Co-op Bank Q1 2026 Earnings Note

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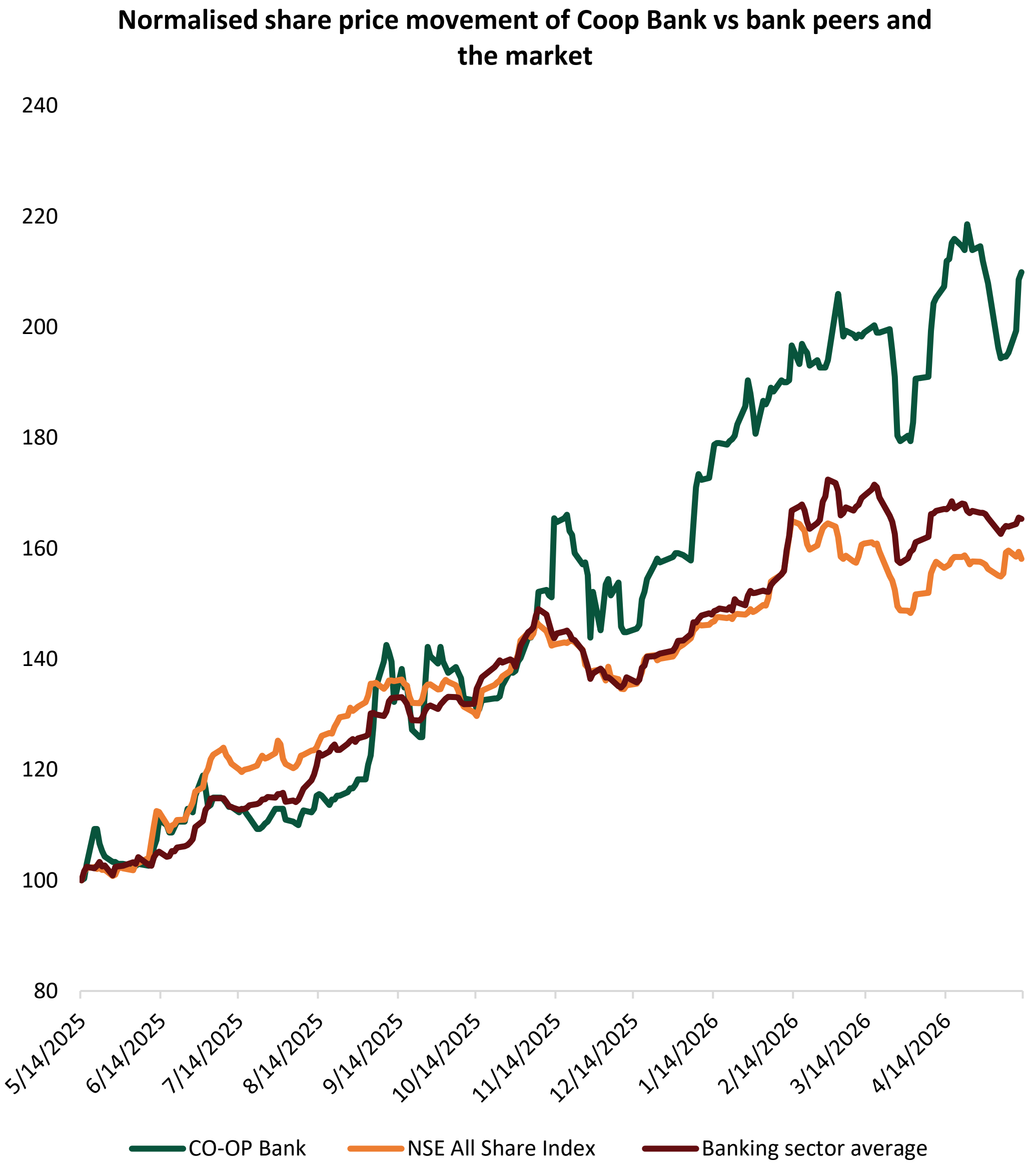
Summary



Source: Bloomberg

Last Price – 19th May 2026 in KES	32.45
Valuation Estimate in KES :	35.00
Upside	**7.9%**
Recommendation	**HOLD**
52-Week High	34.30
52-Week Low	14.95
52-Week Price Return	116.9%
Year-to-Date Price Return	**42.4%**
Price to Earnings Ratio (P/E)	6.40
Price to Book Ratio (P/B)	1.16

Source: Bloomberg and Faida Analysis

We recommend a **HOLD** on Co-op Bank with a fair value of KES 35.00, representing an **upside of 7.9%** on the 19th May 2026 closing price of KES 32.45.

This recommendation is supported by the bank's resilient earnings performance, improving operational efficiency, and strengthening asset quality metrics. Additionally, the stable monetary environment following the CBK's decision to maintain the CBR at 8.75% is expected to support lending activity and credit growth. However, persistent global geopolitical tensions, rising fuel prices, and emerging inflationary pressures may slightly moderate credit uptake and increase operational risks in the coming quarters. Despite these headwinds, Co-op Bank remains well-positioned to deliver stable earnings growth and sustainable shareholder returns, supported by its strong retail and SME franchise, prudent risk management, and disciplined cost structure.

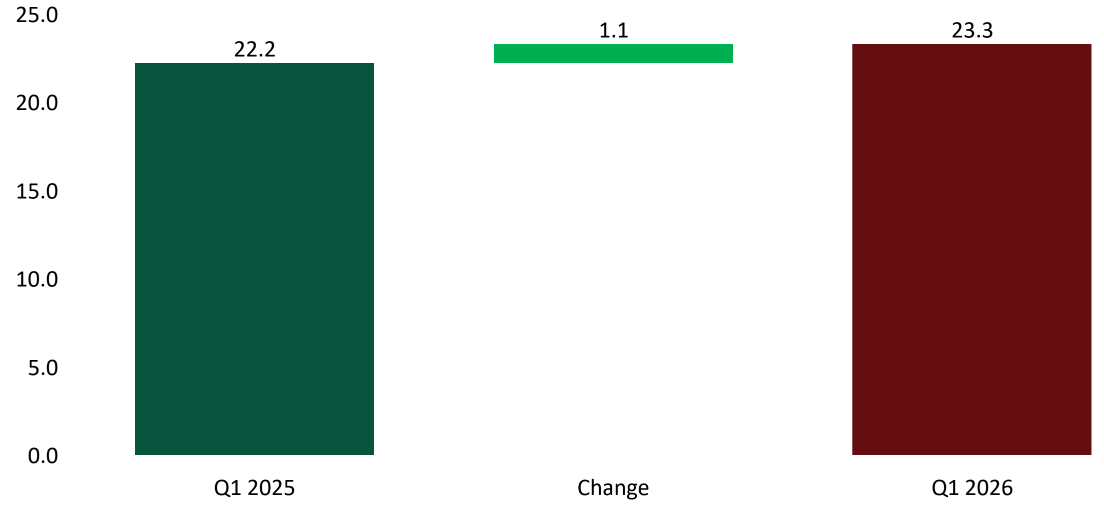
Interest Income

Interest income rose by 4.8% to KES 23.3 billion in Q1 2026 from KES 22.2 billion in Q1 2025. This was primarily driven by a significant 4.6% increase in income from loans and advances to KES 14.6 billion from KES 14.0 billion, reflecting a rise of KES 642.3 million.

Income from government securities grew by 3.3% to KES 7.3 billion from KES 7.0 billion in Q1 2025.

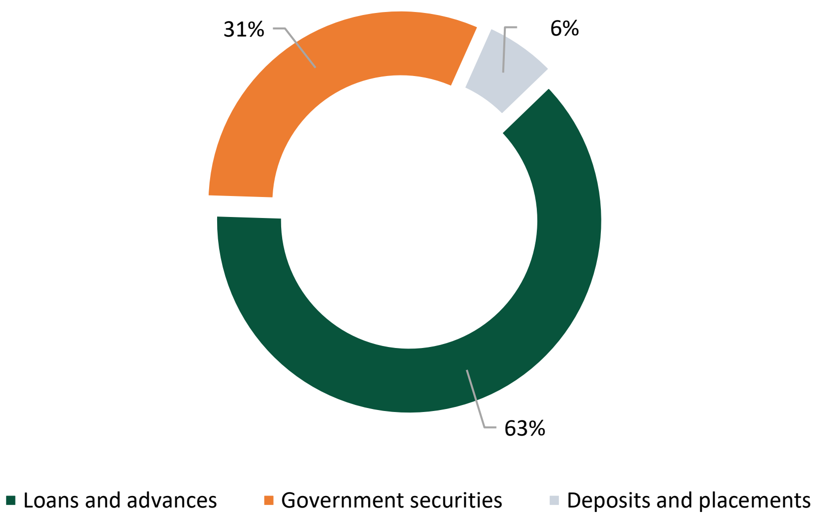
Deposits and placements within banking institutions climbed 16.1% to KES 1.4 billion in Q1 2026 from KES 1.2 billion in Q1 2025.

Development in Interest income (KES billions)



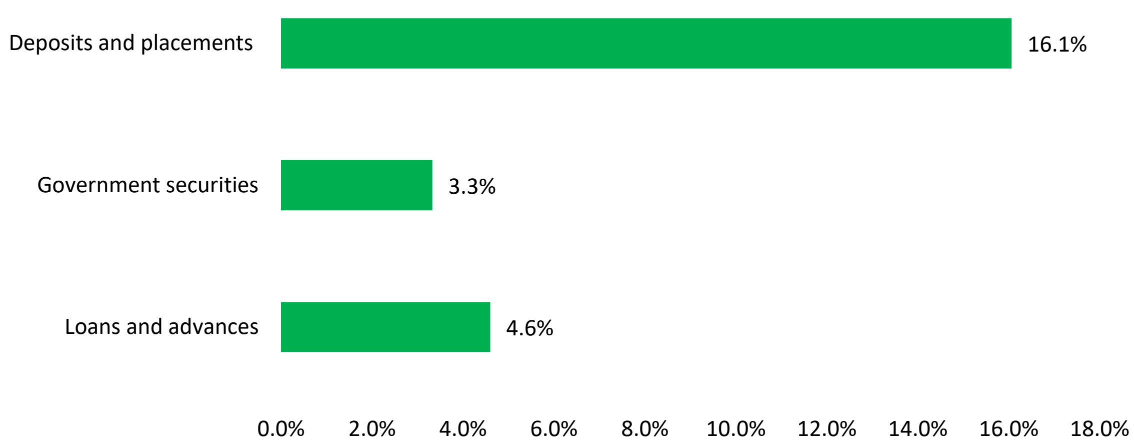
Source: Company Financials

Interest income composition in Q1 2026



Source: Company Financials

Interest income growth rate (%)



Source: Company Financials

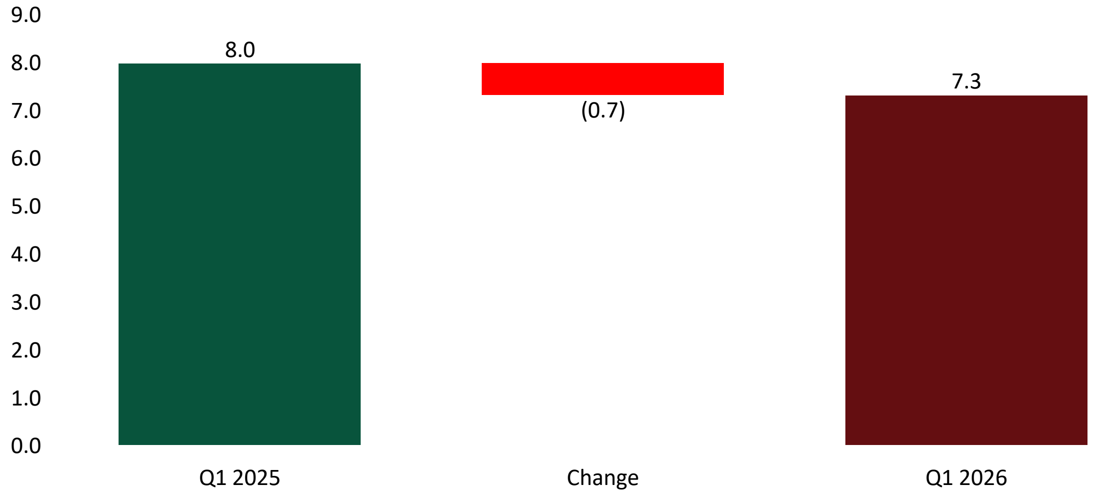
Interest Expense

Total interest expense declined by 8.3% to KES 7.3 billion in Q1 2026 from KES 8.0 billion in Q1 2025, reflecting a decrease of KES 665.0 million. This was largely driven by a significant 13.1% drop in interest on customer deposits which fell to KES 6.0 billion from KES 7.0 billion, a decrease of KES 908.2 million.

Interest on deposits and placements from banking institutions surged by 200.9% to KES 82.9 million from KES 27.5 million in Q1 2025.

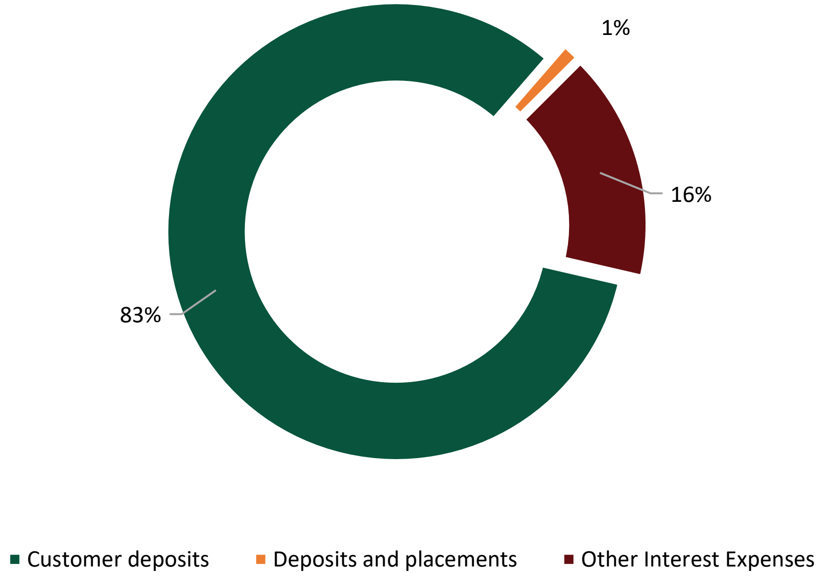
Other interest expenses expanded by 19.0% to KES 1.2 billion from KES 988.3 million.

Decline in Interest expense (KES billions)



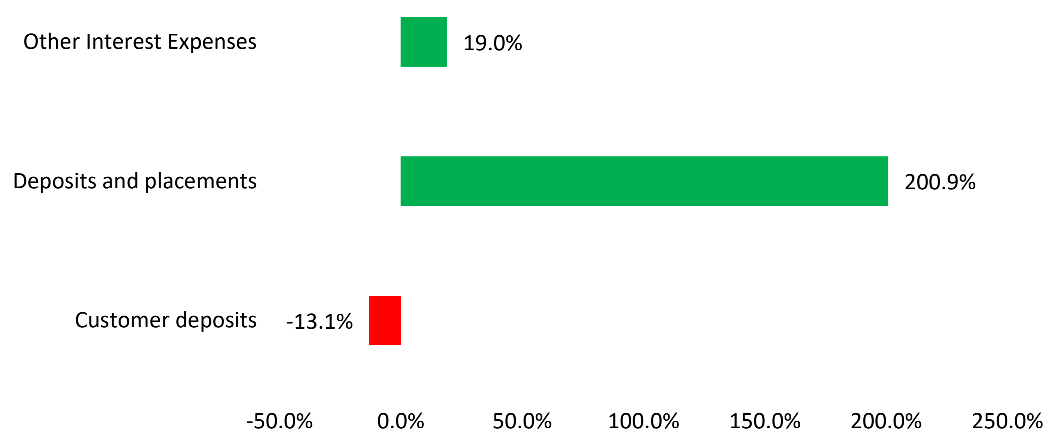
Source: Company Financials

Interest expense composition in Q1 2026



Source: Company Financials

Interest expense growth rate (%)



Source: Company Financials

Net Interest Income &Non-funded income

Net interest income (NII) rose 12.2% to KES 16.0 billion in Q1 2026 from KES 14.2 billion in Q1 2025, an uptick of KES 1.7 billion.

Non-funded income increased by 16.3% to KES 8.1 billion in Q1 2026 from KES 6.9 billion, a rise of KES 1.1 billion.

Fees and commissions income on loans and advances climbed 18.4% to KES 3.3 billion from KES 2.8 billion.

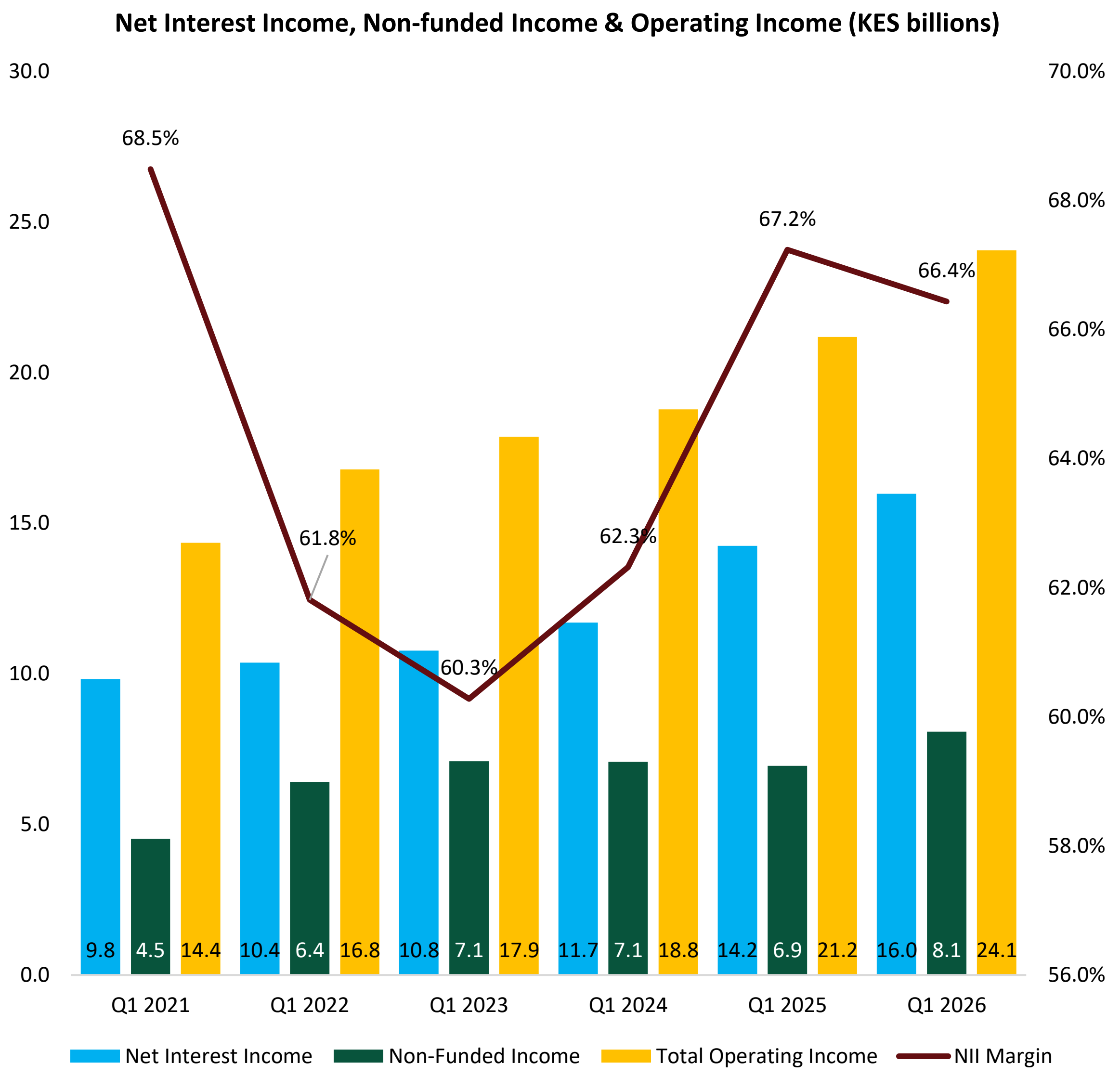
Other fees and income expanded by 10.7% to KES 3.4 billion from KES 3.1 billion.

Foreign exchange trading income edged down by 2.2% to KES 783.1 million from KES 800.6 million, a reduction of KES 17.5 million.

Other income surged 99.4% to KES 630.1 million in Q1 2026 from KES 316.0 million in Q1 2025.

As a result, total operating income increased by 13.6% to KES 24.1 billion from KES 21.2 billion in Q1 2025.

The Net Interest Income (NII) Margin saw a marginal decline to 66.4% from 67.2%. Similarly, the Non-Funded Income (NFI) Margin eased to 31.5% from 38.2% in Q1 2025.



Source: Company Financials

Operating expenses

Total operating expenses rose by 8.4% to KES 12.7 billion in Q1 2026 from KES 11.7 billion in Q1 2025. This was largely driven by significant 11.3% surge in staff costs to KES 5.5 billion from KES 4.9 billion.

Loan loss provisions edged down by 1.5% to KES 2.08 billion from KES 2.11 billion, a decrease of KES 32.4 million.

Director emoluments surged by 312.6% to KES 180.0 million from KES 43.6 million.

Rental charges increased by 29.6% to KES 404.1 million from KES 311.9 million.

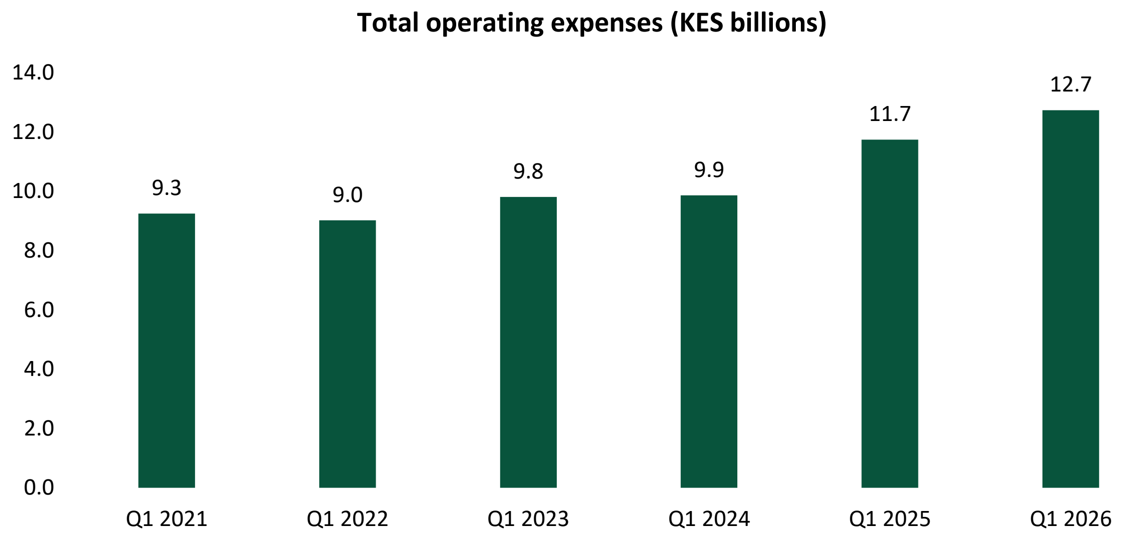
Depreciation on property and equipment climbed 5.9% to KES 789.7 million from KES 745.4 million.

Amortization charges contracted by 14.9% reaching KES 193.4 million from KES 227.3 million.

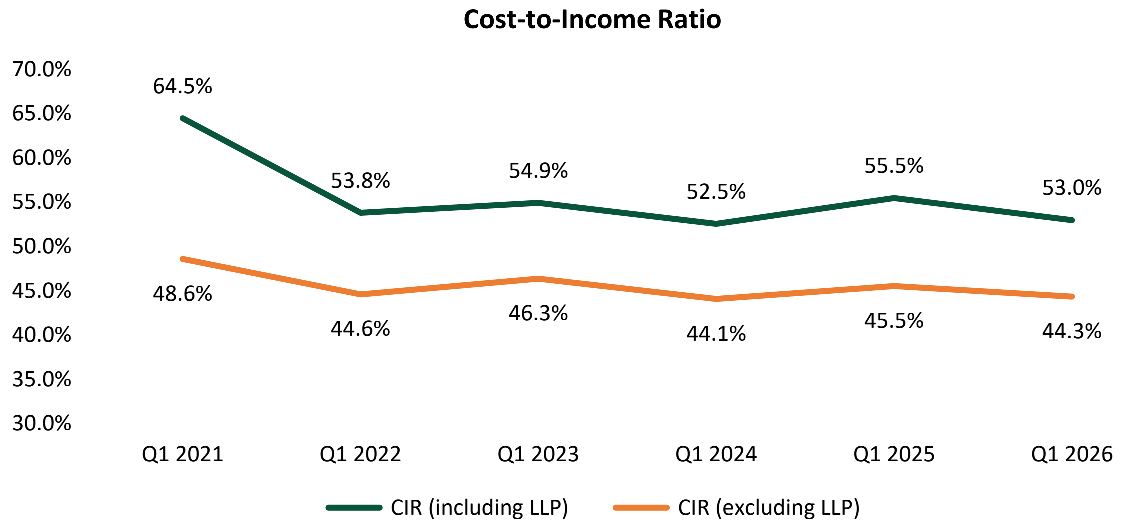
Other operating expenses rose 6.8% to KES 3.6 billion from KES 3.4 billion in Q1 2025.

The cost-to-income ratio (including loan loss provisions) declined to 53.0% in Q1 2026 from 55.5% in Q1 2025, reflecting improved cost management, while the ratio excluding provisions declined to 44.3% from 45.5%.

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



Source: Company Financials



Source: Company Financials

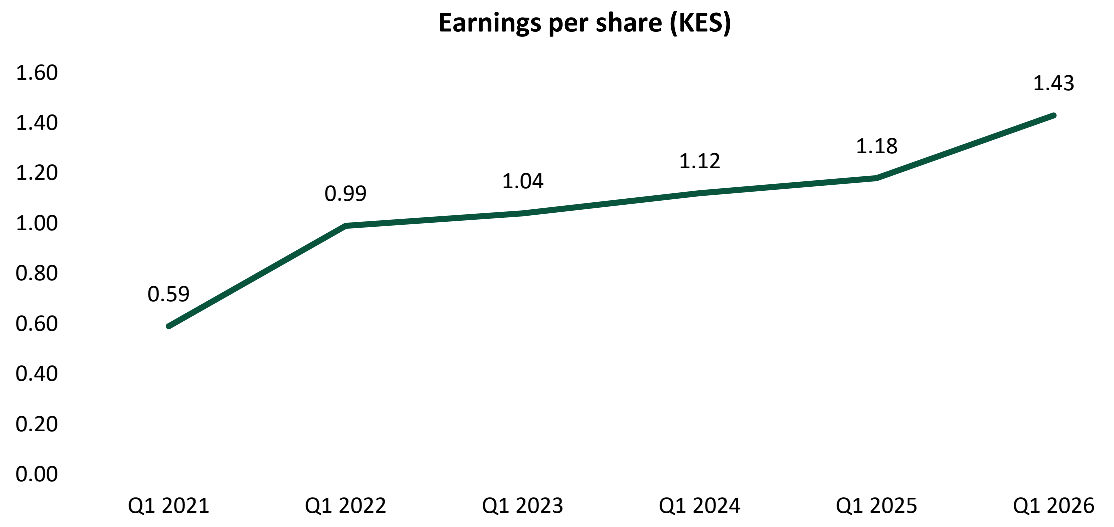
Profitability

Profit before tax rose by 18.1% to KES 11.4 billion in Q1 2026 from KES 9.6 billion in Q1 2025.

Profit after tax increased by 21.3% to KES 8.4 billion from KES 6.9 billion, reflecting an uptick of KES 1.5 billion while net profit margin also saw a gain to 34.9% from 32.7%.

Total comprehensive income contracted by 16.3% to KES 8.3 billion from KES 10.0 billion.

Basic earnings per share improved by 21.2% to KES 1.43 from KES 1.18, reflecting enhanced shareholder returns.



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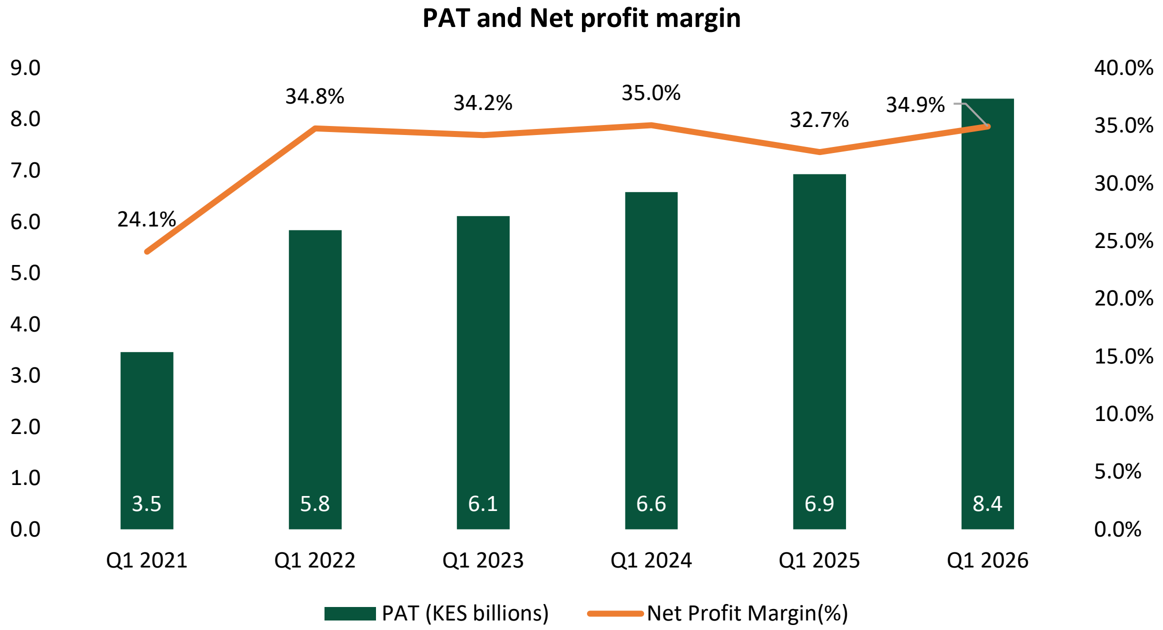

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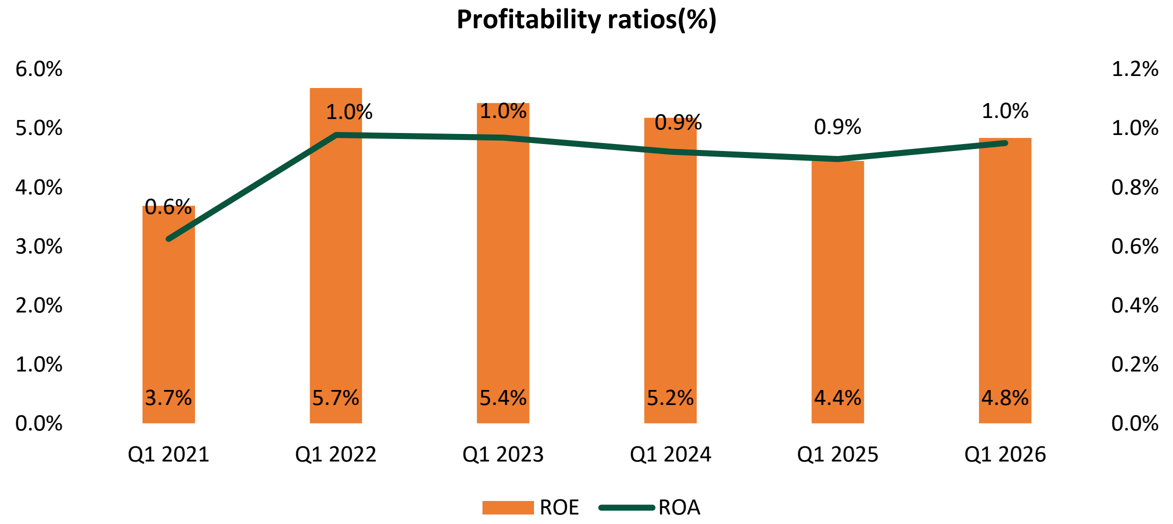


Source: Company Financials

Balance Sheet Rundown

Total assets grew 14.3% to KES 884.6 billion in Q1 2026 from KES 774.1 billion in Q1 2025, reflecting an increase of KES 110.5 billion. Other assets contracted by 35.1% to KES 21.5 from KES 33.1 billion.

Loans and advances to customers expanded by 13.6% to KES 436.8 billion in Q1 2026 from KES 384.5 billion, reflecting an increase of KES 52.2 billion.

Deposits and balances due from local banking institutions surged by 102.8% to KES 31.7 billion from KES 15.6 billion, an increase of KES 16.1 billion.

Similarly, balances due from foreign banking institutions rose by 38.2% to KES 38.8 billion from KES 28.1 billion, an increase of KES 10.7 billion.

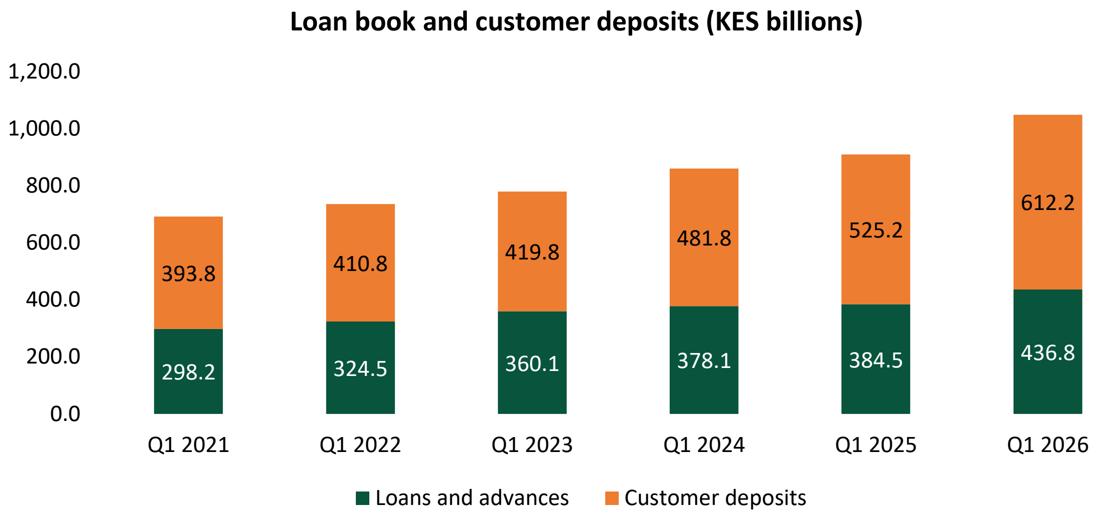
Total liabilities climbed 14.9% to KES 710.5 billion from KES 618.4 billion while other liabilities recorded a decline of 19.1% to KES 23.0 billion from KES 28.5 billion.

Customer deposits grew by 16.6% to KES 612.2 billion in Q1 2026 from KES 525.2 billion in Q1 2025, representing a significant growth of KES 87.0 billion.

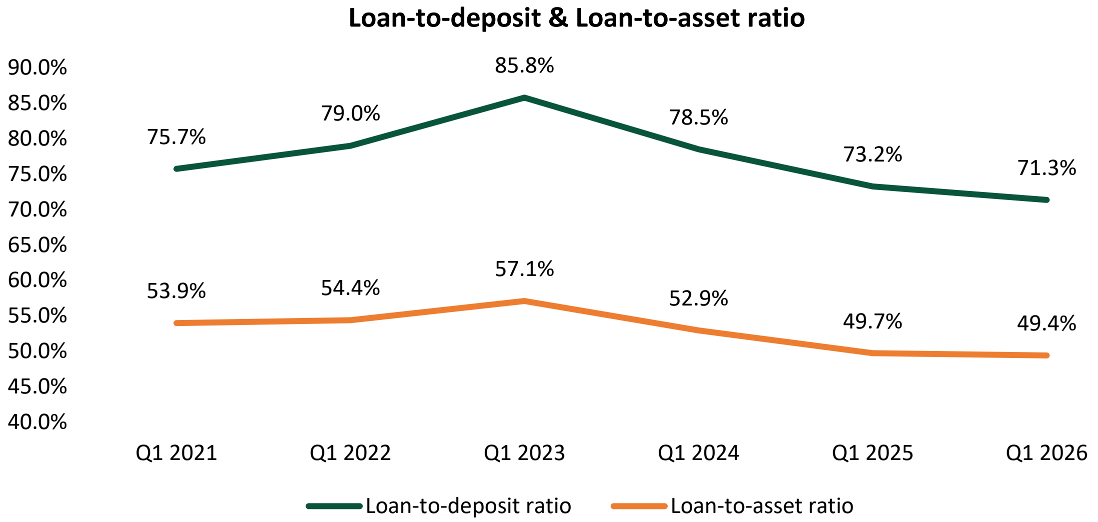
Borrowed funds increased by 13.5% to KES 62.2 billion from KES 54.8 billion.

The loan-to-deposit ratio declined slightly to 71.3% in Q1 2026 from 73.2% in Q1 2025, indicating that customer deposits grew at a faster pace than loan disbursements.

Total shareholders' funds increased by 11.5% to KES 173.8 billion from KES 155.9 billion, supported by a significant increase in retained earnings which rose by 11.9% to KES 152.3 billion from KES 136.1 billion, an uptick of KES 16.2 billion.



Source: Company Financials



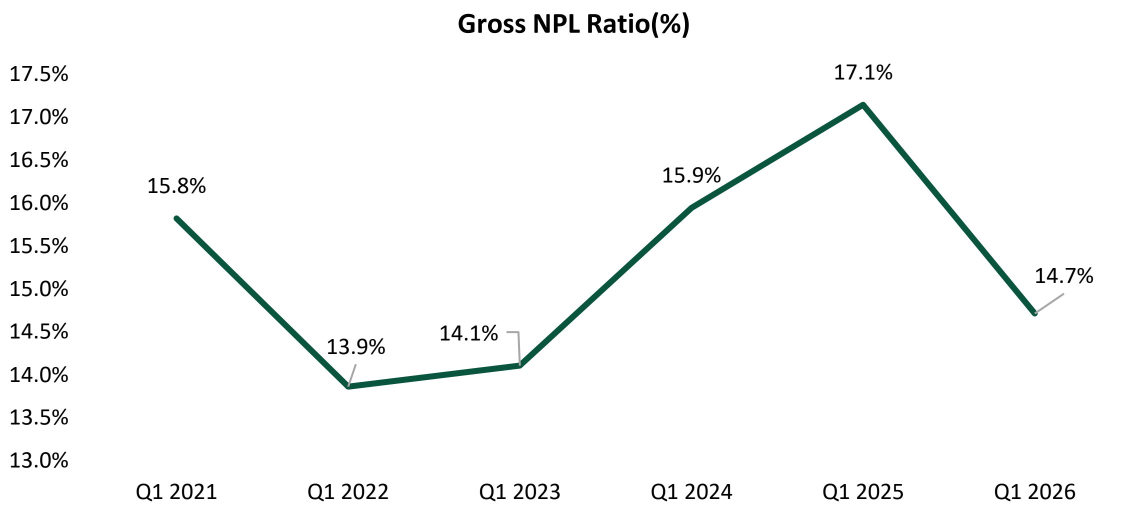
Source: Company Financials

Asset Quality

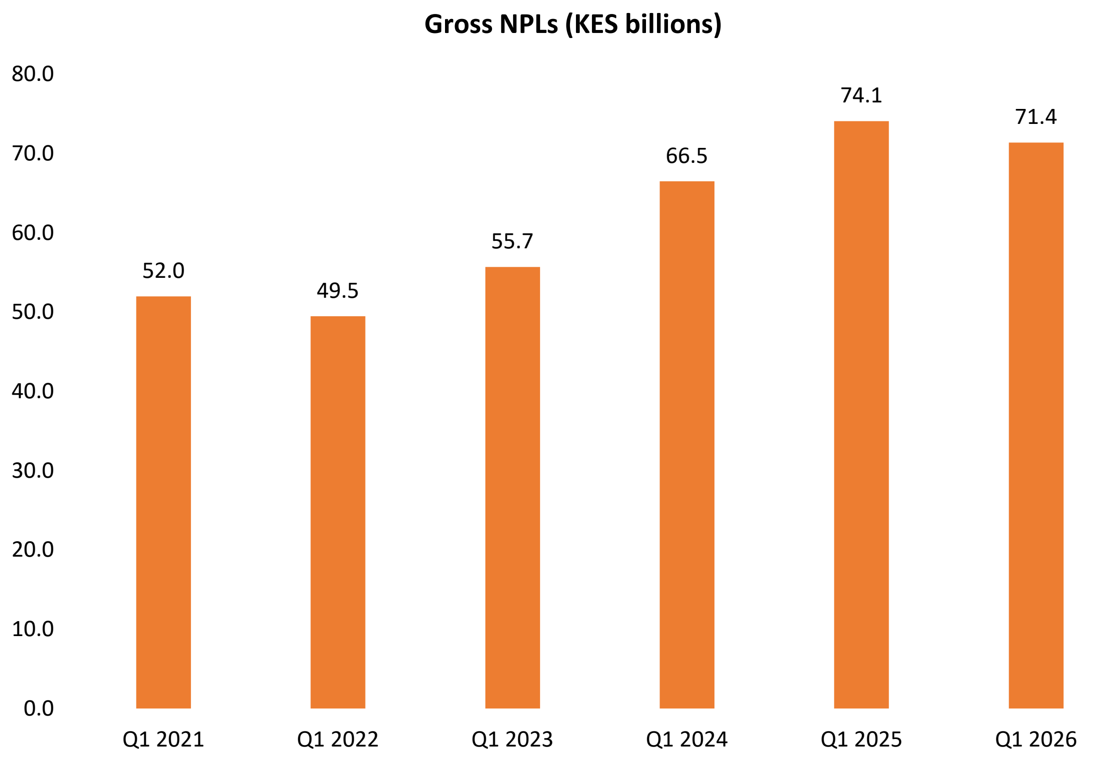
Gross non-performing loans (NPLs) declined by 3.6% to KES 71.4 billion in Q1 2026 from KES 74.1 billion in Q1 2025, reflecting a reduction of KES 2.7 billion.

Asset quality improved, with the NPL ratio declining to 14.7% in Q1 2026 from 17.1% in Q1 2025, remaining well below the industry average of 15.5%.

The NPL coverage ratio increased to 67.7% from 64.2%, showing that the bank is strengthening its buffer against potential loan losses.



Source: Company Financials



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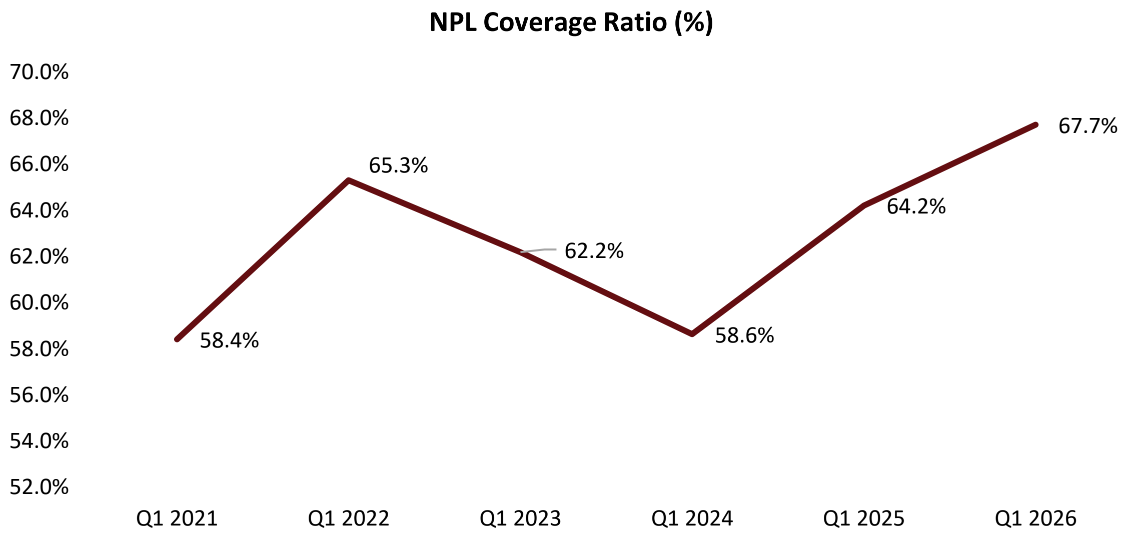


Source: Company Financials

Outlook and Recommendation

Co-operative Bank is expected to sustain stable earnings growth in 2026, supported by resilient core income streams, improving operational efficiency, and steady credit expansion. The 4.8% growth in total interest income, largely driven by a 4.6% increase in interest income from loans and advances, reflects continued momentum in lending activity. This growth is expected to be supported by the prevailing monetary environment in Kenya, following the Central Bank of Kenya's decision to maintain the Central Bank Rate (CBR) at 8.75%, aimed at supporting private sector credit growth and sustaining economic activity.

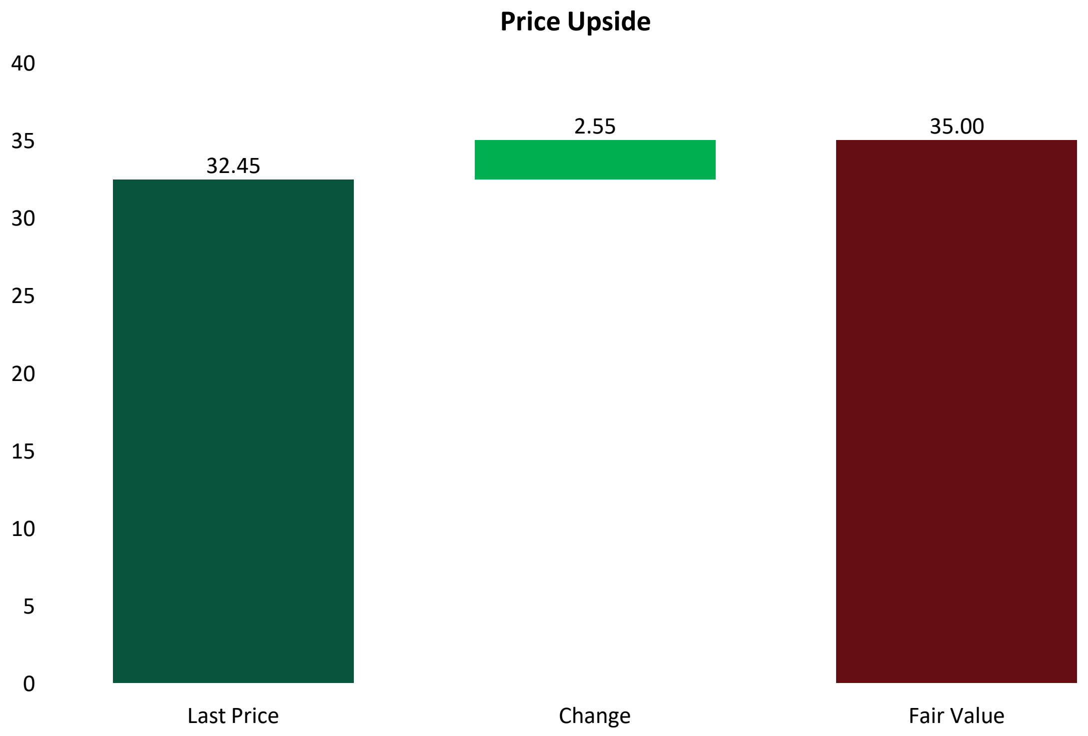
However, emerging global geopolitical tensions and external market uncertainties have contributed to an increase in global oil prices, leading to higher fuel costs domestically and a gradual uptick in inflationary pressures. The rise in fuel prices may increase operational and borrowing costs for households and businesses, potentially slowing credit uptake and weakening repayment capacity in some sectors during the coming quarter. Additionally, elevated inflationary pressures could constrain consumer spending and place pressure on asset quality across the banking sector.

Despite these headwinds, profitability is projected to remain strong, underpinned by a 21.3% increase in profit after tax and an improved net profit margin of 34.9% in Q1 2026. Basic earnings per share (EPS) improved by 21.2% to KES 1.43 from KES 1.18, reflecting enhanced shareholder returns and sustained profitability growth. Enhanced cost discipline, as reflected in the decline in the cost-to-income ratio to 53.0% (including provisions), positions the bank well to manage margin pressures while sustaining earnings quality going forward.

Asset quality also showed signs of gradual improvement, with the non-performing loan (NPL) ratio declining to 14.7% from 17.1% in the prior period. Gross non-performing loans declined by 3.6% to KES 71.4 billion. Furthermore, the NPL coverage ratio increased to 67.7% from 64.2%, indicating stronger provisioning buffers against potential loan losses and reinforcing the bank's prudent risk management framework.

The bank's strong retail and SME franchise continues to provide a stable funding base and supports resilience in loan growth despite prevailing macroeconomic uncertainties.

Overall, Co-operative Bank is well-positioned to navigate the evolving macroeconomic environment, leveraging its strong retail and SME franchise, disciplined cost management, and improving asset quality metrics. While risks remain from elevated credit stress and external market volatility, the bank is expected to deliver steady growth, supported by increased lending activity, stable margins, and enhanced operational efficiency.



Source: Company Financials and Faida Forecasts

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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