

Below is a summary of Absa Bank Kenya's FY'2025 performance:

Balance Sheet	FY'2024 (Kshs bn)	FY'2025 (Kshs bn)	y/y change
Government Securities	130.6	157.7	20.7%
Net Loans and Advances	309.1	312.2	1.0%
<b>Total Assets</b>	<b>506.5</b>	<b>537.6</b>	<b>6.2%</b>
Customer Deposits	367.1	372.4	1.4%
Deposit per Branch	4.8	4.4	(8.2%)
Total Liabilities	421.3	437.1	3.8%
<b>Shareholder's Funds</b>	<b>85.2</b>	<b>100.5</b>	<b>18.0%</b>

Balance sheet ratios	FY'2024	FY'2025	% y/y change
Loan to Deposit Ratio	84.2%	83.8%	(0.4%)
Govt Securities to Deposit ratio	35.6%	42.3%	6.8%
Return on average equity	27.0%	24.7%	(2.4%)
Return on average assets	4.1%	4.4%	0.3%

Income Statement	FY'2024 (Kshs bn)	FY'2025 (Kshs bn)	y/y change
Net Interest Income	46.2	43.3	(6.4%)
Net non-Interest Income	16.1	18.1	12.2%
<b>Total Operating income</b>	<b>62.3</b>	<b>61.4</b>	<b>(1.6%)</b>
Loan Loss provision	(9.1)	(6.2)	(31.8%)
Total Operating expenses	(32.6)	(28.6)	(12.2%)
<b>Profit before tax</b>	<b>29.7</b>	<b>32.7</b>	<b>10.1%</b>
<b>Profit after tax</b>	<b>20.9</b>	<b>22.9</b>	<b>9.7%</b>
<b>Dividend per share</b>	<b>1.75</b>	<b>2.05</b>	<b>17.1%</b>
<b>Dividend Yield</b>	<b>9.2%</b>	<b>6.8%</b>	<b>(2.4%)</b>
<b>Dividend Payout Ratio</b>	<b>45.5%</b>	<b>48.6%</b>	<b>3.1%</b>
<b>Core EPS</b>	<b>3.84</b>	<b>4.22</b>	<b>9.7%</b>

Income statement ratios	FY'2024	FY'2025	% points change
Yield from interest-earning assets	14.2%	12.2%	(2.0%)
Cost of funding	4.5%	3.5%	(1.0%)
Net Interest Spread	4.7%	3.4%	(1.3%)
Net Interest Margin	10.1%	9.1%	(1.0%)
Cost of Risk	14.6%	10.1%	(4.5%)
Net Interest Income as % of operating income	74.2%	70.6%	(3.6%)
Non-Funded Income as a % of operating income	25.8%	29.4%	3.6%
Cost to Income	52.3%	46.7%	(5.7%)
Cost to Income (Without LLPs)	37.7%	36.5%	(1.2%)
Cost to Assets	4.6%	4.2%	(0.5%)

Capital Adequacy Ratios	FY'2024	FY'2025	% y/y change
Core Capital/Total Liabilities	19.9%	22.3%	2.4%
Minimum Statutory ratio	8.0%	8.0%	0.0%

<b>Excess</b>	<b>11.9%</b>	<b>14.3%</b>	<b>2.4%</b>
Core Capital/Total Risk Weighted Assets	17.0%	18.3%	1.3%
Minimum Statutory ratio	10.5%	10.5%	0.0%
<b>Excess</b>	<b>6.5%</b>	<b>7.8%</b>	<b>1.3%</b>
Total Capital/Total Risk Weighted Assets	20.7%	21.0%	0.3%
Minimum Statutory ratio	14.5%	14.5%	0.0%
<b>Excess</b>	<b>6.2%</b>	<b>6.5%</b>	<b>0.3%</b>
Liquidity Ratio	42.5%	45.6%	3.1%
Minimum Statutory ratio	20.0%	20.0%	0.0%
<b>Excess</b>	<b>22.5%</b>	<b>25.6%</b>	<b>3.1%</b>

### Income Statement

- Core earnings per share grew by 9.7% to Kshs 4.2 bn, from Kshs 3.8 bn in Q3'2024, driven by the 12.2% decrease in total operating expense to Kshs 28.6 bn, from Kshs 32.6 bn in FY'2024. However the performance was weighed down by a 1.6% decrease in total operating income to Kshs 61.4 bn from Kshs 62.3 bn in FY'2024.
- The 12.2% decrease in total operating expense was mainly driven by a 31.8% decline in Loan Loss Provision (LLP) to Kshs 6.2 bn, from Kshs 9.1 bn in FY'2024. It was however weighed down by a 4.0% increase in staff cost to Kshs 13.5 bn in FY'2025, from Kshs 13.0 bn in FY'2024.
- Interest income declined by 10.9% to Kshs 57.7 bn from Kshs 64.7 bn in FY'2024, mainly driven by a 19.7% decline in interest income from loans and advances to Kshs 42.8 bn, from Kshs 53.4 bn in FY'2024, coupled with a 19.2% decrease in interest income from deposits and placements with banking institutions to Kshs 1.6 bn, from Kshs 2.0 bn in FY'2024. As such, the Yield on Interest-Earning Assets (YIEA) decreased by 2.0% points to 12.2% from 14.2% recorded in FY'2024, attributable to the decline of 10.9% in trailing interest income to Kshs 57.7 bn, from Kshs 64.7 bn in FY'2024, compared to a 3.6% increase in average interest earning assets to Kshs 474 bn, from Kshs 457.4 bn in FY'2024,
- Interest expenses declined by 22.2% to Kshs 14.4 bn from Kshs 18.5 bn in FY'2024, mainly driven by 31.0% decrease in interest expense on customer deposits to Kshs 12.4 bn from Kshs 18.0 bn in FY'2024. Consequently, Cost of funds (COF) decreased by 1.1% points to 3.5% from 4.5% recorded in FY'2024, owing to a 22.2% decrease in trailing interest expense to Kshs 14.4 bn from Kshs 18.5 bn recorded in FY'2024, compared to a slower 0.3% increase in average interest-bearing liabilities to Kshs 408.6 bn from Kshs 407.4 bn in FY'2024. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) decreased by 1.0% points to 9.1% from 10.1% in FY'2024, attributable to a 6.4% decrease in trailing net interest income to Kshs 43.3 bn from Kshs 46.2 bn recorded in FY'2024, which outpaced` the 3.6% growth in average interest earning assets,
- Non-Funded Income (NFI) increased by 12.2% to Kshs 18.1 bn from Kshs 16.1 bn in FY'2024, mainly driven by a 22.8% increase in other fees income to Kshs 7.4 bn, from Kshs 6.0 bn in FY'2024. The revenue mix shifted to 71:29, from 74:26 for the funded to Non-funded income owing to the 6.4% decline in Funded Income compared to the 12.2% increase in the Non-Funded Income,
- Total operating expense decreased by 12.2% to Kshs 28.6 bn in FY'2025, from Kshs 32.6 bn in FY'2024, mainly attributable to 31.8% decrease in loan loss provision to Kshs 6.2 bn, from Kshs 9.1 bn in FY'2024, coupled with

the 15.3% decrease in other operating expenses to 8.9 bn from 10.5 in FY'2024. This performance outweighed the 4.0% increase in staff costs to 13.5% from 13.0% recorded in FY'2024.

- Cost to Income Ratio (CIR) decreased by 5.7% points to 46.7% from 52.3% in FY'2024, owing to the faster 12.2% decrease in total operating expenses, which outpaced the 1.6% decrease in total operating income. Notably, CIR without LLP decreased by 1.2% points to 36.5%, from 37.7% recorded in FY'2024,
- Profit before tax increased by 10.1% to Kshs 32.7 bn, from Kshs 29.7 bn recorded in FY'2024, with effective tax rate increasing to 30.0% in FY'2025, from 29.8% in FY'2024, leading to a 9.7% increase in profit after tax to Kshs 22.9 bn in FY'2025, from Kshs 20.9bn in FY'2024.
- The Board of Directors declared a final dividend of Kshs 1.85 per share in addition to an interim dividend of Kshs 0.20 per share, bringing the total dividend for FY'2025 to Kshs 2.05 per share from Kshs 1.75 per share translating to a dividend yield of 6.8% and a dividend-payout ratio of 48.6%.

### **Balance Sheet**

- The balance sheet recorded an expansion as total assets increased by 6.2% to Kshs 537.6 bn, from Kshs 506.5 bn in FY'2024, mainly driven by a 20.7% increase in governments securities holdings to Kshs 157.7 bn, from 130.6 bn in FY'2024. Net loans and advances increased by 1.0% to Kshs 312.2 bn, from Kshs 309.1 bn in FY'2024. Total liabilities increased by 3.8% to Kshs 437.1 bn from Kshs 421.3 bn in FY'2024, mainly driven by a 1.4% increase in customer deposits to Kshs 372.4 bn, from Kshs 367.1 bn in FY'2024, coupled with the 13.1% increase in borrowings to Kshs 3.0 bn, from Kshs 3.5 bn in FY'2024. With 84 branches, compared to 76 branches in FY'2024, deposits per branch decreased 8.2% to Kshs 4.4 bn, from Kshs 4.8 bn in FY'2024,
- The 1.4% increase in customer deposits, compared to the 1.0% increase in net loans led to a decrease in the loan to deposits ratio to 83.8%, from 84.2% in FY'2024,
- The bank's Asset Quality improved, with Gross NPL ratio decreasing to 11.5% in FY'2025, from 12.6% in FY'2024, attributable to a 8.4% decrease in Gross non-performing loans to Kshs 38.9 bn, from Kshs 42.5 bn in FY'2024, relative to the 0.1% decrease in gross loans to Kshs 337.3 bn, from Kshs 337.1 bn recorded in FY'2024,
- General Provisions (LLP) decreased by 16.8% to Kshs 17.3 bn in FY'2025 from Kshs 20.8 bn in FY'2024. The NPL coverage decreased to 64.6% in FY'2025, from 66.0% in FY'2024, attributable to the 16.8% decrease in general provisions, and the 8.4% decrease in Gross Non-performing Loans to Kshs 38.9 bn, from Kshs 42.5 bn in FY'2024 which outpaced the 8.4% increase in interest in suspense to Kshs 7.8 bn from 7.2 bn in FY' 2024.
- Shareholders' funds increased by 18.0% to Kshs 100.5 bn in FY'2025, from Kshs 85.2 bn in FY'2024, supported by a 15.7% increase in retained earnings to Kshs 86.7 bn, from Kshs 74.9 bn in FY'2024,
- Absa Bank Group remains capitalized with a core capital to risk-weighted assets ratio of 18.3%, 7.8% 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 4.4%, and a Return on Average Equity (ROaE) of 24.7%.

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

1. **Increased earnings** - Core earnings per share grew by 9.7% to Kshs 4.2, from Kshs 3.8 in FY'2024, driven by the 12.2% decrease in total operating expense to Kshs 28.6 bn, from Kshs 32.6 bn in FY'2024. However, the performance was weighed down by a 1.6% decrease in total operating income to Kshs 61.4 bn from Kshs 62.3 bn in FY' 2024,

- 2. Improved asset quality** – The bank's Asset Quality improved, with Gross NPL ratio decreasing to 11.5% in FY'2025, from 12.6% in FY'2024, attributable to a 8.4% decrease in Gross non-performing loans to Kshs 38.9 bn, from Kshs 42.5 bn in FY'2024 and decrease in gross loans to Kshs 337.3 bn, from Kshs 337.1 bn recorded in FY'2024, relative to the 8.4% increase in interest suspense to Kshs 7.8 bn from Kshs 7.2 bn recorded in FY'2024.
- 3. Expanded Balanced sheet** - The balance sheet recorded an expansion as total assets increased by 6.2% to Kshs 537.6 bn, from Kshs 506.5 bn in FY'2024, mainly driven by a 20.7% increase in governments securities holdings to Kshs 157.7 bn, from 130.6 bn in FY'2024. Net loans and advances increased by 1.0% to Kshs 312.2 bn, from Kshs 309.1 bn in FY'2024.
- 4. Increased Government Holdings** – Government Securities increased by 20.7% to Kshs 157.7 bn from Kshs 130.6 bn recorded in FY'2024. This is attributable to a conscious shift towards government securities amid the interest rate environment

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 increased by 1.0% to Kshs 312.2 bn from Kshs 309.1 bn in FY'2024.
- **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 30.2 as of 6<sup>th</sup> March 2026 inclusive of dividend yield.
- Absa Bank is currently trading at a P/TBV of 1.7x and a P/E of 7.1x vs an industry average of 1.2x and 6.1x respectively.