KINGDOM SECURITIES

Absa Bank Kenya Plc
Earnings Update – FY2025

Absa Leads Earnings Season with Resilient Growth – EPS Jumps 9.7%y/y

Earnings season has kicked off, and Absa is first out of the blocks. The results come against a challenging backdrop of subdued interest rates, compressed interest income and muted credit uptake; a combination that has tightened margins across the banking sector. In this environment, profitability is increasingly being driven by localized strategies and innovation in non-funded income streams rather than traditional lending growth.

For Absa, resilience came from cost discipline and diversification. A faster decline in operating expenses, coupled with growth in non-funded income, helped cushion the impact of softer net interest income.

The bank delivered a 9.7% y/y increase in EPS to KES 4.22, up from KES 3.84 in 2024. It also declared a final dividend of KES 1.85, up 30 cents from last year's KES 1.55, translating to a payout ratio of 48.6%, slightly higher than 45.5% in 2024.

Balance sheet growth remained selective. Loans and advances were largely muted over the period, while customer deposits edged up to KES 372.38Bn.

Recommendation:	HOLD
Bloomberg Ticker:	ABSA KN
Share Stats	
Current Price	32.05
3-Month Av	26.26
6 Month Av	24.43
12 Month Av	21.56
52 Week High - High	32.20
52 Week High - Low	16.35
Issued shares Bn	5.43
Market Cap (KES Bn)	174.03
Market Cap (USD Mn)	1.35
P/E	7.60
PB	1.35
EPS (Annualized)	4.22

Return Performance		
Periods	Absa Bank Kenya	NASI
3mtd PriceΔ(%ge)	41.19%	2.88%
6mtd PriceΔ(%ge)	55.21%	19.53%
YTD Δ(%ge)	29.76%	14.06%
Y/Y Δ(%ge)	68.24%	60.50%

NII	-6.4%
Provisions	-31.9%
Opex	-12.2%
Opex Excl. LLPs	-4.6%
PBT	10.1%
PAT	9.7%
Loans	0.9%
Govt. Securities	22.3%
Deposits	1.4%
Shareholders' Funds	18.0%

Income Statement

Absa Bank Kenya posted a 6.4% y/y decline in **net interest income (NII)** to Kes. 43.29Bn from Kes. 46.23Bn, as interest income dropped by a higher absolute term compared to interest expense. **Total interest income** fell 10.9% to Kes. 57.67Bn from Kes. 64.73Bn, mainly due to a 19.7% drop in interest from loans and advances, which declined to Kes. 42.85Bn from Kes. 53.37Bn as the lender maintained a cautious lending stance. In contrast, **returns from government securities** surged 40.9% y/y to Kes. 13.25Bn, reflecting the sustained demand for lower-risk Treasury assets over the review period. **Interest expense** eased by a higher rate (slower in absolute terms) recording a 22.3% y/y drop to Kes. 14.38Bn from Kes. 18.50Bn, supported by lower funding costs despite an increase in obligations towards other banking institutions.

Non-funded income (NFI) partly cushioned the pressure on NII, rising 12.2% y/y to Kes. 18.06Bn, supported by growth in the other fees and commissions. We note that the company continues to buff up its streams through other financial services like custody and bancassurance. However, the decline in yields on interest-earning assets saw the contribution of NII to total operating income soften relative to previous periods.

Total operating income closed the quarter at Kes. 61.35Bn, a slight decline from 62.33Bn. Similarly, operating expenses dropped by 12.2% y/y to Kes. 28.62Bn from Kes. 32.61Bn, on higher staff and administrative costs**.** **Loan loss provisions** fell sharply by 31.9% y/y to Kes. 6.20Bn from Kes. 9.10Bn, owing to improved economic conditions and lower lending rates. As a result, **profit before tax** climbed 10.1% y/y to Kes. 32.73Bn, while profit after tax increased 9.7% to Kes. 22.91Bn, delivering a strong return on equity of 24.7%, despite a mute loan book.

Balance Sheet

Absa Bank's balance sheet remained firm, with **total assets** expanding 6.2% y/y to KES 537.65Bn from KES 506.48Bn, supported primarily by a larger investment portfolio and a relatively steady loan book. Amid subdued credit demand, the bank increased its allocation to **government securities**, with holdings rising 22.3% y/y to KES 159.78Bn from KES 130.59Bn, signaling a defensive but yield-conscious asset reallocation strategy.

This shift helped preserve balance-sheet momentum even as **loans and advances** remained largely muted at KES 312.17Bn compared to KES 309.10Bn, reflecting cautious private-sector lending conditions despite signs of gradual improvement.

On the funding side, **customer deposits** grew modestly by 1.4% y/y to KES 372.38Bn from KES 367.11Bn, anchoring liquidity and providing a stable base to support asset expansion. **Total liabilities** rose at a slower pace of 3.8% y/y to KES 437.13Bn from KES 421.27Bn in 2024, underscoring measured balance-sheet growth.

Encouragingly, **shareholders' funds** expanded 18.0% y/y to KES 100.52Bn from KES 85.20Bn, driven by stronger retained earnings and disciplined capital management, further reinforcing the bank's solvency position.

Overall, Absa's balance sheet remains resilient, with asset growth outpacing liabilities and capital buffers strengthening. Going forward, earnings sustainability will hinge on asset quality and the performance of the loan book as credit demand gradually normalizes.

Financial Contribution

	Absa Bank	Others
NII	98.4%	1.6%
PBT	91.4%	8.6%
PAT	91.4%	8.6%
Loans	100.0%	0.0%
Assets	99.9%	0.1%

Key Ratios

- Absa's **net interest margin (NIM)** compressed to 9.39% in 2025 from 10.54% a year earlier, reflecting pressure on net interest income despite growth in interest-earning assets.
- The **yield on interest-earning assets** moderated to 12.51% from 14.76% in 2024 as lending rates repriced downward over the period.
- Encouragingly, the **cost of funds** improved to 3.79% from 4.94%, indicating more efficient funding supported by lower interest expenses in the prevailing rate environment.

That said, we remain cautious of the floor effect, where further rate cuts may not translate into equivalent reductions in funding costs, potentially exerting additional pressure on margins.

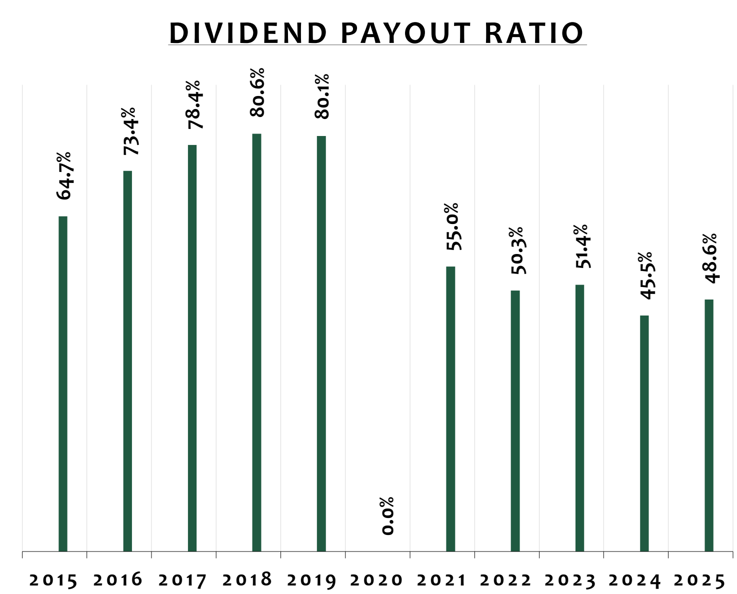
- The **income mix** showed improved diversification. Net interest income accounted for 70.56% of operating income, down from 74.17% in 2024, while non-funded income strengthened to 29.44% from 25.83%, cushioning margin compression.
- Operational efficiency improved, with the **cost-to-income ratio (CIR)** declining to 46.65% from 52.32%. Excluding loan loss provisions, the CIR edged down to 36.55% from 37.72%, underscoring sustained cost discipline.
- Asset quality trends were positive, with the **NPL ratio** easing to 11.54% from 12.60% following a reduction in gross non-performing loans.
- In terms of profitability metrics, **return on average equity (ROaE)** moderated to 24.67% from 27.05%, **while return on average assets (ROaA)** improved to 4.39% from 4.07%, highlighting stronger asset efficiency despite softer equity returns.

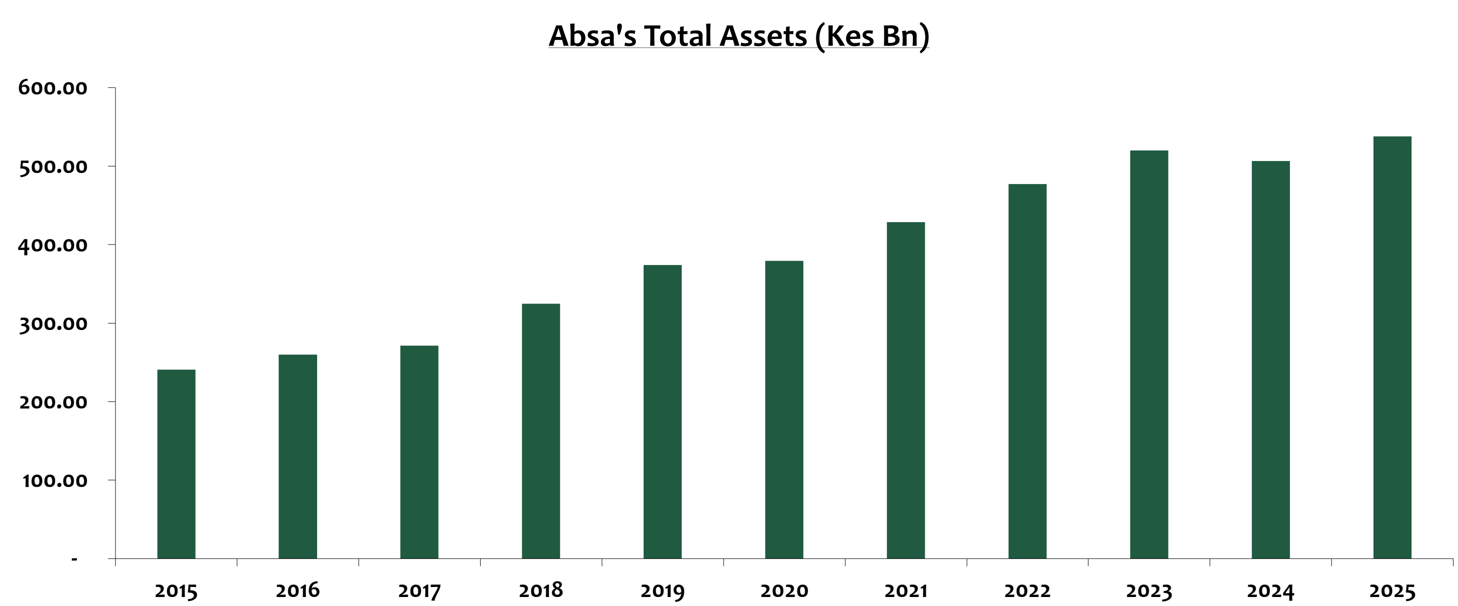
Tables and Charts

Income Statement	FY'24	FY'25	%Δ Y-Y
Interest Income	64.73	57.67	-10.90%
Interest Expense	(18.50)	(14.38)	-22.25%
NII	46.23	43.29	-6.36%
NFI	16.10	18.06	12.20%
Total Income	**62.33**	**61.35**	-1.57%
Loan Loss provision	(9.10)	(6.20)	-31.87%
Total Operating expenses	(32.61)	(28.62)	-12.23%
Opex excl Provision	(23.51)	(22.42)	-4.62%
PBT	**29.72**	**32.73**	10.13%
PAT	**20.88**	**22.91**	9.70%
EPS	**3.84**	**4.22**	9.70%

Balance Sheet	FY'24	FY'25	%Δ Y-Y
Investments	130.59	159.78	22.35%
Loans and Advances	309.10	312.17	0.99%
Total Assets	**506.48**	**537.65**	6.15%
Customer Deposits	367.11	372.38	1.44%
Total Liabilities	**421.27**	**437.13**	**3.76%**
Shareholder's Funds	**85.20**	**100.52**	17.98%

Ratios	FY'24	FY'25	pp. Δ Y-Y
Yield from interest-earning assets	14.76%	12.51%	-2.25%
Cost of funds	4.94%	3.79%	-1.16%
Cost of risk	-14.60%	-10.11%	4.49%
Net Interest Margin	10.54%	9.39%	-1.15%
NII as % of operating income	74.17%	70.56%	-3.61%
NFI as a % of operating income	25.83%	29.44%	3.61%
Cost to Income Ratio	52.32%	46.65%	-5.67%
CIR without LLP	-37.72%	-36.55%	1.17%
Cost to Assets	-4.64%	-4.17%	0.47%
NPL Ratio	12.60%	11.54%	-1.06%
Loan to Deposit Ratio	84.20%	83.83%	-0.37%
Return on average equity	27.05%	24.67%	-2.38%
Return on average assets	4.07%	4.39%	0.32%





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Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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