

Below is a summary of Absa Bank Kenya Plc H1'2025 performance:

Balance Sheet Items	H1'2024 (Kshs bn)	H1'2025 (Kshs bn)	y/y change
Government Securities	95.3	162.4	70.3%
Net Loans and Advances	316.4	304.9	(3.6%)
Total Assets	481.4	531.6	10.4%
Customer Deposits	353.3	361.3	2.3%
Deposit per Branch	4.6	4.2	(10.7%)
Total Liabilities	408.4	442.6	8.4%
Shareholder's Funds	73.0	89.0	21.9%

Balance Sheet Ratios	H1'2024	H1'2025	% points change
Loan to Deposit Ratio	89.5%	84.4%	(5.1%)
Govt Securities to Deposit ratio	27.0%	44.9%	18.0%
Return on average equity	27.5%	27.0%	(0.5%)
Return on average assets	3.8%	4.3%	0.5%

Income Statement	H1'2024 (Kshs bn)	H1'2025 (Kshs bn)	y/y change
Net Interest Income	23.0	22.3	(2.9%)
Net non-Interest Income	8.8	9.1	3.3%
Total Operating income	31.8	31.5	(1.2%)
Loan Loss provision	(5.2)	(3.2)	(37.9%)
Total Operating expenses	(16.6)	(14.7)	(11.5%)
Profit before tax	15.3	16.8	10.0%
Profit after tax	10.7	11.7	9.1%
Core EPS (Kshs)	2.0	2.2	9.1%
Dividend Per Share (Kshs)	0.20	0.20	0.0%
Dividend Yield (Annualized)	12.5%	9.8%	(22.1%)
Dividend Payout Ratio	10.1%	9.3%	(8.3%)

Income Statement Ratios	H1'2024	H1'2025	% points change
Yield from interest-earning assets	14.1%	13.4%	(0.7%)
Cost of funding	4.8%	4.1%	(0.8%)
Net Interest Spread	2.5%	1.8%	(0.6%)
Net Interest Margin	10.0%	9.8%	(0.2%)
Cost of Risk	16.2%	10.2%	(6.0%)
Net Interest Income as % of operating income	72.3%	71.0%	(1.3%)
Non-Funded Income as a % of operating income	27.7%	29.0%	1.3%
Cost to Income	52.0%	46.6%	(5.4%)
Cost to Income (Without LLPs)	35.8%	36.4%	0.6%

Capital Adequacy Ratios	H1'2024	H1'2025	% points change
Core Capital/Total Liabilities	18.3%	21.4%	3.1%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	10.3%	13.4%	3.1%
Core Capital/Total Risk Weighted Assets	14.8%	17.6%	2.8%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	4.3%	7.1%	2.8%
Total Capital/Total Risk Weighted Assets	18.6%	20.5%	1.9%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	4.1%	6.0%	1.9%
Liquidity Ratio	35.2%	45.5%	10.3%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	15.2%	25.5%	10.3%

Income Statement

- Core earnings per share increased by 9.1% to Kshs 2.2, from Kshs 2.0 in H1'2024, mainly driven by the 11.5% decrease in total operating expenses to Kshs 14.7 bn, from Kshs 16.6 bn in H1'2024 which outpaced the 1.2% decrease in total operating income to Kshs 31.5 bn, from Kshs 31.8 bn in H1'2024,
- The 1.2% decline in total operating income was mainly driven by a 2.9% decrease in Net Interest Income (NII) to Kshs 22.3 bn, from Kshs 23.0 bn in H1'2024, but however supported by the 3.3% increase in Non funded Income (NFI) to Kshs 9.1 bn, from Kshs 8.8 bn in H1'2024,
- Interest income declined by 8.3% to Kshs 29.9 bn from Kshs 32.6 bn in H1'2024, mainly driven by a 18.2% decrease in interest income from loans and advances to Kshs 22.4 bn, from Kshs 27.4 bn in H1'2024 coupled with a 5.5% decrease in interest income from deposits and placements to Kshs 0.9 bn from Kshs 1.0 bn in H1'2024. Consequently, the Yield on Interest-Earning Assets (YIEA) decreased by 0.7% points to 13.4% from 14.1% recorded in H1'2024, mainly attributable to the slower 0.6% growth in trailing interest income to Kshs 62.0 bn, from Kshs 61.7 bn in H1'2024 compared to the 5.8% increase in average interest earning assets to Kshs 463.8 bn, from Kshs 438.4 bn in H1'2024,
- Interest expenses declined by 21.3% to Kshs 7.6 bn, from Kshs 9.6 bn in H1'2024, driven by 24.6% decrease in interest expenses from customer deposits to Kshs 6.7 bn, from Kshs 8.8 bn in H1'2024, but however weighed down by a 22.7% increase in interest expenses from deposits and placements to Kshs 0.8 bn in H1'2025, from Kshs 0.6 bn recorded in H1'2024. Consequently, Cost of funds (COF) decreased by 0.8% points to 4.1%, from 4.8% recorded in H1'2024, owing to a 7.7% decrease in Trailing interest expense to Kshs 16.4 bn, from Kshs 17.8 bn in H1'2024, compared to the 9.4% increase in average interest bearing liabilities to Kshs 403.3 bn from Kshs 368.5 bn in H1'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 0.2% points to 9.8% from 10.0% in H1'2024, attributable to the 4.0% growth in trailing net interest income to Kshs 45.6 bn, from Kshs 43.8 bn recorded in H1'2024, which was outpaced by the 5.8% increase in average interest earning assets to Kshs 463.8 bn, from Kshs 438.4 bn in H1'2024,
- Non-Funded Income (NFI) increased by 3.3% to Kshs 9.1 bn from Kshs 8.8 bn in H1'2024, mainly driven by a 21.0% increase in income from other fees and commissions to 3.6 bn from 3.0 bn in H1'2024, however, weighed down by the 16.6% decrease in fees and commissions income to Kshs 0.6 bn from Kshs 0.7 bn in H1'2024. Foreign exchange trading income declined by 14.0% to Kshs 3.1 bn from Kshs 3.7 bn in H1'2024, highlighting the bank's reduced foreign exchange margins. The revenue mix shifted to 71:29 from 72:28 in H1'2024 for the funded to non-funded income owing to the 2.9% decline in Funded Income compared to the 3.3% increase in the Non Funded Income,
- Total operating expenses decreased by 11.5% to Kshs 14.7 bn from Kshs 16.6 bn in H1'2024, driven by a 37.9% decrease in loan loss provisions to Kshs 3.2 bn from Kshs 5.2 bn in H1'2024, but however weighed down by the 1.6% increase in staff costs to Kshs 6.3 bn from Kshs 6.2 bn in H1'2024. The decrease in provisioning comes amid the alleviated credit risk as a result of improved business environment during the period as evidenced by the average H1'2025 Purchasing Managers Index (PMI) of 50.5, up from an average of 50.0 in H1'2024,
- Cost to Income Ratio (CIR) decreased to 46.6% from 52.0% in H1'2024, owing to the 11.5% decrease in total operating expenses, which outpaced the 1.2% decrease in total operating income. However, CIR without LLP increased by 0.6% points to 36.4% from 35.8% recorded in H1'2024, and,
- Profit before tax increased by 10.0% to Kshs 16.8 bn from Kshs 15.3 bn in H1'2024, with effective tax rate increasing to 30.5% in H1'2025 from 29.9% in H1'2024. As such, profit after tax increased by 9.1% to Kshs 11.7 bn, from Kshs 10.7 bn in H1'2024.

Balance Sheet

- The balance sheet recorded an expansion as total assets grew by 10.4% to Kshs 531.6 bn, from Kshs 481.4 bn in H1'2024, driven by a 70.3% increase in investment in government securities to Kshs 162.4 bn, from Kshs 95.3 bn in H1'2024. The performance was however weighed down by a 3.6% loan book contraction to Kshs 304.9 bn from Kshs 316.4 bn in H1'2024

- Total liabilities grew by 8.4% to Kshs 442.6 bn from Kshs 408.4 bn in H1'2024, driven by a 2.3% increase in customer deposits to Kshs 361.3 bn, from Kshs 353.3 bn in H1'2024. With 87 branches countrywide compared to 76 branches in H1'2024, deposits per branch decreased by 10.7% to Kshs 4.2 bn, from Kshs 4.6 bn in H1'2024,
- The 2.3% increase in customer deposits as compared to the 3.6% decline in loans led to a 5.1 points decline in the loan to deposits ratio to 84.4%, from 89.5% in H1'2024,
- The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.2% in H1'2025, from 11.5% in H1'2024, attributable to the 12.3% increase in gross non-performing loans to Kshs 44.2 bn, from Kshs 39.4 bn in H1'2024, relative to the 2.5% decrease in gross loans to Kshs 334.4 bn, from Kshs 343.0 bn recorded in H1'2024,
- General Provisions (LLP) increased by 6.2% to Kshs 21.2 bn in H1'2025 from Kshs 20.0 bn in H1'2024. The NPL coverage decreased to 66.6% in H1'2025, from 67.7% in H1'2024, attributable to the 12.3% growth in gross non-performing loans to Kshs 44.2 bn from Kshs 39.4 bn recorded in H1'2024, which outpaced the 6.2% increase in general provisions to Kshs 21.2 bn, from Kshs 20.0 bn in H1'2024.
- Shareholders' funds increased by 21.9% to Kshs 89.0 bn in H1'2025, from Kshs 73.0 bn in H1'2024, supported by a 16.8% increase in retained earnings to Kshs 85.5 bn, from Kshs 73.2 bn in H1'2024,
- Absa Bank Kenya remained capitalized with a core capital to risk-weighted assets ratio of 17.6%, 7.1 points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 20.5% exceeding the statutory requirement of 14.5% by 6.0 points, and,
- The bank currently has a Return on Average Assets (ROaA) of 4.3%, and a Return on Average Equity (ROaE) of 27.0%.

Key Take-Outs:

1. **Increased earnings** - Core earnings per share increased by 9.1% to Kshs 2.2, from Kshs 2.0 in H1'2024, mainly driven by the 11.5% decrease in total operating expenses to Kshs 14.7 bn, from Kshs 16.6 bn in H1'2024 which outpaced the 1.2% decrease in total operating income to Kshs 31.5 bn, from Kshs 31.8 bn in H1'2024
2. **Declined asset quality** – The bank's Asset Quality deteriorated, with Gross NPL ratio increasing to 13.2% in H1'2025, from 11.5% in H1'2024, attributable to the 12.3% increase in gross non-performing loans to Kshs 44.2 bn, from Kshs 39.4 bn in H1'2024, relative to the 2.5% decrease in gross loans to Kshs 334.4 bn, from Kshs 343.0 bn recorded in H1'2024, and,
3. **Decreased Lending** – The bank's loan book recorded a contraction of 3.6% to Kshs 304.9 bn, from Kshs 316.4 bn in H1'2024.
4. **Declaration of dividends** – The Board of Directors declared an interim dividend of Kshs 0.20 per share for the period consistent with H1'2024 with book closure of 19th September 2025 and a payment date of 15th October 2025. This translates to an annualized dividend yield of 9.8% and a dividend payout ratio of 9.3%.

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

- **Continued Digitization** - The bank has continued to leverage digital transformation as a strategy to enhance financial services and customer experience, with digitization level increasing to 71% in H1'2025, from 65% in H1'2024. 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 Kenya is a "Buy" with a target price of Kshs 23.5 representing an upside of 27.4%, inclusive of an annualized dividend yield of 9.8%, from the current price of Kshs 20.0 as of 15th August 2025,
- Absa Bank Kenya is currently trading at a P/TBV of 1.2x and a P/E of 5.1x vs an industry average of 1.0x and 4.6x respectively.