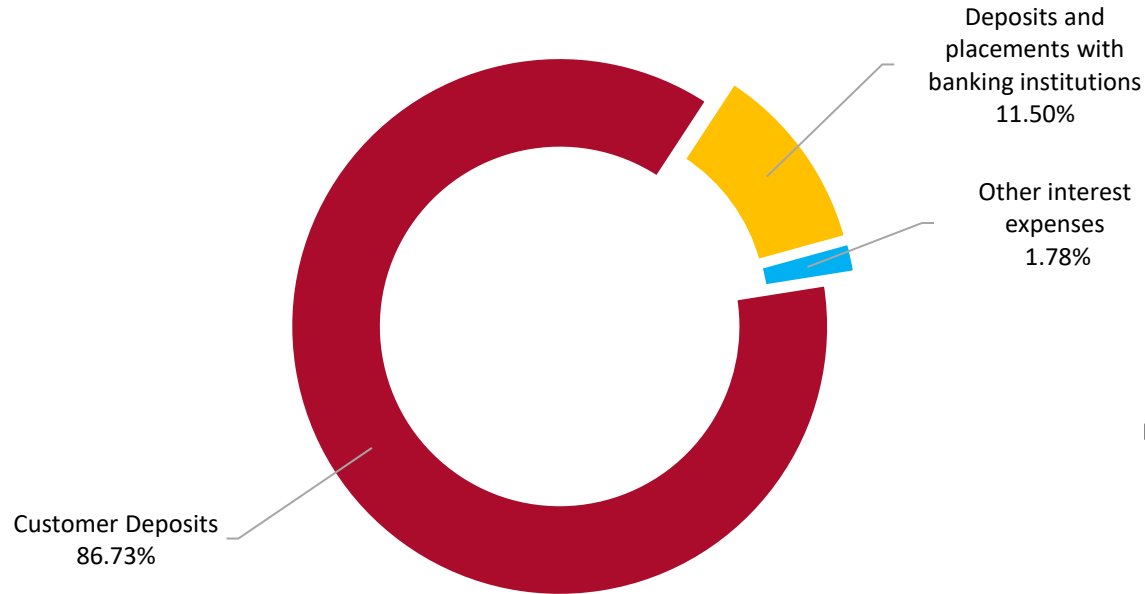
Interest Expense

Total interest expense declined by 17.07% to KES 3.15 billion in Q1'2026 from KES 3.80 billion in Q1'2025, a reduction of KES 648.29 million. This was largely driven by a sharp decline in interest on customer deposits which dropped by 19.16% to KES 2.73 billion in Q1'2026 from KES 3.38 billion in Q1'2025.

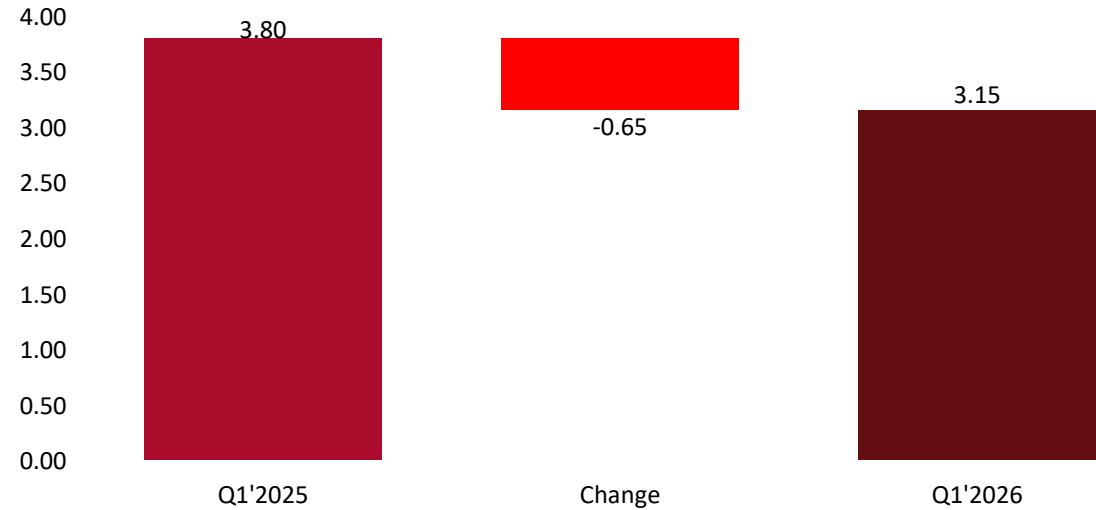
Interest on deposits and placements with banking institutions rose by 27 bps to KES 362.10 million in Q1'2026 from KES 361.13 million in Q1'2025, an increase of KES 972,000.

Other interest expenses contracted by 3.05% to KES 55.93 million in Q1'2026 from KES 57.68 million in Q1'2025.

Interest Expense Composition (%)

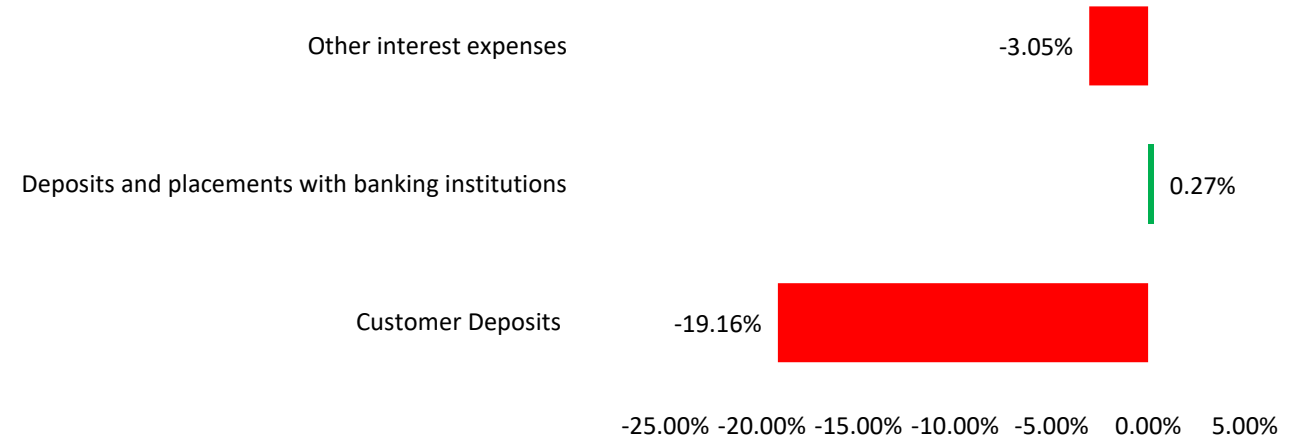


Decline in Interest Expense (KES Billions)



Source: Company Financials

Interest Expense growth rate (%)



Source: Company Financials

Net Interest Income & Non-funded income

Net interest income (NII) declined by 7.87% to KES 10.37 billion in Q1'2026 from KES 11.26 billion in Q1'2025.

Non-funded income (NFI) also declined by 5.18% to KES 4.28 billion in Q1'2026 from KES 4.51 billion in Q1'2025. This was primarily driven by a significant 17.90% decrease in Foreign Exchange trading Income to KES 1.26 billion from KES 1.54 billion in Q1'2025.

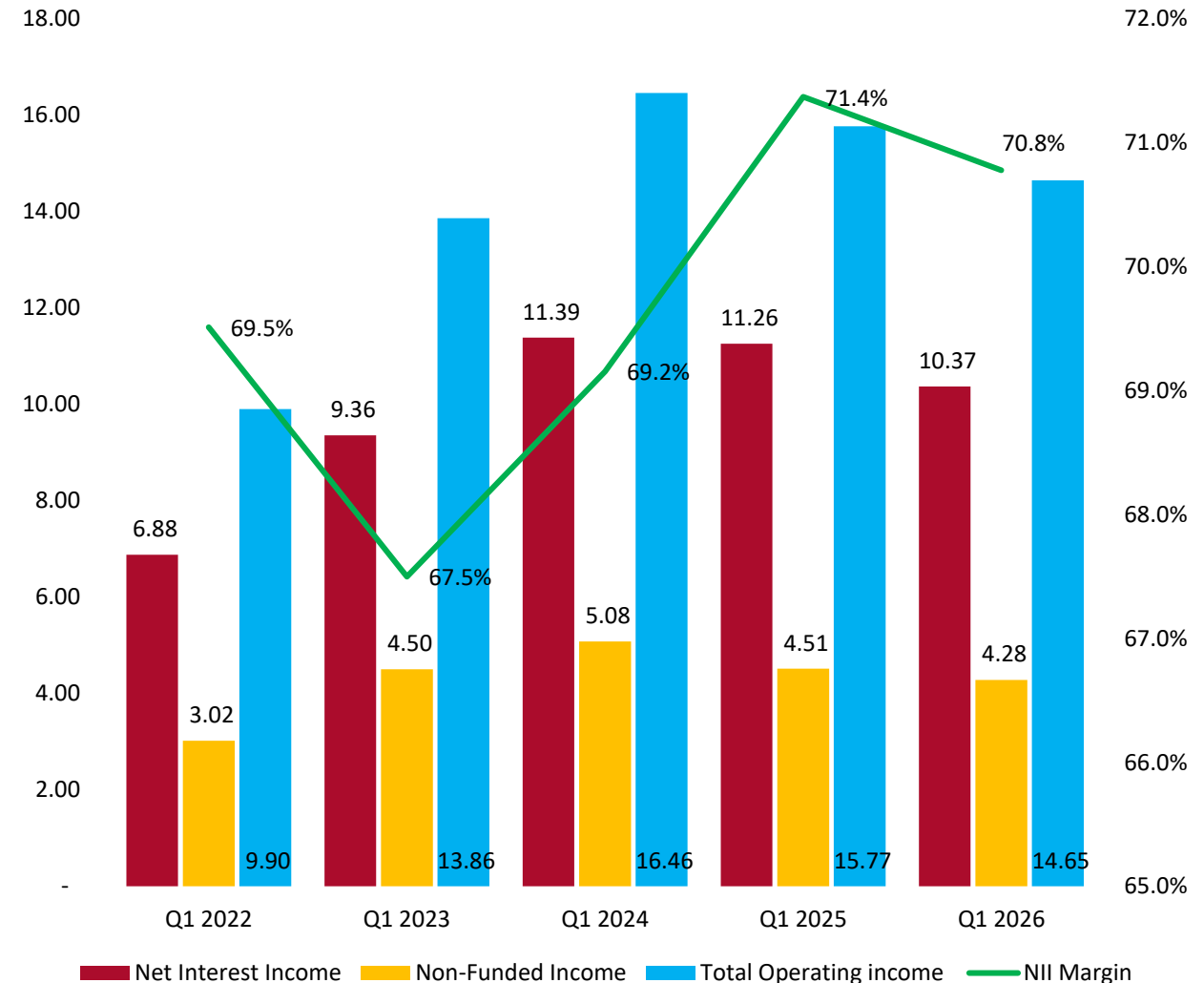
Other income also recorded a dip of 17.61% to KES 736.71 million in Q1'2026 from KES 894.13 million in Q1'2025. Consequently, Income from Fees and commissions on loans and advances also recorded a decline of 4.79% to KES 274.77 million in Q1'2026 from KES 288.59 million in Q1'2025.

Income from other fees and Commissions rose by 11.89% to KES 2.00 billion in Q1'2026 from KES 1.79 billion in Q1'2025.

Despite the uptick in other fees and commissions by 11.89%, the overall impact led to a contraction in total operating income by a modest 7.1% to KES 14.65 billion in Q1'2026 from KES 15.77 billion in Q1'2025.

The bank's Net Interest Income margin declined to 70.78% in Q1'2026 from 71.37% in Q1'2025, reflecting pressure on the Banks interest earnings, while the Non-Funded Income margin rose by 590 bps from 28.63% in Q1'2025 to 29.22% in Q1'2026, highlighting growth in alternative income streams.

Net Interest Income, Non-Funded Income & Operating Income (KES Billions) ,NII Margin (%)



Operating expenses

Total Operating expenses rose by 243 bps to KES 7.16 billion in Q1'2026 from KES 6.99 billion in Q1'2025, reflecting an increase of KES 169.83 million. This was largely driven by a sharp rise of 317.81% in Rental Charges which rose from KES 15.74 million in Q1'2025 to KES 65.77 million in Q1'2026.

Staff costs also rose by 33.80% to KES 3.89 billion in Q1'2026 from KES 2.91 billion in Q1'2025. Amortization charges rose by 3.16% reaching KES 76.41 million in Q1'2026 from KES 74.06 million in Q1'2025.

Director emoluments rose by 80 bps to KES 54.54 million in Q1'2026 from KES 54.12 million in Q1'2025.

Depreciation on property and equipment declined by 16.15% to KES 191.90 million from KES 228.87 million in Q1'2025.

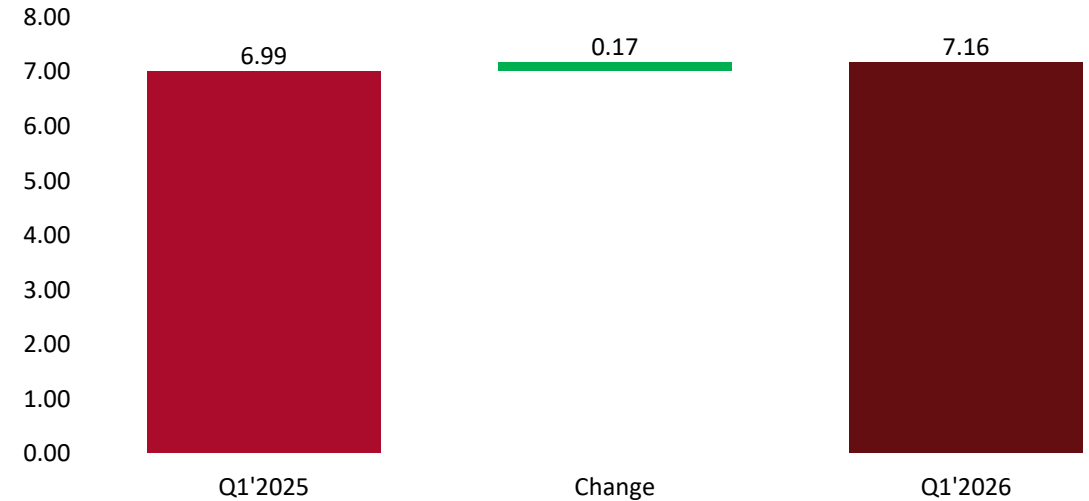
Loan loss provisions dipped by 550 bps to KES 1.46 billion in Q1'2026 from KES 1.47 billion in Q1'2025.

Other operating expenses also registered a decline of 36.66% to KES 1.42 billion in Q1'2026 from KES 2.24 billion in Q1'2025

The cost-to-income ratio (including loan loss provisions) rose to 48.9% in Q1'2026 from 44.3% in Q1'2025, reflecting reduced cost management, while the ratio excluding provisions also registered a rise of 3.9% to 38.9% in Q1'2026 from 35.0% in Q1'2025.

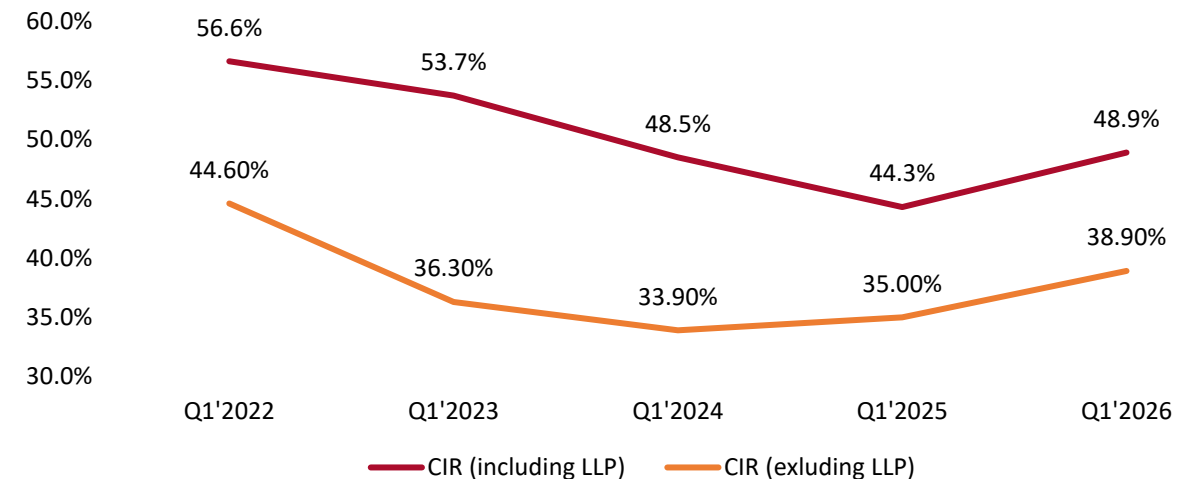
**The cost-to-income ratio measures operational efficiency, indicating the proportion of operating income consumed by operating expenses. A lower ratio reflects improved efficiency, with the bank generating higher income relative to its costs.*

Change in Operating expenses (KES Billions)



Source: Company Financials

Cost-to-income ratio (%)



Source: Company Financials

Profitability

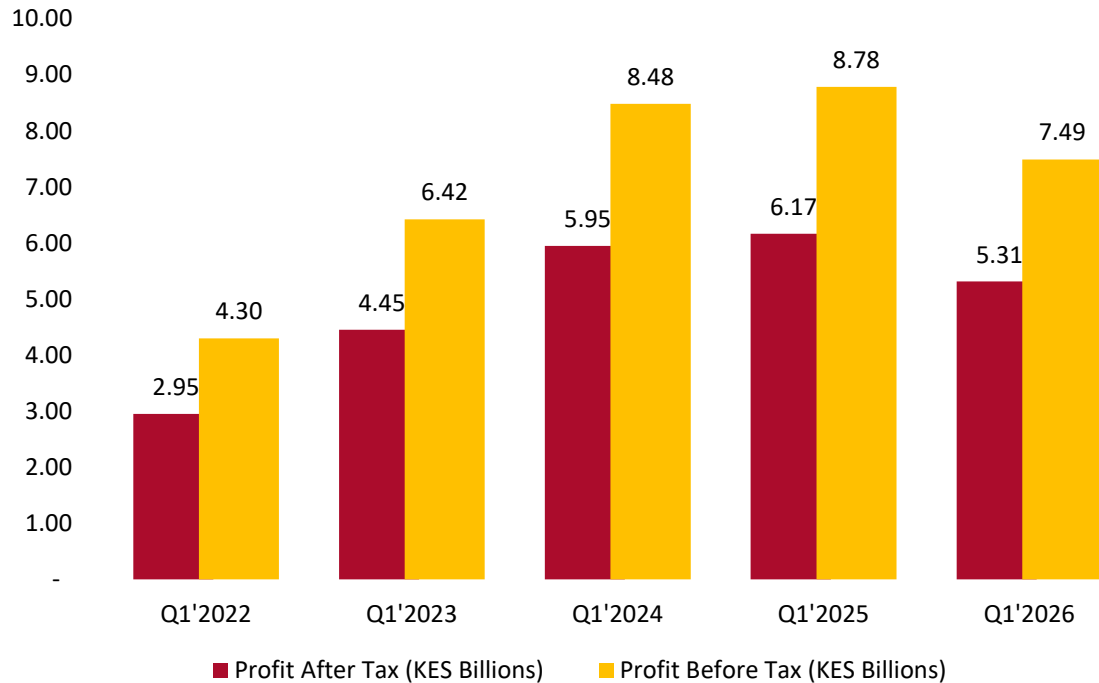
Profit before tax declined by 14.7% to KES 7.49 billion in Q1'2026 from KES 8.78 billion in Q1'2025.

Profit after tax also registered a decline of 13.9% to KES 5.31 billion in Q1'2026 from KES 6.17 billion in Q1'2025.

Total Comprehensive income also registered a dip of 24.64% to KES 5.48 billion in Q1'2026 from KES 7.27 billion in Q1'2025.

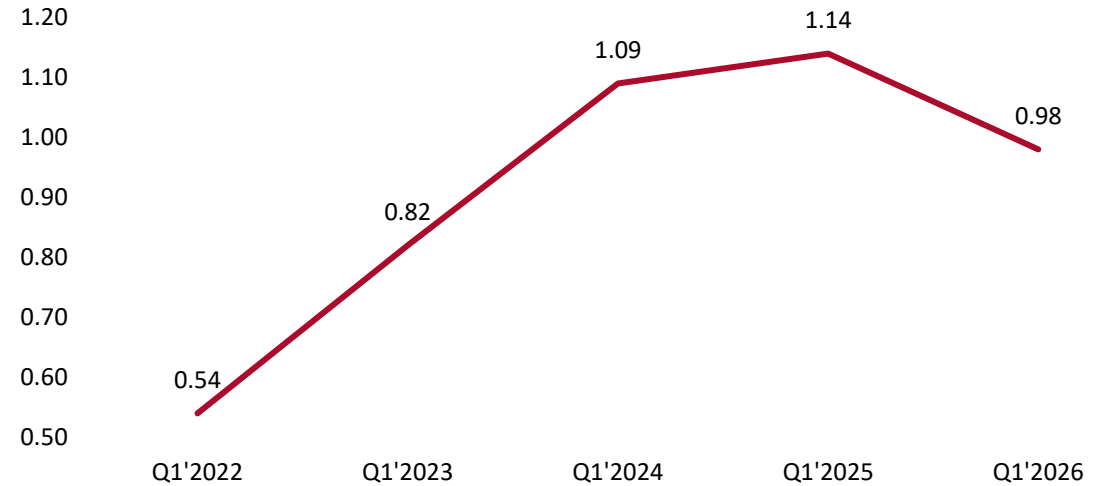
Consequently, Earnings per share registered a decline of 14.04% to KES 0.98 in Q1'2026 from KES 1.14 in Q1'2025.

Profit Before Tax & Profit After Tax (KES Billions)



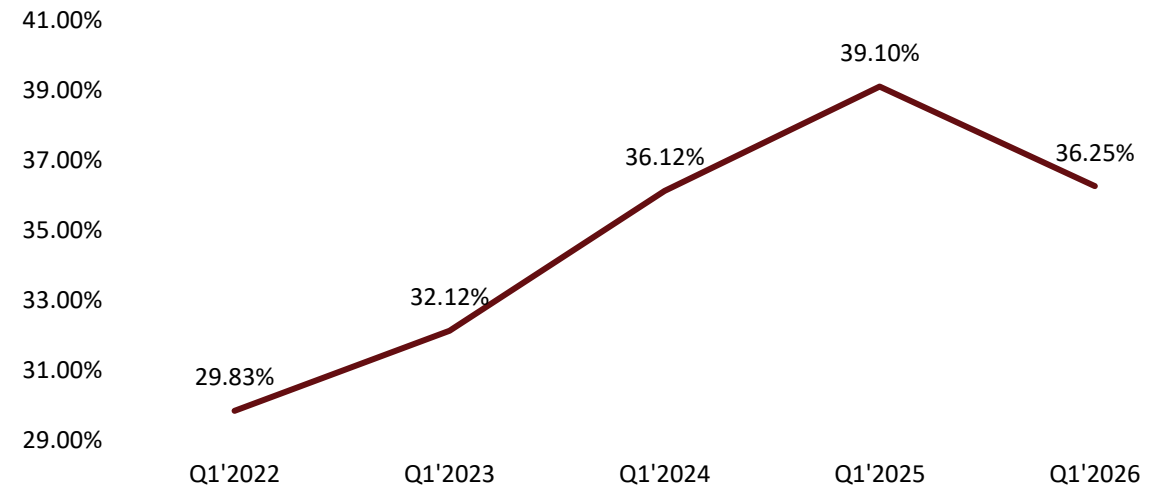
Source: Company Financials

Earnings Per Share (KES)



Source: Company Financials

Net Profit Margin (%)



Source: Company Financials

Balance Sheet Rundown

Total Assets expanded by 9.8% to KES 571.30 billion in Q1'2026 from KES 520.20 billion in Q1'2025, reflecting an increase of KES 51.10 billion. This was largely driven by a 21.17% increase in Kenyan Government securities to KES 174.56 billion in Q1'2026 from KES 144.05 billion in Q1'2025.

Cash balances that is both local and foreign also recorded an increase of 19.4% to KES 7.67 billion in Q1'2026 from KES 6.42 billion in Q1'2025.

Deposits and balances due from banking institutions abroad registered a rise of 460 bps to KES 9.21 billion in Q1'2026 from KES 8.81 billion in Q1'2025, while Deposits and balances due from local banking institutions recorded a decline of 30.3%, dropping to KES 291.18 million in 'Q1'2026 from KES 417.80 million in Q1'2025.

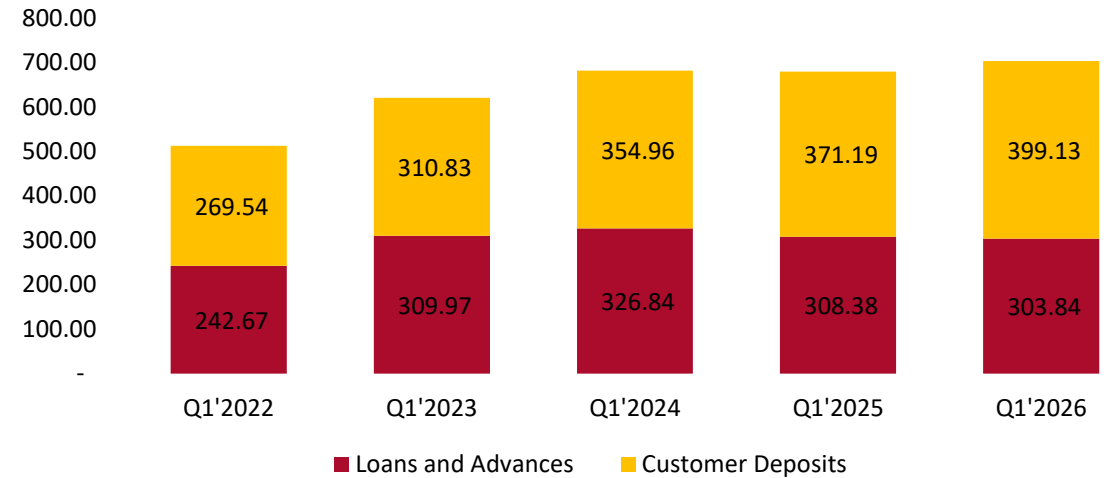
Net Loans and advances to customers contracted by 150 bps, declining to KES 303.84 billion in Q1'2026 from KES 308.38 billion in Q1'2025, reflecting subdued credit growth.

Total Liabilities increased by 8.78% to KES 465.21 billion in Q1'2026 from KES 427.65 billion in Q1'2025. This was largely driven by a 7.5% increase in Customer deposits to KES 399.13 billion in Q1'2026 from KES 371.19 billion in Q1'2025, representing an increase of KES 27.94 billion.

Loan-to-deposit ratio dropped to 76.13% from 83.08% in Q1'2026 while Loan-to-asset ratio also projected a decline to 53.18% in Q1'2026 from 59.28% in Q1'2025.

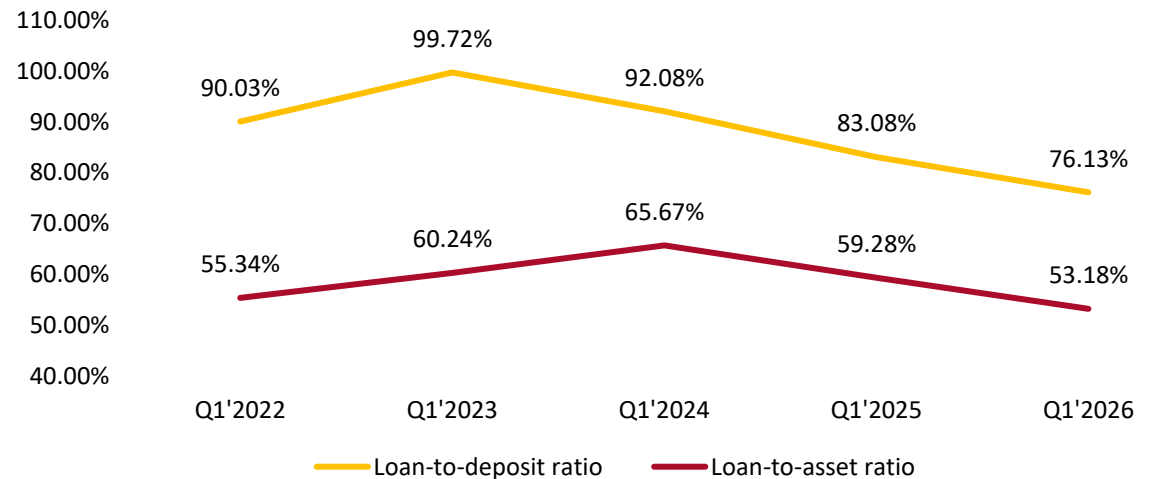
Total Shareholders' funds increased by 14.64% to KES 106.09 billion in Q1'2026 from KES 92.55 billion in Q1'2025.

Loan book and Customer deposits (KES Billions)



Source: Company Financials

Loan-to-deposit ratio and Loan-to-asset ratio (%)



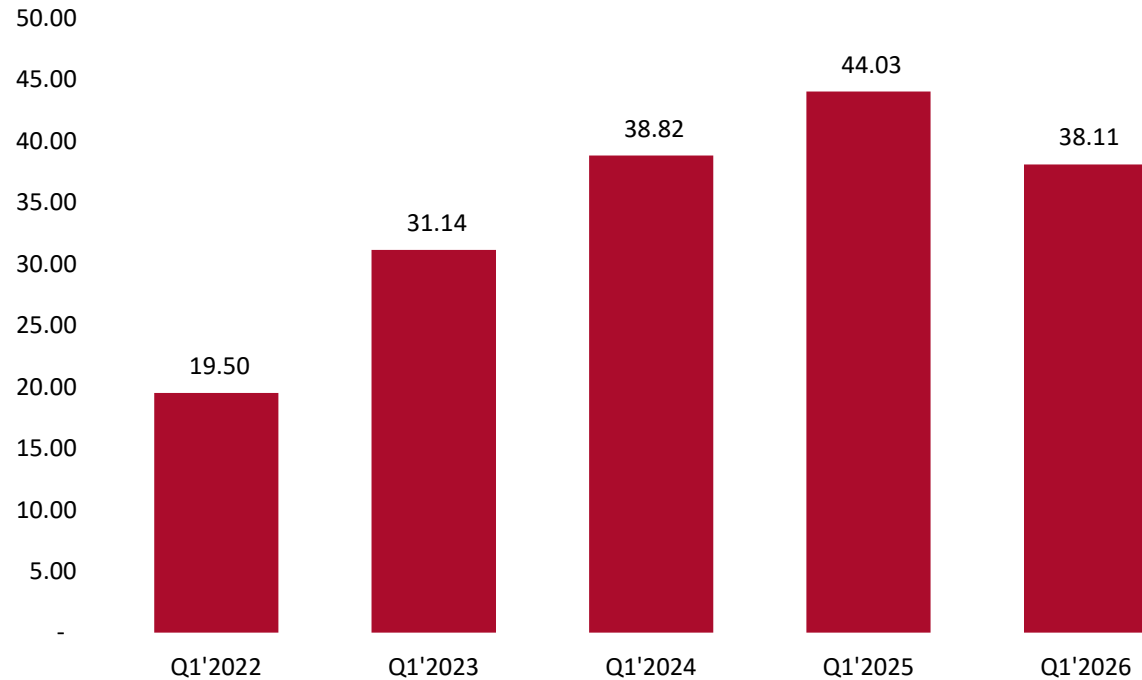
Source: Company Financials

Asset Quality

Gross Non-performing loans (NPLs) declined by 13.5% to KES 38.11 billion in Q1'2026 from KES 44.03 billion in Q1'2025 projecting a decline of KES 5.92 billion. Consequently, the Banks asset quality improved with the NPL ratio dropping by 148 bps in Q1'2026 to 11.58% from 13.06% in Q1'2025, attributable to the 13.5% decline in Gross NPLs, positioning it well below the industry average of 15.6%.

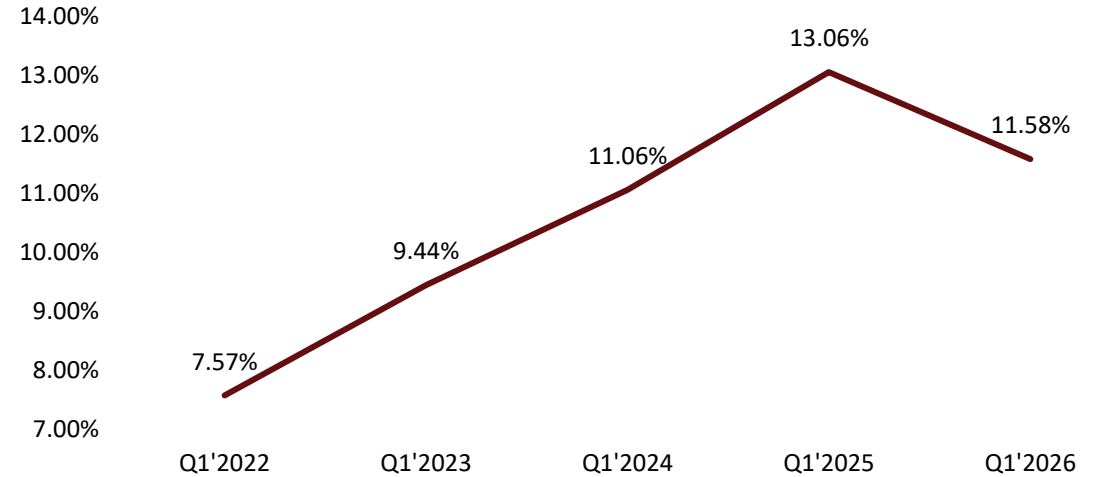
The NPL coverage ratio increased slightly to 66.59% in Q1'2026 from 65.23% in Q1'2025, showing that with provisioning levels, while still strong, did keep pace with the growth in non-performing loans.

Gross Non-Performing Loans (KES Billions)



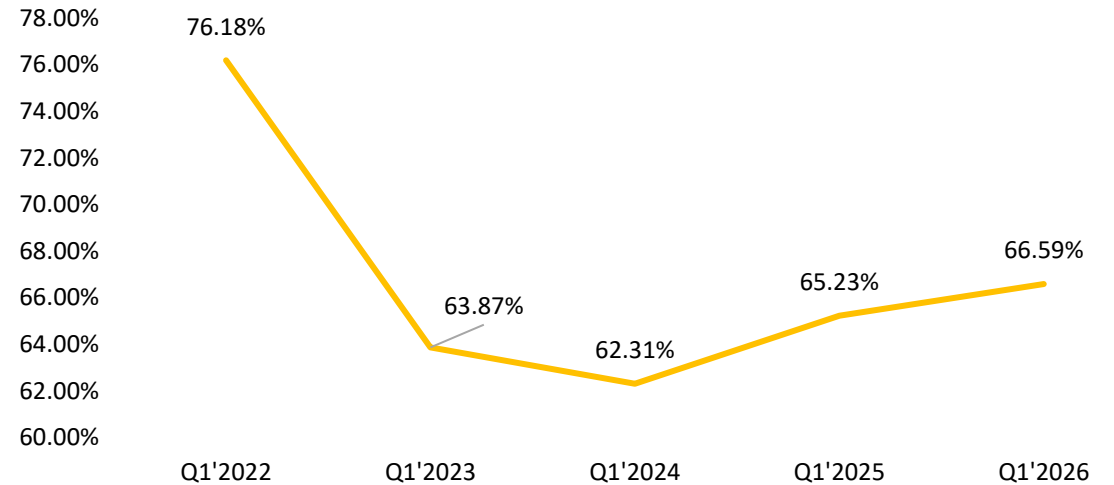
Source: Company Financials

Gross NPL Ratio (%)



Source: Company Financials

NPL Coverage Ratio (%)



Source: Company Financials

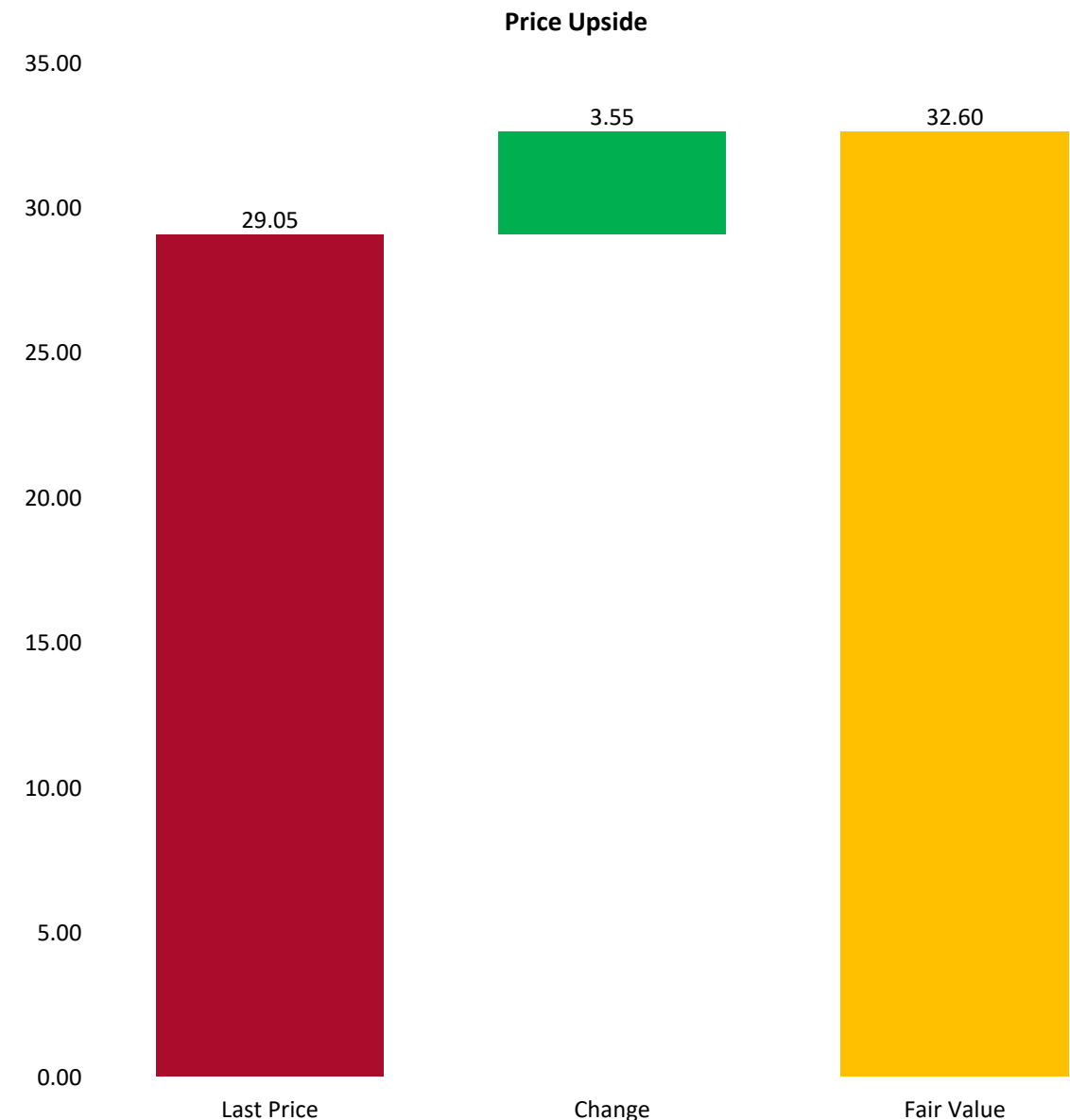
Outlook and Recommendation

Absa Kenya's Q1'2026 results reveal, the bank is navigating a challenging Revenue downturn while attempting to reposition its balance sheet. Profit after tax fell 13.86% year-on-year to KES 5.31 billion, marking the first quarterly earnings decline since 2017 and the second consecutive drop in Operating revenue, a trend not seen in two decades.

Net interest income contracted 787 bps to KES 10.37 billion as CBK rate cuts compressed on loan yields with loan interest income falling 13.2%, while Non-Interest income slipped 5.18% due to a 17.90% decline in foreign Exchange trading income. Unlike previous Q1 expansions, for example the 33.58% profit growth in Q1'2024, the current cycle exposes Revenue concentration risk. Positively, customer deposits grew 7.53% to KES 399.13 billion, NPLs improved 13.45% to KES 38.11 billion, and total Assets rose 9.82% partly driven by a 21.17% increase in government securities holdings. However, a sharp 33.80% surge in staff costs to KES 3.89 billion pushed the cost-to-income ratio to 38.91% from 35.02% in Q1'2025, eroding on operational leverage.

Relative to similar-tier Kenyan banks, Absa's 13.86% profit decline appears steeper than peers like KCB and Equity, which are better diversified into regional SME and mobile lending revenues. Absa's loan-to-deposit ratio fell to 76.13% from 83.08% in Q1'2025, reflecting risk aversion and capital rotation into sovereign paper, a defensive move that caps return on assets. While subsidiary income grew 25%, it remains too small to offset its core revenue pressures. However, without clarity on the staff cost spike and with revenue still contracting, near-term earnings visibility is still poor.

We therefore recommend a **HOLD** on Absa Bank Kenya with a fair value of KES 32.60, representing an upside of 12.41% on the 3rd June 2026 closing price of KES 29.00, due to its strong deposit franchise and improving asset quality that support stability but rising costs and Revenue compression lag the Bank relative to its peers, the stance is clear wait for evidence of expense normalization and a trough in net interest margins before adding exposure.



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Glossary of Terms

Target Price – Analyst estimate of the fair value or intrinsic value of the company.

Cost of Funds - This is the effective average interest rate paid on interest-earning liabilities. It is calculated as Total Interest Expense/Average Interest Earning Liabilities.

Loan Yield - This is the effective average interest rate received on average loans and advances. It is calculated as Interest on Loans and Advances/Average Loans and Advances.

Cost of Risk – This ratio measures the amount of risk involved in lending. It is calculated as Net Impairment Provisions/Average Gross Loans in the period.

Non-Performing Loans -These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful, and Loss depending on the performance of the loan. The last three i.e. sub-standard, doubtful, and loss are referred to as non-performing loans. Under IFRS, these are classified as stage 3 loans.

Non-Performing Loans (NPL) Ratio - This is the proportion of NPLs in the loan book. It is calculated as Gross NPLs/Gross Loans.

Non-Funded/Non-Interest Income– This represents income that is not classified as interest income.

Recommendation

BUY – Minimal risks to catalysts.

SELL- Risks outweigh the catalysts.

NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term