

StanChart Navigates a Softer Rate Cycle with Cautious Signals Ahead; EPS Down 26.3% to Kes 9.47

In our full-year earnings assessment of Standard Chartered Bank Kenya, we highlighted that the earlier one-off pension charge aside, the bank's earnings trajectory has remained under pressure from a softer interest rate environment and a more stable exchange rate backdrop. These macro conditions have continued to compress both interest income and foreign exchange-driven revenues.

This trend has persisted into Q1 2026, with profitability and capital buffers weakening further. Profit before tax declined 23.3% y/y to Kes 5.09Bn, while profit after tax fell 26.3% y/y to Kes 3.58Bn. Earnings per share mirrored this contraction, also down 26.3% y/y to Kes 9.47, reflecting broad-based earnings weakness.

On the strategic front, despite continued speculation around strategic footprint rationalization across Africa, Kenya remains outside the list of markets earmarked for exit by Standard Chartered Bank Kenya. Nonetheless, the outlook remains mixed.

We maintain our HOLD recommendation, supported largely by the counter's position as one of the highest dividend yield plays at the bourse. However, persistent earnings pressures, margin compression, and a subdued growth outlook in a declining interest rate environment continue to weigh on performance. More importantly, retained earnings reserves have continued to thin out, raising concerns over the long-term sustainability of the bank's dividend payouts amid weakening profitability.

Recommendation:	HOLD
Bloomberg Ticker:	SCBL KN
Share Stats	
Current Price	340.00
3-Month Av	341.67
6 Month Av	323.98
12 Month Av	311.67
52 Week High	362.25
52 Week Low	268.25
Issued shares (Bn)	0.38
Market Cap (KES Bn)	128.47
Market Cap (USD Mn)	0.99
P/E	35.89
PB	0.70
EPS (Annualized)	9.47

Income Statement

Total Income: Standard Chartered Bank Kenya reported a softer earnings performance in Q1 2026, with total income declining 13.5% y/y to Kes 10.03Bn from Kes 11.60Bn in Q1 2025, reflecting continued pressure on funded income despite some resilience in non-funded revenues. The decline came amid a lower interest rate environment, which weighed on asset yields and overall interest income generation.

Net interest income (NII) declined by 23.3% to Kes 6.29Bn from Kes 8.21Bn in Q1'2025, as the contraction in interest income outpaced the reduction in funding costs. Interest income fell 22.3% y/y to Kes 7.22Bn from Kes 9.29Bn, while interest expense declined by a slower 15.1% to Kes 0.92Bn from Kes 1.09Bn.

A breakdown of **funded income** indicates that interest income from loans declined 21.7% to Kes 3.92Bn from Kes 5.01Bn in Q1 2025, largely reflecting repricing effects in the lending book. Similarly, income from government securities contracted sharply by 34.5% to Kes 2.26Bn from Kes 3.44Bn, highlighting lower returns on treasury investments amid easing rates. However, income from placements rose 23.1% to Kes 1.04Bn from Kes 0.85Bn, partly cushioning the decline in the core funded income lines.

Non-funded income (NFI) provided some support to earnings, growing 10.3% y/y to Kes 3.74Bn from Kes 3.39Bn.

Periods	SCBK	NASI
3mtd PriceΔ	-3.00%	-4.52%
6mtd PriceΔ	18.67%	13.23%
YTD Δ	14.38%	10.34%
Y/Y Δ	26.51%	55.53%

NII	-23.31%
Provisions	-20.73%
Opex	-0.31%
Opex Excl. LLPs	1.54%
PBT	-23.31%
PAT	-26.32%
Loans	19.96%
Govt. Securities	4.96%
Shareholders' Funds	-8.23%

Operating Expenses: Operating efficiency remained relatively contained, with total operating expenses declining marginally by 0.3% to Kes 4.94Bn from Kes 4.96Bn in Q1 2025. Excluding loan loss provisions, operating expenses increased modestly by 1.5% to Kes 4.62Bn, indicating continued cost discipline despite inflationary pressures. Loan loss provisions declined 20.7% to Kes 0.33Bn from Kes 0.41Bn, reflecting improved asset quality and lower provisioning requirements during the quarter.

Balance Sheet

Total Assets: The bank's balance sheet expanded in Q1 2026, with total assets growing 8.1% y/y to Kes 413.27Bn from Kes 382.26Bn in Q1 2025, supported by strong growth in the loan book and investment portfolio.

Loans and advances increased 20.0% to Kes 165.38Bn from Kes 137.86Bn, reflecting improved credit uptake and selective expansion across lending segments.

Investments grew 5.0% to Kes 100.45Bn from Kes 95.70Bn, suggesting the bank maintained a balanced allocation between lending activity and relatively lower-risk investment assets.

On the liabilities side, **customer deposits** recorded robust growth of 12.6% to Kes 321.15Bn from Kes 285.21Bn, reflecting improved deposit mobilization and sustained customer confidence. Total liabilities similarly increased 12.2% to Kes 343.44Bn.

Shareholders' funds declined by 8.2% to Kes 69.82Bn from Kes 76.09Bn, mainly reflecting lower retained earnings following the decline in profitability and possible dividend-related adjustments.

Asset quality: Asset quality improved notably during the quarter, with the gross non-performing loan (NPL) ratio declining to 5.17% from 7.49% in Q1 2025, driven by robust loan book management and recovery efforts. Gross loans expanded by 6.2% to Kes 173.03Bn, from Kes 162.98Bn in Q1'2025, compared to the 26.7% decline in gross non-performing loans.

Key Ratios

- Profitability metrics weakened considerably following the decline in earnings, with return on average equity (ROaE) falling to 15.29% from 26.80% in Q1 2025.
- Return on average assets (ROaA) similarly declined to 2.81% from 4.99%, reflecting softer bottom-line generation relative to the expanded asset base.
- Margins came under pressure, with net interest margin (NIM) narrowing to 8.11% from 9.71%, largely due to lower yields on interest-earning assets despite improved funding costs.
- Efficiency ratios deteriorated, with the cost-to-income ratio rising to 49.25% from 42.75%, while the cost-to-income ratio excluding provisions increased to 45.99% from 39.19%, highlighting weaker revenue absorption capacity.
- The proportion of net interest income to operating income eased slightly to 66.22% from 67.47%, while non-funded income contribution improved modestly to 17.51% from 16.57%, indicating greater support from fee-based income streams.

<u>Interest Income</u>	<u>Q1 2025</u>	<u>Q1 2026</u>
Loans	5.01	3.92
Government Securities	3.44	2.26
Placements	0.85	1.04
Other Income	0.00	0.00
Total	9.29	7.22

<u>Interest Expense</u>	<u>Q1 2025</u>	<u>Q1 2026</u>
Deposits	1.02	0.81
Placements	0.05	0.10
Others	0.01	0.02
Total	1.09	0.92

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Balance Sheet	Q1 2025	Q1 2026	%Δ Y-Y
Investments	95.70	100.45	4.96%
Loans and Advances	137.86	165.38	19.96%
Total Assets	382.26	413.27	8.11%
Customer Deposits	285.21	321.15	12.60%
Total Liabilities	306.17	343.44	12.17%
Shareholder's Funds	76.09	69.82	-8.23%

Income Statement	Q1 2025	Q1 2026	%Δ Y-Y
Interest Income	9.29	7.22	-22.3%
Interest Expense	-1.09	-0.92	-15.1%
NII	8.21	6.29	-23.3%
NFI	3.39	3.74	10.3%
Total Income	11.60	10.03	-13.5%
Loan Loss provision	-0.41	-0.33	-20.7%
Total Operating expenses	-4.96	-4.94	-0.3%
Opex excl Provision	-4.55	-4.62	1.5%
PBT	6.64	5.09	-23.3%
PAT	4.86	3.58	-26.3%
EPS	12.86	9.47	-26.3%

Ratios	Q1 2025	Q1 2026	pp. Δ Y-Y
Yield from interest-earning assets	11.29%	9.24%	-2.0%
Cost of funds	1.82%	1.24%	-0.6%
Cost of risk	4.56%	4.68%	0.1%
Net Interest Margin	9.71%	8.11%	-1.6%
Net Interest Income as % of operating income	67.47%	66.22%	-1.2%
Non-Funded Income as a % of operating income	16.57%	17.51%	0.9%
Cost to Income Ratio	42.75%	49.25%	6.5%
CIR without LLP	39.19%	45.99%	6.8%
Cost to Assets	1.18%	1.16%	0.0%
NPL Ratio	7.49%	5.17%	-2.3%
Loan to Deposit Ratio	48.34%	51.50%	3.2%
Return on average equity	26.80%	15.29%	-11.5%
Return on average assets	4.99%	2.81%	-2.2%

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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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