

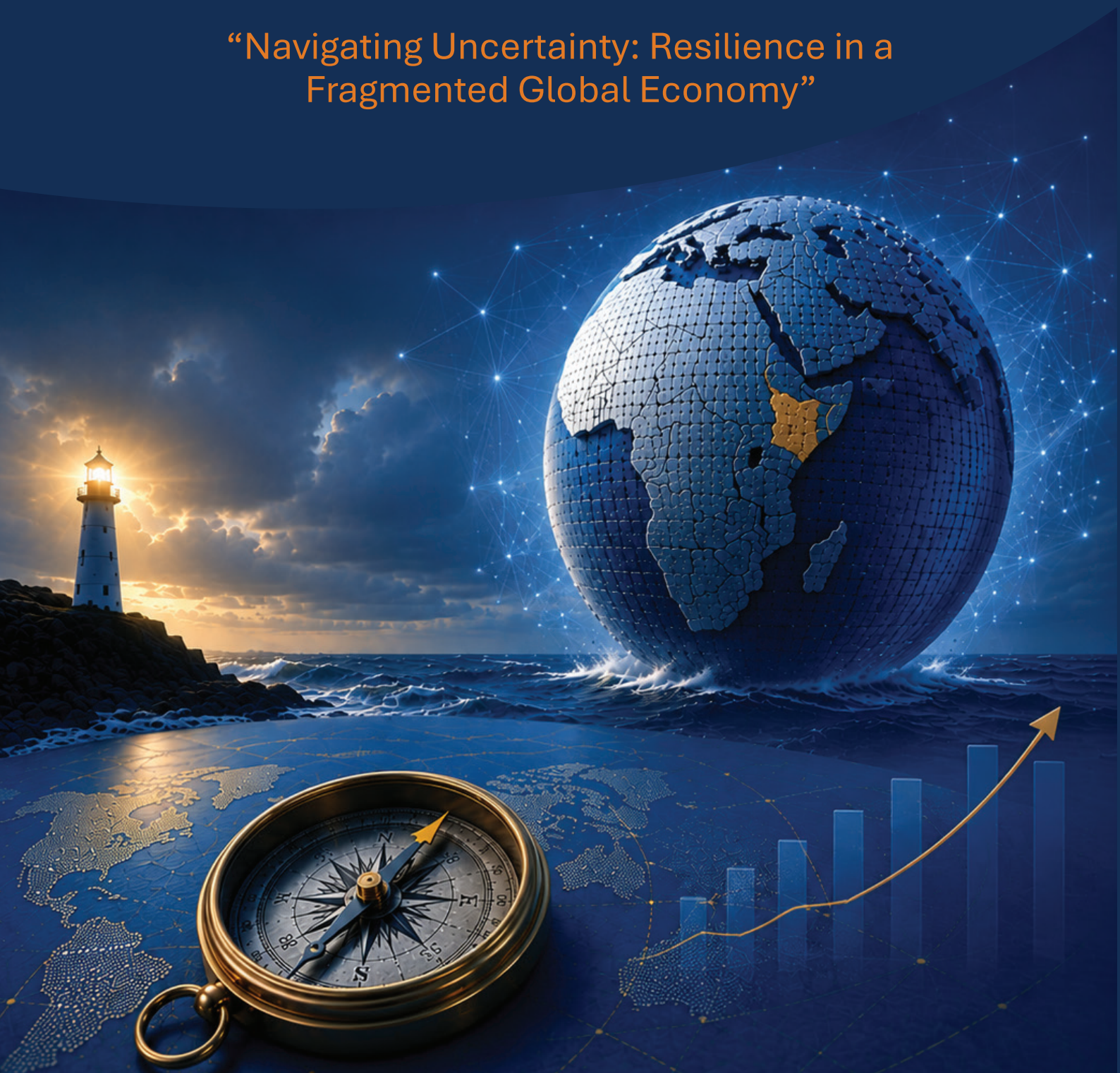


Central Bank of Kenya

ANNUAL REPORT AND FINANCIAL STATEMENTS

2025/2026

“Navigating Uncertainty: Resilience in a
Fragmented Global Economy”



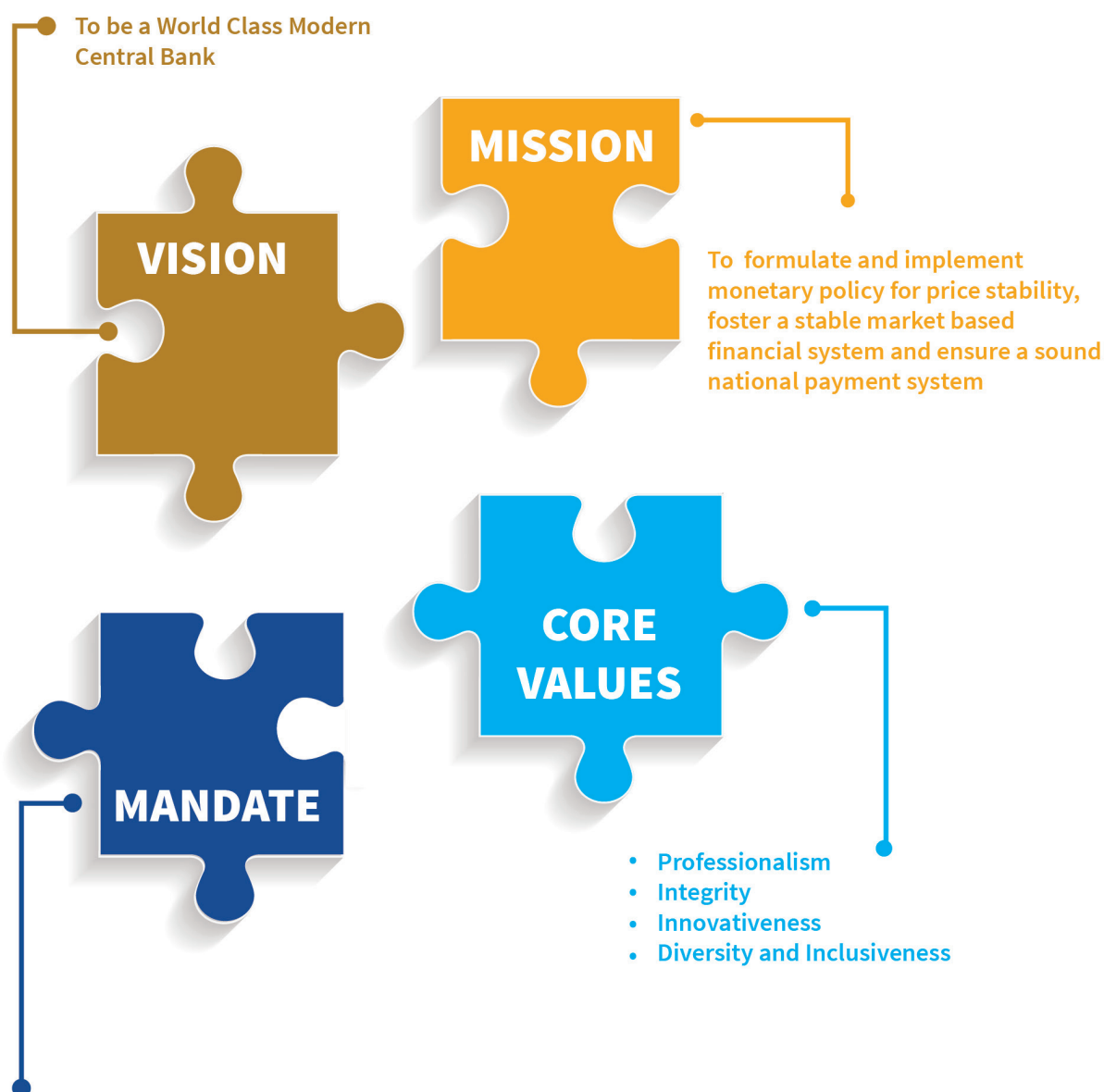


LETTER OF TRANSMITTAL

In accordance with Section 54 of the Central Bank of Kenya Act, it is my honour to present to you, Honourable Cabinet Secretary of The National Treasury and Economic Planning, the Annual Report of the Central Bank of Kenya for the Financial Year 2025/26. The Annual Report contains economic and financial developments and the financial performance of the Central Bank of Kenya for the Financial Year ended June 30, 2026.



Dr. Kamau Thugge, CBS
Governor



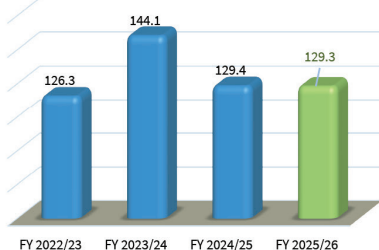
Article 231 of the Constitution of Kenya and Sections 4 and 4A of the Central Bank of Kenya (CBK) Act outline the key mandate of Central Bank of Kenya (CBK) as to:

1. Formulate and implement Monetary Policy directed to achieving and maintaining stability in the general level of prices.
2. Foster the liquidity, solvency and proper functioning of a stable market-based financial system.
3. Subject to (1) and (2), support the economic policy of the Government, including its objectives for growth and employment.
4. Formulate and implement policies to promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems.
5. Issue currency notes and coins.

The other mandates of the Bank include:- formulating and implementing foreign exchange policy; effective management of the nation's foreign exchange reserves; licensing and supervising authorised dealers, digital credit providers and mortgage refinance companies; act as banker and advisor to, and fiscal agent of the Government.

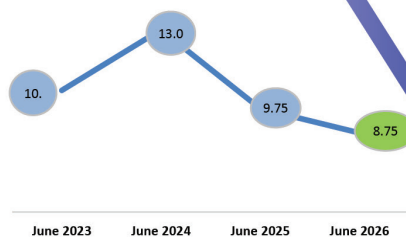
HIGHLIGHTS

Average Exchange Rate (KSh/US\$)



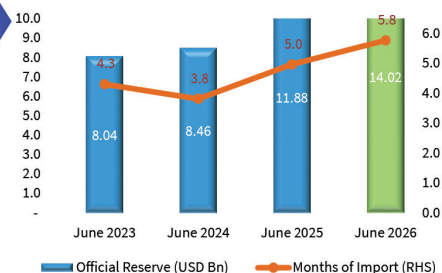
Exchange rate remained stable

Central Bank Rate (%)



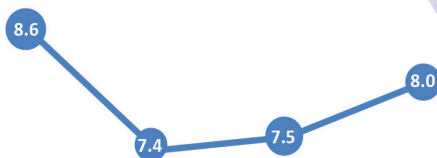
Monetary policy eased in line with decline in inflation

Gross foreign exchange reserves



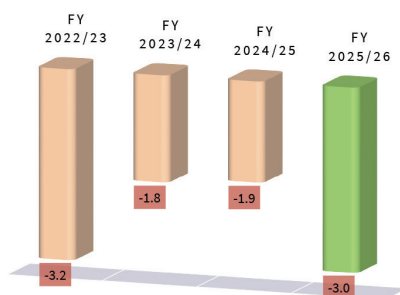
Forex reserves increased

Average Time to Maturity for bonds (Years)



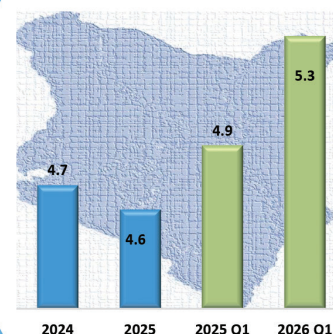
Average time to maturity lengthened

CURRENT A/C DEFICIT (% OF GDP)



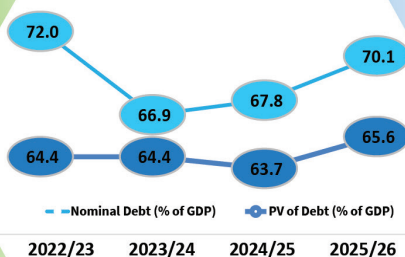
Current a/c deficit widened

Real GDP Growth (%)



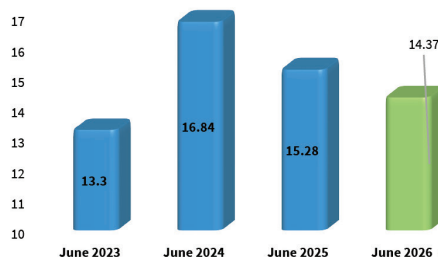
The economy remains resilient

Public Debt (% of GDP)



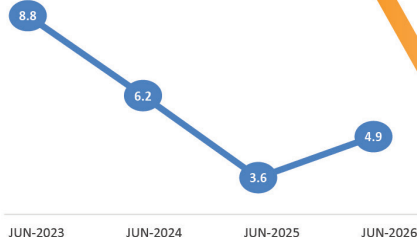
Public debt to GDP ratio rose during the year

Average Lending Rate, %



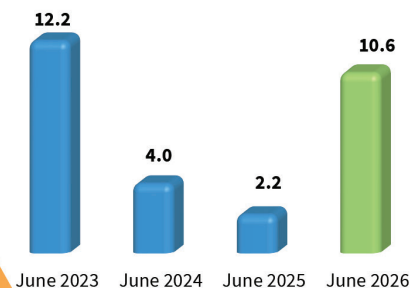
Lending rate declined

Annual Average Inflation Rate



Inflation remained within the target band

Private Sector Credit Growth (%)



Private sector credit improved significantly

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ABBREVIATIONS AND ACRONYMS

AACB	Association of African Central Banks
ACH	Automated Clearing House
AMCP	African Monetary Cooperation Programme
AML/CTF	Anti-Money Laundering/ Combating the Financing of Terrorism
CBK	Central Bank of Kenya
CBR	Central Bank Rate
COMESA	Common Market for Eastern and Southern Africa
CSD	Central Securities Depository
DCPs	Digital Credit Providers
EAC	East African Community
EAMU	East African Monetary Union
EFT	Electronic Funds Transfer
EMDEs	Emerging Markets & Developing Economies
FY	Financial Year (July-June)
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISO	International Organisation for Standardisation
KEPSS	Kenya Electronic Payments and Settlement System
KESONIA	Kenya Shilling Overnight Interbank Average
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
KShs	Kenya Shillings
MPC	Monetary Policy Committee
NFIS	National Financial Inclusion Strategy
NPL	Non-Performing Loan
NPS	National Payment Systems
PSPs	Payment Service Providers
REPSS	Regional Payment and Settlement System
SSA	Sub-Saharan Africa
USD	United States Dollars
VASP	Virtual Asset Service Provider
VAT	Value Added Tax
WEO	World Economic Outlook

FOREWORD BY THE GOVERNOR

I am pleased to present the Central Bank of Kenya's (CBK) Annual Report for the Financial Year 2025/26, a year characterized by sustained domestic macroeconomic stability in the face of heightened global risks arising from the escalation of geopolitical tensions, persistent trade policy uncertainties, and adverse effects of climate change. This stability was anchored on appropriate monetary policy actions, stronger foreign exchange reserves buffers, and continued implementation of reforms to strengthen the monetary policy implementation framework and the banking sector. The CBK also continued to implement its Strategic Plan for 2024-2027, which is anchored on the pillars of resilience and sustainability, digital transformation, service excellence, and human capital.

The first half of the financial year witnessed modest recovery in global economic activity, supported by monetary policy easing in the advanced economies. Nevertheless, the second half was characterized by higher global inflation and slower growth following the escalation of the conflict in the Middle East, which disrupted global supply chains and led to a sharp rise in energy prices and transportation costs. Central banks in the major economies remained cautious and kept their policy rates unchanged as they assessed the impact of the conflict on their inflation and growth outlooks. Despite the heightened global risks, the Kenyan economy remained resilient, reflecting the resilience and diversified nature of the economy, and decline in interest rates which supported improved growth in credit to the private sector during the financial year.

The CBK continued to implement policies aimed at fulfilling its core mandates of achieving and maintaining price stability and fostering a stable market-based financial system. Overall inflation remained within the 5 ± 2.5 percent target range during the financial year, supported by appropriate monetary policy actions, government interventions including subsidies and the temporary reduction of VAT on fuel, and a stable exchange rate. The inflation rate stood at 6.4 percent in June 2026 compared to 3.8 percent in June 2025, reflecting the impact of higher energy prices and transport costs attributed to the U.S.-Iran war and the broader Middle East conflict. The Monetary Policy Committee (MPC) reduced the Central Bank Rate (CBR) from 9.75 percent in June 2025 to 8.75 percent in February 2026, and retained the CBR at 8.75 percent in the remainder of the financial year, to anchor inflation expectations arising from higher energy prices. The banking sector remained stable and resilient, with strong liquidity and capital adequacy ratios.

The CBK implemented several key reforms during the year, including: enhancing the effectiveness of the monetary policy implementation framework by narrowing further the width of the interest rate corridor around the CBR; full implementation of the commercial banks revised Risk-Based Credit Pricing Model to improve the transmission of monetary policy decisions and enhance transparency in loan pricing; and facilitating enactment of the Virtual Asset Service Provider (VASP) Act 2025 to enhance consumer and investor protection and position Kenya as a regional leader in safe and well-regulated digital finance. The CBK also successfully coordinated preparation and launch of the Kenya National Financial Inclusion Strategy (NFIS) 2025–2028, which provides a national roadmap for achieving a more inclusive, resilient, and equitable financial system. The NFIS was launched in December 2025 alongside the signing of Women Entrepreneurs Finance Code.

The other key milestone achieved during the year was the enhancement of the DhowCSD to unlock the full potential of the platform, including among others, investor onboarding experience, automation of bank payments, and mobile money payments for Government securities. On the regional front, the CBK was successful in its bid to host the 2026 Annual Meetings of the Association of African Central Banks (AACB), which will be held alongside the CBK@60 celebrations in September 2026.

FOREWORD BY THE GOVERNOR

Looking ahead in the Financial Year 2026/27, the CBK will continue to implement the initiatives and reforms outlined in its Strategic Plan for 2024–2027, including continued implementation of reforms to strengthen the monetary policy framework and the banking sector, automation of the Bank’s processes to promote efficiency, modernisation of the Bank’s physical infrastructure, and strengthening of human capital to enhance the Bank’s ability to execute its mandate. The Bank will also continue to deepen its collaborations with other institutions, particularly with other central banks and government institutions, and research institutions.

Dr. Kamau Thugge, CBS
Governor

STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

It is my pleasure to present the Annual Report and Financial Statements of the Central Bank of Kenya (CBK) for the financial year ended June 30, 2026. During the FY2025/26, the Bank successfully completed the second cycle of its Strategic Plan 2024- 2027, which is anchored on four thematic areas: resilience and sustainability, digital transformation, human capital and service excellence. The four pillars are supported by four core values: professionalism, integrity, innovativeness and diversity and inclusiveness. Successful implementation of the Strategy is consistent with the Bank's vision of a World Class Modern Central Bank.

I am pleased to note that completion of the second cycle of the Strategy has recorded notable milestones, including:

1. The paid-up capital was enhanced by KShs 10 billion to KShs 70 billion.
2. Implementation of the first phase of the revised minimum core capital of all banks from KShs 1 billion to KShs 10 billion by 2029, with most banks meeting year 1 core capital requirement of KShs 3 billion. The period also saw the implementation of the Liquidity Coverage Ratio and Net Stable Funding ratio effective October 2025, and development and implementation of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) outreach strategy, and Internal Liquidity Adequacy Assessment Process (ILAAP), and cross-border cash transfers.
3. Measures towards implementing macro-prudential policy framework by establishing the Financial Stability Committee for effective coordination of financial stability policies, and other policies for overall financial sector stability.
4. Development of the National Financial Inclusion Strategy (NFIS) 2025–2028, to deepen access to and usage of quality, affordable, responsible and sustainable financial services across the country.
5. Enhanced oversight of digital financial services through continued licensing of Digital Credit Providers, with a cumulative total of 252 providers licensed as of July 2026.
6. Successful revamping of the Total Cost of Credit platform by introducing the Risk-Based Credit Pricing Model (RBCPM) anchored on the overnight interbank average rate, renamed as the Kenya Shilling Overnight Interbank Average (KESONIA). This aligns Kenya to the international best practices as KESONIA closely aligns with the policy rate (Central Bank Rate) to reflect monetary policy implementation.
7. The Bank's attainment of ISO/IEC 20000-1:2018 Certification for its Information Technology Service Management (ITSM), marking a major milestone in the Bank's journey toward operational and service excellence. This demonstrates the Bank's commitment to maintaining the highest standards of service excellence in its operations.
8. Establishment of the Banking Sector Cybersecurity Operations Centre (BS-SOC) at CBK, a key step towards implementing the Computer Misuse and Cybercrime (Critical Information Infrastructure and Cybercrime Management) Regulations, 2024, and a strategic initiative under the Central Bank of Kenya (CBK) Strategic Plan 2024-2027. The BS-SOC provides critical services such as Cyber Threat Intelligence, Incident Response, Digital Forensics, and Cyber Investigations.
9. Commencement of the Virtual Assets Service Providers Act, 2025 (Act. No. 20 of 2025), which was gazetted on October 21, 2025, providing legislative framework for regulating and supervising Virtual Asset Service Providers (VASPs), and their obligations in preventing Money Laundering, Terrorism Financing, and Proliferation Financing. The CBK and the Capital Markets Authority (CMA) are the designated regulators responsible for licensing, supervising, and regulating VASPs in Kenya.
10. Upgrading of the Core Banking System (T24), implementing continuous audit monitoring capabilities for critical bank systems and automating the Exchequer release process.

STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

11. Remodeling of Nyeri Centre and extending the offering of banking services; remodeling Meru Centre to allow offering of banking services; procurement and acquisition of Meru land for the planned CBK Centre premises; fencing of proposed CBK Nakuru Branch.
12. Approval of the Bank's Artificial Intelligence and Data Strategy further positions the institution to leverage emerging technologies in fulfilling its mandate.
13. Implementation of the Human Capital transformation agenda through the rollout of the Performance Management Framework, review of organizational microstructures and targeted recruitment to strengthen institutional capacity.

On behalf of the Board of Directors, I wish to take this opportunity to thank the Bank Management and staff for the commitment, dedication, and support given to the Board. The Board remains proactive in addressing any challenges and take advantage of emerging opportunities to fully implement the Strategic Plan: 2024 - 2027.

Mr. Andrew Musangi
Chairman

BOARD OF DIRECTORS



Mr. Andrew Musangi
Chairman



Dr. Kamau Thugge, CBS
Governor



Dr. Chris K. Kiptoo, CBS
PS, The National Treasury



FCPA. Sophie Njeri Moturi, MBS
Member



CPA. Dr. Abdullahi M. Abdi, PhD
Member



Ms. Beatrice Kosgei
Member



Mr. David S.O. Owuor
Member



Mr. Pius Ang'asa
Member

MEMBERS OF THE MONETARY POLICY COMMITTEE



Dr. Kamau Thugge, CBS
Governor



Dr. Susan Koech, EBS
Deputy Governor



Mr. Gerald Nyaoma
Deputy Governor



Ms. Isis Nyong'o
External Member



Dr. Chris K. Kiptoo, CBS
PS, The National Treasury



Dr. Kemboi Kipruto
External Member



Dr. Freshia Mugo
External Member



Mr. Jared Osoro
External Member



Mr. David Luusa
Director, Financial Markets



Prof. Robert Mudida
Director, Research

SENIOR MANAGEMENT



Dr. Kamau Thugge, CBS
Governor



Dr. Susan Koech, EBS
Deputy Governor



Mr. Gerald Nyaoma
Deputy Governor



Waweru Mathenge
*Director, Governor's Office
(General Counsel)*



Mr. David Luusa
Director, Financial Markets



Mr. Matu Mugo
Director, Bank Supervision



Mr. Michael Eganza
*Director, Banking and
Payment Services*



Prof. Robert Mudida
Director, Research

SENIOR MANAGEMENT



Mr. Evans K. Muttai
Director, Currency Operations



Ms. Darliah Mbugua
Director, Human Resources



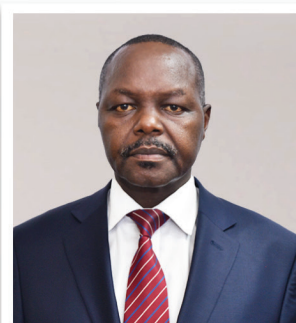
Prof. Dulacha Barako
*Director, Central Bank of Kenya -
Institute of Monetary Studies*



Dr. Walter Onyino
*Director, Information
Technology*



Ms. Caroline Mackola
Director, Finance



Mr. Kibunyi Amdany
*Director, Branch
Administration*



Mr. Stephen Muriu
Director, General Services



Mr. Leonard Ouma
*Director, Internal Audit
and Risk*



Mr. George Amollo
Head, Strategic Management



**Fostering Kenya's Financial
Stability, Innovation and Growth**

1.0 MONETARY POLICY DECISION MAKING UNDER HEIGHTENED UNCERTAINTY

1.0 MONETARY POLICY DECISION MAKING UNDER HEIGHTENED UNCERTAINTY

During the FY2025/26, the Central Bank of Kenya (CBK) conducted monetary policy in an environment characterised by heightened global and domestic uncertainty, and weaker global growth prospects. Escalating geopolitical tensions, particularly the Middle East conflict and the continuing Russia–Ukraine war, elevated trade policy uncertainty, and disruptions to global supply chains increased international energy prices, transportation costs and imported inflationary pressures. Domestically, climate-related shocks continued to affect agricultural production and food prices, while the uncertain global environment weighed on growth prospects. Against this backdrop, the Monetary Policy Committee (MPC) remained focused on maintaining price and exchange rate stability through the forward-looking and data-driven monetary policy framework.

As inflation moderated and macroeconomic conditions improved in the first half of FY2025/26, the MPC cumulatively reduced the Central Bank Rate (CBR) by 100 basis points, to 8.75 percent by February 2026, to support economic activity. However, as U.S.-Iran war and the broader geopolitical tensions in the Middle East renewed inflationary pressures through higher international oil prices, the MPC maintained the CBR at 8.75 percent in April and June 2026. The pause sought to prevent second-round inflation effects, and de-anchoring of inflation expectations while preserving exchange rate stability and the economic recovery. Throughout the period, policy decisions remained data dependent and responsive to evolving risks. In addition, government interventions including subsidies and temporary reduction of VAT on fuel prices moderated the impact of higher global oil prices on domestic prices.

The effectiveness of these policy actions was reinforced by complementary reforms to the monetary policy operational framework, the foreign exchange market and the institutional framework, which strengthened policy transmission, enhanced external resilience and anchored macroeconomic stability. In February 2026, the interest rate corridor around the

CBR was narrowed from ± 75 basis points to ± 50 basis points thereby, improving the alignment of the Kenya Shilling Overnight Interbank Average (KESONIA) with the policy rate and reducing money market volatility. In March 2026, the revised Risk-Based Credit Pricing (RBCP) Model announced in August 2025 became fully operational, linking variable lending rates more transparently to KESONIA and borrower-specific risk, thereby strengthening the pass-through of policy decisions to commercial bank lending rates.

The institutional framework was further strengthened through the Central Bank of Kenya (Amendment) Act, 2026, which reinforced the Bank's mandate to foster the stability, resilience, liquidity, solvency and proper functioning of a market-based financial system. The Act also expanded CBK's powers to buy, hold and transact in gold and other precious metals, providing the legal basis for the Gold Purchase Programme and supporting diversification of the country's international reserve portfolio. Complementing these reforms, the CBK increased gross official foreign exchange reserves to USD 14,023 million, equivalent to 5.8 months of import cover, by end of June 2026. Supported by sustained foreign exchange inflows from exports, tourism and remittances, prudent reserve management and reserve diversification, these measures reinforced confidence in the foreign exchange market and strengthened resilience to external shocks.

These policy actions and reforms delivered favourable macroeconomic outcomes despite the challenging external environment. The cumulative easing of monetary policy was transmitted through a gradual decline in commercial bank lending rates, improving financing conditions for households and businesses. Consequently, private sector credit growth accelerated to 10.6 percent in June 2026, from 2.2 percent in June 2025; and an improvement from a contraction of 2.9 percent in January 2025, supporting domestic demand and private investment. Real GDP expanded by 5.3 percent in the first quarter of 2026, reflecting broad-based growth across agriculture, manufacturing, construction, financial services and tourism. Despite

1.0 MONETARY POLICY DECISION MAKING UNDER HEIGHTENED UNCERTAINTY

renewed external price pressures, headline inflation remained within the target range of 5 ± 2.5 percent, averaging 4.9 percent during the financial year, while core inflation averaged 2.6 percent over the same period, indicating muted demand pressures in the economy, and broader second-round effects on inflation from international oil price shocks remained limited.

Overall, the conduct of monetary policy during the year demonstrated the growing credibility and effectiveness of CBK's modernised monetary policy framework. Well-calibrated monetary policy decisions,

supported by operational, foreign exchange market and institutional reforms, strengthened policy transmission, enhanced the resilience of the financial system, reinforced external buffers through higher and possibility of more diversified international reserves, and preserved confidence in the economy. Together, these outcomes demonstrate that Kenya's modernised monetary policy framework has become increasingly effective in responding to successive external shocks while maintaining price stability, safeguarding macroeconomic and financial stability, and supporting sustainable economic growth.

2.0 GLOBAL ECONOMY

2.0 GLOBAL ECONOMY

According to the IMF's July 2026 World Economic Outlook (WEO), global economic growth is projected at 3.0 percent in 2026, from 3.5 percent in 2025, and is expected to recover to 3.4 percent in 2027. The outlook marks significant divergence across economies, shaped by two opposing forces: the lingering effects of the war in the Middle East and associated energy shocks, which are weighing on energy-importing and vulnerable economies, and a technology-driven investment boom, particularly in artificial intelligence (AI), which is supporting activity in economies integrated into global technology value chains.

In advanced economies, growth is projected at 1.7 percent in 2026 and 1.8 percent in 2027. In the United States, growth is forecast at 2.3 percent in 2026 and 2.2 percent in 2027, supported by fiscal policy, accommodative financial conditions, continued technology-related business investment and productivity gains. The relatively limited impact of the Middle East conflict also reflects the United States' position as a net energy exporter. In the euro area, growth is projected at 0.9 percent in 2026, before rising to 1.2 percent in 2027. The downward revision for 2026 reflects a negative carryover from the first quarter, higher energy prices and subdued consumer confidence, although fiscal measures provide some cushioning. Japan's growth is projected at 0.6 percent in 2026, rising modestly to 0.7 percent in 2027 as the effects of the energy shock dissipate.

For emerging market and developing economies (EMDEs), growth is projected to moderate to 3.8 percent in 2026, before strengthening to 4.5 percent in 2027. The outlook varies considerably across

economies depending on their exposure to energy prices, commodity dependence, remittances and tourism, financial conditions, and participation in the global technology value chain. China's growth is projected at 4.6 percent in 2026, supported by stronger-than-expected first-quarter activity, although higher global oil prices, persistent uncertainty and structural headwinds are expected to constrain activity. India remains one of the fastest-growing major economies, with growth projected at 6.4 percent in 2026, supported by strong private consumption and services activity.

In Sub-Saharan Africa, growth is expected to remain broadly stable at 4.3 percent in 2026, although this regional average conceals substantial differences across countries. Economies differ in their policy space, pace of reforms, and exposure to external shocks. Oil-importing and non-resource-intensive economies are particularly vulnerable to higher energy and food prices, while some larger economies continue to benefit from earlier macroeconomic stabilisation and structural reforms. However, the region remains relatively less integrated into the AI-driven global technology upswing and faces additional headwinds from declining official development assistance. Nigeria's growth is supported by improved macroeconomic stability and favourable terms-of-trade effects, although higher prices for essential goods could worsen poverty and food insecurity. South Africa's growth outlook is expected to remain stable in the near term and improve gradually, supported by strengthened policy frameworks and ongoing structural reforms. Growth in the rest of the region is projected to slow from 5.6 percent in 2025 to 5.2 percent in 2026 and 2027.

2.0 GLOBAL ECONOMY

Table 2.1: Economic Growth in Selected Countries/Regions

Country/ Region	Actuals			Projections	
	2023	2024	2025	2026	2027
World Output	3.3	3.5	3.5	3.0	3.4
Advanced Economies	1.7	1.9	1.9	1.7	1.8
United States	2.9	2.8	2.1	2.3	2.2
Euro Area	0.4	1.0	1.4	0.9	1.2
Germany	-0.9	-0.5	0.2	0.7	1.0
France	1.6	1.4	0.9	0.6	0.9
Italy	0.9	0.8	0.5	0.5	0.5
Spain	2.5	3.5	2.8	2.1	1.8
Japan	0.7	-0.2	1.1	0.6	0.7
United Kingdom	0.3	1.0	1.4	1.0	1.3
Canada	2.0	2.0	1.9	1.1	1.7
Emerging Market and Developing Economies	4.4	4.5	4.5	3.8	4.5
Emerging and Developing Asia	5.6	5.5	5.6	5.0	4.8
China	5.4	5.0	5.0	4.6	4.1
India	7.2	7.1	7.7	6.4	6.7
Emerging and Developing Europe	3.6	3.8	2.0	1.9	2.1
Russia	4.1	4.9	1.0	1.1	1.1
Latin America and the Caribbean	2.3	2.4	2.4	2.4	2.7
Brazil	3.2	3.4	2.3	2.4	2.2
Middle East and Central Asia	2.6	3.1	3.7	0.7	6.5
Saudi Arabia	0.5	2.6	4.6	1.7	5.5
Egypt	3.8	2.4	4.4	4.6	4.4
Sub-Saharan Africa	3.8	4.2	4.5	4.3	4.5
Nigeria	3.3	4.1	4.0	4.1	4.3
South Africa	0.8	0.5	1.1	1.1	1.3
Kenya*	5.7	4.7	4.9	4.5	4.7

Source: IMF, World Economic Outlook, July 2026 Update

* Kenya growths correspond to World Economic Outlook for April 2026 report

Global financial conditions eased during 2025 as risk appetite improved, but financial stability risks remained elevated amid persistent policy and geopolitical uncertainty. Financing conditions for emerging markets and developing economies remained vulnerable to shifts in global sentiment, with elevated risks of capital outflows and higher borrowing costs. Sovereign yields remained high amid rising term premia, inflationary pressures, and substantial fiscal financing needs. These vulnerabilities intensified in early 2026 following renewed Middle East tensions, which raised energy prices and inflation expectations and tightened global financial conditions, keeping sovereign spreads and borrowing costs elevated, particularly for highly indebted emerging and developing economies..

Global inflation pressures increased during the first half of 2026, reflecting the rise in energy prices associated with the war in the Middle East and the resulting disruption to global energy markets. The July 2026 WEO projects global headline inflation to rise from 4.1 percent in 2025 to 4.7 percent in 2026, before declining to 3.9 percent in 2027. Inflation in

advanced economies is projected to rise to 3.0 percent in 2026, before easing to 2.4 percent in 2027, while inflation in emerging market and developing economies is expected to increase to 5.8 percent in 2026 and moderate to 4.8 percent in 2027.

The increase in 2026 is primarily associated with higher energy and food prices. The outlook is further characterised by a divergence between economies benefiting from the AI- and technology-driven investment cycle and those exposed to higher energy costs, weaker external demand and limited policy space. Downside risks to the outlook include a prolonged or renewed escalation of the war in the Middle East, which could trigger another surge in energy and commodity prices, disrupt trade and transportation, tighten global financial conditions and worsen food insecurity, particularly in low-income and energy-importing economies. A reassessment of the profitability and sustainability of AI-related investment could also trigger a correction in technology and financial markets, with potentially wider effects on investment, productivity and global growth. On the upside, faster adoption of AI and stronger-than-expected productivity gains could generate a more sustained increase in investment and global output.

3.0 DOMESTIC ECONOMY

3.0 DOMESTIC ECONOMY

3.1 Economic Growth

Kenya's economy grew by 4.6 percent in 2025 compared to 4.7 percent in 2024. The moderation in growth reflected slower expansion in the agriculture and services sectors, which more than offset the recovery in the industrial sector.

In the first quarter of 2026, the economy expanded by 5.3 percent compared to 4.9 percent in the corresponding quarter of 2025. Growth was supported by robust activity in industry and services, while agriculture growth remained positive, though moderate (**Table 3.1 and Chart 3.1**).

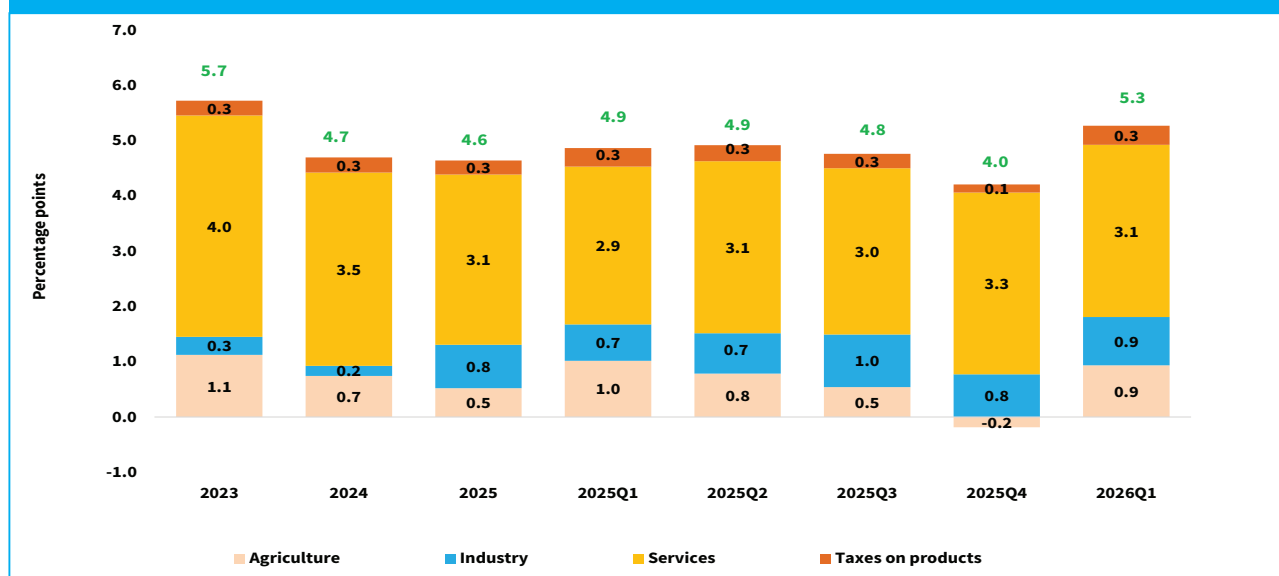
Table 3.1: Growth of Real Gross Domestic Product by Sector (Percent)

Main Sectors	Growth Rates (Percent)						
	2024	2025	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1
1. Agriculture	4.4	3.1	5.3	4.0	3.8	-1.3	4.9
2. Non-Agriculture (o/w)	4.7	4.9	4.8	5.1	4.9	5.0	5.3
2.1 Industry	1.1	4.7	4.0	4.6	5.5	4.7	5.4
Mining & Quarrying	-7.8	14.9	12.7	13.7	15.0	17.8	9.1
Manufacturing	3.0	2.0	2.8	1.3	2.7	1.1	4.4
Electricity & water supply	2.7	5.2	4.1	6.5	4.8	5.5	4.3
Construction	-0.7	6.8	4.5	7.3	8.1	7.3	6.6
2.2 Services	6.0	5.3	5.0	5.5	5.0	5.5	5.5
Wholesale & Retail Trade	4.0	3.6	4.3	2.6	3.1	4.0	4.0
Accommodation & restaurant	25.9	15.6	8.0	12.8	23.6	18.3	14.7
Transport & Storage	4.3	3.7	3.6	3.3	3.1	4.7	3.6
Information & Communication	7.1	4.8	5.5	5.9	4.0	4.0	5.0
Financial & Insurance	7.5	6.5	5.3	7.1	6.1	7.4	6.3
Public administration	8.7	8.3	9.5	8.7	6.3	8.7	5.7
Professional, Administration & Support Services	6.4	5.0	4.1	7.0	7.1	2.1	2.4
Real estate	5.3	3.9	4.6	4.3	3.7	2.9	5.0
Education	4.8	2.8	1.8	3.8	3.9	2.1	6.2
Health	6.0	5.5	4.7	7.0	4.4	5.9	4.3
Other services	4.5	2.6	2.4	2.3	3.2	2.2	2.1
FISIM	9.7	0.2	0.6	2.2	2.0	-3.9	-4.1
2.3 Taxes on products	3.3	3.1	4.1	3.8	3.1	1.7	4.3
Real GDP Growth	4.7	4.6	4.9	4.9	4.8	4.0	5.3

Source: Kenya National Bureau of Statistics (KNBS)

3.0 DOMESTIC ECONOMY

Chart 3.1: Contributions to Real GDP Growth



Source: Kenya National Bureau of Statistics (KNBS)

Industry

Industrial activity strengthened in 2025, with growth rebounding to 4.7 percent from 1.1 percent in 2024 and contributed 0.8 percentage points to real GDP growth. This was driven by accelerated activity in the construction, mining and quarrying, and electricity and water supply sectors. The construction sector rebounded from a contraction of 0.7 percent in 2024 to grow by 6.8 percent in 2025. Similarly, mining and quarrying sector recovered strongly, expanding by 14.9 percent after contracting by 7.8 percent in 2024, partly driven by a significant increase in production of minerals used in cement production.

The industrial sector recorded stronger growth of 5.4 percent in the first quarter of 2026 compared to 4.0 percent in the same quarter of 2025, reflected in increased growth across all sectors.

Agriculture

The agriculture sector growth moderated to 3.1 percent from 4.4 percent in 2024, mainly on account of the reflecting contraction of the sector in the fourth quarter of 2025. The positive growth in the first three quarters was partly offset by thea contraction of -1.3 percent in the fourth quarter following unfavourable weather conditions experienced during the short rains season.

The sector contributed 0.5 percentage points to real GDP growth in 2025.

Agriculture sector growth moderated to 4.9 percent in the first quarter of 2026 from 5.3 percent in the same quarter in 2025. Growth was adversely affected by low coffee production and reduced exports of fruits during the quarter.

Services

The services sector remained the main driver of economic growth in 2025, although growth moderated to 5.3 percent from 6.0 percent in 2024 and contributed 3.1 percentage points to real GDP growth. Performance was supported by continued expansion across most service activities, albeit at a slower pace than in the previous year. The following sectors recorded notable growth in 2025; accommodation and food service (15.6 percent), financial and insurance (6.5 percent), information and communication (4.8 percent), transport and storage (3.7 percent), and wholesale and retail trade (3.6 percent).

The services sector expanded by 5.5 percent in the first quarter of 2026, from 5.0 percent in a similar quarter of 2025. The improved performance was mainly on account of stronger growth in accommodation and food service activities, financial and insurance activities, and real estate.

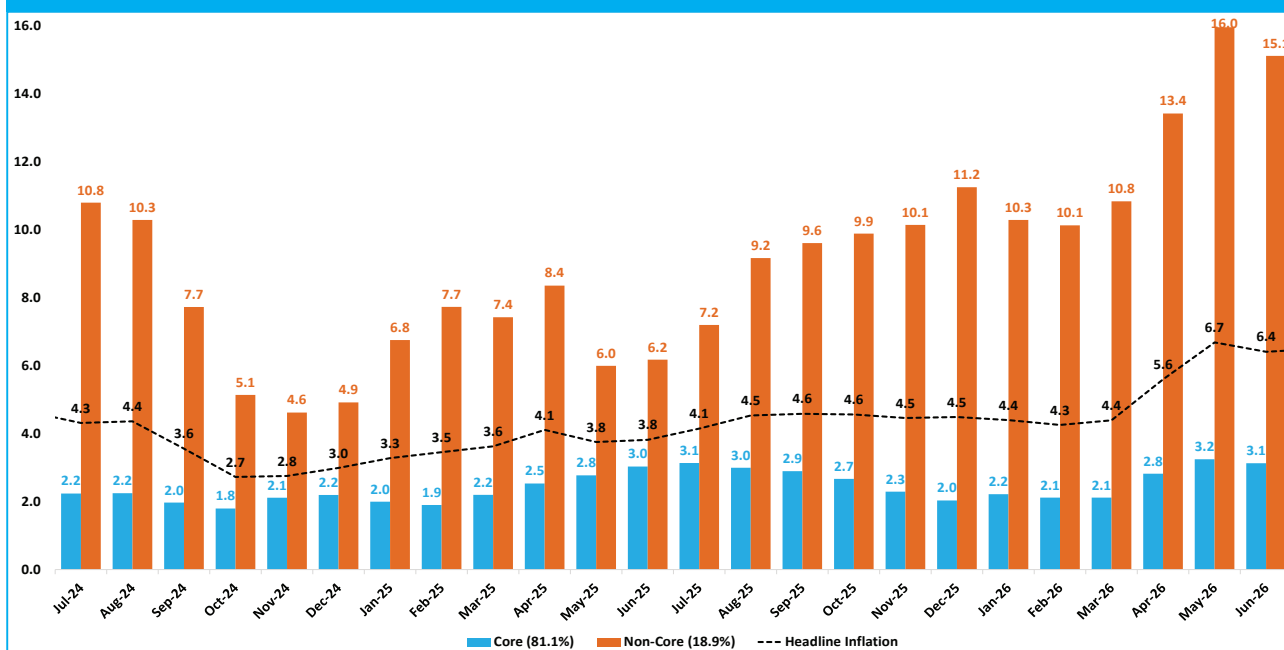
3.0 DOMESTIC ECONOMY

3.2 Inflation

Overall inflation remained within the target range of 5 ± 2.5 percent during the FY2025/2026. It increased to 6.4 percent in June 2026 from 3.8 percent in June 2025, mainly reflecting increased energy costs attributable

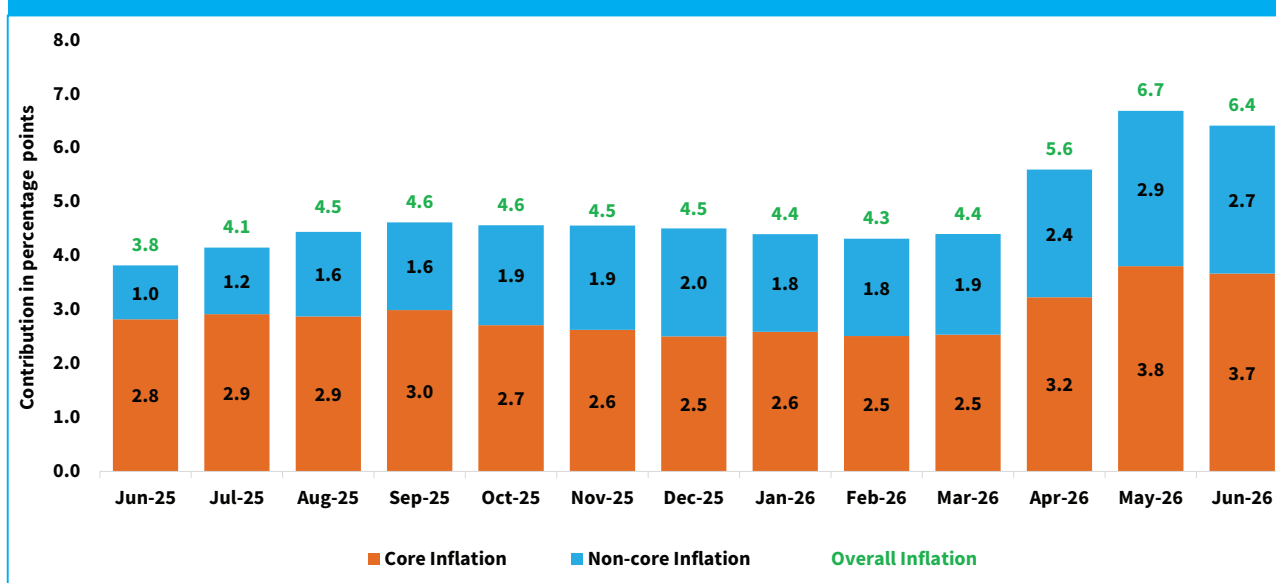
to the higher international oil prices occasioned by the U.S.-Iran war and higher prices of selected food items. Core inflation edged up to 3.1 percent from 3.0 percent, while non-core inflation rose sharply to 15.1 percent from 6.2 percent, largely due to higher energy prices (**Charts 3.2 and 3.3**).

Chart 3.2: Developments in Broad Components of Inflation (y/y, Percent)



Source: KNBS and CBK

Chart 3.3: Contributions of Core and Non-Core Inflation to Overall Inflation



Source: KNBS and CBK

3.0 DOMESTIC ECONOMY

Core Inflation

Core inflation rose slightly to 3.1 percent in June 2026, from 3.0 percent in June 2025, largely on account of higher transport costs in line with international oil price developments.

Non-Core Inflation

Non-core inflation increased to 15.1 percent in June 2026 from 6.2 percent in June 2025, driven by higher energy costs and rising prices of selected vegetable items. The increase reflected the impact of the US-Iran conflict on international oil prices, which raised domestic fuel and transport costs, as well as seasonal weather conditions that exerted upward pressure on food prices.

Inflation Outlook

In the medium term, inflation is expected to remain anchored around the midpoint of the target range, supported by prudent monetary policy, anticipated normalization of global oil prices, favourable weather conditions, and continued exchange rate stability. However, risks to the outlook stem from a possible escalation of conflicts in the Middle East, which could trigger renewed volatility in oil prices and global supply chains.

3.3 Balance of Payments

Overall Balance

The overall balance of payments recorded a lower surplus of USD 2,278 million in FY2025/26 compared to USD 2831 million in FY2024/25.

Current Account

The current account deficit widened to USD 4,309 million (3.0 percent of GDP) in FY2025/26 compared to a deficit of USD 2,554 million (1.9 percent of GDP) in FY2024/25. The widening of the current account deficit was mainly attributed to a larger deficit in the goods balance and a slowdown in the secondary income account.

Goods Balance

The deficit in the goods balance widened by USD 1,888 million, to USD 12,389 million in FY2025/26 from USD 10,501 million in FY2024/25, following an increase in goods imports, which more than offset the increase in goods exports. Goods imports rose by 13.1 percent to USD 26,056 million, mainly reflecting higher imports of mineral fuels, chemicals, manufactured goods, machinery, and transport equipment. The increase in the import bill was partly exacerbated by higher global commodity and energy prices and supply-chain disruptions arising from the U.S.-Israel-Iran conflict, which affected energy supplies, shipping routes, and freight costs. Disruptions to shipping through the Strait of Hormuz and other key regional trade routes heightened risks to the availability and cost of petroleum products. Goods exports grew by 9.0 percent in FY2025/26, supported mainly by increased exports of tea, horticultural products, oil products, manufactured goods, miscellaneous manufactured articles, and re-exports (**Table 3.2**). Exports to Africa increased to USD 7,093 million in FY2025/26, reflecting stronger trade with countries in the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), which accounted for 49.9 percent and 44.0 percent of total exports, respectively. The increased exports to regional markets were supported by growing demand for Kenyan manufactured goods, as well as re-exports of especially oil products. In contrast, the share of exports to the rest of the world declined to 42.9 percent from 44.1 percent, partly reflecting weaker external demand and trade disruptions associated with geopolitical tensions in the Middle East (**Table 3.3**).

3.0 DOMESTIC ECONOMY

Table 3.2: Balance of Payments (USD Million)

Item	FY 2024/25*	FY 2025/26**				FY 2025/26**	FY 2025/26 - FY 2024/25	
		Jul-Sep Q1	Oct-Dec Q2	Jan-Mar Q3	Apr-Jun Q4		Absolute Change	% Change
Overall Balance	-2,831	-249	-986	-1,346	303	-2,278	553	-19.5
Current account	-2,554	-959	-825	-919	-1,606	-4,309	-1,755	68.7
Goods Balance	-10,501	-2,820	-3,034	-2,727	-3,809	-12,389	-1,888	18.0
Exports (fob)	12,546	3,559	3,025	2,985	4,098	13,666	1,120	8.9
o/w Coffee	434	64	70	132	167	433	-0.7	-0.2
Tea	1,365	347	402	350	357	1,457	91.5	6.7
Horticulture	1,135	304	301	331	308	1,244	109.1	9.6
Oil Products	109	31	30	30	53	144	35.4	32.6
Manufactured Goods	652	185	158	144	173	660	8.0	1.2
Crude Materials	1,278	273	296	376	290	1,234	-43.7	-3.4
Chemicals and Related Products	617	147	147	134	168	595	-22.7	-3.7
Miscellaneous Manufactured Articles Products	805	227	206	200	217	850	45.1	5.6
Re-exports	4,565	1,465	1,000	1,098	1,065	4,628	62.7	1.4
Others	863	268	208	207	496	1,179	315.8	36.6
Imports (fob)	23,047	6,379	6,058	5,712	7,906	26,056	3,008.6	13.1
o/w Mineral Fuels	7,610	2,125	1,892	1,841	2,708	8,566	956.4	12.6
Chemicals and Related Products	3,130	749	874	954	1,009	3,586	456.3	14.6
Manufactured Goods	3,125	840	793	823	841	3,296	170.8	5.5
Machinery	3,094	1,154	846	818	1,019	3,837	743.1	24.0
Transport Equipment	1,652	407	452	451	506	1,816	164.2	9.9
Food	2,084	498	640	627	684	2,449	365.0	17.5
Other	3,612	879	907	839	855	3,480	-131.9	-3.7
Services Balance	2,417	694	681	437	746	2,558	141.0	5.8
Credit	8,190	2,253	2,236	2,256	2,128	8,873	682.8	8.3
Transport	2,188	542	648	556	572	2,318	130.7	6.0
Travel	3,670	1,123	995	1,017	838	3,974	303.9	8.3
Credit	2,333	588	592	683	718	2,582	248.2	10.6
Debit	5,773	1,559	1,555	1,819	1,382	6,315	541.8	9.4
Transport	1,919	507	549	527	564	2,147	228.3	11.9
Travel	942	271	281	250	252	1,055	112.9	12.0
Debit	2,912	781	724	1,042	565	3,113	200.5	6.9
	24,307	6,652	6,404	6,353	7,621	27,031	2,724.0	11.2
Primary income	-2,080	-689	-347	-501	-291	-1,828	252.1	-12.1
Secondary income	7,609	1,856	1,874	1,872	1,747	7,350	-259.9	-3.4
Capital account	250	23	22	69	46	160	-90.4	-36.1
Financial Account	-4,577	-575	-1,021	-2,009	-2,488	-6,092	-1,515.6	33.1
Direct investment: assets	399	120	139	75	75	408	9.0	2.2
Direct investment: liabilities	962	278	278	267	315	1,138	176.3	18.3
Portfolio investment: assets	445	174	291	458	413	1,335	890.7	200.3
Portfolio investment: liabilities	1,745	149	843	1,711	-106	2,597	852.3	48.9
Financial derivatives: assets	-109	23	-22	-2	0	0	108.7	-99.6
Financial derivatives: liabilities	-29	1	-1	-1	0	0	29.3	-100.4
Other investment: assets	-2,121	-436	514	-29	702	751	2,871.8	-135.4
Other investment: liabilities	514	28	823	533	3,468	4,852	4,337.9	844.6
Net Errors and Omissions	558	611	768	187	-1,231	335	-222.7	-39.9
Reserves and Related Items	2,831	249	986	1,346	-303	2,278	-552.6	-19.5

*Revised

**Provisional

fob - free on board

3.0 DOMESTIC ECONOMY

Table 3.3: Kenya's Direction of Trade

	Exports					Imports			
	USD Millions		% Change			USD Millions		% Change	
	FY 2025*	FY 2026**	FY 2025	FY 2026		FY 2025*	FY 2026**	FY 2025	FY 2026
Africa	6,604	7,093	55.9	57.1	Africa	2,007	2,040	8.3	7.5
of which					of which				
Uganda	3,773	3,963	31.9	31.9	South Africa	483	487	2.0	1.8
South Sudan	697	738	5.9	5.9	Tanzania	406	399	1.7	1.5
Tanzania	550	539	4.6	4.3	Uganda	294	327	1.2	1.2
Rwanda	381	429	3.2	3.5	Egypt	390	323	1.6	1.2
DRC	243	361	2.1	2.9	Eswatini	103	126	0.4	0.5
Egypt	192	249	1.6	2.0					
Ethiopia	106	129	0.9	1.0					
Somalia	124	103	1.1	0.8	EAC	744	764	3.1	2.8
					COMESA	976	993	4.0	3.7
EAC	5,840	6,204	49.4	49.9					
COMESA	5,016	5,464	42.4	44.0	Rest of the World	22,300	24,990	91.7	92.5
					of which				
Rest of the World	5,220	5,332	44.1	42.9	China	4,820	6,067	19.8	22.4
of which					UAE	5,375	4,407	22.1	16.3
USA	653	825	5.5	6.6	India	2,112	2,850	8.7	10.5
Pakistan	572	601	4.8	4.8	Saudi Arabia	1,316	2,526	5.4	9.3
Netherlands	512	548	4.3	4.4	Malaysia	1,038	1,154	4.3	4.3
UAE	687	539	5.8	4.3	Japan	957	1,073	3.9	4.0
United Kingdom	460	473	3.9	3.8	USA	1,141	1,026	4.7	3.8
Germany	164	160	1.4	1.3	Russia	380	574	1.6	2.1
Oman	103	160	0.9	1.3	Oman	345	485	1.4	1.8
China	160	154	1.3	1.2	Germany	331	421	1.4	1.6
Saudi Arabia	126	132	1.1	1.1	Belgium	243	412	1.0	1.5
France	117	130	1.0	1.0	Netherlands	189	316	0.8	1.2
India	144	129	1.2	1.0	Pakistan	255	303	1.0	1.1
Kazakhstan	73	108	0.6	0.9	United Kingdom	340	265	1.4	1.0
Italy	96	102	0.8	0.8	France	228	240	0.9	0.9
Others	1,352	1,271	11.4	10.2	Others	3,232	2,871	13.3	10.6
Total Exports	11,824	12,425	100.0	100.0	Total Imports (CIF)	24,307	27,030	100.0	100.0
European Union	1,250	1,274	10.6	10.3	European Union	1,745	2,181	7.2	8.1
China	160	154	1.3	1.2	China	4,820	6,067	19.8	22.4

Source: KNBS, KRA and CBK

* Revised

**Provisional

CIF - Cost Insurance and Freight

Services Balance

The services balance improved by USD 141 million, recording a surplus of USD 2,558 million in FY2025/26 from a surplus of USD 2,417 million in the previous year. The improvement was mainly driven by strong performance in exports of transport and travel services.

Transport receipts increased by 6 percent to USD 2,318 million, while travel receipts increased by 8.3 percent to USD 3,974 million, reflecting increased international tourist arrivals. The increase in imports of transport services by 11.9 percent was mainly on account of higher freight costs.

3.0 DOMESTIC ECONOMY

Primary and Secondary Income Account

The primary income deficit narrowed to USD 1,828 million in FY2025/26, from USD 2,080 million in FY2024/25, mainly reflecting higher interest receipts on reserve assets. Over the same period, the secondary income surplus declined by USD 260 million to USD 7,350 million, largely due to lower remittance inflows from key source markets.

Capital and Financial Account

The capital account recorded lower inflows of USD 160 million in FY2025/26, compared with USD 250 million in FY2024/25, mainly reflecting reduced capital transfers during the review period. In contrast, net inflows through the financial account increased significantly to USD 6,092 million in FY2025/26, from USD 4,577 million in the previous financial year. The increase was primarily driven by higher net inflows under direct and portfolio investment, as well as other investment.

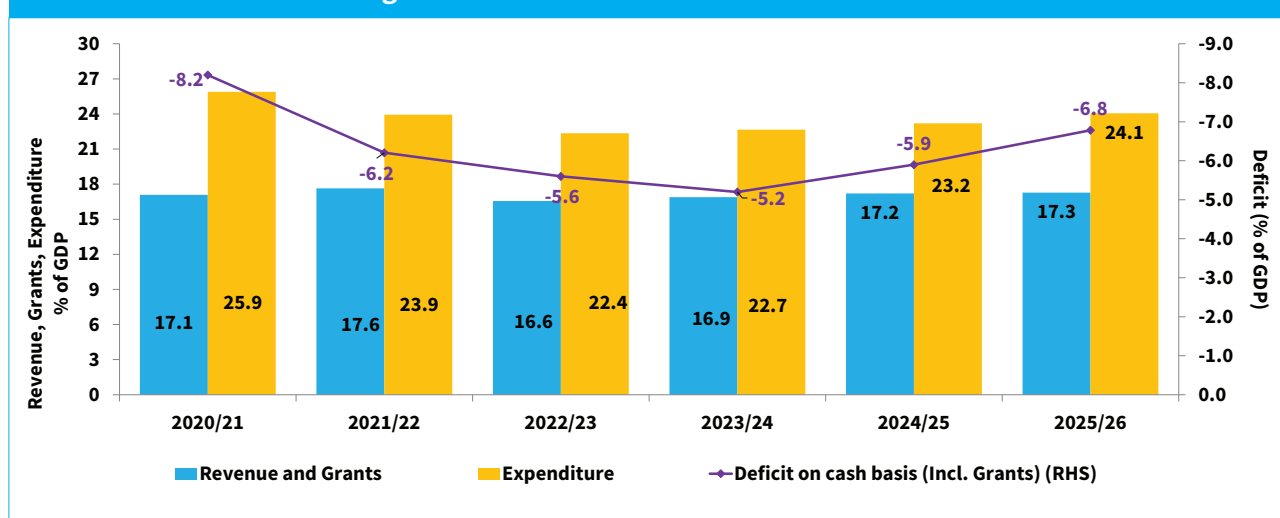
Direct investment inflows were supported by higher equity liabilities, reflecting increased mergers and acquisitions, particularly in the banking sector, as well as increased investment in greenfield enterprises

within the Export Processing Zones (EPZs). Portfolio investment also recorded stronger inflows, largely attributable to increased holdings of government debt securities following the issuance of the Eurobond during the review period. The Eurobond issuance provided an important source of external financing and contributed to the strengthening of the financial account. Other investment inflows also increased, reflecting higher disbursements of government external loans and increased trade credit. The latter was partly supported by financing arrangements associated with the Government-to-Government (G-to-G) oil import arrangement, which facilitated the financing of petroleum imports and contributed to higher external financing flows (**Table 3.3**).

3.4 Government Budget

Government budgetary operations in the FY 2025/26 resulted in a deficit including grants (cash basis) of KShs 1,264.7 billion (6.8 percent of GDP), an increase from 5.9 percent of GDP in the previous year. The deficit was however, within the supplementary II target of 7.3 percent of GDP (**Chart 3.4 and Table 3.4**)

Chart 3.4: Government Budget Performance



3.0 DOMESTIC ECONOMY

Government Revenue

Government revenue (including grants) in FY 2025/26 stood at KShs 3,219.5 billion (17.3 percent of GDP) compared to KShs 2,956.9 billion during the previous fiscal year. The increase was reflected in the main categories of ordinary revenue. Tax revenue, which accounted for 77.1 percent of revenues, increased by 8.6 percent largely reflecting the outcome of various tax measures implemented during the year.

Appropriations-in-Aid increased by 21.3 percent largely attributed to the revision of fees and charges by MDAs. Non-tax revenues declined by 18.0 percent mainly on account the reduction of dividend receipts following the divestiture of the Government's share in Safaricom. External grants amounted to KShs 20.7 billion against a target of KShs 39.9 billion, translating in a shortfall of KShs 19.3 billion (**Table 3.4**)

Table 3.4: Statement of Central Government Operations in KShs Billion

	FY2024/25	FY2025/26			% change FY2025/26- FY2024/25	FY2025/26 % share to GDP	FY2026/27 Approved Budget
	Preliminary	Preliminary	Suppl. Budget III	Over(+) / Below (-) Target			
1. REVENUE & GRANTS	2,956.9	3,219.5	3,298.9	-79.4	8.9	17.3	3,674.2
Revenue	2,923.6	3,198.8	3,259.0	-60.2	9.4	17.2	3,630.6
Tax Revenue	2,271.4	2,467.2	2,457.4	9.8	8.6	13.2	2,858.7
Non Tax Revenue	148.8	121.2	183.3	-62.1	-18.5	0.7	127.1
Appropriations-in-Aid	503.4	610.4	618.3	-7.9	21.3	3.3	644.8
External Grants	33.3	20.7	39.9	-19.2	-37.9	0.1	43.6
2. EXPENDITURE AND NET LENDING	3,967.8	4,484.2	4,656.5	-172.3	13.0	24.1	4,819.4
Recurrent Expenditure	2,943.3	3,285.3	3,400.7	-115.4	11.6	17.6	3,565.6
Development Expenditure	576.8	731.5	771.0	-39.5	26.8	3.9	751.8
County Transfers	447.6	467.3	484.8	-17.5	4.4	2.5	502.0
Other	0.0	0.0	0.0	0.0			0.0
3. DEFICIT (incl Grants) on a commitment basis (1-2)	-1,010.9	-1,264.7	-1,357.6	92.9	25.1	-6.8	-1,145.2
Deficit (incl Grants) on a commitment basis (% of GDP)	-5.8	-6.8	-7.3	0.5	17.0		-5.5
4. ADJUSTMENT TO CASH BASIS	0.0	0.0	0.0				0.0
5. DEFICIT ON A CASH BASIS	-1,010.9	-1,264.7	-1,357.6	92.9	25.1	-6.8	-1,145.2
Deficit on a cash basis (% of GDP)	-5.9	-6.8	-7.3	0.5	15.0		-5.5
6. DISCREPANCY: Expenditure (+) / Revenue (-)	23.3	13.6	0.0	13.6	-41.6	0.1	-
7. FINANCING	1,034.3	1,251.0	1,357.6	-106.6	21.0	6.7	1,145.2
Domestic (Net)	854.5	983.7	973.6	10.1	15.1	5.3	898.0
External (Net)	179.8	267.3	384.0	-116.7	48.7	1.4	247.2
Domestic Loan Repayments(Receipts)	8.0	13.7	11.9	1.8	70.5	0.1	12.4
Other domestic Financing	0.0	0.0	0.0	0.0		0.0	0.0

Source: The National Treasury

Expenditure and Net Lending

Government expenditure and net lending increased by 12.8 percent to KShs 4,484.2 billion (24.1 percent of GDP) in FY 2025/26 but remained below the programmed target. The increase in expenditures reflected a rise in recurrent expenditures, development expenditures and transfers to the county governments. Recurrent expenditure accounted for 73.3 percent of total government expenditure.

Financing

The deficit was financed through net foreign financing and net domestic financing of KShs 267.35 billion and KShs 983.7 billion, respectively. Net domestic borrowing during FY 2025/26 comprised of comprised KShs 889.3 billion from financial corporations, drawdown of KShs 20.2 billion from non-financial corporations, KShs 53.4 billion from households, KShs 17.2 billion from non-residents, KShs 38.3 billion from General Government and KShs 16.1 billion from Non-Profit Institutions (**Table 3.5**).

3.0 DOMESTIC ECONOMY

Table 3.5: Domestic Financing (KShs Billion)

	FY2025/26			
	Sep-25	Dec-25	Mar-26	Jun-26
1. From Household	26.0	30.4	41.8	53.4
2. Nonfinancial corporations	11.2	(9.0)	(19.1)	(20.2)
3. From Financial Corporations	262.5	422.2	762.4	889.3
Commercial_banks	102.8	134.6	374.4	360.7
Money Market Funds	37.0	42.8	53.7	60.3
Insurance	47.7	97.4	152.1	209.2
Pension	49.5	83.0	91.1	134.4
4. From Non-Profit Institutions	1.6	3.0	12.5	16.1
5. From Non-Resident	22.2	30.7	25.2	17.2
6. From General Government	9.6	22.9	20.3	38.3
7.Total Domestic Financing	333.1	500.3	843.2	994.0
8. Other Domestic financing /1	6.7	42.6	(143.8)	(10.3)
9. Net Domestic Financing	339.8	542.9	699.5	983.7

/1 Include accounts payable and domestic loan repayment receipts

NB. Treasury Bills & Bonds are reflected at Cost

Source: Central Bank of Kenya and National Treasury

Outlook for - FY2026/27

In the approved budget for FY 2026/27, total revenue (including Appropriations-in-Aid and grants) is projected at KShs 3,674.2 billion (17.7 percent of GDP) while Government expenditure and net lending is projected at KShs 4,819.4 billion (23.2 percent of GDP). The overall budget deficit including grants is therefore, projected at KShs 1,145.2 billion (5.5 percent of GDP) to be financed through net external borrowing of KShs 247.2 billion (1.2 percent of GDP) and net domestic financing of KShs 898.0 billion (4.3 percent of GDP). The Government remains committed to the fiscal consolidation over the medium term.

3.5 Public Debt

Kenya's public and publicly guaranteed debt increased by 10.6 percent during the FY 2025/26, driven by 15.3 percent and 5.1 percent increase in domestic and external debt respectively. Public debt profile comprised of 55.8 percent and 44.2 percent of domestic and external debt, respectively. The ratio of public debt to GDP was estimated at 70.1 percent compared to 67.8 percent in June 2025 (**Table 3.6**).

Domestic Debt

The increase in domestic debt was driven by increased uptake of Treasury bonds and bills by 17.2 percent and 6.0 percent respectively. This brought the ratio of Treasury bonds to Treasury bills to 84:16 surpassing the government's medium-term objective of achieving 70:30 ratio. This goal was accomplished through issuance of medium- and long-term Treasury bonds in the recent past. The stock of Treasury bonds increased by 17.2 percent to KShs 5,990.1 billion in June 2026 from KShs 5,110.0 billion in June 2025 (**Table 3.6**).

External Debt

Kenya's public and publicly guaranteed external debt increased by 5.1 percent to KShs 5,770.3 billion in June 2026 (**Table 3.6**). The external debt structure shifted slightly with the proportion of debt owed to multilateral lenders and commercial creditors increasing by 4.26 percentage points and 16.1 percentage points, respectively, while that of bilateral decreased by 5.4 percentage points. The increased uptake of commercial creditors was a result of Liability Management Operations (LMOs) undertaken to minimize refinancing risks associated with external debt.

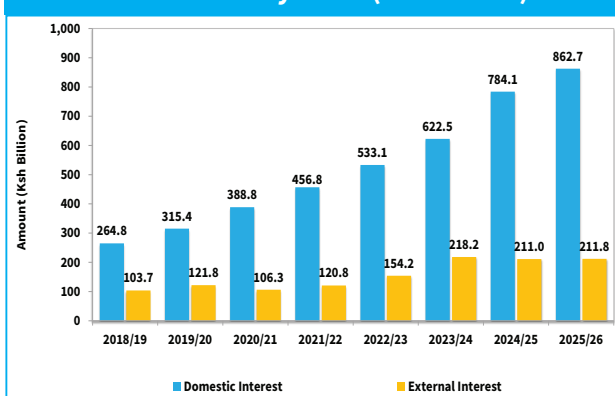
3.0 DOMESTIC ECONOMY

Public Debt Service

Cumulative interest and other charges on domestic and external debt increased by 10.0 percent and 0.4 percent, respectively, during the FY2025/26 (**Chart 3.5**). Total external debt service increased by USD 1,224.0 million

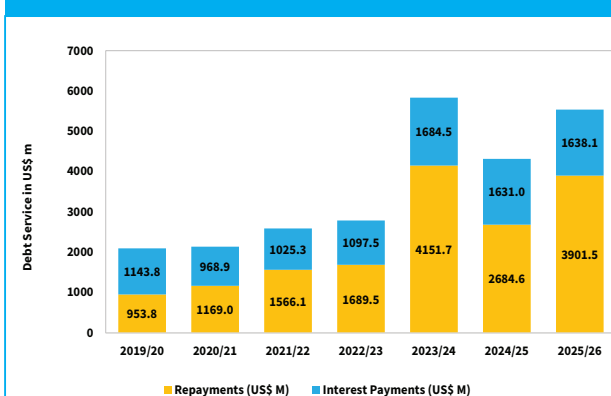
during the FY2025/26 to USD 5,539.6 million from USD 4,315.6 million in the FY2024/25. The large debt service in FY2025/26 reflected the external debt operations undertaken during the year (**Chart 3.6**).

Chart 3.5: Interest Payments (KShs Billion)



Source: The National Treasury

Chart 3.6: External Debt Service



Source: The National Treasury and CBK

Table 3.6: Public Debt

	June 2023		June 2024		June 2025		June 2026	
	KShs bn	%	KShs bn	%	KShs bn	%	KShs bn	%
DOMESTIC DEBT								
Securitised debt	4,581.3	94.8	5,259.1	97.2	6,163.0	97.4	7,106.6	97.4
Treasury Bills	598.7	12.4	632.0	11.7	1,052.9	16.6	1,116.4	15.3
Of which Repo Treasury bills	18.8	0.4	16.6	0.3	16.1	0.3	15.0	0.2
Treasury Bonds	3,982.6	82.4	4,627.1	85.5	5,110.0	80.8	5,990.1	82.1
Non Securitised debt	250.9	5.2	151.2	2.8	163.1	2.6	189.8	2.6
Overdraft at CBK	76.5	1.6	61.0	1.1	67.6	1.1	92.2	1.3
others	174.4	3.6	90.2	1.7	95.4	1.5	97.7	1.3
TOTAL DOMESTIC DEBT	4,832.2	100.0	5,410.3	100.0	6,326.0	100.0	7,296.4	100.0
(as a % of GDP)*	33.6		33.5		36.3		39.1	
(as a % of Total Debt)	47.0		51.2		53.5		55.8	
EXTERNAL DEBT**								
Bilateral	1,339.5	24.6	1,154.7	22.4	1,106.4	19.2	1,047.0	18.1
Multilateral	2,654.9	48.7	2,774.4	53.9	3,045.4	52.8	3,174.3	55.0
Comm. Banks	1,437.3	26.4	1,207.5	23.4	1,322.3	22.9	1,534.9	26.6
Export Credit	14.8	0.3	14.2	0.3	14.4	0.2	14.1	0.2
TOTAL EXTERNAL DEBT	5,446.5	100.0	5,150.8	100.0	5,488.5	100.0	5,770.3	100.0
(as a % of GDP)*	38.2		31.9		31.5		31.0	
(as a % of Total Debt)	53.0		48.8		46.5		44.2	
TOTAL PUBLIC DEBT	10,278.7		10,561.1		11,814.5		13,066.7	
(as a % of GDP)*	72.0		65.5		67.8		70.1	
* Provisional								

Source: The National Treasury and CBK

4.0 REGIONAL INTEGRATION DEVELOPMENTS

4.0 REGIONAL INTEGRATION DEVELOPMENTS

4.1 Background

Kenya participates in the regional integration initiatives of the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and African Union (AU), which aim to advance the economic development of Africa. The integration initiatives build closer economic and political ties among African countries thereby enabling coordination of economic, financial, and industrial policies among member countries; intra-Africa trade and investment; and regional peace and political stability. An important objective of the EAC, COMESA and AU, is the attainment of monetary unions, which involves the adoption of a single currency and establishment of a common Central Bank. This objective is achieved through, among others, harmonisation of monetary and fiscal policies among member countries and integrating financial, payment and settlement systems. The harmonisation processes are guided by monetary cooperation programmes, which are frameworks for coordinating the macroeconomic policies of member countries and ensuring sustainable convergence towards a monetary union.

During the FY2025/26, progress was made towards the realisation of the East African Monetary Union (EAMU) within the EAC, the COMESA Monetary Union within COMESA and the African Monetary Union (AMU) within

the AU. Although overlapping, the three integration processes are well coordinated and will eventually converge into the AMU at the continental level. During the year, the Central Bank of Kenya (CBK) participated in the meetings, workshops and other events of the EAC and COMESA. The CBK also participated in the activities of the AU predominantly through the Association of African Central Banks (AACB).

4.2 The EAC Monetary Cooperation Programme

In preparation for the EAMU, the EAC Partner States have agreed to attain and maintain for at least three consecutive years four macroeconomic convergence criteria; namely, a ceiling on overall inflation of 8 percent; a ceiling on fiscal deficit, including grants, of 3 percent of GDP; a ceiling on gross public debt of 50 percent of GDP in net present value terms; and a floor of foreign exchange reserves cover of 4.5 months of imports. During the FY2025/26, Kenya met the criteria on headline inflation and gross reserves but did not meet the criteria on fiscal deficit and gross public debt (**Table 4.1**). The Kenya Government aims to achieve the fiscal criteria over the medium term through fiscal consolidation, which entails enhanced revenue mobilization and expenditure restraint in order to reduce the fiscal deficit. This in turn will constrain the growth of Kenya's public debt and boost the country's debt sustainability position.

Table 4.1: East African Monetary Union (EAMU) Convergence Criteria

Criteria	2023-24	2024-25	2025-26
Ceiling on headline inflation of 8 percent	6.2	3.6	4.9
A floor of official foreign exchange reserve cover of 4.5 months of imports ¹	3.8	5.2	5.8
Ceiling on fiscal deficit (including grants) of 3 percent	-5.2	-5.9	-6.8
Ceiling on gross public debt of 50 percent of GDP in NPV terms	64.4	63.7	65.6

¹ Imports cover based on 36-month average of imports of goods and services

Source: CBK

4.0 REGIONAL INTEGRATION DEVELOPMENTS

The overarching objective of the COMESA Monetary Cooperation Programme is the establishment of a Monetary Union. Towards this end, Partner States are expected to maintain eight (8) primary (preconditions for convergence) and secondary (reinforcement conditions) convergence criteria (**Table 4.2**). In FY2025/2026, Kenya met the COMESA primary convergence criteria

on inflation, central bank financing of the budget and external reserves but not the criterion on the budget deficit. Kenya also met the secondary criterion on exchange rate variability and government capital investment but not the secondary criteria on general government debt and total tax revenue. The African Monetary Cooperation Programme (AMCP)

Table 4.2: Revised Convergence Criteria under the COMESA Monetary Programme

Primary Criteria	2023-24	2024-25	2025-26
Overall budget deficit to GDP ratio (including grants) not exceeding 5 percent	-5.2	-5.9	-6.8
Annual average inflation rate of 7 percent with a band of +/- 1 percent	6.2	3.6	4.9
Central Bank financing of the budget as a share of the previous year's tax revenue not exceeding 5 percent, with a target of 0 percent	3.1	3.5	4.4
External reserves of equal to or more than 3 months of imports of goods and non-factor services (Moving average of imports of the last 6 months), with a target of at least 6 months	3.8	5.1	5.0
Secondary Criteria			
Variability of the nominal exchange rate against the US dollar not exceeding ± 10 percent, with a target of ± 5 percent	14.1	-10.2	-0.1
General Government debt to GDP ratio of less than 65 percent	66.9	67.8	70.1
Total tax revenue to GDP ratio of not less than 20 percent	13.8	13.2	13.2
Government capital investment to tax revenue ratio of not less than 20 percent	25.2	25.7	29.5

Source: CBK

The African Monetary Cooperation Programme (AMCP)

The African Monetary Cooperation Programme (AMCP) is implemented by the Association of African Central Banks (AACB) with a view to establishing a monetary union, with a single currency and a common central bank, among AACB member states. The AMCP

comprises primary and secondary convergence criteria (**Table 4.3**). In FY2025/2026, Kenya met the primary criteria on inflation, central bank financing of the budget and external reserves, but did not meet the criteria on the budget deficit. Kenya met the secondary criteria on exchange rate variability but did not meet the criteria on total tax revenue and government capital investment.

4.0 REGIONAL INTEGRATION DEVELOPMENTS

Table 4.3: The African Monetary Cooperation Programme (AMCP)

Primary Criteria	2023-24	2024-25	2025-26
Annual average inflation rate not exceeding 7 percent (Target $\leq$ 3 percent by 2038)	6.2	3.6	4.9
Overall budget deficit/GDP ratio of not more than 5 percent (Target $\leq$ 3 percent by 2033)	-5.2	-5.9	-6.8
Minimize the central bank financing of the budget to below 5 percent (Target 0 percent)	3.1	3.5	4.4
External reserves of equal to or more than 3 months of imports of goods and non-factor services (Moving average of imports of the last 6 months) (Target $\geq$ 6 months by 2038)	3.8	5.1	5.0
General Government debt to GDP ratio of not more than 65 percent	66.9	67.8	70.1
Secondary Criteria			
Total tax revenue to GDP ratio of not less than 20 percent	13.8	13.2	13.2
Nominal Exchange Rate Variability ± 10 percent (Target ± 5 percent)	14.1	-10.2	-0.1
Ratio of Government Capital Investment to Tax Revenue of not less than 30 percent	25.2	25.7	29.5

Source: CBK

5.0 CENTRAL BANK OPERATIONS

5.0 CENTRAL BANK OPERATIONS

5.1 Monetary Operations

Monetary Policy

The CBK conducted monetary policy in FY2025/2026 with the objective of maintaining overall inflation within the target range of 5 ± 2.5 percent and support economic activities, while ensuring continued exchange rate stability. Overall inflation remained within the target range, averaging 4.9 percent during the financial year. Core inflation remained low and stable at 3.1 percent in June 2026 compared to 3.0 percent in June 2025, indicating muted demand pressures in the economy.

The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) further cumulatively by 100 basis points between June 2025 and June 2026 to augment previous actions aimed at stimulating private sector credit and support economic activity, while ensuring inflation expectations remained firmly anchored and the exchange rate stable. The MPC Meetings in August, October and December 2025, and February 2026 lowered the CBR by 25 basis points each to 9.50 percent, 9.25 percent, 9.00 percent and 8.75, respectively.

The MPC Meetings in April and June 2026 decided to maintain the CBR at 8.75 percent, noting that with the potentially transitory nature of the conflict in the Middle East, the current monetary policy stance remained appropriate to ensure that inflation expectations remain anchored within the target range, and the exchange rate remains stable. The Committee observed that the conflict in the Middle East has disrupted global supply chains and led to a sharp increase in energy prices and transportation costs, resulting in higher inflation and moderated global growth prospects. Kenya's overall inflation was expected to remain within the target range in the near term, assuming a de-escalation of the conflict in the Middle East. The Committee also observed that the Central banks in the major economies have remained cautious and kept their policy rates unchanged as they continue to assess the impact of the conflict in the Middle East on their inflation and growth

outlooks. The average lending rates in the domestic market have declined further, while private sector credit growth has continued to improve.

Implementation of Monetary Policy Reforms

To further strengthen the effectiveness of the monetary policy implementation framework, the MPC approved in February 2026 the narrowing of the interest rate corridor around the CBR from ± 75 basis points to ± 50 basis points. This enhances the stability of the KESONIA and align the rate closer to the CBR. In line with this review, the Committee approved the adjustment of the applicable interest rate on the Discount Window from 75 basis points above the CBR to 50 basis points, which is the upper bound of the interest rate corridor. The implementation framework has resulted in improved functioning of the interbank market, and the interbank rate (KESONIA), which serves as an operating target, remained closely aligned with the CBR, thereby supporting the effective transmission of monetary policy to short-term interest rates.

The CBK announced the revised banking sector Risk-Based Credit Pricing Model (RBCPM) in August 2025 and was fully implemented in March 2026. The RBCPM is anchored on KESONIA, and was expected to enhance transparency in the loan pricing by commercial banks and to strengthen the transmission of monetary policy decisions to commercial banks' lending interest rates.

Money Supply

Annual growth in money supply, M3, increased to 11.3 percent in FY 2025/26 from 7.5 percent in FY2024/25, mainly due to increased net domestic assets and net foreign assets of the banking system. Improved growth in net domestic assets of the banking system was largely supported by recovery in growth of credit to the private sector. The increase in net foreign assets of the banking system, largely reflected increased foreign assets of the Central Bank supported by interbank purchases and official inflows. On the liability side, the increase in money supply was reflected in increased deposits (**Table 5.1**).

5.0 CENTRAL BANK OPERATIONS

Table 5.1: Monetary Aggregates

	End Month Level (KSh Billion)			Annual Growth Rate		Annual Absolute Change (KShs Billion)	
	2023/24	2024/25	2025/26	2024/25	2025/26	2024/25	2025/26
Components of M3							
1. Money supply, M1 (1.1+1.2+1.3)	2,063.6	2,342.3	2,670.0	13.5	14.0	278.7	327.7
1.1 Currency outside banks	274.2	286.0	331.0	4.3	15.7	11.8	45.0
1.2 Demand deposits	1,630.6	1,880.4	2,150.8	15.3	14.4	249.8	270.4
1.3 Other deposits at CBK 1/	158.9	175.9	188.2	10.7	7.0	17.0	12.3
2. Money supply, M2 (1+2.1)	4,041.6	4,519.6	5,015.1	11.8	11.0	478.0	495.5
2.1 Time and saving deposits	1,978.0	2,177.3	2,345.2	10.1	7.7	199.3	167.9
3. Money supply, M3 (2+3.1)	5,381.3	5,786.5	6,437.6	7.5	11.3	405.2	651.2
3.1 Foreign Currency Deposits	1,339.7	1,266.9	1,422.5	-5.4	12.3	-72.8	155.6
Sources of M3							
1. Net foreign assets 2/	905.9	1,066.3	1,417.5	17.7	32.9	160.4	351.2
Central Bank	479.2	810.8	1,144.1	69.2	41.1	331.6	333.3
Banking Institutions	426.7	255.5	273.5	40.1	7.0	-171.2	17.9
2. Net domestic assets (2.1+2.2)	4,475.4	4,720.2	5,020.1	5.5	6.4	244.7	300.0
2.1 Domestic credit	5,502.0	6,172.4	6,696.0	12.2	8.5	670.4	523.6
2.1.1 Government (net)	1,619.5	2,230.1	2,351.8	37.7	5.5	610.6	121.7
2.1.2 Private sector	3,797.5	3,880.9	4,290.6	2.2	10.6	83.4	409.7
2.1.3 Other public sector	84.9	61.4	53.6	-27.7	-12.6	-23.5	-7.8
2.2 Other assets net	-1,026.6	-1,452.2	-1,675.9	-41.5	-15.4	-425.7	-223.6
Memorandum items							
4. Overall liquidity, L (3+4.1)	8,950.1	9,682.2	10,965.4	8.2	13.3	732.1	1,283.2
4.1 Non-bank holdings of government securities	3,568.8	3,895.8	4,527.8	9.2	16.2	326.9	632.0

Absolute and percentage changes may not necessarily add up due to rounding

1/ Includes county deposits and special projects deposit

2/ Net Foreign Assets at current exchange rate to the US dollar.

Source: CBK

Domestic Credit

Annual growth in domestic credit moderated to 8.5 percent in FY2025/26 compared to 12.2 percent in FY2024/25, mainly due to decline in net lending to Government. The moderation in growth in net lending to the government partly reflected increased deposits at the Central Bank. Growth in commercial banks' lending to the private sector improved to 10.6 percent

in FY2025/26 compared to 2.2 percent in the previous financial year; and an improvement from a contraction of 2.9 percent in January 2025. Growth in credit to key sectors of the economy was resilient, particularly trade, building and construction, agriculture, and consumer durables, reflecting improved demand for credit in line with the decline in lending interest rates **(Table 5.2)**.

5.0 CENTRAL BANK OPERATIONS

Table 5.2: Banking Sector Net Domestic Credit

		End Period Level (KShs Billion)			Annual Growth Rate (Percent)		Annual Absolute Change (KShs Billion)	
		2023/24	2024/25	2025/26	2024/25	2025/26	2023/25	2023/26
1.	Credit to Government	1,619.5	2,230.1	2,351.8	37.7	5.5	610.6	121.7
	Central Bank	380.8	395.9	241.3	4.0	-39.1	15.1	-154.7
	Commercial Banks & NBFIs	1,238.7	1,834.2	2,110.5	48.1	15.1	595.5	276.3
2.	Credit to other public sector	84.9	61.4	53.6	-27.7	-12.6	-23.5	-7.8
	Local government	6.4	16.1	16.9	150.8	5.5	9.7	0.9
	Parastatals	78.5	45.3	36.7	-42.3	-19.0	-33.2	-8.6
3.	Credit to private sector	3,797.5	3,880.9	4,290.6	2.2	10.6	83.4	409.7
	Agriculture	134.2	151.1	204.2	12.6	35.1	16.9	53.1
	Manufacturing	580.2	598.3	565.9	3.1	-5.4	18.1	-32.4
	Trade	632.7	696.8	854.0	10.1	22.6	64.1	157.2
	Building and construction	127.7	159.6	206.0	25.0	29.0	31.9	46.4
	Transport & communications	343.0	336.2	330.2	-2.0	-1.8	-6.7	-6.1
	Finance & insurance	152.4	142.1	190.7	-6.7	34.2	-10.3	48.6
	Real estate	444.7	452.0	445.9	1.6	-1.4	7.3	-6.1
	Mining and quarrying	42.9	22.7	32.0	-47.1	41.2	-20.2	9.4
	Private households	566.0	564.8	595.0	-0.2	5.3	-1.1	30.2
	Consumer durables	417.3	457.5	502.2	9.6	9.8	40.2	44.7
	Business services	213.8	192.5	209.4	-10.0	8.8	-21.4	16.9
	Other activities	142.8	107.3	155.1	-24.8	44.6	-35.5	47.8
4.	Overall	5,502.0	6,172.4	6,696.0	12.2	8.5	670.4	523.6

Source: CBK

Reserve Money

Reserve money increased by 14.0 percent in FY 2025/26 compared to a contraction of 1.3 percent in the

previous financial year. The increase in reserve money was reflected in increased bank reserves and currency outside banks (**Table 5.3**).

Table 5.3: Reserve Money and its Components

		End Month Level			Annual Growth Rate		Annual Change (KShs Billion)	
		2023/24	2024/25	2025/26	2024/25	2025/26	2024/25	2025/26
1.	Net Foreign Assets	479.2	810.8	1144.1	69.2	41.1	331.6	333.3
2.	Net Domestic Assets	100.5	-238.5	-491.8	-337.3	106.2	-339.1	-253.3
	2.1 Government Borrowing (net)	380.8	395.9	241.3	4.0	-39.1	15.1	-154.7
	2.2 Commercial banks (net)	260.5	-28.7	-115.9	-111.0	304.1	-289.2	-87.2
	2.3 Other Domestic Assets (net)	-544.5	-609.5	-621.1	11.9	1.9	-65.0	-11.6
3.	Reserve Money	579.7	572.3	652.3	-1.3	14.0	-7.5	80.0
	3.1 Currency outside banks	274.2	286.0	331.0	4.3	15.7	11.8	45.0
	3.2 Bank reserves	305.6	286.3	321.3	-6.3	12.2	-19.3	35.1
	3.2.1 Required Reserves	220.4	181.5	203.8	-17.7	12.3	-38.9	22.4
	3.2.2 Cash in Till	59.6	70.8	69.9	18.7	-1.3	11.2	-0.9
	3.2.3 Excess Reserves	25.5	34.0	47.5	33.0	39.9	8.4	13.6

Source: CBK

5.0 CENTRAL BANK OPERATIONS

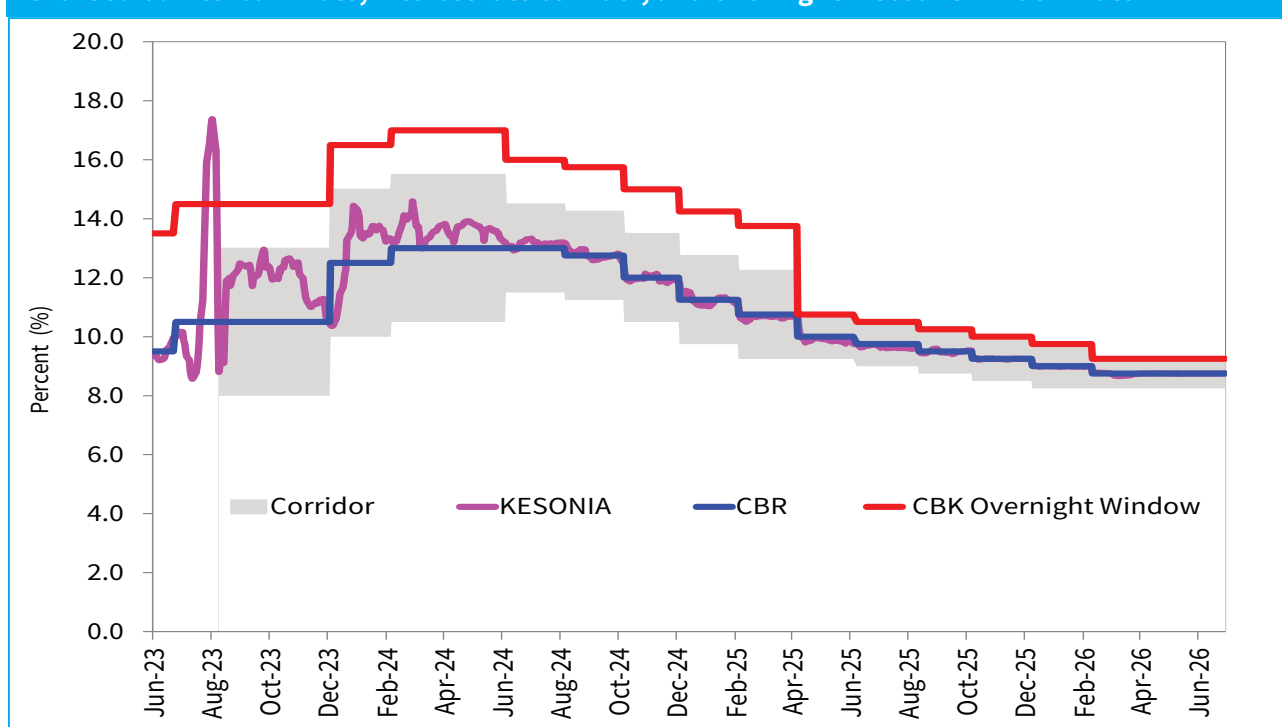
5.2 Interest Rates

Short Term Rates

Interest rates declined during FY 2025/2026 in line with the recent reductions in the Central Bank Rate (CBR) and improved liquidity conditions in the money market. The KESONIA, which is the operating target for monetary policy operations, has remained within the prescribed corridor around the CBR (**Chart 5.1a**).

However, Treasury bill rates increased slightly in May and June 2026, partly reflecting market correction and alignment with the monetary policy stance (**Chart 5.1b**). The average 91-day Treasury bill rate increased to 8.66 percent in June 2026 from 8.21 percent in June 2025, while the average 182-day Treasury bill rate increased to 8.60 percent from 8.51 percent.

Chart 5.1a: Interbank rate, interest rate corridor, and Overnight Discount Window Rate



Source: CBK

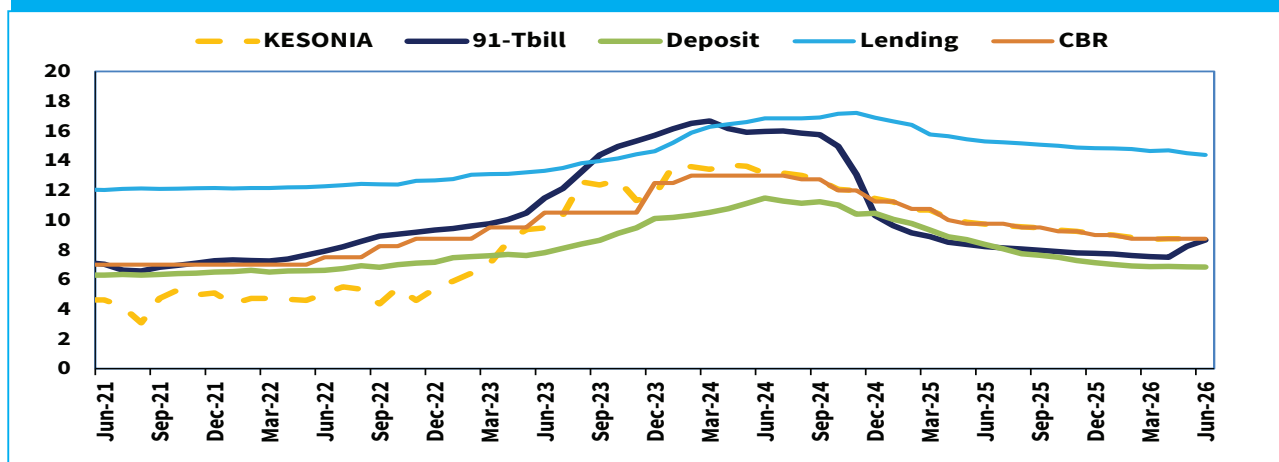
Commercial Bank Rates

Commercial banks average lending and deposit rates declined in FY 2025/26, partly reflecting the easing of the monetary policy stance. Commercial banks weighted average lending rate declined further to 14.4 percent in

June 2026 from 15.3 percent in June 2025 and a peak of 17.2 percent in October 2024. Similarly, the weighted average deposit rate decreased to 6.8 percent in June 2026 from 8.4 percent in June 2025, reflecting easing cost of funds (**Chart 5.1b**).

5.0 CENTRAL BANK OPERATIONS

Chart 5.1b: Interest Rates (Percent)



Source: CBK

5.3 Foreign Exchange Operations and Reserves Management

Kenya Foreign Exchange Market

In FY2025/26, the Kenyan shilling remained relatively stable against the U.S. dollar, with quarterly average exchange rates fluctuating within a narrow range of KShs 129.24 to KShs 129.42 per U.S. dollar. The stability was mainly supported by increased foreign exchange inflows from agricultural exports, tourism-related receipts, and resilient remittance inflows, which helped strengthen the supply of foreign exchange in the domestic market.

During the review period, the Kenyan shilling weakened against the Pound Sterling and the Euro but strengthened against the Japanese Yen. Against regional currencies, the shilling weakened against the South African Rand, Ugandan Shilling and Tanzanian Shilling, while strengthening against the Rwandan Franc and Burundian Franc. These movements largely reflected differences in the relative performance of the currencies against the U.S. dollar, as well as country-specific developments and changes in global and regional foreign exchange market conditions (**Table 5.4**).

Table 5.4: Kenya Shilling Exchange Rates

	2022/23	2023/24	2024/25	2025/26				Annual Average 2025/26	% change 2025/26_2024/25
				Q1	Q2	Q3	Q4		
				Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun		
US Dollar	126.32	144.18	129.37	129.24	129.28	129.16	129.42	129.27	-0.07
Pound Sterling	152.42	181.53	167.45	174.32	171.79	174.15	173.83	173.52	3.63
Euro	129.54	155.95	140.77	151.03	150.42	151.25	150.60	150.83	7.14
100 Japanese yen	92.05	96.87	86.57	87.65	83.97	82.36	81.26	83.81	-3.19
South African Rand	7.30	7.70	7.13	7.33	7.55	7.91	7.86	7.66	7.47
Uganda Shilling*	29.72	26.34	28.42	27.50	27.36	28.01	28.84	27.93	-1.74
Tanzania Shilling*	18.52	17.65	20.43	19.64	19.01	19.81	20.16	19.66	-3.79
Rwanda Franc*	8.47	8.70	10.64	11.19	11.24	11.28	11.30	11.25	5.74
Burundi Franc	17.00	19.86	22.73	23.06	22.83	22.95	23.00	22.96	1.02

* Units of currency per Kenya Shilling

Source: CBK

5.0 CENTRAL BANK OPERATIONS

Reserves Management

The CBK foreign exchange reserves closed FY 2025/26 at an all-time high of US\$ 14,023 million, equivalent to 5.8 months of import cover, up from US\$ 11,877 million, equivalent to 5.2 months of import cover in FY 2024/25. The increase in reserves strengthened Kenya's external liquidity position and provided a larger buffer against short-term external shocks, including volatility in global financial and foreign exchange markets. The reserve level remained well above the CBK's statutory requirement of a minimum of four months of import cover, providing a strong buffer against short-term external shocks in the foreign exchange market.

5.4 Banking Sector Developments

Banking Sector Performance

The Kenyan banking sector registered improved performance in the year ending June 30, 2026, demonstrating stability and resilience. The sector's key performance indicators as at June 30, 2026, are highlighted below:

- i). **Asset Base:** The banking sector's aggregate balance sheet increased by 13.1 percent to KShs 8.9 trillion as at June 30, 2026, from KShs 7.8 trillion as at June 30, 2025. The increase was mainly driven by growth in government securities (15.4 percent), net loans and advances (13.1 percent) and balances at CBK (27.8 percent) **(Table 5.5)**.
- ii). **Gross Loans and Advances** increased by 12.0 percent from KShs 4.1 trillion in June 2025, to KShs 4.6 trillion in June 2026. The key sectors that drove this growth were Trade (KShs 182.4 billion), Personal and Household (KShs 111.7 billion), Financial Services (KShs 60.6 billion), Agriculture (KShs 48.2 billion), Building and Construction (KShs 44.9 billion) and Energy and Water (KShs 40.8 billion) **(Table 5.6)**.
- iii). **Capital Adequacy** - In June 2026, core capital and total capital to total risk weighted assets ratios were 17.7 percent and 20.0 percent respectively as compared to 18.0 percent and 20.4 percent respectively in June 2025. The core capital and total capital to total risk weighted assets ratios were

above the statutory minimum ratios of 10.5 percent and 14.5 percent respectively. Similarly, core capital to total deposits ratio was 17.7 percent in June 2026, as compared to 18.0 percent in June 2025. The ratio was above the statutory minimum of 8.0 percent.

- iv). **Asset Quality** improved with the gross non-performing loans (NPLs) to gross loans ratio decreasing from 17.6 percent in June 2025, to 14.8 percent in June 2026. The gross NPLs decreased from KShs 728.5 billion in June 2025, to KShs 688.2 billion in June 2026. The main sectors with decreased NPLs are Real Estate (KShs 24.3 billion), Manufacturing (KShs 16.0) billion, Transport and Communication (KShs 8.7 billion) and Mining and Quarrying (KShs 5.3 billion) (Appendix III). The decrease in NPLs in the period was mainly attributable to repayments and write-offs.
- v). **Gross deposits** increased by 14.1 percent from KShs 5.8 trillion in June 2025, to KShs 6.7 trillion in June 2026. Deposits remained the main source of funding to banks, accounting for 75.1 percent of the banking sector's total liabilities and shareholders' funds as at June 2026, compared to 74.5 percent in June 2025.
- vi). **Liquidity** remained strong with the overall liquidity ratio in June 2026 standing at 61.2 percent compared to 58.4 percent reported in June 2025. This was above the minimum statutory level of 20.0 percent.
- vii). **Profitability** increased by 26.6 percent. The annual profit before tax increased by KShs 71.8 billion (26.6 percent) to KShs 342.6 billion in the year ended in June 2026, from KShs 270.8 billion in the year ended June 2025. This was driven by KShs 17.4 billion increase in income compared to KShs 61.5 billion decrease in expenses. The increase in total income is attributed to KShs 17.3 billion increase in other income. Total income increased by 1.0 percent to KShs 1,033.0 billion in June 2026, from KShs 1,022.6 billion in June 2025.

5.0 CENTRAL BANK OPERATIONS

Banking Sector Legal and Policy Developments

i. Issuance of the Revised Risk-Based Credit Pricing Model (RBCP)

- In August 2025, CBK issued the revised RBCP model, anchored on the overnight interbank average rate, now renamed the “Kenya Shilling Overnight Interbank Average (KESONIA),” to align it to the international best practices.
- KESONIA closely aligns with the policy rate (Central Bank Rate) under the current monetary policy implementation framework.
- KESONIA is the common reference lending rate for all variable rate loans by banks, effective September 1, 2025.
- The total lending rate = KESONIA + Premium (“K”).
- The total cost of credit = KESONIA + K + Fees and Charges .

ii. Lifting of moratorium on licensing of new commercial banks in Kenya and its impact on the banking sector

- CBK lifted the moratorium on licensing of new commercial banks in Kenya, effective July 1, 2025. The moratorium had been in place since November 17, 2015.
- The moratorium was imposed against a backdrop of governance, risk management, and operational challenges in the banking sector. It was intended to provide space for the strengthening of the Kenyan banking sector.
- Significant strides have been made in strengthening the legal and regulatory framework for Kenya’s banking sector. There have been a number of mergers and acquisitions by existing players and entry of new domestic and foreign strategic investors into the sector.
- Stronger and more resilient banks will be able to navigate the growing risks in the global, regional, and domestic arenas. They will also support large scale financing needs to meet Kenya’s development aspirations.

iii. Review of banking sector penalties

- The Banking (Penalties) Regulations, 2025, were issued in September 2025. The regulations set out specific penalties for specific violations of the provisions of the Banking Act.
- The Banking Act was amended through the Business Laws (Amendment) Act, 2024, to introduce a new penalty assessment approach.
- Penalties are now the higher of KShs 20 million or three times the financial benefit gained/loss avoided.
- The amendment ensures penalties are effective, proportionate, dissuasive, aligned with global standards, and entrench a compliance culture in banks.
- The amendment was operationalized through the issuance of the Banking (Penalties) Regulations, 2025, in September 2025, which set out specific penalties for specific violations of the provisions of the Banking Act.

iv) Review of Licence Fees

The Central Bank of Kenya (CBK) on March 7, 2025, issued a consultative paper on review of commercial banks licence fees in Kenya for feedback by March 31, 2025. The objective of the review was necessitated by the increasing level of oversight by CBK, which requires significant resources to effectively discharge its supervisory mandate, including Consolidated and Cross border Supervision. In addition, the review was aimed at establishing a licence fee framework aligned with international standards and modern banking dynamics.

CBK finalized the drafting of Regulations, incorporating feedback from the stakeholders and the public in February 2026. The draft Regulations were forwarded to the Attorney General (AG) for legislative drafting on February 23, 2026. The legislatively drafted Banking (Fees) Regulations, 2026, were received from the AG on April 14, 2026. They were subsequently approved by the Governor on April 27, 2026, and The Banking (Fees) Regulations, 2026 (Legal Notice No. 81 of 2026) were officially published in the Kenya Gazette on May 8, 2026.

5.0 CENTRAL BANK OPERATIONS

v) Increase of commercial banks minimum core capital

- The Business Laws (Amendment) Act of 2024 mandated a progressive increase in the minimum core capital requirement for commercial banks to KShs 10 billion by December 2029.
- The review of the minimum core capital of banks aligns with the CBK's broader objectives of fostering a robust, competitive, and well-capitalized banking sector that can withstand economic shocks and facilitate sustainable development.
- The increase in minimum core capital is meant to support Kenya's aspiration to be an international financial hub by enhancing banking sector stability to attract global players.

- All banks are on course to complying with progressive minimum core capital requirements.

Banking Sector Outlook

The banking sector is projected to remain stable and resilient in 2026. Credit risk may experience elevation from second round effects of geopolitical conflict in the Middle East. Operational risk is expected to remain elevated as banks scale up digitization. Interest rate risk is expected to remain stable on the backdrop of stabilizing interest rates. Liquidity risk is expected to remain stable.

Table 5.5: Extracts of the Kenya Banking Sector Statement of the Financial Position

	June 2025, KShs M	June 2026, KShs M	Change June 2025 - June 2026	% Change
Cash	88,759.0	90,400.4	1,641.4	1.8
Balances at CBK	322,866.6	412,735.7	89,869.0	27.8
Placements	618,340.7	625,716.0	7,375.2	1.2
Government Securities	2,492,015.0	2,874,776.0	382,761.0	15.4
Other Investments	82,461.3	119,134.3	36,673.0	44.5
Loans and Advances (Net)	3,718,616.0	4,204,848.0	486,232.0	13.1
Other Assets	526,090.2	549,755.6	23,665.4	4.5
Total Assets	7,849,148.8	8,877,366.0	1,028,217.1	13.1
Customer Deposits	5,847,760.5	6,670,383.5	822,623.0	14.1
Other Liabilities	714,032.1	773,703.2	59,671.0	8.4
Capital and Reserves	1,287,356.2	1,433,279.3	145,923.2	11.3
Total Liabilities and Shareholders' Funds	7,849,148.8	8,877,366.0	1,028,217.1	13.1

Source: Central Bank of Kenya

Table 5.6: Kenyan Banking Sector Gross Loans

	June 2025, KShs Bn	June 2026, KShs Bn	Change (June 2025 - June 2026)	% Change
Trade	775.8	958.2	182.4	23.5
Personal and Household	1,122.0	1,233.7	111.7	10.0
Financial Services	205.7	266.4	60.6	29.5
Agriculture	158.2	206.5	48.2	30.5
Building and Construction	169.4	214.3	44.9	26.5
Energy and Water	128.2	169.0	40.8	31.8
Transport and Communication	326.0	338.2	12.2	3.7
Manufacturing	602.7	608.8	6.1	1.0
Mining and Quarrying	49.6	48.9	(0.7)	-1.5
Tourism, Restaurant and Hotels	102.8	99.8	(3.0)	-2.9
Real Estate	506.8	501.8	(5.0)	-1.0
Total	4,147.3	4,645.5	498.2	12.0

Source: Central Bank of Kenya

5.0 CENTRAL BANK OPERATIONS

Table 5.7: Kenyan Banking Sector Gross Non-Performing loans (KShs Billions)

	June 2025, KShs B	June 2026, KShs B	Change (June 2025 - June 2026) KShs B	Change (%)
Trade	167.9	177.3	9.5	5.7
Agriculture	33.1	40.2	7.1	21.6
Personal and Household	110.8	112.0	1.2	1.1
Energy and Water	11.9	12.4	0.5	4.3
Financial Services	8.6	7.7	(0.9)	-10.2
Building and Construction	51.4	50.3	(1.0)	-2.0
Tourism, Restaurant and Hotels	25.5	23.1	(2.4)	-9.4
Mining and Quarrying	7.6	2.3	(5.3)	-69.8
Transport and Communication	56.5	47.8	(8.7)	-15.4
Manufacturing	123.7	107.7	(16.0)	-13.0
Real Estate	131.6	107.3	(24.3)	-18.4
Total	728.5	688.2	(40.3)	-5.5

Source: Central Bank of Kenya

5.5 Developments in Currency Operations

Currency in Circulation

Currency in circulation increased by KShs 43.88 billion during the Financial Year 2025/26, marking a 12.3 percent increase compared to the previous year's growth of 7.0 percent (**Table 5.8**):

Table 5.8: Composition of Currency in Circulation

	Jun-25	Jun-26	
	KShs Billion	KShs Billion	Growth (%)
Coins	11.38	11.66	2.5%
Banknotes	345.64	389.24	12.6%
Total Currency in Circulation	357.02	400.90	12.3%

Source: CBK

This growth was attributed to a greater volume of currency outflows (withdrawals) than inflows (deposits). Overall currency inflows totalled KShs 478.12 billion, while outflows amounted to KShs 521.93 billion. Whereas the net effect was an increase in currency in circulation, the inflows and outflows increased by 0.38 and 4.48 percent respectively from the previous year (**Table 5.9**).

Table 5.9: Inflows and Outflows of Currency in Circulation

Inflow (Deposits)	2024/25	2025/26
	KShs Billion	KShs Billion
Bank Notes	476.212	478.031
Bank Coins	0.109	0.091
Total Inflows	476.321	478.122
Outflow (Withdrawals)		
Banknotes	499.1	521.560
Coins	0.455	0.374
Total Outflows	499.555	521.934
Net Outflows	23.234	43.812

Source: CBK

Misuse of Currency Banknotes

In a press release issued on February 2, 2026, the Central Bank of Kenya (CBK) noted a growing trend in the use of Kenya Shilling banknotes for decorative and celebratory purposes, including cash flower bouquets, ornamental displays, and similar arrangements. CBK underscored the need for the Kenya Shilling banknotes to remain clean, intact, and fit for circulation so that they can continue to serve their intended functions as a medium of exchange, unit of account, and store of value. Handling practices such as folding, rolling, gluing, taping, stapling, pinning, or otherwise affixing notes using adhesives or fastening materials compromise the physical integrity of banknotes and may render them unsuitable for continued circulation. Such misuse has operational and legal repercussions. Damaged banknotes are more likely to be rejected by automated teller machines, cash-counting machines, and sorting

5.0 CENTRAL BANK OPERATIONS

equipment, leading to premature withdrawal and replacement of currency at avoidable cost to the public and the Bank. Section 367 of the Penal Code (Cap. 63, Laws of Kenya) prohibits the wilful defacement, mutilation, or impairment of currency notes issued by lawful authority, and a person who engages in such conduct commits an offence.

5.6 Banking and Payment Services

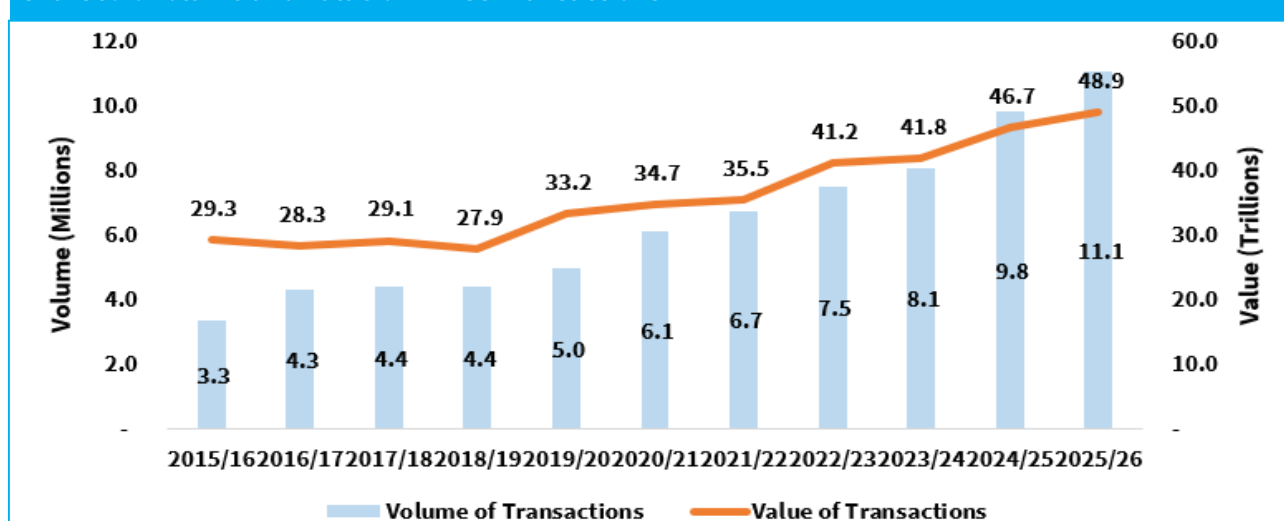
During the period under review, the Virtual Assets Service Providers Act, 2025 was finalized, establishing the legal foundation for the regulation and oversight of virtual asset activities and service providers. Progress was also made in the development of regulations to operationalize the Act. In addition, the review of the

National Payment System Act, 2011 advanced, aimed at modernizing the legal framework to address emerging technologies and evolving market structures.

KEPSS Operations

The Kenya Electronic Payment and Settlement System (KEPSS) operational framework was reviewed to address increasing transaction volumes and evolving usage patterns, with a focus on improving efficiency, liquidity management, business continuity, and security while reducing settlement concentration risks. During FY2025/26, the system processed 11.1 million transaction messages valued at KShs 48.9 trillion, compared to 9.8 million messages valued at KShs 46.7 trillion in FY2024/25 (**Chart 5.2**).

Chart 5.2: Volume and Value of KEPSS Transactions



Source: CBK

Regional Payment Developments

The East African Community (EAC) is advancing initiatives to modernize cross-border payment systems and deepen regional financial integration. Key efforts focus on enhancing interoperability, improving payment efficiency, strengthening settlement arrangements, and aligning payment infrastructure with international

standards. In parallel, Partner States are promoting seamless cross-border digital payments through harmonized frameworks that support innovation, financial inclusion, consumer protection, and effective regulatory oversight. These initiatives are expected to foster a more integrated, efficient, and secure regional payments ecosystem that supports trade and economic growth.

5.0 CENTRAL BANK OPERATIONS

The Automated Clearing House (ACH)

The ACH facilitates the exchange of cheques and Electronic Funds Transfers (EFTs) among bank customers, with participation open to commercial banks and microfinance banks licensed under the Banking Act. Following the implementation of the ISO 20022 messaging standard, customers have benefited from improved processing efficiency, richer payment information, and enhanced interoperability with other compliant payment systems. In addition, the extension of KEPSS operating hours to 7:00 p.m. enabled the ACH to introduce an additional clearing session, increasing the number of clearing cycles from three to four per day.

PSP Licensing

The Payment Service Provider (PSP) sector remained stable during the 2025/2026 financial year, with the number of authorized PSPs standing at forty-two (42) at the end of the reporting period. During the year, the Central Bank of Kenya (CBK) approved various innovative products and services, pricing revisions, and governance and ownership changes. CBK also continued to support innovation through structured partnerships, including white-label arrangements, enabling fintech firms to scale solutions under the oversight of licensed PSPs while ensuring compliance with regulatory and consumer protection requirements.

Payment Systems Oversight and Compliance

The Central Bank of Kenya (CBK) continued to promote the safety, efficiency, and integrity of the national payment system through the oversight and supervision of Payment Service Providers (PSPs). During the year under review, the number of authorized PSPs remained stable at forty-two (42), following the authorization of one new PSP and the revocation of one existing

PSP. CBK also conducted risk-based supervisory and compliance activities, including on-site inspections, to assess compliance with the National Payment System regulatory framework, strengthen operational resilience, and promote sound governance and risk management, thereby enhancing public confidence in payment systems and supporting financial sector development.

5.7 Domestic Debt Operations and Developments

Successful Government budget funding

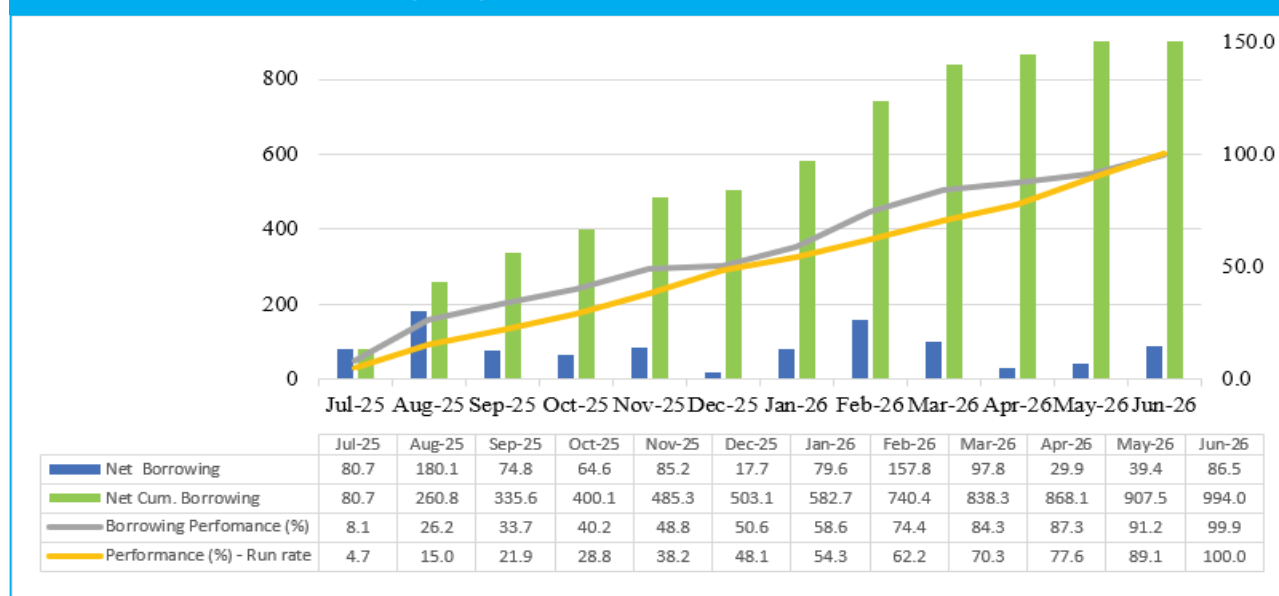
The Government borrowing program for FY 2025/26 was implemented against a backdrop of heightened global economic uncertainty, driven by evolving trade and tariff policies, persistent geopolitical tensions, and tightening global financial conditions. The approach towards government funding was guided by the following key priorities:

- i. Meet the domestic borrowing target.
- ii. Manage the cost of debt by developing and maintaining a well-priced stable yield curve.
- iii. Minimize debt maturity risk by extending bond tenor and targeting a higher ratio of T-Bonds to T-Bills.
- iv. Contribute to stable liquidity flows.
- v. Support market development.

The domestic debt market witnessed the lengthening of the maturity profile of domestic debt and vibrant secondary market bond turnover. As at 30th June 2026, KShs 993.99 billion (99.92%) was achieved out of the revised borrowing target of KShs 994.82 billion as illustrated in **(Chart 5.3)**.

5.0 CENTRAL BANK OPERATIONS

Chart 5.3: Domestic Borrowing Program Performance FY 2025/26



Source: CBK

The successful financing achievement was supported by the following key drivers:

- A stable local investor base and participation by non-resident investors.
- Sustained market engagement and stakeholder collaboration between The National Treasury, CBK, Capital Market Authority, and institutional and retail investors.
- A careful Issuance Plan that considered bond blends designed to supply all segments of the market and incentivize different investor preferences.
- The transformational impact of the DhowCSD in revolutionizing investment in Government securities and supporting market development.

Successful Debt Maturity Lengthening

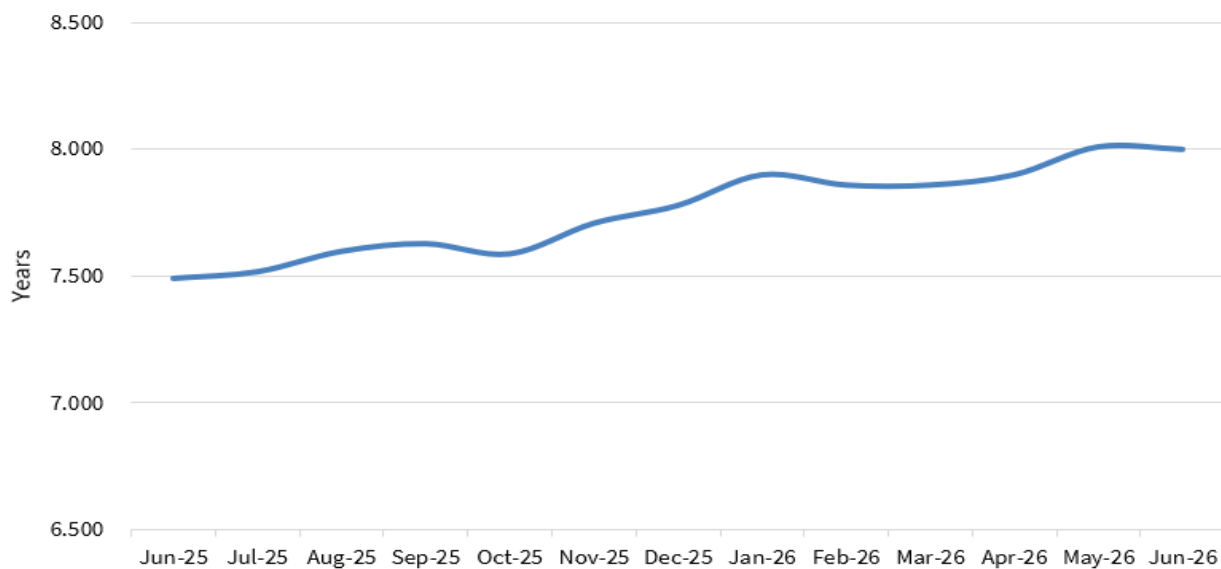
The average time to maturity (ATM) of T-bonds was 8.00 years as at end June 2026 from 7.49 years in June 2025, driven by consistent issuance of medium to long term

instruments in line with enhancing the benchmark bond issuance program (**Chart 5.4a**). The ratio of Treasury bills to bonds was at 16:84 in June 2026 from 17:83 in June 2025 (**Chart 5.4 b & 5.4c**), which has continued to mitigate debt refinancing risk. This has been achieved through consistent issuance and reopening of medium-to-long Treasury bonds. Gross Treasury bonds issued during the year amounted KShs 1,238.7bn through reopening and a new 30-year issuance, of which Fixed coupon bonds (FXDs) and Infrastructure bonds (IFBs) accounted for 78% and 22% respectively.

The Bank successfully conducted Liability Management Operations (LMOs) in FY 2025/26 reducing near term bond maturities by a total of KShs 66.78 billion (**Table 5.7**). These operations helped to derisk the domestic debt portfolio in line with Medium Term Debt Strategy and the debt management priorities.

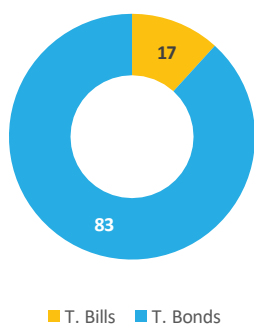
5.0 CENTRAL BANK OPERATIONS

Chart 5.4a: Average Time to Maturity (Yrs) for bonds



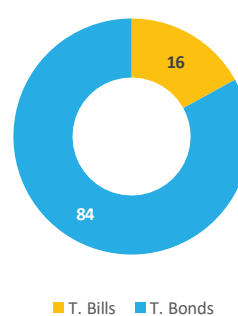
Source: CBK

Chart 5.4b : Government Securities stock of debt by instrument, June 2025



Source: CBK

Chart 5.4c: Government Securities stock of debt by instrument, June 2026



Source: CBK

Table 5.7 - Treasury Bond Buyback (KShs bn)

Issue No	Due Date	Coupon Rate (%)	I Stock before buy back	Buyback Auction	Outstanding stock after Liability Management
FXD1/2023/003	11-May-26	14.228	76.54	19.40	57.14
FXD1/2016/010	17-Aug-26	15.039	103.38	25.37	78.01
FXD1/2021/005	09-Nov-26	11.277	66.07	17.70	48.37
FXD1/2017/010	19-Jul-27	12.966	65.97	4.31	61.66
Total			311.96	66.78	245.18

5.0 CENTRAL BANK OPERATIONS

Sustained Yield Curve Stability

The yield curve remained stable and resilient aligning with the monetary policy stance and extending to 30 years with issuance of a 30-year bond in April 2026

(Chart 5.5). The yield curve is an important pricing benchmark for primary issuance and other financial market instruments.

Chart 5.5: Government Securities Yield Curve



Source: CBK

Looking Ahead to FY2026/2027

The Domestic Debt Programme continues to be implemented within the broader context of the Government's ongoing fiscal consolidation program. Conscious of the evolving global and domestic market landscape, the debt programme for FY 2026/27 is expected to be successfully supported by:

- Strong and stable macroeconomic and market conditions.
- Stable local investor base and participation by non-resident investors.
- Careful issuance planning.
- Active liability management to derisk the debt portfolio.
- Sustained market engagement and stakeholder collaboration.
- Initiatives to continue developing the domestic debt market.

6.0 STRATEGIC PLAN 2024-2027

6.0 STRATEGIC PLAN 2024-2027

The 2024-2027 Strategic Plan is premised on the overarching theme of transitioning from Good to Great and provides a road map that ensures long term sustainability in achieving the Bank's mission while enhancing efficiency and provides the needed transformation to move the Bank closer to its vision of becoming a World-Class, Modern Central Bank. The Plan builds on milestones achieved over the 2021-2024 strategy period and presents strategic direction that ensures the Bank remains steadfast in fostering a resilient and progressive economy, maintaining stability and predictability in general level of prices, promoting a stable and inclusive banking sector, a safe and efficient payment eco-system, while maintaining the objective of providing clean secure currency to support economic activities.

The Bank's strategic focus is premised on four major areas. The first is **Resilience and Sustainability**, under which the Bank targets to enhance its internal capacity to withstand shocks from its operating environment and inherent risks in its operations. In addition, the Bank targets to enhance its regulatory capability to foster a strong and stable banking and payment industry. During the period, the following strategic initiatives have been completed:

- a) The authorized capital was increased from KShs 50B to KShs 100B and further, the paid-up capital enhanced by KShs 20B to KShs 70B.
- b) The core capital requirement for commercial banks was revised to KShs 10B.
- c) Penalty regulations that apply to commercial banks were revised.
- d) A Macro-prudential policy strategy designed to enhance the overall stability of the financial sector was developed.
- e) Reviewed the license fees for commercial banks.
- f) Developed and issued a Guidance Note on AML and targeted financial sanctions preventive measures.
- g) Developed and issued a guidance note on Internal Liquidity Adequacy Assessment Process (ILAAP).
- h) Developed and issued a Guidance Note on cross-border transfer of cash.
- i) Revamped the Total Cost of Credit (TCC) platform under the customer centricity initiative.
- j) Enhanced the process of licensing Digital Credit Providers (DCPs). A total of 227 DCPs were licensed during the period.
- k) Developed AI and data strategy.
- l) Developed a financial inclusion strategy.
- m) Developed and commenced implementing the Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) outreach strategy.
- n) Reviewed the draft NPS Act 2011 and submitted to National Treasury for enactment process.
- o) Reviewed the Bank's contracting framework under the cost effectiveness initiative.

The second focus area on **digital transformation** seeks to deploy advanced and secure systems to improve efficiency in the Bank's operations, enhance customer experience and relevance in the digital age. In this theme, the Bank:

- a) Implemented Continuous Audit Monitoring capability for critical Bank systems.
- b) Upgraded the core banking system (T24).
- c) Automated the Exchequer release process.

Service excellence is the third area of focus at the core of Bank operations whose goal is offering superlative services to both our internal and external stakeholders. So far the Bank:

- a) Remodeled Nyeri Centre and extended the offering of banking services.
- b) Remodeling of Meru Centre was completed in June and banking services commenced in July 2026.
- c) Completed procurement and acquisition of Meru land for the planned CBK Centre premises.
- d) Completed fencing of proposed CBK Nakuru Branch.
- e) Progressed initiatives to celebrate the Bank's contribution in economic development over the last sixty years.

Human capital is the fourth area of focus premised on completion of the HR transformation and ensuring staff remain highly engaged and satisfied to enhance performance expectations, through the roll-out of progressive human resource management policies and frameworks. During the period:

- a) The Bank rolled out the Performance Management Framework system and has completed two cycles of implementation.
- b) Progressed microstructures review for specific functions and has continued to fill vacant positions.

Most of the planned activities not listed in this roll have progressed towards completion and the Strategy is now in the third and last Financial Year of implementation. A monitoring framework is in place to track, measure and report progress that facilitate timely decision making.

7.0 FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2026

REPUBLIC OF KENYA



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

CENTRAL BANK OF KENYA

**FOR THE YEAR ENDED
30 JUNE, 2026**

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2026

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BANK INFORMATION FOR THE YEAR ENDED 30 JUNE 2026

BOARD OF DIRECTORS

Mr. Andrew Musangi	Chairman
Dr. Kamau Thugge	Governor
Dr. Chris Kiptoo	Principal Secretary, The National Treasury
FCPA. Sophie Njeri Moturi	Member
CPA. Dr. Abdullahi M. Abdi, PhD	Member
Ms. Beatrice Kosgei	Member
Mr. David Simpson Osawa Owuor	Member
Mr. Pius Ang'asa	Member (Appointed on 29 August 2025)

SENIOR MANAGEMENT

Dr. Kamau Thugge	Governor
Dr. Susan Koech	Deputy Governor
Mr. Gerald Nyaoma	Deputy Governor

HEADS OF DEPARTMENT

Mr. Waweru Mathenge	Director – Governor's Office (Board Secretary) (Appointed on 7 January 2026)
Mr. Kennedy Abuga	Director – Governor's Office (Board Secretary) (Retired on 28 February 2026)
Prof. Dulacha Barako	Director – Central Bank of Kenya - Institute of Monetary Studies (Appointed on 11 September 2025)
Mr. William Nyagaka	Director – Central Bank of Kenya - Institute of Monetary Studies (Retired on 21 August 2025)
Mr. David Luusa	Director - Financial Markets Department
Mr. Josiah Mugo	Director - Bank Supervision Department
Mr. Stephen Muriu	Director - General Services Department
Ms. Darliah Mbugua	Director - Human Resource and Administration Department
Mr. Michael Eganza	Director – Banking & National Payments Department
Ms. Caroline Mackola	Director - Finance Department
Mr. Leonard Ouma	Director - Internal Audit and Risk Management Department
Prof. Robert Mudida	Director - Research Department
Dr. Walter Onyino	Director - Information Technology Department
Mr. Evans Muttai	Director - Currency Operations Department
Mr. George Amollo	Head- Strategic Management Department
Mr. Kibunyi Amdany	Director-Branch Administration Department

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BANK INFORMATION (continued)

FOR THE YEAR ENDED 30 JUNE 2026

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Co-operative Bank Building
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Nakuru Centre
Kenya Commercial Bank Building
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20100 Nakuru

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ABSA Bank Building
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STATEMENT OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2026

1.0 Statement of Corporate Governance

The Central Bank of Kenya (the “Bank”/ “CBK”) is wholly owned by the Government of Kenya. The Bank is established by and derives its authority and accountability from Article 231 of the Constitution of Kenya. The Bank is committed to maintaining the highest standards of integrity, professionalism and ethics in all its operations.

1.1 Board of Directors

The Central Bank of Kenya Act (the “Act”) provides that the Board of Directors (the “Board”) shall be composed of a Chairperson, a Governor, Principal Secretary to The National Treasury who is a non-voting member and eight Non-Executive Directors. The law requires that the President appoints the Chairman and Governor after a competitive process and approval of Parliament. Other than the Principal Secretary to The National Treasury who is an ex-officio member, all the Non-Executive Directors of the Board are also appointed by the

President with the approval of Parliament. All the Board members are appointed for a term of four (4) years each and are eligible for reappointment for a term of four (4) years provided that no Board member holds office for more than two (2) terms.

All the Non-Executive Directors are independent of management and free from any business or other relationship, which could interfere with the exercise of their independent oversight.

The Board meets once every two (2) months and has a formal schedule of agenda items due for deliberations. The Directors are given appropriate and timely information to enable them to provide and maintain full and effective direction and control over strategic, financial and operational issues of the Bank. The Board is not involved in the conduct of day-to-day business as this is the responsibility of the Governor. However, it retains the responsibility of oversight.

The table below shows the Board of Directors’ appointment dates and contract end dates.

No.	Name	Position	Discipline	Date of Appointment	Contract end date
1.	Mr. Andrew Musangi	Chairman	Legal	29 September 2023	28 September 2027
2.	Dr. Kamau Thugge	Governor	Economist	19 June 2023	18 June 2027
3.	Principal Secretary/ The National Treasury	Executive Officer	Economist	Permanent	Permanent
4.	FCPA. Sophie Njeri Moturi	Member	Accountant	Appointed on 12 May 2025	11 May 2029
5.	CPA. Dr. Abdullahi M. Abdi, PhD	Member	Finance and Strategy	Appointed on 12 May 2025	11 May 2029
6.	Ms. Beatrice Kosgei	Member	Legal	Appointed on 12 May 2025	11 May 2029
7.	Mr. David Simpson Osawa Owuor	Member	Information Technology	Appointed on 12 May 2025	11 May 2029
8.	Mr. Pius Ang’asa	Member	Information Technology	Appointed on 29 August 2025	28 August 2029

STATEMENT OF CORPORATE GOVERNANCE (continued) FOR THE YEAR ENDED 30 JUNE 2026

1.1 Board of Directors (continued)

The Members of the Board (all Kenyans) in the year ended 30 June 2026, the number of meetings held in the year and their attendance were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mr. Andrew Musangi	Chairman	Legal	7
2.	Dr. Kamau Thugge	Governor	Economist	7
3.	Principal Secretary/ The National Treasury	Executive Officer	Economist	4
4.	FCPA. Sophie Njeri Moturi	Member	Accountant	7
5.	CPA. Dr. Abdullahi M. Abdi, PhD	Member	Finance and Strategy	7
6.	Ms. Beatrice Kosgei	Member	Legal	6
7.	Mr. David Simpson Osawa Owuor	Member	Information Technology	7
8.	Mr. Pius Ang'asa	Member	Information Technology	6

The remuneration paid to the Directors for services rendered during the financial year 2025/2026 is disclosed in Note 28 to the financial statements. The Non-Executive Directors are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year while Executive Directors are paid a monthly salary and are eligible for staff loans.

Ang'asa. The members are all Non-Executive Directors with experience in Accounting, Auditing, Information Technology, Legal, Finance, Strategy and Management. The Committee meets once every two (2) months and as necessary. The Terms of Reference of the Audit, Risk and Strategy Committee cover five (5) major areas, namely: Internal Control System, Risk Management, Financial Reporting and Related Reporting Practices, External and Internal Audits.

1.2. Secretary to the Board

The Board Secretary provides technical and secretarial services as well as corporate governance and logistical support to the Board. He facilitates efficient policy making interface with policy implementation. The Board Secretary also advises the Board on legal matters. In conjunction with the Chairman, the Board Secretary ensures good and timely information flow among the Board members, the Board Committees and Management. All members of the Board and Management have access to the Board Secretariat services.

The Audit, Risk and Strategy Committee's mandate, under Internal Control and risk, includes ensuring that internal controls and risk management is planned, structured and implemented at the Bank. The Committee also ensures that internal and external audit recommendations where applicable, are implemented.

1.3. Audit, Risk and Strategy Committee (ARSC)

The members of the Audit, Risk and Strategy Committee in the year ended 30 June 2026 were FCPA. Sophie Njeri Moturi (Chairperson), CPA. Dr. Abdullahi M. Abdi, PhD, Ms. Beatrice Kosgei, Mr. David Simpson Osawa Owuor and Mr. Pius

The Audit, Risk and Strategy Committee mandate relating to Financial Reporting and Related Reporting Practices includes review of the annual financial statements of the Bank, the external auditor's opinion and their comments on internal controls and other observations. The Committee also reviews significant accounting and reporting issues and their impact on financial reports and legal matters that could significantly impact on the financial statements, among other financial reporting responsibilities.

STATEMENT OF CORPORATE GOVERNANCE (continued) FOR THE YEAR ENDED 30 JUNE 2026

1.3. Audit, Risk and Strategy Committee (ARSC) (continued)

With regard to the External Audit, the Audit, Risk and Strategy Committee reviews the external auditor's proposed audit scope, approach and audit deliverables, and reviews the financial statements before submission to the Board for consideration and approval.

With regard to Strategy, the Audit, Risk and Strategy Committee reviews the strategic objectives within the proposed strategic plan, monitor strategy execution, review performance of strategic objectives before submission to the Board for consideration and approval.

The Committee's mandate on Internal Audit covers review of the activities and resources of the

internal audit function, including the effectiveness, standing and independence of the internal audit function within the Bank. It also covers review of the internal audit plan and follow up of the implementation of internal audit findings and recommendations. The Audit, Risk and Strategy Committee reports to the Board of Directors on the standing and independence of the internal audit function within the Bank. The Audit, Risk and Strategy Committee also reports to the Board of Directors on internal audit scope, approach and deliverables.

The Committee's mandate also provides oversight over risk management activities and implementation status of the strategic plan in the Bank.

The Committee Members' positions, disciplines and number of meetings attended for the year ended 30 June 2026 were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	FCPA. Sophie Njeri Moturi	Chairperson	Accountant	12
2.	CPA. Dr. Abdullahi M. Abdi, PhD	Member	Finance and Strategy	11
3.	Ms. Beatrice Kosgei	Member	Legal	12
4.	Mr. David Simpson Osawa Owuor	Member	Information Technology	12
5.	Mr. Pius Ang'asa	Member	Information Technology	9

1.4. Human Resources Administration and Information Technology Committee (HRITC)

The members of the HRITC in the year ended 30 June 2026 were Ms. Beatrice Kosgei (Chairperson), CPA Dr. Abdullahi M. Abdi, PhD, FCPA Sophie Njeri Moturi, Mr. David Simpson Osawa Owuor and Mr. Pius Ang'asa. The members are all Non-Executive Directors with experience in Accounting, Auditing, Information Technology, Legal, Finance and Human Resource Management.

The HRITC of the Board performs an advisory role to the Bank's Board in the fulfilment of the following oversight responsibilities:

- Monitor the formulation and implementation of Human Resources Policies in the Bank;
- In relation to staff matters, they ensure the Bank's compliance with the Kenyan Constitution, Laws of Kenya, CBK act and regulations and its own staff policies;
- Perform any other Human Resources related functions as assigned by the Board;
- Monitor the implementation of Board resolutions relating to the HRITC of the Board;
- Monitor the formulation and implementation of Information Technology policies and frameworks in the Bank; and
- Monitor the implementation of IT strategic initiatives and transformation journey.

STATEMENT OF CORPORATE GOVERNANCE (continued) FOR THE YEAR ENDED 30 JUNE 2026

1.4. Human Resources Administration and Information Technology Committee (HRITC) (continued)

The goal of the committee is to drive the HR and IT functions at the Bank to attain the best-in-class global standards.

The members of the Human Resources Administration and Information Technology Committee in the year ended 30 June 2026 and their attendance of the meetings held in the year were as follows:

No.	Name	Position	Discipline	Meetings attended
1.	Ms. Beatrice Kosgei	Chairperson	Legal	6
2.	CPA. Dr. Abdullahi M. Abdi, PhD	Member	Finance and Strategy	5
3.	FCPA. Sophie Njeri Moturi	Member	Accountant	6
4.	Mr. David Simpson Osawa Owuor	Member	Information Technology	6
5.	Mr. Pius Ang'asa	Member	Information Technology	4

1.5. Monetary Policy Committee (MPC)

Section 4D of the Central Bank of Kenya (Amendment) Act 2008 establishes the Monetary Policy Committee (MPC). The MPC is responsible for formulating monetary policy and is required to meet at least once every two (2) months. The MPC comprises the:

- i) Governor who is the Chairman
- ii) The Deputy Governor who is the Deputy Chairperson
- iii) Two (2) members appointed by the Governor from the CBK. Of the two members:
 - a) one shall be a person with executive responsibility within the Bank for monetary analyses and;
 - b) one shall be a person with responsibility within the Bank for monetary policy operations.

- iv) Four (4) external members appointed by the Cabinet Secretary for The National Treasury
- v) Principal Secretary for the National Treasury or his Representative, who is a non-voting member.

External members of the MPC are appointed for an initial period of three (3) years each and may be reappointed for another final term of three (3) years. The quorum for MPC meetings is five (5) members, one of whom must be the Chairman or Deputy Chairperson. At least once every six months the MPC submits a report on its activities to the Cabinet Secretary for the National Treasury, and the Cabinet Secretary lays a copy of each report before the National Assembly.

STATEMENT OF CORPORATE GOVERNANCE (continued) FOR THE YEAR ENDED 30 JUNE 2026

1.5. Monetary Policy Committee (MPC)(continued)

The MPC held Six (6) meetings in the year ended 30 June 2026, and attendance was as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Dr. Kamau Thugge, CBS	Chairman	Economist	6
2.	Dr. Susan Koech	Deputy Chairperson	Banking Governance and Strategy	5
3.	Mr. Gerald Nyaoma	Deputy Chairperson	Economist	6
4.	Ms. Isis Nyong'o	Member (External)	Finance and Technology	5
5.	Dr. Kemboi Kipruto	Member (External)	Economist	6
6.	Dr. Freshia Mugo	Member (External)	Finance	6
7.	Mr. Jared Osoro	Member (External)	Economist	5
8.	Mr. Musa Kathanje	Representative of the Principal Secretary, The National Treasury	Economist	6
9.	Mr. David Luusa	Member (Internal)	Economist	5
10.	Prof. Robert Mudida	Member (Internal)	Economist	6

1.6. Management Structure

The positions of Governor and Deputy Governors are set out in the CBK Act Cap 491 of the Laws of Kenya. The Governor and the Deputy Governors constitute the Central Bank's Senior Management. As the Chief Executive of the Bank, the Governor assigns duties to the Deputy Governors.

There are 14 heads of department who lead the key departments of the Central Bank of Kenya, using structure, oversight, governance and control of the key areas. Senior Management and departmental heads have frequent meetings in the running of the Bank, many of these meetings are organised in structured frameworks to ensure clarity, transparency and success of the outcomes.

1.7. Code of Ethics

The Bank is committed to the highest standards of integrity, behaviour and ethics. A formal code of ethics for all employees was approved by the Board and is fully implemented. All employees of the Bank are expected to avoid activities and financial interests, which could give rise to conflict of interest with their responsibilities in the Bank.

Strict rules of conduct embedded in the *Staff Rules and Regulations and the Employment Act 2007* apply to the entire Bank's staff.

1.8. Internal Controls

The Management of the Bank has put in place a system of internal control mechanisms to ensure the reporting of complete and accurate accounting information. Procurement of goods and services is strictly done in accordance with the *Public Procurement & Asset Disposal Act, 2015 and Regulations, 2020*. In all operational areas of the Bank, workflows have been structured in a manner that allows adequate segregation of duties.

1.9. Authorizations

All the expenditure of the Bank must be authorized in accordance with a comprehensive set of the Bank policies and procedures. There is an annual Budget and Procurement Plan approved by Senior Management and the Board before commencement of the financial year. The Board of Directors receives regular management accounts comparing actual outcomes against budget as a means of monitoring actual financial performance of the Bank.

STATEMENT OF CORPORATE GOVERNANCE (continued) FOR THE YEAR ENDED 30 JUNE 2026

1.10. Internal Audit

The internal audit function oversight is performed by Internal Audit Department. The department is responsible for monitoring and providing advice on the Bank's audit framework. All reports of Internal Audit Department are availed to the Audit, Risk and Strategy Committee of the Board.

1.11. Risk Management

The risk function oversight is performed by Strategy and Risk Department. The department is responsible for monitoring and providing advice on the Bank's risk framework. All Risk Department reports are availed to the Audit, Risk and Strategy Committee of the Board.

1.12. Transparency

The Bank publishes an Annual Report, Monthly Economic Review, Weekly Releases, Statistical Bulletin and Bi-annual Monetary Policy Statements. In addition, the Bank issues policy briefs to The National Treasury on both the Monetary and Fiscal policies. On an annual basis, the Financial Statements of the Bank are published in the Kenya Gazette and placed in the Bank's website.

2.0. Financial Performance

The Bank's financial performance is primarily affected by the Monetary Policy stance adopted, interest rates and changes in exchange rate. The Bank's financial performance is presented on page 59 to 63 of these financial statements.

During financial year ended 30 June 2026, the Bank recorded a net surplus of KShs 26,942 million compared to a net surplus of KShs 65,889 million in the financial year ended 30 June 2025. The net surplus includes an unrealized exchange loss of KShs 1,692 million (2025: unrealized exchange gain

of KShs 13,882 million). The surplus is included as part of the General Reserve Fund.

During the financial year ended 30 June 2026, the Bank's operating surplus was KShs 28,634 million (2025: KShs 52,007 million) the decline in operating surplus is due to lower interest income and higher interest expense due to an increase in liquidity alignments on monetary policy operations/activities. An unrealised foreign exchange, loss of KShs 1,692 million was recorded during the year ended 30 June 2026 (2025: gain of KShs 13,882 million) mainly due to the strengthening of the Kenya Shilling against the British Pound and Euro. The Bank also recorded a fair value loss on fixed income and securities held at fair value through other comprehensive income (FVOCI) of KShs 5,596 million (2025: gain of KShs 4,963 million) due to lower market prices. The loss recorded during the year has been presented in other comprehensive income.

In addition, an actuarial gain on retirement benefit asset of KShs 320 million (2025: gain of KShs 720 million) and a net valuation gain on land and buildings of KShs 3,241 million (2025:nil) was also recorded in other comprehensive income.

The Bank's assets increased to KShs 2,554,791 million (2025: KShs 2,279,802 million) mainly attributed to an increase in balances due from banking institutions and debt instruments at fair value through other comprehensive income, moderated by a decrease in securities and advances to banks. Liabilities increased to KShs 2,118,851 million (2025: KShs 1,837,243 million) mainly due to an increase in Investments by banks, currency in circulation and deposits due to banks and Government institutions moderated by a decrease in balances due to IMF.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2026

The Directors submit their report together with the audited financial statements for the year ended 30 June 2026, which shows performance of the Bank during the year and the state of affairs of Central Bank of Kenya (the “Bank”/”CBK”) as at the year end.

1. INCORPORATION

The Bank is established by Article 231 of the Constitution of Kenya, 2010.

2. PRINCIPAL ACTIVITIES

The Bank is established and administered under the Constitution of Kenya, 2010 with the principal objective of formulating and implementing monetary policy directed at achieving and maintaining stability in the general level of prices. It is also the responsibility of the Bank to foster liquidity, solvency and proper functioning of a stable market-based financial system. The Bank also acts as banker, advisor and fiscal agent of the Government of Kenya.

3. RESULTS AND SURPLUS

The surplus for the year was KShs 26,942 million (2025: surplus of KShs 65,889 million) made up of KShs 28,634 million (2025: KShs 52,007 million) operating surplus and KShs 1,692 million unrealized loss (2025: unrealized gain of KShs 13,882 million). The surplus has been included as part of the General Reserve Fund. The directors recommend a transfer of operational surplus in the year to 30 June 2026 of KShs Nil million (2025: KShs Nil million) to the Consolidated Fund. Further, the Board approved a transfer of KShs 30,000 million (2025: KShs Nil million) to the National Treasury out of the General Reserve Fund in December 2025.

4. BOARD OF DIRECTORS

The members of the Board of Directors who served during the year and up to the date of this report are listed on page 42.

5. AUDITOR

The Auditor- General is responsible for the statutory audit of the Bank’s Financial Statements in accordance with Section 35 of the Public Audit Act, 2015.

By Order of the Board



Waweru Mathenge
Board Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2026

The Directors are responsible for the preparation of financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the Bank's financial performance. The Directors also ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- (i) designing, implementing and maintaining internal control necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- (ii) selecting and applying appropriate accounting policies; and
- (iii) making accounting estimates and judgments that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Bank as at 30 June 2026 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the requirements of the Central Bank of Kenya Act.

These financial statements are prepared on a going concern basis, taking into account the legal mandate and responsibilities of the Bank, in particular its monetary policy, financial stability and payment system leadership.

Approved by the Board of Directors and signed on its behalf by:



Mr. Andrew Musangi
Chairman of the Board

14 September 2026



Dr. Kamau Thugge
Governor

14 September 2026



REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE, 2026

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the entity achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, Cap. 412A, and the Public Audit Act, Cap.412B. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Central Bank of Kenya set out on pages 59 to 138, which comprise of the statement of financial position as at 30 June, 2026 and the statement of profit or loss and other comprehensive income,

Report of the Auditor-General on Central Bank of Kenya for the year ended 30 June, 2026

statement of changes in equity, statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, Cap. 412B. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, the financial statements present fairly, in all material respects, the financial position of Central Bank of Kenya as at 30 June, 2026 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Central Bank of Kenya Act, Cap. 491 and the Public Finance Management Act, Cap. 412A of the laws of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Central Bank of Kenya Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statements as a whole and in forming my opinion thereon. I do not provide a separate opinion on these matters and for each matter below, a description of how the audit addressed the matter is provided in that context.

Key Audit Matter	How the Matter was Addressed
Estimation of Expected Credit Loss on Financial Assets The Bank's financial assets, as disclosed in Notes 11,12(a),13,14 and 15 to the financial statements, are subject to an Expected Credit Loss (ECL) assessment in accordance with IFRS 9, Financial Instruments. The determination of ECL allowance involved significant judgement and estimation by Management, particularly in relation to:	The following audit procedures were performed: ▪ Evaluated the appropriateness of the Bank's ECL methodology and accounting policy against the requirements of IFRS 9; ▪ Tested the accuracy and completeness of the ageing analysis used as an input to the ECL model, and on a sample basis, agreed the outstanding balances to confirmations, contracts and tested subsequent receipts, where applicable;

Report of the Auditor-General on Central Bank of Kenya for the year ended 30 June, 2026

Key Audit Matter	How the Matter was Addressed
▪ Grouping of financial assets with similar credit risk characteristics for the purposes of determining appropriate historical loss rates and ECLs; ▪ Estimation of historical loss rates and the adjustments applied to reflect current conditions and reasonable and supportable forward-looking information. ▪ Assessment of credit risk and recoverability of outstanding balances, including consideration of ageing, historical collection experience, subsequent receipts and other indicators of recoverability; and ▪ Assessment of individually significant and long outstanding receivables, where the timing and the amount of expected recoveries involve significant judgement. Given the magnitude of financial assets, the materiality of ECL allowance and the significant judgement and uncertainty estimation by management involved in determining the allowance, I considered this to be a key audit matter.	▪ Assessed the reasonableness of historical loss rates applied by management, and tested the mathematical accuracy of the ECL model; ▪ Evaluated the reasonableness of forward-looking adjustments applied by management to historical loss rates, including corroborating the economic assumptions used against publicly available macroeconomic data and other relevant indicators; ▪ Assessed the adequacy of the Bank's disclosures on credit risk and ECLs against the requirements of IFRS 7.

I have fulfilled the responsibilities described in the Auditor-General's Responsibilities for the Audit section of the report including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters above provide the basis for my audit opinion on the accompanying financial statements.

Other Matter

Constitution of Board of Directors

During the year under review, the Bank had in place five (5) Non-Executive Directors instead of eight (8) as prescribed by Section 11(1)(d) of the Central Bank of Kenya Act, Cap. 491. There was no amendment to the Central Bank of Kenya Act, Cap. 491 to provide for a reduction in the number of Non-Executive Directors.

Report of the Auditor-General on Central Bank of Kenya for the year ended 30 June, 2026

However, the absence of the three (3) Non-Executive Directors did not affect the quorum during Board meetings as provided for in Section 12(2) of the Central Bank of Kenya Act, Cap. 491.

My opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information set out on page 42 to 51 which comprise of the Bank's Information, Statement of Corporate Governance, Report of the Directors and Statement of Directors' Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Bank's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Human Resource Management

The Bank implemented a revised remuneration structure for staff during the year under review. However, and as previously reported, the revised remuneration structure was implemented and operationalized without an Advisory from the Salaries and Remuneration Commission (SRC). This was contrary to Article 230 of the Constitution of Kenya, and the Court of Appeal judgement on Civil Appeal No. 156 of 2016 that was issued on 26 April, 2024 and affirmed by the Supreme Court on 30 May, 2025 that held, *inter alia*, that no valid salary or benefit of a state or public officer, would ensue from a process that ignored the roles of SRC as provided by the Constitution.

In the circumstances, implementation of revised remuneration structure without the advisory from of SRC was in a breach of Article 230 of the Constitution of Kenya.

2. Reduction in Value of Recently Acquired Assets

During the year under review, the bank revalued its land and buildings resulting in a net revaluation gain of Kshs.1,684 million. However, review of the revaluation report revealed that buildings constructed at a cost of Kshs.2,257,925,000 and placed in service on 23 January, 2025 were valued at Kshs.1,847,000,000 as at 30 June, 2026 resulting in reduction in value of Kshs.410,925,000. Further, two parcels of land acquired in January, 2025 at a cost of Kshs.145,043,470 were valued at Kshs.104,382,500 as at 30 June, 2026 resulting in a reduction in value of Kshs.40,660,970.

In addition, two perimeter walls constructed at a cost of Kshs.45,316,740 and handed over in July, 2025 and May, 2026 were valued at Kshs.30,295,000 resulting in a reduction in value of Kshs.15,021,740. The decline in value for the recently acquired assets raises doubt regarding the reasonableness of the original acquisition cost of these assets.

In the circumstances, the Bank may not have obtained value for money in the acquisition of these assets.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, Cap. 412B, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement,

Report of the Auditor-General on Central Bank of Kenya for the year ended 30 June, 2026

whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, Cap. 412B.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Bank's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, Cap. 412B and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, Cap. 412B. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, Cap. 412B.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

18 September, 2026

Report of the Auditor-General on Central Bank of Kenya for the year ended 30 June, 2026

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2026

	Notes	2026 KShs' million	2025 KShs' million
Interest income	4	61,276	68,569
Interest expense	5	(25,440)	(10,527)
Net interest income		35,836	58,042
Fees and commission income	6(a)	3,000	3,000
Net trading income	6(b)	11,398	9,684
Other income	7	1,479	1,453
Operating income		51,713	72,179
Impairment allowance on financial assets	8	141	22
Operating expenses	9(a)	(23,220)	(20,194)
Operating surplus before unrealized (loss) / gain		28,634	52,007
<i>Unrealised (loss) / gain:</i>			
Foreign exchange (loss) / gain	9(c)	(1,692)	13,882
Surplus for the year		26,942	65,889
Other comprehensive (loss) / income:			
<i>Items that are or may be subsequently reclassified to profit or loss:</i>			
Debt instruments at fair value through other comprehensive income:			
Net change in fair value during the year	10(a)	(5,596)	4,963
Reclassification to income statement	10(b)	(1,593)	1,021
Changes in impairment allowance	8	67	8
		(7,122)	5,992
<i>Items that will not be reclassified to profit or loss:</i>			
Valuation gain on land and buildings	18(b)	3,241	-
Actuarial gain on retirement benefit asset	20	320	720
		3,561	720
Other comprehensive (loss) / income for the year		(3,561)	6,712
Total comprehensive income for the year		23,381	72,601

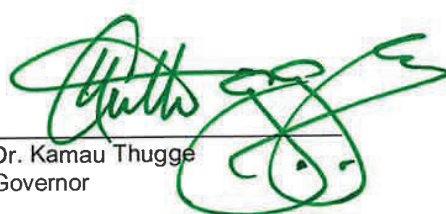
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2026

	Notes	2026 KShs' million	2025 KShs' million
ASSETS			
Balances due from banking institutions	11	774,173	548,702
Funds held with International Monetary Fund (IMF)	12(a)	70,958	39,565
Securities and advances to banks	13	36,140	56,570
Loans and advances	14	3,955	3,670
Debt instruments at fair value through other comprehensive income	15	974,582	940,478
Equity instruments at fair value through other comprehensive income	16	171	12
Other assets	17(a)	9,475	6,822
Gold holdings	17(b)	230	238
Right-of-use assets	18(a)	107	125
Property and equipment	18(b)	29,370	28,587
Intangible assets	19	3,842	3,942
Retirement benefit asset	20	8,318	7,258
IMF On-Lent to Government of Kenya (GOK)	21(a)	442,602	478,582
Due from Government of Kenya	21(b)	200,868	165,251
TOTAL ASSETS		2,554,791	2,279,802
LIABILITIES			
Currency in circulation	22	400,902	357,015
Deposits due to banks and Government	23(a)	899,075	687,521
Investment by banks	23(b)	173,197	106,018
Due to IMF	12(b)	641,078	678,940
Other liabilities	24	4,599	7,749
TOTAL LIABILITIES		2,118,851	1,837,243
EQUITY			
Share capital	25(a)	70,000	60,000
General reserve fund	25(b)	344,596	357,334
Fair value reserve	25(c)	(3,577)	3,545
Revaluation reserve	25(d)	24,921	21,680
Consolidated fund	25(e)	-	-
TOTAL EQUITY		435,940	442,559
TOTAL LIABILITIES AND EQUITY		2,554,791	2,279,802

The financial statements on pages 59 to 138 were authorised for issue by the Board of Directors on 14 September 2026 and signed on its behalf by:



Mr. Andrew Musangi
Chairman of the Board



Dr. Kamau Thugge
Governor

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2026

Year ended 30 June 2026	Notes	Share capital KShs' million	General reserve KShs' million	Revaluation reserve KShs' million	Fair value reserve KShs' million	Consolidated fund KShs' million	Total KShs' million
At 1 July 2025		<u>60,000</u>	<u>357,334</u>	<u>21,680</u>	<u>3,545</u>	<u>-</u>	<u>442,559</u>
Surplus for the year		-	26,942	-	-	-	26,942
Net change in fair value of debt instrument at FVOCI		-	-	-	(5,596)	-	(5,596)
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	(1,593)	-	(1,593)
Net change in impairment allowance on debt instruments at FVOCI		-	-	-	67	-	67
Net valuation gain on land and buildings	18(b)	-	-	3,241	-	-	3,241
Actuarial gain on retirement benefit asset	20	<u>-</u>	<u>320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320</u>
Other comprehensive income for the year		-	320	3,241	(7,122)	-	(3,561)
Total comprehensive income for the year		-	27,262	3,241	(7,122)	-	23,381
Additional share capital	25(a)	10,000	(10,000)	-	-	-	-
<i>Transactions with owners</i>							
-Transfer to consolidated fund	25(e)	-	(30,000)	-	-	30,000	-
-Payments out of consolidated fund	25(e)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>
At 30 June 2026		<u>70,000</u>	<u>344,596</u>	<u>24,921</u>	<u>(3,577)</u>	<u>-</u>	<u>435,940</u>

STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE YEAR ENDED 30 JUNE 2026

Year ended 30 June 2025	Notes	Share capital KShs' million	General reserve KShs' million	Revaluation reserve KShs' million	Fair value reserve KShs' million	Consolidated fund KShs' million	Total KShs' million
At 1 July 2024		<u>50,000</u>	<u>300,725</u>	<u>21,680</u>	<u>(2,447)</u>	<u>30,000</u>	<u>399,958</u>
Surplus for the year		-	65,889	-	-	-	65,889
Net change in fair value of debt instrument at FVOCI		-	-	-	4,963	-	4,963
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	1,021	-	1,021
Net change in impairment allowance on debt instruments at FVOCI		-	-	-	8	-	8
Actuarial gain on retirement benefit asset	20	<u>-</u>	<u>720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>720</u>
Other comprehensive income for the year		-	720	-	5,992	-	6,712
Total comprehensive income for the year		-	66,609	-	5,992	-	72,601
Additional share capital	25(a)	10,000	(10,000)	-	-	-	-
<i>Transactions with owners</i>							
-Transfer to consolidated fund	25(e)	-	-	-	-	-	-
-Payments out of consolidated fund	25(e)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>
At 30 June 2025		<u><u>60,000</u></u>	<u><u>357,334</u></u>	<u><u>21,680</u></u>	<u><u>3,545</u></u>	<u><u>-</u></u>	<u><u>442,559</u></u>

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2026

	Notes	2026 KShs' million	2025 KShs' million
OPERATING ACTIVITIES			
Cash generated from operating activities	26	305,997	89,714
Interest received		61,276	68,569
Interest paid		(25,440)	(10,527)
Interest paid on lease liabilities	18(a)	<u>(10)</u>	<u>(7)</u>
Cash generated from operating activities		<u>341,823</u>	<u>147,749</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	18(b)	(1,368)	(1,294)
Purchase of intangible assets	19	(713)	(1,633)
Proceeds from disposal of property and equipment		4	18
Net change in debt instruments at fair value through other comprehensive income		(101,585)	(252,399)
Net change in securities and advances to banks		4,101	12,169
Net change in funds held with International Monetary Fund (IMF)		<u>(31,395)</u>	<u>12,985</u>
Net cash used in investing activities		<u>(130,956)</u>	<u>(230,154)</u>
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	18(a)	(77)	(74)
Receipts from International Monetary Fund (IMF)	27(b)	-	80,934
Repayments to the International Monetary Fund (IMF)	27(b)	(31,149)	-
Payment to the consolidated fund	25(e)	<u>(30,000)</u>	<u>(30,000)</u>
Net cash (used in)/ generated from financing activities		<u>(61,226)</u>	<u>50,860</u>
Net increase in cash and cash equivalents		149,641	(31,545)
Cash and cash equivalents at the beginning of the year		701,278	730,958
Effect of foreign exchange rate changes on cash and cash equivalents		<u>2,872</u>	<u>1,865</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27(a)	<u>853,791</u>	<u>701,278</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2026

1. GENERAL INFORMATION

Central Bank of Kenya (the “Bank”/” CBK”) is established under Article 231 of the Constitution of Kenya. The Central Bank of Kenya is responsible for formulating monetary policy, promoting price stability, the payment system and performing other functions conferred on it by the Act of Parliament. The Bank is wholly owned by the National Treasury. The Bank acts as banker, advisor and agent of the Government of Kenya.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (KShs), rounded to the nearest million.

(b) Changes in accounting policies and disclosures

New and amended standards

The following amendments became effective during the period:

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of the new standards and interpretations and none of them had a significant impact on the Bank financial statements.

The following revised IFRSs were effective in the current year and the nature and the impact of the relevant amendments are described below.

New and Amendments to standards	Effective for annual periods beginning on or after
Amendments to IAS 21 – Lack of exchangeability	1 January 2025

None of these amendments have an impact on the Bank’s financial statements at 30 June 2026.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (Continued)

New & amended standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, The Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and, in some cases, had not yet been adopted by the Bank:

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 18: Presentation and disclosure in financial statements	1 January 2027, with early application permitted
Amendments to IFRS 9 and IFRS 7: Amendments to the classification and measurement of financial statements	1 January 2026, with early application permitted
IFRS S1 and S2	1 January 2027, with early application permitted

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

Early adoption of standards

The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

(c) Functional currency and translation of foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using Kenya Shillings (“KShs”) which is the currency of the primary economic environment in which the Bank operates (the “Functional Currency”). The financial statements are presented in Kenya Shillings (“KShs”) which is the Bank’s presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

All foreign exchange gains and losses are presented in profit or loss within ‘foreign exchange gains/ (losses)’.

(d) Currency Inventory

The Bank’s inventory is comprised of new currency notes and coins. Inventories are stated at the sum of the production costs. Cost is determined using the first-in, first-out (FIFO) method.

Bank notes printing expenses and coin minting costs for each denomination are initially deferred. Based on the currency issued into circulation, the respective proportional actual costs incurred are released to profit or loss from the deferred costs account. The deferred amount is recognised as ‘deferred currency expenses’ in other assets and represents un-issued bank notes and coins stock.

(e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. The Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or debt instruments at fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Bank enters into a contract to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Bank. The Bank measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. For interest income computation, the Bank has applied 'last but not first' interest accrual methodology. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Bank's financial assets at amortised cost includes balances due from banking institutions, funds held with IMF, securities and advances to banks, loans and advances, other assets (sundry debtors), IMF On-Lent to GOK and due from Government of Kenya.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through OCI (debt instruments)

The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment allowance or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Bank's debt instruments at fair value through OCI includes investments in fixed income securities. Fixed income securities comprise Government debt securities issued by sovereign governments, Municipal bonds and bonds issued by international financial institutions.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Subsequent measurement

The Bank elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

The Bank does not have any financial assets classified under this category.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets (continued)

Classes of financial instruments

Category (as defined by IFRS 9)		Class (as determined by the Bank)		2026	2025
				KShs' million	KShs' million
Financial assets	Financial assets at amortized cost	Securities and advances to banks		36,140	56,570
		Funds held with IMF		70,958	39,565
		Loans and advances		3,955	3,670
		Other assets (classified as financial assets)		492	547
		Due from Government	Government term loan	15,089	16,164
			IMF On-Lent to GOK	442,602	478,582
			SDR Allocation due from National Treasury	78,321	81,459
			IMF dues from National Treasury	16,465	-
			GOK Overdraft facility	90,993	67,628
		Balances due from banking institutions	Foreign currency denominated term deposits and current account balances	774,173	548,702
	Financial assets at Fair value through other comprehensive income	Fixed income securities	World Bank managed and internally managed fixed income portfolios	974,582	940,478
		Equity	Investment securities	171	12
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	285,803	258,173
		Due to IMF		641,078	678,940
		Investment by banks		173,197	106,018
		Other liabilities		4,599	7,749
		Deposits from Government institutions		613,272	429,348

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Overview of Expected Credit Loss (ECL) principles

The Bank recognizes impairment allowance for expected credit losses “ECL” for financial assets that are debt instruments and are not measured at FVTPL.

The Bank measures impairment allowance at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- Fixed income securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment-grade’. 12-month ECL is the portion of ECL that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’. Life-time ECL are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’. Financial instruments that are considered credit – impaired are referred to as ‘Stage 3 financial instruments’ and for such, the Bank recognizes lifetime ECL.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as ‘Stage 3 financial assets’). A financial asset is ‘credit impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Credit impaired financial assets (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; and,
- the disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of credit worthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and,
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Impairment allowance for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no impairment allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the impairment allowance is disclosed and is recognized in the fair value reserve with a corresponding charge to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Bank of similar financial assets) is primarily derecognised (i.e., removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired
- Or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Write-offs

Loans, receivables and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment allowance on financial instruments' in profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

Financial liabilities (continued)

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Bank's financial liabilities include investment by banks, deposits from banks and government, due to IMF and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 is satisfied.

The Bank has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Bank. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

This category generally applies to deposits from banks and government, due to IMF, investment by banks and other liabilities.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(f) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in investments by banks.

Securities purchased under agreements to resell ('reverse repos') are recorded as advances to banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

The Bank from time to time mops up money from the financial market ('repos') or injects money into the market ('reverse repos') with maturities of 4 - 7 days. The Bank engages in these transactions with commercial banks only. These have been disclosed in the financial statements as advances to banks.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of balances due from banking institutions, fixed income securities and securities and advances to banks with maturities of less than three months.

(h) Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at cost, net of accumulated depreciation and accumulated impairment allowance, if any. Work in progress is stated at cost net of accumulated impairment allowance, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land and buildings are measured at fair value less accumulated depreciation and impairment allowance recognised after the date of revaluation. Valuations are performed every five years to ensure that the carrying amount of a revalued asset does not differ materially from its fair value in accordance with IFRS. Additions are done per item purchased and shall include the cost of acquisition together with all the incidental expenses reasonably incurred to put the asset into effective usage. Depreciation for additions is effected from the date of acquisition.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(h) Property and equipment (Continued)

Freehold land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

<u>Asset classification</u>	<u>Useful life</u>	<u>Depreciation rate</u>
Leasehold land	Over the period of the lease	
Buildings	40 years	2.5%
Motor vehicles	4 years	25%
Furniture and equipment	5 - 10 years	10-20%
Computers	4 years	25%

No depreciation is charged on work in progress and assets held in clearing accounts. Depreciation of property and equipment is made from date of placement to use and it ceases when the asset is obsolete, classified as held for sale, fully depreciated or derecognized as per policy.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(i) Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- (i) It is technically feasible to complete the software product so that it will be available for use;
- (ii) Management intends to complete the software product and use or sell it;
 - there is an ability to use or sell the software product;
 - it can be demonstrated how the software product will generate probable future economic benefits;
 - adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and,
- (iii) The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(i) Intangible assets (continued)

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives. Computer software under installation and not yet placed in use is held in software clearing account and not amortized until commissioned.

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

The residual values, useful lives and methods of amortisation of intangibles are reviewed at each financial year end and adjusted prospectively, if appropriate.

Software-as-a-service (SaaS) arrangement costs

A SaaS arrangement is a service arrangement where the Bank has a right to access to the supplier's application software running on the supplier's cloud infrastructure during the term of the arrangement, but not control over the underlying software asset.

Costs to implement a SaaS arrangement, including those incurred in configuring or customising the access to the supplier's application software, are evaluated to determine if they give rise to a separate asset that the Bank controls. Any resulting asset is recognised and accounted for in accordance with the policy for intangible assets. Implementation costs that do not give rise to an asset are recognised in profit or loss as incurred, which may be over the period the configuration or customisation services are received to the extent that such services are distinct from the SaaS, or over the term of the SaaS arrangement to the extent the configuration or customisation services are not distinct from the SaaS. Payment made in advance of receiving the related services is recognised as prepayment.

(j) Impairment of non-financial assets

Non-financial assets are assets whose value is derived by its physical net worth rather than from a contractual claim. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost of disposal or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(j) Impairment of non-financial assets (continued)

Impairment allowance of continuing operations are recognised in profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation. Impairment allowance recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(k) Employee benefits

The Bank operates a defined benefit scheme and a defined contribution pension scheme. The schemes are funded through payments to trustee-administered funds on a monthly basis.

On the defined contribution scheme, the Bank pays fixed contributions to the scheme. The payments are charged to the profit or loss in the year to which they relate. The Bank has no further payment obligation once the contributions have been paid.

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on age, years of service and compensation. The Fund is closed to new members with effect from 30 September 2012. Continuing Members who did not opt to accrue future benefits in the DC Scheme) continue accruing benefits under the Fund. The Central Bank of Kenya ("the Sponsor") is the guarantor of the Fund.

The asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The Bank and all its employees contribute to the National Social Security Fund, which is a defined contribution scheme.

A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(k) Employee benefits (continued)

The Bank's contributions to the defined contribution schemes are charged to profit or loss account in the year in which they fall due.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(l) Income tax

Section 7 of the Central Bank of Kenya Act Cap 491 exempts the Bank from any taxation imposed by law in respect of income or profits. This exemption includes stamp duty in respect of instruments executed by or on behalf of the Bank.

(m) Provisions

Provisions are recognised when: The Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(n) Surplus funds

The *Central Bank of Kenya Act (Cap 491)* allows for the set-up of the General Reserve known as the General Reserve Fund (GRF). The General Reserve is used for purposes of retaining at least 10% or any other amounts as the board, in consultation with the minister, may determine, of the net annual profit (surplus) of the bank after allowing for the expenses of operations and after provision has been made for bad and doubtful debts, depreciation in assets, contributions to staff benefit funds, and such other contingencies and accounting provisions as the Bank deems appropriate. Any surplus funds proposed and approved for distribution to the Government of Kenya shall be held in the reserve referred to as the "consolidated fund" until the transfer of the funds.

(o) Share capital

Ordinary shares are classified as 'share capital' in equity.

(p) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(p) Leases (continued)

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment allowance, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term as follows:

Buildings	Above 1 year to 5 years
Equipment	Above 1 year to 5 years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2(j) impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

The Bank's lease liabilities are included in Other liabilities (see Note 24).

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(p) Leases (continued)

Bank as a lessee (continued)

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of buildings and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

(q) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability on initial recognition. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, and any revisions to these estimates are recognised in profit or loss. The calculation includes amounts paid or received that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

If a financial asset is measured at FVOCI or FVTPL, the amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (and is therefore regarded as 'Stage 3'), the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

(r) Fee and commission income

The Bank earns from the Government of Kenya a commission of 1.5% of amounts raised through its agency role in the issuance of Treasury bills and bonds. The annual commission income is limited to KShs 3 billion as per the agreement between the Bank and The National Treasury effective 12 February 2016.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(r) Fee and commission income (continued)

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Fees and commission income are recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

(s) Commitments on behalf of the Kenya Government and National Treasury

The Bank issues Treasury bills and bonds on behalf of the National Treasury. Commitments arising on such transactions on behalf of Kenya Government and the National Treasury are not included in these financial statements as the Bank is involved in such transactions only as an agent.

(t) Currency in circulation

Notes and coins in circulation are measured at fair value. Currency in circulation represents the nominal value of all bank notes and coins held by the public and commercial banks. The Bank demonetises currency denominations that it considers no longer suitable for circulation through a Gazette Notice.

(u) Loan due from the Government of Kenya

The loan due from the Government of Kenya arose from overdrawn accounts which were converted to a loan with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit the Bank's lending to Government of Kenya to 5% of Government of Kenya audited revenue.

On 24 July 2007, a deed of guarantee was signed between the Government of Kenya and Central Bank of Kenya in which the government agreed to repay the loan at KShs 1.11 billion per annum over 32 years at 3% interest per annum. The security held is lien over cash balances, stock, treasury bonds and such other government securities as are specified in Section 46 (5) of the Central Bank of Kenya Act.

The loan due from the Government of Kenya is categorised as a debt instrument at amortised cost.

(v) Funds held at/due to International Monetary Fund (IMF)

Kenya has been a member of the International Monetary Fund (IMF) since 1964. The Bank is the designated depository for the IMF's holdings of Kenya's currency. IMF currency holdings are held in the No. 1 and No. 2 Accounts, which are deposit accounts of the IMF with the Bank.

Borrowings from and repayments to the IMF are denominated in Special Drawing Rights (SDRs). The SDR balances in IMF accounts are translated into Shillings at the prevailing exchange rates and any unrealized gains or losses are accounted for in accordance with accounting policy on foreign currencies.

On a custodial basis, the Bank holds a non-negotiable, non-interest bearing and encashable on demand promissory notes issued by the Treasury in favour of the IMF in its capacity as the IMF's depository. The security issued is in part payment of Kenya's quota of IMF.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(w) Fair value measurement

The Bank measures financial instruments such as debt instruments at fair value through other comprehensive income, and non-financial assets such as land and buildings, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of land and buildings. Involvement of external valuers is determined after every five years. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(w) Fair value measurement (continued)

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 3, 15, 18(b) and 30
- Quantitative disclosures of fair value measurement hierarchy Note 30
- Debt instruments at fair value through other comprehensive income Note 15
- Land and buildings Note 18(b)

(x) Order of liquidity

As a financial institution, the Bank presents its assets and liabilities on the statement of financial position in order of liquidity. This provides information that is reliable and more relevant than a current or non-current presentation, because CBK does not supply goods or services within a clearly identifiable operating cycle. The order of liquidity requires judgement, particularly in light of the nature of CBK's operations and mandate. CBK's mandate regarding the management and oversight of the domestic financial market results in regular changes to the liquidity of CBK assets and liabilities, in response to the liquidity requirements of the market. CBK continuously monitors and actively manages its liquidity requirements. It is impracticable to continuously revise the order of assets and liabilities on the statement of financial position due to the fluctuating nature of the order of liquidity, and frequent changes would not result in more relevant information to the users of the Bank financial statements. The order of liquidity is therefore kept consistent year on year, unless there are significant changes thereto, which could reasonably be expected to influence decisions that the users of the financial statements would make on the basis of the order of liquidity presented in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Impairment allowance on financial assets

The measurement of impairment allowance under IFRS 9 across all categories of financial assets in scope requires judgement, particularly, the estimation of the amount and timing of future cash flows and collateral values when determining impairment allowance and the assessment of a significant increase in credit risk.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Further details about the ECLs are provided in Notes 8, 11, 12, 13, 14, 17 and 29(i).

Post-retirement benefits

Post-retirement benefits are long term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has employed actuarial advice in arriving at the figures in the financial statements (Note 20 which includes assumptions). The Board of Directors considers the assumptions used by the actuary in their calculations to be appropriate for this purpose.

Fair value of financial assets

The fair value of financial instruments that are not traded in an active market and off market loans are determined by using valuation techniques. See Note 30 for additional disclosures.

Property and equipment

Land and buildings are carried at fair value; representing open market value determined periodically by professional valuers. See Notes 18(b) and 30 for additional disclosures.

Leases - Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset (note 18 (a)) in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay'.

The Bank estimates the IBR using observable inputs i.e. market interest rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

4. INTEREST INCOME

	2026 KShs' million	2025 KShs' million
Interest income calculated using the effective interest method		
Financial assets – debt instruments at amortised cost	23,379	38,384
Financial assets at fair value through other comprehensive income	<u>37,897</u>	<u>30,185</u>
	<u>61,276</u>	<u>68,569</u>
Interest income from debt instruments at amortised cost		
Interest on term deposits	11,006	11,814
Interest on Government of Kenya loan	459	491
Interest on Government of Kenya overdraft	3,153	7,444
Interest on staff loans and advances	127	121
Interest on advances to banks	2,503	11,770
Other interest income	<u>6,131</u>	<u>6,744</u>
	<u>23,379</u>	<u>38,384</u>
Interest income from debt instruments at fair value through other comprehensive income comprises:		
Internally managed portfolio	35,951	27,330
Externally managed portfolio – (World Bank Reserve Advisory & Management Partnership)-(RAMP)	<u>1,946</u>	<u>2,855</u>
	<u>37,897</u>	<u>30,185</u>

5. INTEREST EXPENSE

Interest expense calculated using the effective interest method		
Interest on monetary policy issues	20,229	5,852
Interest expense – IMF	5,197	4,663
Other interest expense	<u>14</u>	<u>12</u>
	<u>25,440</u>	<u>10,527</u>

6. (a) FEES AND COMMISSION INCOME

	<u>3,000</u>	<u>3,000</u>
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Fees and commission relate to income the Bank earns from the Government of Kenya through its agency role in the issuance of Treasury bills and bonds.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

	2026 KShs' million	2025 KShs' million
6. (b) NET TRADING INCOME		
Net gain on sale of foreign currencies	10,686	8,938
Net gain / loss on disposal of financial assets carried at fair value through other comprehensive income	<u>712</u>	<u>746</u>
	<u>11,398</u>	<u>9,684</u>

7. OTHER INCOME

Licence fees from commercial banks and foreign exchange bureaus	429	405
Penalties from commercial banks and foreign exchange bureaus	93	59
Rental income	65	44
Loss on disposal of property and equipment	(7)	(4)
KEPSS billing revenue	581	550
Miscellaneous income	<u>318</u>	<u>399</u>
	<u>1,479</u>	<u>1,453</u>

8. IMPAIRMENT ALLOWANCE ON FINANCIAL ASSETS

The table below shows the ECL charges on financial instruments:

Impairment allowance on staff loans (Note 14)	18	-
Impairment allowance on balances due from banking institutions (Note 11)	2	29
Impairment allowance on Funds held with IMF (Note 12(a))	(2)	1
Impairment allowance on securities and advances to banks (Note 13)	190	-
Impairment allowance on debt instruments at fair value through other comprehensive income	<u>(67)</u>	<u>(8)</u>
	<u>141</u>	<u>22</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

9. (a) OPERATING EXPENSES

	2026 KShs' million	2025 KShs' million
Employee benefits (Note 9(b))	7,506	6,858
Currency production expenses	2,940	2,629
Software and property maintenance expenses	3,787	3,655
Depreciation of property and equipment (Note 18(b))	2,258	2,268
Amortisation of intangible assets (Note 19)	813	357
Depreciation of right-of-use asset (Note 18(a))	75	64
Interest on lease liabilities (Note 18(a))	11	9
Impairment allowance on other assets (Note 17(a))	49	9
Auditor's remuneration	13	13
Directors' emoluments (Note 28(ii))	56	19
Transport and travelling costs	900	663
Office expenses	274	300
Communication expenses	532	547
Legal and professional expenses*	22	742
Loss on valuation of land and building (18(b))	1,557	-
Other administrative expenses	<u>2,427</u>	<u>2,061</u>
	<u>23,220</u>	<u>20,194</u>

*Included in prior year legal and professional expenses is an arbitration award amounting to KShs 666 million relating to Industrial Area Police Housing Project.

(b) EMPLOYEE BENEFITS

	2026 KShs' million	2025 KShs' million
Wages and salaries	6,105	5,509
Pension costs – Defined contribution plan	800	671
Pension costs – Defined benefit plan	22	44
Medical expenses	531	575
Other staff costs	768	699
Net income relating to the retirement benefit asset (Note 20)	<u>(720)</u>	<u>(640)</u>
	<u>7,506</u>	<u>6,858</u>

9. (c) FOREIGN EXCHANGE (LOSS)/GAIN

	2026 KShs' million	2025 KShs' million
Foreign exchange (loss)/gain	<u>(1,692)</u>	<u>13,882</u>

The unrealized foreign exchange (loss)/gain relates to net (loss)/gain on foreign denominated assets and liabilities arising from changes in foreign currency exchange rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

10. (a) CHANGES IN FAIR VALUE OF INVESTMENTS

	2026 KShs' million	2025 KShs' million
Fair value changes on debt instruments at fair value through other comprehensive income:		
Internally managed portfolio	(5,315)	4,784
Externally managed portfolio – RAMP	(341)	179
Equity instrument -swift shares	60	-
	<u>(5,596)</u>	<u>4,963</u>

(b) RECLASSIFICATION TO THE INCOME STATEMENT

	2026 KShs' million	2025 KShs' million
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI:		
Internally managed portfolio	(1,500)	1,197
World Bank managed portfolio-RAMP	<u>(93)</u>	<u>(176)</u>
	<u>(1,593)</u>	<u>1,021</u>

This amount relates to reclassification on sale or maturity of debt instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

11. BALANCES DUE FROM BANKING INSTITUTIONS

	2026	2025
	KShs' million	KShs' million
Current accounts	213,926	102,329
Foreign currency denominated term deposits	458,431	350,950
Accrued interest on term deposits	1,090	916
Special project accounts	64,652	49,356
Domestic foreign currency cheque clearing (DFCC)	30,911	41,705
REPSS clearing and regional central banks	<u>5,346</u>	<u>3,631</u>
	774,356	548,887
Impairment allowance	<u>(183)</u>	<u>(185)</u>
	<u>774,173</u>	<u>548,702</u>

An analysis of changes in the impairment allowance of balances due from banking institutions is as follows:

	2026	2025
	KShs' million	KShs' million
At start of the year	185	214
Movement in impairment allowance (Note 8)	<u>(2)</u>	<u>(29)</u>
At 30 June	<u>183</u>	<u>185</u>

A reconciliation from the opening balance to the closing balance of the Impairment allowance based on year end stage classification is disclosed in Note 29 (i).

Special project accounts relate to amounts received by the Government of Kenya (or its ministries) for specific projects or purposes.

12. FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF)

	2026	2026	2025	2025
	SDR million	KShs' million	SDR million	KShs' million
(a) Assets				
IMF balances (SDR asset account)	404	70,963	223	39,568
Allowance for impairment losses	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>(3)</u>
	<u>404</u>	<u>70,958</u>	<u>223</u>	<u>39,565</u>

An analysis of changes in the impairment allowance of funds held with IMF is as follows:

	2026	2025
	KShs' million	KShs' million
At 1 July	3	4
Charges to profit or loss (note 8)	<u>2</u>	<u>(1)</u>
At 30 June	<u>5</u>	<u>3</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

12. FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF) (continued)

	2026	2026	2025	2025
	SDR million	KShs' million	SDR million	KShs' million
(b) Liabilities				
International Monetary Fund Account No. 1	20	3,489	20	3,452
International Monetary Fund Account No. 2	0.03	5	0.03	5
Rapid Credit Facility (RCF)	434	76,268	543	96,340
Extended Credit Facility (ECF)	824	144,786	824	146,314
Extended Fund Facility (EFF)	1,452	255,088	1,519	269,631
Resilience and Sustainability Facility (RSF)	136	23,834	136	24,086
IMF - SDR Allocation account	<u>784</u>	<u>137,608</u>	<u>784</u>	<u>139,112</u>
	<u>3,650</u>	<u>641,078</u>	<u>3,826</u>	<u>678,940</u>

The Bank received SDR 542.8 million in May 2020 relating to Rapid Credit Facility (RCF) from the Fund for direct budget support of the Government of Kenya initiatives towards COVID-19 pandemic. These funds were released to the Bank under the Rapid-Disbursing Emergency Financing Facilities which is subject to IMF executive board approval. They represent a debt due from the Government of Kenya to the IMF.

During the year the Bank received nil funding from IMF. In the last financial year, the Bank received a total of SDR 456 million for the various facilities i.e. ECF, EFF and RSF. These debts are recognised in the books of CBK, but on-lent to the government through the National Treasury. Current balance of IMF funding on-lent to the government stands at SDR 688 million for ECF, SDR 1,263 million for EFF and SDR 136 million for RSF. The remaining balance of the funding was lent to CBK for balance of payment support. The SDR exchange rate to KShs as at 30 June 2026 was 175.6348 (2025: 177.4878).

Kenya's quota in IMF of SDR 542.8 million (2025: SDR 542.8 million) is recorded in the books of the National Treasury but not included in the financial statements of the Bank. SDR Allocations are included in the financial statements of the Bank as the custodian of the Government of Kenya. The cumulative SDR allocations stood at SDR 784 million (2025: SDR 784 million) while the current SDR holdings were SDR 404 million (2025: SDR 223 million). The Rapid Credit Facility will be paid within a period of five years from November 2025 to May 2030. ECF will be paid within a period of 8 years from October 2026 to November 2034. EFF will be paid within a period of nine years from October 2025 to November 2034. The Resilience and Sustainability Facility (RSF) has a 20-year maturity period.

13. SECURITIES AND ADVANCES TO BANKS

	2026	2025
	KShs' million	KShs' million
Treasury bonds discounted	4,683	5,306
Treasury bills discounted	164	181
Accrued interest bonds discounted	142	163
Repo treasury bills (Injection)*	16,451	32,072
Accrued interest repo	44	191
Liquidity support framework	<u>40,770</u>	<u>44,961</u>
	62,254	82,874
Impairment allowance	<u>(26,114)</u>	<u>(26,304)</u>
	<u>36,140</u>	<u>56,570</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

13. SECURITIES AND ADVANCES TO BANKS (continued)

An analysis of changes in the impairment allowance of securities and advances to banks is as follows:

	2026 KShs' million	2025 KShs' million
At the start of the year	26,304	26,304
Charge to profit or loss (Note 8)	(190)	-
At 30 June	<u>26,114</u>	<u>26,304</u>

Year ended 30 June 2026

	Maturity period			Total
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	KShs' million
Treasury bills discounted	100	64	-	164
Treasury bonds discounted	3	2,262	2,418	4,683
Accrued interest bonds discounted	-	41	101	142
Repo treasury bills & bonds (injection)*	16,451	-	-	16,451
Accrued interest repo	44	-	-	44
Liquidity support framework	<u>882</u>	<u>3,124</u>	<u>10,650</u>	<u>14,656</u>
	<u>17,480</u>	<u>5,491</u>	<u>13,169</u>	<u>36,140</u>

Year ended 30 June 2025

	Maturity period			Total
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	KShs' million
Treasury bills discounted	-	4	177	181
Treasury bonds discounted	854	14	4,438	5,306
Accrued interest bonds discounted	-	-	163	163
Repo treasury bills & bonds (injection)*	32,072	-	-	32,072
Accrued interest repo	191	-	-	191
Liquidity support framework	<u>882</u>	<u>2,934</u>	<u>14,841</u>	<u>18,657</u>
	<u>33,999</u>	<u>2,952</u>	<u>19,619</u>	<u>56,570</u>

*Liquidity provided into the market via repurchase agreements such as, securitised borrowings by banks using T-bills and T-bonds.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

14. LOANS AND ADVANCES

	2026 KShs' million	2025 KShs' million
Due from banks under liquidation	3,319	3,319
Advances to employees	<u>4,006</u>	<u>3,739</u>
	7,325	7,058
Impairment allowance	<u>(3,370)</u>	<u>(3,388)</u>
Net advances	<u><u>3,955</u></u>	<u><u>3,670</u></u>
The movement in the Impairment allowance is as follows:		
At 1 July	3,388	3,445
Payment	-	(57)
Movement in impairment allowance (Note 8)	<u>(18)</u>	<u>-</u>
At 30 June	<u><u>3,370</u></u>	<u><u>3,388</u></u>

15. DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2026 KShs' million	2025 KShs' million
Fixed income securities – Internally managed portfolio	925,723	892,003
Fixed income securities under World Bank- RAMP	<u>48,859</u>	<u>48,475</u>
	<u><u>974,582</u></u>	<u><u>940,478</u></u>

Maturity analysis

	Maturity period			
	0-3 months	4-12 months	Over 1 year	Total
Year ended 30 June 2026	KShs' million	KShs' million	KShs' million	KShs' million
Fixed income securities – Internally managed Portfolio	58,598	223,510	643,615	925,723
Fixed income securities under World Bank RAMP	<u>3,357</u>	<u>11,659</u>	<u>33,843</u>	<u>48,859</u>
	<u><u>61,955</u></u>	<u><u>235,169</u></u>	<u><u>677,458</u></u>	<u><u>974,582</u></u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

15. DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Maturity analysis	Maturity period			Total
	0-3 months	4-12 months	Over 1 year	
Year ended 30 June 2025	KShs' million	KShs' million	KShs' million	KShs' million
Fixed income securities – Internally managed Portfolio	114,300	270,310	507,393	892,003
Fixed income securities under World Bank- RAMP	<u>4,092</u>	<u>11,128</u>	<u>33,255</u>	<u>48,475</u>
	<u>118,392</u>	<u>281,438</u>	<u>540,648</u>	<u>940,478</u>

16. UNLISTED EQUITY INVESTMENTS

	2026	2025
	KShs' million	KShs' million
Unquoted equity securities at fair value through other comprehensive income	<u>171</u>	<u>12</u>

17. (a) OTHER ASSETS

	2026	2025
	KShs' million	KShs' million
Prepayments	1,777	2,310
Deferred currency expenses	7,307	4,073
Sundry debtors	481	459
Items in the course of collection	315	325
Uncleared effects	<u>10</u>	<u>21</u>
At 30 June	9,890	7,188
Impairment allowance	<u>(415)</u>	<u>(366)</u>
	<u>9,475</u>	<u>6,822</u>

All other assets balances are recoverable within one year.

The movement in the Impairment allowance is as follows:

At start of the year	366	357
Increase in impairment allowance (Note 9(a))	<u>49</u>	<u>9</u>
At 30 June	<u>415</u>	<u>366</u>

17. (b) GOLD HOLDINGS

	2026	2025
	KShs' million	KShs' million
Gold holdings	<u>230</u>	<u>238</u>

The Bank's Gold Holdings are non-monetary, accounted for using the principles of IAS 2 - Inventories. In determining the features of non-monetary gold, the Bank has applied some defining concepts of the World Gold Council (WGC). Non-monetary gold is accounted for on initial acquisition at cost plus any other cost directly attributed to the acquisition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

18. (a) RIGHT OF USE ASSETS

	2026 KShs' million	2025 KShs' million
COST		
At 1 July	493	385
Additions	57	125
Disposals	<u>(16)</u>	<u>(17)</u>
At 30 June	<u>534</u>	<u>493</u>
ACCUMULATED AMORTISATION		
At 1 July	368	321
Charge for the year	75	64
Disposals	<u>(16)</u>	<u>(17)</u>
At 30 June	<u>427</u>	<u>368</u>
CARRYING AMOUNT	<u>107</u>	<u>125</u>

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 24) and the movements during the period:

	2026 KShs' million	2025 KShs' million
At start of the year	122	69
Additions	57	125
Accretion of interest	11	9
Payment of principal	(77)	(74)
Payment of interest	(10)	(7)
Adjustment	<u>4</u>	<u>-</u>
At 30 June	<u>107</u>	<u>122</u>

The maturity analysis of lease liabilities is disclosed in Note 29. The following are the amounts recognised in profit or loss:

	2026 KShs' million	2025 KShs' million
Depreciation expense for right-of-use assets	75	64
Interest expense on lease liabilities	<u>11</u>	<u>9</u>
Total amount recognised in profit or loss	<u>86</u>	<u>73</u>

The Bank had total cash outflows for leases of KShs 87 million (2025: KShs 81 million) during the year. No impairment loss or reversals of impairment loss has been recognized in profit or loss during the period. The Bank uses the Central Bank Rate (CBR) as the discount rate 8.75% (2025: 9.75%).

The Bank also had non-cash additions to the right-of-use assets and lease liabilities of KShs 57 million (2025: KShs 125 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

18. (a) RIGHT OF USE ASSETS (continued)

The following table sets out a maturity analysis of operating lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2026	2025
Maturity analysis – Contractual undiscounted cash flows	KShs' million	KShs' million
Less than one year	69	75
Between one and five years	<u>47</u>	<u>61</u>
	116	136
Interest expense	<u>(9)</u>	<u>(14)</u>
	<u>107</u>	<u>122</u>

18. (b) PROPERTY AND EQUIPMENT

Year ended 30 June 2026	Freehold land and buildings KShs' million	Leasehold land and buildings KShs' million	Work in Progress (WIP) KShs' million	Motor vehicles KShs' million	Furniture and equipment KShs' million	Total KShs' million
AT COST OR VALUATION						
At 1 July 2025	21,814	5,603	610	762	13,359	42,148
Capitalization of WIP	120	-	(120)	-	-	-
Reclassification	(959)	959	-	-	-	-
Revaluation	(2,768)	(220)	-	-	-	(2,988)
Additions	105	-	291	87	885	1,368
Disposals	<u>(16)</u>	<u>-</u>	<u>-</u>	<u>(13)</u>	<u>(153)</u>	<u>(182)</u>
At 30 June 2026	<u>18,296</u>	<u>6,342</u>	<u>781</u>	<u>836</u>	<u>14,091</u>	<u>40,346</u>
DEPRECIATION						
At 1 July 2025	2,993	687	-	519	9,362	13,561
Charge for the year	829	170	-	86	1,173	2,258
Revaluation	(3,815)	(857)	-	-	-	(4,672)
Disposals	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(13)</u>	<u>(151)</u>	<u>(171)</u>
At 30 June 2026	<u>-</u>	<u>-</u>	<u>-</u>	<u>592</u>	<u>10,384</u>	<u>10,976</u>
NET CARRYING AMOUNT	<u>18,296</u>	<u>6,342</u>	<u>781</u>	<u>244</u>	<u>3,707</u>	<u>29,370</u>

Land and buildings were revalued as at 30 June 2026 by Milligan Valuers Ltd, Recad Valuers and Sec and M valuers Co.Ltd. The valuation resulted in an overall revaluation gain of KShs 1,684 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

18. (b) PROPERTY AND EQUIPMENT (continued)

Year ended 30 June 2025	Freehold land and buildings KShs' million	Leasehold land and buildings KShs' million	Work in Progress KShs' million	Motor vehicles KShs' million	Furniture and equipment KShs' million	Total KShs' million
AT COST OR VALUATION						
At 1 July 2024	19,560	5,458	2,626	596	13,678	41,918
Capitalization of WIP	2,254	-	(2,498)	-	244	-
Reclassification	-	-	-	-	(114)	(114)
Additions	-	145	482	171	496	1,294
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5)</u>	<u>(945)</u>	<u>(950)</u>
At 30 June 2025	<u>21,814</u>	<u>5,603</u>	<u>610</u>	<u>762</u>	<u>13,359</u>	<u>42,148</u>
DEPRECIATION						
At 1 July 2024	2,212	518	-	462	9,143	12,335
Charge for the year	781	169	-	62	1,256	2,268
Reclassification	-	-	-	-	(114)	(114)
Disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5)</u>	<u>(923)</u>	<u>(928)</u>
At 30 June 2025	<u>2,993</u>	<u>687</u>	<u>-</u>	<u>519</u>	<u>9,362</u>	<u>13,561</u>
NET CARRYING AMOUNT	<u>18,821</u>	<u>4,916</u>	<u>610</u>	<u>243</u>	<u>3,997</u>	<u>28,587</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

18. (b) PROPERTY AND EQUIPMENT (continued)

The treatment of the revaluation changes in the current financial year is as follows:

	2026 KShs' million
Revaluation gain on land and buildings	
Freehold land	1,260
Buildings	1,343
Leasehold land	<u>1,224</u>
	3,827
Less utilization of gain recognized in 2021 for assets that have generated a loss.	<u>(586)</u>
The revaluation gain has been posted to Other Comprehensive Income	<u>3,241</u>
Revaluation loss on land and buildings (Note 9(a))	
Buildings	(1,556)
Leasehold land	<u>(587)</u>
	(2,143)
Add utilization of gain recognized in 2021 for assets that have generated a loss.	<u>586</u>
Revaluation decrease charged to profit or loss statement (Note 9(a))	<u>(1,557)</u>

The overall revaluation gain is KShs 1,684 million.

Land and buildings are included in the level 3 of the fair valuation hierarchy.

The significant assumptions applied in arriving at the revalued amounts are as follows:

- The valuation represents completed developments/improvements that were done as per approved architectural plans, drawings and construction met requisite specification standards.
- The developments are compliant to other relevant statutory requirements such as National Environmental Management Authority (N.E.M.A) and there is no pending statutory notice.
- The Bank's residential properties are owner occupied. In carrying out the revaluation, the Valuer has taken into account the comparable values of similar properties to derive the market prices. These were obtained from market transactions of comparable properties.
- The Bank is in possession of all title deeds.

In assessing the valuation methodology to use, the Valuer considered the following:

- That for public sector assets especially buildings, it may be difficult to establish their fair value because of the absence of market transactions for such assets.
- For vacant land, an analysis of sales and or properties for sale that were similar to the subject property.

As a result of the above, the valuation method settled on was the comparable and cost approach.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

19. INTANGIBLE ASSETS

	Software KShs' million	Work in Progress KShs' million	Total KShs' million
Year ended 30 June 2026			
COST			
At 1 July 2025	4,392	2,781	7,173
Capitalization of work in progress	2,541	(2,541)	-
Additions	<u>432</u>	<u>281</u>	<u>713</u>
At 30 June 2026	<u>7,365</u>	<u>521</u>	<u>7,886</u>
ACCUMULATED AMORTISATION			
At 1 July 2025	3,231	-	3,231
Charge for the year	<u>813</u>	<u>-</u>	<u>813</u>
At 30 June 2026	<u>4,044</u>	<u>-</u>	<u>4,044</u>
NET CARRYING AMOUNT	<u>3,321</u>	<u>521</u>	<u>3,842</u>
Year ended 30 June 2025			
COST			
At 1 July 2024	3,910	1,516	5,426
Capitalization of work in progress	54	(54)	-
Reclassification	114	-	114
Additions	<u>314</u>	<u>1,319</u>	<u>1,633</u>
At 30 June 2025	<u>4,392</u>	<u>2,781</u>	<u>7,173</u>
ACCUMULATED AMORTISATION			
At 1 July 2024	2,760	-	2,760
Reclassification	114	-	114
Charge for the year	<u>357</u>	<u>-</u>	<u>357</u>
At 30 June 2025	<u>3,231</u>	<u>-</u>	<u>3,231</u>
NET CARRYING AMOUNT	<u>1,161</u>	<u>2,781</u>	<u>3,942</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

20. RETIREMENT BENEFIT ASSET

	2026 KShs' million	2025 KShs' million
Fair value of plan assets	37,246	34,726
Present value of funded obligations	<u>(20,319)</u>	<u>(19,480)</u>
Net overfunding in funded plan	16,927	15,246
Limit on defined benefit asset	<u>(8,609)</u>	<u>(7,988)</u>
Retirement Benefit Asset	<u><u>8,318</u></u>	<u><u>7,258</u></u>
Movements in the net defined benefit asset recognised are as follows:		
At start of the year	7,258	5,861
Net income recognised in profit or loss (Note 9(b))	720	640
Net income recognized in other comprehensive income (OCI)	320	720
Employer contributions	<u>20</u>	<u>37</u>
At 30 June	<u><u>8,318</u></u>	<u><u>7,258</u></u>
Movements in the plan assets are as follows:		
At start of the year	34,726	31,082
Interest income on plan assets	4,449	4,478
Employer contributions	20	37
Employee contributions	10	19
Benefits expenses paid	(2,581)	(2,516)
Return on plan assets excluding amount in interest income	<u>622</u>	<u>1,626</u>
At 30 June	<u><u>37,246</u></u>	<u><u>34,726</u></u>
Movements in the plan benefit obligation are as follows:		
At start of the year	19,480	16,925
Current service cost net of employees' contributions	226	219
Interest cost	2,439	2,375
Employee contributions	10	19
Actuarial gain due to change in financial assumptions and experience	745	2,458
Benefits paid	<u>(2,581)</u>	<u>(2,516)</u>
At 30 June	<u><u>20,319</u></u>	<u><u>19,480</u></u>
The principal actuarial assumptions at the reporting date were:		
Discount rate (p.a.)	13.20%	13.30%
Salary increase (p.a.)	7.00%	7.00%
Future pension increases	<u>3.00%</u>	<u>3.00%</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

20. RETIREMENT BENEFIT ASSET (continued)	2026	2025	2024	2023	2022
	KShs'	KShs'	KShs'	KShs'	KShs'
Five-year summary	million	million	million	million	million
Fair value of plan assets	37,246	34,726	31,082	29,799	30,430
Present value of funded obligations	(20,319)	(19,480)	(16,925)	(17,177)	(16,620)
Adjustment to retirement benefit asset	<u>(8,609)</u>	<u>(7,988)</u>	<u>(8,296)</u>	<u>(7,628)</u>	<u>(6,729)</u>
Net retirement benefit asset	<u><u>8,318</u></u>	<u><u>7,258</u></u>	<u><u>5,861</u></u>	<u><u>4,994</u></u>	<u><u>7,081</u></u>

Plan assets are distributed as follows:

	2026		2025	
	KShs' million	%	KShs' million	%
Quoted shares	5,176	14.0%	4,524	13.0%
Investment properties	9,450	25.0%	9,450	27.20%
Government of Kenya treasury bills and bonds	19,780	53.0%	18,126	52.2%
Commercial paper and corporate bonds	24	0.1%	83	0.2%
Offshore investments	1,150	3.1%	957	2.8%
Fixed and term deposits	696	1.9%	830	2.4%
Fixed assets	58	0.2%	47	0.1%
Private equity	684	1.8%	475	1.4%
Net current assets	<u>228</u>	<u>0.6%</u>	<u>234</u>	<u>0.7%</u>
	<u><u>37,246</u></u>	<u><u>100%</u></u>	<u><u>34,726</u></u>	<u><u>100%</u></u>

Sensitivity of principal actuarial assumptions:

If the discount rate is 1% lower, the present value of funded obligations would be KShs 21,816 million (increase by KShs 1,497 million). This sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of 30 June 2026, while holding all other assumptions constant.

The other principal actuarial assumptions, that is salary increase and future pension increase are not expected to change materially because they are within the control of management and are approved in the Human Resource Policy on employee benefits. Additionally, any change is not expected to be material based on historical trends and may not have a linear impact on the present value of the fund obligation.

The Bank does not have any asset-liability matching strategies used to manage risk. The retirement benefit scheme is funded and hence the assets under the scheme are used to meet benefit payments as and when they arise. The timing of the benefit payments from the scheme are unknown as the fund comprises active members, pensioners and deferred pensioners.

The scheme is funded by contributions from employer and employees. The average duration of the defined benefit plan obligation at the end of the reporting period is 7.4 years (2025: 7.6 years).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

21. (a) IMF ON-LENT TO GOK

	2026 KShs' million	2025 KShs' million
Rapid credit facility	76,268	96,340
Extended credit facility	120,761	122,035
Extended fund facility	221,739	236,121
Resilience and Sustainability Facility	<u>23,834</u>	<u>24,086</u>
	<u>442,602</u>	<u>478,582</u>

The balance as at 30 June 2026 relates to IMF on-lent funds disbursed to the Government of Kenya by the International Monetary Fund (IMF) to improve the economy. The funds amount to SDR 434 million under the Rapid Credit Facility (RCF) and SDR 688 million under the Extended Credit Facility (ECF), SDR 1,263 million Extended Fund Facility (EFF) and SDR 136 million under the Resilience and Sustainability Facility (RSF). RCF will be paid within a period of five years from November 2025 to May 2030. ECF will be paid within a period of 8 years from October 2026 to November 2034. EFF will be paid within a period of nine years from October 2025 to November 2034. The Resilience and Sustainability Facility (RSF) has a 20-year maturity period.

(b) DUE FROM GOVERNMENT OF KENYA

	2026 KShs' million	2025 KShs' million
Overdraft	90,993	67,628
Government loan	15,089	16,164
IMF dues from National Treasury	16,465	-
SDR Allocation due from National Treasury	<u>78,321</u>	<u>81,459</u>
	<u>200,868</u>	<u>165,251</u>

Movement in the government loan is as follows:

	Government Loan		SDR Allocation Due from National Treasury	
	2026 KShs' million	2025 KShs' million	2026 KShs' million	2025 KShs' million
At start of the year	16,164	16,679	81,459	82,611
Advance	-	-	-	-
Principal repayment	(1,110)	(555)	-	(4,427)
Interest charged	459	491	-	-
Interest paid	(424)	(451)	-	-
Foreign exchange revaluation	-	-	<u>(3,138)</u>	<u>3,275</u>
At 30 June	<u>15,089</u>	<u>16,164</u>	<u>78,321</u>	<u>81,459</u>

Section 46(3) of the Central Bank of Kenya Act sets the limit of the Government of Kenya's overdraft facility at the Bank at 5% of the Gross Recurrent Revenue as reported in the latest Government of Kenya audited financial statements. The limit for the year ended 30 June 2026 is KShs 121,669 million (2025: KShs 114,695 million) based on the gross recurrent revenue for the year ended 30 June 2025 which are the latest audited financial statements at the date of approval of these financial statements. Interest is charged at the Central Bank Rate, currently at 8.75%. The Bank converted the Government of Kenya overdraft facility that exceeded statutory limit in 1997 into a loan at 3% interest repayable by 2039 and is guaranteed by a deed executed by the Cabinet Secretary, The National Treasury. Principal repayments of KShs 555 million are paid half yearly while interests accruing are paid monthly.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

	2026	2025
	KShs' million	KShs' million
22. CURRENCY IN CIRCULATION		
Kenya bank notes	389,242	345,640
Kenya coins	<u>11,660</u>	<u>11,375</u>
	<u>400,902</u>	<u>357,015</u>
Movement in the account was as follows:		
At 1 July	357,015	333,795
Deposits by commercial banks	(478,122)	(476,321)
Withdrawals by commercial banks	521,934	499,555
Withdrawals/(deposits) by CBK	<u>75</u>	<u>(14)</u>
At 30 June	<u>400,902</u>	<u>357,015</u>
23. (a) DEPOSITS DUE TO BANKS AND GOVERNMENT		
	2026	2025
	KShs' million	KShs' million
Local commercial banks clearing accounts and cash reserve ratio	251,304	215,007
Local banks foreign exchange settlement accounts	31,361	40,012
External banks foreign exchange settlement accounts	3,138	3,154
Other public entities and project accounts	64,176	51,254
Government of Kenya	<u>549,096</u>	<u>378,094</u>
	<u>899,075</u>	<u>687,521</u>
(b) INVESTMENT BY BANKS	<u>173,197</u>	<u>106,018</u>
This relates to unsecured placements by commercial banks with CBK as part of monetary operations.		
24. OTHER LIABILITIES		
	2026	2025
	KShs' million	KShs' million
Impersonal accounts*	255	258
Sundry creditors and trade payables	3,407	6,642
Lease liability (Note 18(a))	107	122
Refundable deposits	389	334
Leave accrual	300	277
Gratuity to staff members	<u>141</u>	<u>116</u>
	<u>4,599</u>	<u>7,749</u>

*Impersonal accounts hold amounts due to ministries and departments of Government of Kenya.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

25. (a) SHARE CAPITAL	2026 KShs' million	2025 KShs' million
Authorised share capital:		
At 1 July and 30 June	<u>100,000</u>	<u>100,000</u>
Paid up share capital:		
At 1 July and 30 June	<u>70,000</u>	<u>60,000</u>

Ownership of the entire share capital is vested in the Principal Secretary to the National Treasury. The Board of Directors authorised the capitalisation of KShs 10,000 million from the general reserve fund on 16 December 2025, resulting in the increase in paid up share capital from KShs 60,000 million to KShs 70,000 million. The Board of Directors also authorised a further capitalisation of KShs 16,500 million from the general reserve fund on 14 September 2026.

(b) GENERAL RESERVE FUND

The general reserve of KShs 344,596 million (2025: KShs 357,334 million) represents accumulated realized surplus of KShs 103,349 million (2025: KShs 114,715 million) arising from normal operations of the Bank and unrealized gains of KShs 241,247 million (2025: KShs 242,619 million).

(c) FAIR VALUE RESERVE

The fair value reserve represents cumulative gains and losses arising from revaluation of debt instruments from cost to fair value based on the market values at the end of the reporting date.

(d) REVALUATION RESERVE

The revaluation reserve relates to unrealized revaluation gains on land and buildings that will not be recycled into profit or loss. The reserve is non-distributable.

(e) CONSOLIDATED FUND

The Consolidated Fund represents amounts proposed for distribution to the Government of Kenya from the General Reserve Fund. The Board approved a transfer of KShs 30,000 million (2025: KShs Nil million) to the National Treasury out of the General Reserve Fund in December 2025.

Movement in the consolidated fund is as follows:

	2026 KShs' million	2025 KShs' million
At start of the year	-	30,000
Transfer from the general reserve	30,000	-
Payments out of consolidated fund	<u>(30,000)</u>	<u>(30,000)</u>
At 30 June	<u>=</u>	<u>=</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

26. CASH GENERATED IN OPERATIONS

	2026 KShs' million	2025 KShs' million
Surplus for the year	26,942	65,889
Adjustments for:		
Unrealized foreign exchange (losses)/gains (Note 9(c))	1,692	(13,882)
Accrued Interest adjustment	-	(4,612)
Depreciation of property and equipment (Note 18(b))	2,258	2,268
Amortisation of intangible assets (Note 19)	813	357
Amortisation of right-of-use assets (Note 18(a))	75	64
Loss on valuation of land and building (Note 9(a))	1,557	-
Loss on disposal of property and equipment (Note 7)	7	4
Impairment allowance on financial assets (Note 8)	(141)	(22)
Interest income (Note 4)	(61,276)	(68,569)
Interest expense (Note 5)	25,440	10,527
Interest on lease liability (Note 18(a))	11	9
Provision for impairment loss on other assets (Note 17(a))	49	9
Net credit relating to the retirement benefit asset (Note 20)	(720)	(640)
Employer contributions on defined benefit asset (Note 20)	(20)	(37)
Reclassification from fair value reserve (Note 10(b))	<u>(1,593)</u>	<u>1,021</u>
Operating surplus before working capital changes	(4,906)	(7,614)
Changes in working capital:		
Loans and advances	(267)	(43)
Other assets	(2,858)	91
Due from Government of Kenya	(35,617)	(4,940)
Currency in circulation	43,887	23,220
Deposits	211,554	40,486
IMF on-lent	30,100	(69,207)
Investment by banks	67,179	106,018
Other liabilities	<u>(3,075)</u>	<u>1,703</u>
Net cash from operations	<u>305,997</u>	<u>89,714</u>

27. NET CASH FROM/(USED) IN OPERATIONS

(a) For the purpose of the statement of cash flows, cash and cash equivalents include:

	2026 KShs' million	2025 KShs' million
Balances due from banking institutions (Note 11)	774,356	548,887
Financial assets – FVOCI (Note 15)	61,955	118,392
Securities discounted by banks and other advances (Note 13)	<u>17,480</u>	<u>33,999</u>
	<u>853,791</u>	<u>701,278</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

27. NET CASH FROM/ (USED) IN OPERATIONS (continued)

	2026 KShs' million	2025 KShs' million
(b) Changes in liabilities arising from financing activities		
At start of the year	678,940	573,412
Cash flow items:		
Repayments to IMF	(31,149)	-
Receipts during the year	-	80,934
Foreign exchange changes	<u>(6,713)</u>	<u>24,594</u>
At 30 June	<u>641,078</u>	<u>678,940</u>

28. RELATED PARTY TRANSACTIONS

In the course of its operations, the Bank enters into transactions with related parties, which include the Government of Kenya (the ultimate owner of the Bank). The main transactions are ordinary banking facilities to government ministries included in Note 23 and lending to the Government of Kenya included in Note 21.

(i) Loans

The Bank extends loan facilities to all staff including the key management staff. The advances are at preferential rates of interest determined by the Bank. The repayment terms and collateral used are similar to those of loans and advances to other staff. Provisions on loans and advances to staff are arrived at using collective assessment approach. Provisions at 30 June 2026 are disclosed in Note 14. Collateral information is disclosed in Note 29. The repayment terms of the loans are between 4 years and 25 years.

	2026 KShs' million	2025 KShs' million
Loans to key senior staff		
At 1 July	108	40
Loans advanced during the year	74	101
Interest earned	3	3
Loan repayments	<u>(51)</u>	<u>(36)</u>
At 30 June	<u>134</u>	<u>108</u>
 (ii) Directors' emoluments:		
	25	14
Fees to non-executive directors	31	5
Directors' travelling expenses	<u>57</u>	<u>46</u>
Other remuneration to executive directors	<u>113</u>	<u>65</u>
 (iii) Remuneration to senior staff	<u>367</u>	<u>336</u>
 (iv) Post-employment pension to senior management	<u>30</u>	<u>20</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

28. RELATED PARTY TRANSACTIONS (continued)

	2026	2025
	KShs' million	KShs' million
(v) Government of Kenya- owner of the Bank		
Due from Government of Kenya (Note 21(b))	200,868	165,251
Government Institutions Deposits (Note 23(a))	613,272	429,348
IMF On-lent to GOK (Note 21(a))	442,602	478,582
Interest earned from Government of Kenya – Loan (Note 4)	459	491
Interest earned from Government of Kenya - Overdraft (Note 4)	3,153	7,444
Fees and commission income (Note 6(a))	3,000	3,000
Loan principal repayment (Note 21(b))	<u>1,110</u>	<u>555</u>

Transactions entered into with the Government include:

- Banking services;
- Management of issue and redemption of securities at a commission and;
- Foreign currency denominated debt settlement and other remittances at a fee.

(vi) **Central Bank of Kenya Pension Fund and Banki Kuu Pension Scheme 2012**

The pension schemes (that is, the defined benefit and defined contribution schemes) are managed and administered by the Pension Secretariat appointed by the sponsor.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Central Bank of Kenya activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt, foreign currency exchange rates and interest rates. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Internal Audit, Strategy and Risk Department under policies approved by the Board of Directors. Other organs that monitor the assessment and management of risks within the Bank include: Board Audit, Risk and Strategy Committee.

(a) Strategy in using financial instruments

The Bank holds foreign exchange reserves for the purpose of servicing official foreign debt, paying non-debt government and Central Bank of Kenya expenditures abroad and intervention in the foreign exchange market to minimize volatility and facilitate its smooth functioning.

The foreign exchange reserves are managed via a governance framework anchored in legislation and a reserves management policy set by the Board of Directors. The policy sets the context within which the Strategic Asset Allocation, Investment guidelines and Investment Committee are operationalized in order to achieve the overarching principles of safety, liquidity and return.

(b) Risks facing the Bank

The following are the main types of financial risks that the Bank is exposed to in the course of executing its operations:

- Credit risk
- Market risk
- Liquidity risk

(i) Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk arises from balances due from banking institutions, funds held with IMF, securities and advances to banks, loans and advances, debt instruments at fair value through other comprehensive income, other assets (sundry debtors) and due from Government of Kenya.

Management of credit risk is carried out through the choice of counterparties. The Bank's choice of counterparties is confined to top international banks that meet the set eligibility criteria of financial soundness on long-term credit rating, short-term credit rating and capital adequacy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk(continued)

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk:

	2026	2025
	KShs' million	KShs' million
Balances due from banking institutions	774,173	548,702
Funds held with International Monetary Fund (IMF)	70,958	39,565
Securities and advances to banks	36,140	56,570
IMF On-Lent to GOK	442,602	478,582
Loans and advances	3,955	3,670
Debt instruments at fair value through other comprehensive income	974,582	940,478
Other assets – sundry debtors	77	181
Due from Government of Kenya	<u>200,868</u>	<u>165,251</u>
	<u>2,503,355</u>	<u>2,232,999</u>

The Bank assesses the credit quality of these assets at every reporting date. None of the balances have had their terms renegotiated as a result of non-performance. Management monitors the credit exposure of staff on a continuous basis, taking into account their financial position, past experience and other factors.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

The following tables set out information about the credit quality of financial assets measured at amortised cost and debt instruments at FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' are included in Note 2(e). The credit ratings are obtained from recognized international credit rating agencies.

Year ended 30 June 2026

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	163	-	-	163
Rated AA+ to AA-	498,030	-	-	498,030
Rated A+ to A-	147,366	-	-	147,366
Rated BBB to B-	53,243	-	-	53,243
Unrated	<u>75,554</u>	<u>-</u>	<u>-</u>	<u>75,554</u>
Gross carrying amount	774,356	-	-	774,356
Impairment allowance	<u>(183)</u>	<u>-</u>	<u>-</u>	<u>(183)</u>
Net carrying amount	<u>774,173</u>	<u>-</u>	<u>-</u>	<u>774,173</u>
Debt instruments at fair value				
Rated AAA	186,000	-	-	186,000
Rated AA+ to AA-	780,871	-	-	780,871
Rated A+ to A-	<u>7,711</u>	<u>-</u>	<u>-</u>	<u>7,711</u>
Carrying amount	<u>974,582</u>	<u>-</u>	<u>-</u>	<u>974,582</u>
Due from Government of Kenya				
Unrated	<u>200,868</u>	<u>-</u>	<u>-</u>	<u>200,868</u>
Funds with IMF				
Unrated	<u>70,963</u>	<u>-</u>	<u>-</u>	<u>70,963</u>
Gross carrying amount	70,963	-	-	70,963
Impairment allowance	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>(5)</u>
Net carrying amount	<u>70,958</u>	<u>-</u>	<u>-</u>	<u>70,958</u>
IMF On-Lent to GOK				
Unrated	<u>442,602</u>	<u>-</u>	<u>-</u>	<u>442,602</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2026

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	<u>36,140</u>	<u>-</u>	<u>26,114</u>	<u>62,254</u>
Gross carrying amount	36,912	-	25,342	62,254
Impairment allowance	<u>(772)</u>	<u>-</u>	<u>(25,342)</u>	<u>(26,114)</u>
Net carrying amount	<u>36,140</u>	<u>-</u>	<u>-</u>	<u>36,140</u>
Loans and advances				
Unrated	<u>3,839</u>	<u>-</u>	<u>3,486</u>	<u>7,325</u>
Gross carrying amount	3,839	-	3,486	7,325
Impairment allowance	<u>(7)</u>	<u>-</u>	<u>(3,363)</u>	<u>(3,370)</u>
Net carrying amount	<u>3,832</u>	<u>-</u>	<u>123</u>	<u>3,955</u>
Other assets				
Unrated	<u>492</u>	<u>-</u>	<u>-</u>	<u>492</u>
Gross carrying amount	492	-	-	492
Impairment allowance	<u>(415)</u>	<u>-</u>	<u>-</u>	<u>(415)</u>
Net carrying amount	<u>77</u>	<u>-</u>	<u>-</u>	<u>77</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2025

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	160	-	-	160
Rated AA+ to AA-	160,536	-	-	160,536
Rated A+ to A-	149,355	-	-	149,355
Rated BBB to BB-	100,524	-	-	100,524
Unrated	<u>138,312</u>	<u>-</u>	<u>-</u>	<u>138,312</u>
Gross carrying amount	548,887	-	-	548,887
Impairment allowance	<u>(185)</u>	<u>-</u>	<u>-</u>	<u>(185)</u>
Net carrying amount	<u>548,702</u>	<u>-</u>	<u>-</u>	<u>548,702</u>
Debt instruments at fair value through OCI				
Rated AAA	151,289	-	-	151,289
Rated AA- to AA+	759,393	-	-	759,393
Rated A- to A+	<u>29,796</u>	<u>-</u>	<u>-</u>	<u>29,796</u>
Carrying amount	<u>940,478</u>	<u>-</u>	<u>-</u>	<u>940,478</u>
Due from Government of Kenya				
Unrated	<u>165,251</u>	<u>-</u>	<u>-</u>	<u>165,251</u>
Funds with IMF				
Unrated	<u>39,568</u>	<u>-</u>	<u>-</u>	<u>39,568</u>
Gross carrying amount	39,568	-	-	39,568
Impairment allowance	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Net carrying amount	<u>39,565</u>	<u>-</u>	<u>-</u>	<u>39,565</u>
IMF On-Lent to GOK				
Unrated	<u>478,582</u>	<u>-</u>	<u>-</u>	<u>478,582</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2025

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	<u>57,091</u>	<u>-</u>	<u>25,783</u>	<u>82,874</u>
Gross carrying amount	57,091	-	25,783	82,874
Impairment allowance	<u>(521)</u>	<u>-</u>	<u>(25,783)</u>	<u>(26,304)</u>
Net carrying amount	<u>56,570</u>	<u>-</u>	<u>-</u>	<u>56,570</u>
Loans and advances				
Unrated	<u>3,541</u>	<u>-</u>	<u>3,517</u>	<u>7,058</u>
Gross carrying amount	3,541	-	3,517	7,058
Impairment allowance	<u>(7)</u>	<u>-</u>	<u>(3,381)</u>	<u>(3,388)</u>
Net carrying amount	<u>3,534</u>	<u>-</u>	<u>136</u>	<u>3,670</u>
Other assets				
Unrated	<u>547</u>	<u>-</u>	<u>547</u>	<u>547</u>
Gross carrying amount	547	-	-	547
Impairment allowance	<u>(366)</u>	<u>-</u>	<u>-</u>	<u>(366)</u>
Net carrying amount	<u>181</u>	<u>-</u>	<u>-</u>	<u>181</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Collateral and other credit enhancements

The Bank holds collateral and other credit enhancements against certain credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	Notes	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
		30 June 2026	30 June 2025	
Advances to banks – Reverse repurchase arrangements and due from commercial banks	13	100	100	Kenya Government debt securities
Loans and advances – Loans to staff	14	88	88	Land and buildings, government securities, motor vehicles

At 30 June 2026, the Bank held advances to banks of KShs 16,451 million (2025: KShs 32,072 million), for which no impairment allowance is recognised because of full collateral coverage. The fair value of the collateral held for Advances to banks was KShs 17,092 million (2025: KShs 36,902 million). These have been determined based on market price quotations at the reporting date.

Inputs, assumptions and techniques used for estimating expected credit loss

Significant increase in credit risk

When determining whether the risk of default of the invested amount on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit risk specialist's assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades/ratings

For assessing the risk of default, at initial recognition, the Bank assigns to each exposure credit risk grade/rating determined based on the credit risk assessment.

The Bank, at initial recognition, allocates each exposure to banks a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applies experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating expected credit loss (continued)

Credit risk grades/ratings (continued)

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following information.

Foreign currency exposures	Domestic currency exposures	Other assets (staff loans)
Data from credit rating agencies, press articles, changes in external credit ratings.	Internally collected data on banks and supervisory indicators.	Repayment history – this includes overdue status and financial situation of the borrower.
Quoted bond prices for the counterparty, where available.	Existing and forecast changes in business, financial and economic conditions.	
Actual and expected significant changes in the political, regulatory and technological environment of the counterparty or in its business activities.		

PD estimation process

Credit risk grades/ratings are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by counterparty as well as by credit risk grading/ratings. The Bank employs statistical models such as transition matrices to analyse the data collected and generate estimates of the lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The methodology for determining PDs for domestic commercial banks is based on the risk assessment techniques used for supervisory purposes. Factors considered by these techniques include the capital adequacy, credit risk, liquidity and profitability of the counterparty. The PDs are calculated as the average weighted PDs for each factor, where the weights are determined based on the importance of the factor.

For the assets denominated in foreign currency, the Bank uses 12-month PDs for sovereign and non-sovereign issuances, estimated based on Bloomberg's probability of default model which indicate a possibility of bankruptcy over 12 months for issuers per each respective rating category. The Bloomberg PD includes the estimates of forward-looking parameters such as GDP, forex rates, and interest rates.

For exposures to the Kenyan Government in domestic currency, the estimated PD considers the short-term maturity of such exposures, the absence of historical defaults and detailed assessments of the ability of the Kenyan Government to fulfil its contractual cash flow obligations in the short-term which considers also the macroeconomic indicators over the assessment period.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Determining whether credit risk has increased significantly

The Bank considers a financial instrument to have experienced a significant increase in credit risk, when one or more of the following quantitative, qualitative or backstop criteria have been put:

- Significant dip in operating results of counterparty.
- Credit distress necessitated extension to terms granted.
- Significant adverse changes in the financial and /or economic conditions affecting the counterparty.
- Significant change in collateral value which is expected to increase risk of default.
- Signs of cash flow / liquidity problems.

A backstop is applied, and the financial instrument considered to have experience a significant increase in credit risk if the counterparty is more than 30 days past due.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the counterparty.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

Definition of default

The Bank considers a financial asset to be in default when:

- the counterparty is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the counterparty is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a counterparty is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and its significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

In its ECL models, the Bank relies on Bloomberg credit risk model for provision of probabilities of default values for both the investment counterparties and the sovereigns. The Bank also relies on international credit rating agencies for credit rating information. Credit ratings are a tool, among others, that investors can use when making decisions about purchasing bonds and other fixed income investments. They express independent opinions on creditworthiness, using a common terminology that may help investors make more informed investment decisions.

As part of their ratings analysis, the external credit agencies as well as the Bloomberg credit risk model evaluate current and historical information and assess the potential impact of a broad range of forward-looking information.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

Probability of default (PD); PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Transition matrixes data are used to derive the PD for counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Loss given default (LGD); LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on Basel recommended LGDs.

Exposure at default (EAD); EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation.

The EAD of a financial asset is its gross carrying amount. EAD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include: instrument type, credit risk grading; collateral type; date of initial recognition; remaining term to maturity; industry; and, geographic location of the counterparty.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL (continued)

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets as follows:

	Exposure	Exposure	External benchmarks used	
	2026	2025		
	KShs' million	KShs' million	PD	LGD
Balances due from banking institutions	774,173	548,702	Bloomberg PD rating model	Basel II recovery studies
Debt instruments at fair value through other comprehensive income	974,582	940,478	Bloomberg PD rating model	Basel II recovery studies
Funds held with IMF	70,958	39,565	Bloomberg PD rating model	Basel II recovery studies

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2026

Debt instruments at fair value through other comprehensive income	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage 3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2025	940,478	289	-	-	-	-	940,478	289
New assets originated or purchased	569,592	169	-	-	-	-	569,592	169
Asset derecognized or repaid	(533,603)	(102)	-	-	-	-	(533,603)	(102)
Accrued interest	(295)	-	-	-	-	-	(295)	-
Realised gains	712	-	-	-	-	-	712	-
Foreign exchange adjustments	3,354	-	-	-	-	-	3,354	-
Change in risk parameters	-	-	-	-	-	-	-	-
Fair value changes	(5,656)	-	-	-	-	-	(5,656)	-
At 30 June 2026	<u>974,582</u>	<u>356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>974,582</u>	<u>356</u>
Balances due from banking institutions								
At 1 July 2025	548,887	185	-	-	-	-	548,887	185
Net movement during the year	<u>225,469</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>225,469</u>	<u>(2)</u>
At 30 June 2026	<u>774,356</u>	<u>183</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>774,356</u>	<u>183</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2026

Securities and advances to banks	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage 3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2025	56,847	521	-	-	26,027	25,783	82,874	26,304
New assets originated or purchased	223,629	-	-	-	-	-	223,629	-
Asset derecognized or repaid	(244,125)	-	-	-	-	-	(244,125)	-
Accrued interest	(124)	-	-	-	-	-	(124)	-
Transfer to stages	-	251	-	-	-	(441)	-	(190)
Change in risk parameters	-	-	-	-	-	-	-	-
At 30 June 2026	<u>36,227</u>	<u>772</u>	<u>-</u>	<u>-</u>	<u>26,027</u>	<u>25,342</u>	<u>62,254</u>	<u>26,114</u>
Funds held with IMF								
At 1 July 2025	39,568	3	-	-	-	-	39,568	3
Net movement during the year	<u>31,395</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,395</u>	<u>2</u>
At 30 June 2026	<u>70,963</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,963</u>	<u>5</u>
Other assets								
At 1 July 2025	200	-	-	-	347	366	547	366
Net movement during the year	<u>(71)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16</u>	<u>49</u>	<u>(55)</u>	<u>49</u>
At 30 June 2026	<u>129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>363</u>	<u>415</u>	<u>492</u>	<u>415</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2026

	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage 3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
Loans and advances								
At 1 July 2025	3,541	7	-	-	3,517	3,381	7,058	3,388
New assets originated or purchased	1,281	2	-	-	-	-	1,281	2
Asset derecognized or repaid	(980)	(2)	-	-	(34)	(18)	(1,014)	(20)
Transfer to stages	-	-	-	-	-	-	-	-
Changes in risk param- eters	-	-	-	-	-	-	-	-
At 30 June 2026	<u>3,842</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>3,483</u>	<u>3,363</u>	<u>7,325</u>	<u>3,370</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2025

Debt instruments at fair value through other comprehensive income	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage 3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2024	564,824	294	-	-	-	-	564,824	294
New assets originated or purchased	596,874	96	-	-	-	-	596,874	96
Asset derecognized or repaid	(218,126)	(53)	-	-	-	-	(218,126)	(53)
Accrued interest	4,778	-	-	-	-	-	4,778	-
Realised gains	(1,767)	-	-	-	-	-	(1,767)	-
Foreign exchange adjustments	(1,142)	(1)	-	-	-	-	(1,142)	(1)
Changes in risk parameters	-	(47)	-	-	-	-	-	(47)
Fair value changes	(4,963)	-	-	-	-	-	(4,963)	-
At 30 June 2025	<u>940,478</u>	<u>289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>940,478</u>	<u>289</u>
Balances due from banking institutions								
At 1 July 2024	484,526	214	-	-	-	-	484,526	214
Net movement during the year	<u>64,361</u>	<u>(29)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,361</u>	<u>(29)</u>
At 30 June 2025	<u>548,887</u>	<u>185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>548,887</u>	<u>185</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2025

	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage 3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
Securities and advances to banks								
At 1 July 2024	240,124	521	-	-	26,027	25,783	266,151	26,304
New assets originated or purchased	2,308,513	-	-	-	-	-	2,308,513	-
Asset derecognized or repaid	(2,492,260)	-	-	-	-	-	(2,492,260)	-
Accrued interest	470	-	-	-	-	-	470	-
Transfer to stages	-	-	-	-	-	-	-	-
Change in risk parameters	-	-	-	-	-	-	-	-
At 30 June 2025	<u>56,847</u>	<u>521</u>	<u>-</u>	<u>-</u>	<u>26,027</u>	<u>25,783</u>	<u>82,874</u>	<u>26,304</u>
Funds held with IMF								
At 1 July 2024	52,554	4	-	-	-	-	52,554	4
Net movement during the year	<u>(12,986)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,986)</u>	<u>(1)</u>
At 30 June 2025	<u>39,568</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,568</u>	<u>3</u>
Other Assets								
At 1 July 2024	171	27	-	-	326	330	497	357
New assets originated/ purchased	29	-	-	-	21	21	50	21
Asset derecognized or repaid	-	-	-	-	-	-	-	-
Change in risk parameters	-	-	-	-	-	(12)	-	(12)
Transfer to stage 3	-	<u>(27)</u>	-	-	-	<u>27</u>	-	-
At 30 June 2025	<u>200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>347</u>	<u>366</u>	<u>547</u>	<u>366</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2025

	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage 3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
Loans and advances								
At 1 July 2024	3,496	10	-	-	3,576	3,435	7,072	3,445
New assets originated or purchased	1,352	-	-	-	-	-	1,352	(57)
Asset derecognized or repaid	(1,182)	(3)	-	-	(184)	(91)	(1,366)	-
Transfer to stages	(125)	-	-	-	125	37	-	-
Changes in risk parameters	-	-	-	-	-	-	-	-
At 30 June 2025	<u>3,541</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>3,517</u>	<u>3,381</u>	<u>7,058</u>	<u>3,388</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk

The Bank monitors concentrations of credit risk by geographic location and by counterparty type. An analysis of concentrations of credit risk is shown below.

Concentration by geographical location is based on the country of domicile of the issuer of the security. Concentration by counterparty type is based on the nature of the institution such as foreign governments, central banks and supranational institutions.

A segregation of the financial assets by geography is set out below:

Year ended 30 June 2026

	United States of America	Germany	United Kingdom	Singapore	Canada	Kenya	Others	Total
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Balances due from banking institutions	216,562	104,158	266,974	32,398	12,456	14,199	127,609	774,356
Funds held with IMF	70,963	-	-	-	-	-	-	70,963
IMF On-Lent to GOK	-	-	-	-	-	442,602	-	442,602
Securities and advances to banks	-	-	-	-	-	62,254	-	62,254
Loans and advances	-	-	-	-	-	7,325	-	7,325
Debt instruments at fair value through OCI	758,721	101,217	-	-	3,240	-	111,404	974,582
Other assets - Sundry debtors	-	-	-	-	-	492	-	492
Due from Government of Kenya	-	-	-	-	-	200,868	-	200,868
Total financial assets	<u>1,046,246</u>	<u>205,375</u>	<u>266,974</u>	<u>32,398</u>	<u>15,696</u>	<u>727,740</u>	<u>239,013</u>	<u>2,533,442</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

A segregation of the financial assets by geography is set out below:

Year ended 30 June 2025

	United States of America	Germany	United Kingdom	Singapore	Canada	Kenya	Other	Total
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Balances due from banking institutions	111,686	88,732	50,227	46,010	477	9,230	242,525	548,887
Funds held with IMF	39,568	-	-	-	-	-	-	39,568
IMF On-Lent to GOK	-	-	-	-	-	478,582	-	478,582
Securities and advances to banks	-	-	-	-	-	82,874	-	82,874
Loans and advances	-	-	-	-	-	7,058	-	7,058
Debt instruments at fair value through OCI	733,036	71,295	-	-	2,859	-	133,288	940,478
Other assets - Sundry debtors	-	-	-	-	-	547	-	547
Due from Government of Kenya	-	-	-	-	-	165,251	-	165,251
	<u>884,290</u>	<u>160,027</u>	<u>50,227</u>	<u>46,010</u>	<u>3,336</u>	<u>743,542</u>	<u>375,813</u>	<u>2,263,245</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

A segregation of the financial assets by counterparty type is set out below:

Year ended 30 June 2026

	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Funds held with IMF KShs' million	IMF-On Lent to GoK KShs' million	Loans and advances KShs' million	Fixed income securities KShs' million	Due from GOK KShs' million	Other assets KShs' million	Total KShs' million
Central Banks	166,203	-	-	-	-	-	-	-	166,203
Foreign Governments	-	-	-	-	-	801,991	-	-	801,991
Supranational Institutions	41,464	-	70,963	-	-	45,234	-	-	157,661
Commercial Banks	566,689	57,264	-	-	3,319	-	-	-	627,272
Foreign Agencies	-	-	-	-	-	127,162	-	-	127,162
Government of Kenya	-	4,990	-	442,602	-	-	200,868	-	648,460
Others	-	-	-	-	4,006	195	-	492	4,693
	<u>774,356</u>	<u>62,254</u>	<u>70,963</u>	<u>442,602</u>	<u>7,325</u>	<u>974,582</u>	<u>200,868</u>	<u>492</u>	<u>2,533,442</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

A segregation of the financial assets by counterparty type is set out below:

Year ended 30 June 2025

	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Funds held with IMF KShs' million	IMF-On Lent to GoK KShs' million	Loans and advances KShs' million	Fixed income securities KShs' million	Due from GoK KShs' million	Other assets KShs' million	Total KShs' million
Central Banks	61,601	-	-	-	-	-	-	-	61,601
Foreign Governments	-	-	-	-	-	712,809	-	-	712,809
Supranational Institutions	98,894	-	39,568	-	-	113,381	-	-	251,843
Commercial Banks	346,078	77,224	-	-	3,319	-	-	-	426,621
Foreign Agencies	-	-	-	-	-	111,556	-	-	111,556
Government of Kenya	-	5,650	-	478,582	-	-	165,251	-	649,483
Others	<u>42,314</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,739</u>	<u>2,732</u>	<u>-</u>	<u>547</u>	<u>49,332</u>
	<u>548,887</u>	<u>82,874</u>	<u>39,568</u>	<u>478,582</u>	<u>7,058</u>	<u>940,478</u>	<u>165,251</u>	<u>547</u>	<u>2,263,245</u>

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk

The Bank takes on exposure to market risk, which is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rate, currency and equity, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposure to market risk into either trading or non-trading portfolios. Market risk arising from trading and non-trading activities are concentrated in Bank Treasury and are monitored by management with oversight from the Monetary Policy Committee.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with commercial banks or the market.

Non-trading portfolios primarily arise from the interest rate management of the Bank's investment and monetary policy assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's internally managed debt instruments at amortised cost and World Bank RAMP financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's interest rate risk arises from balances due from banking institutions, securities and advances to banks, debt instruments at FVOCI, loans and advances, due from the Government of Kenya, investment by bank and balances due to IMF. Borrowings issued at variable rates expose the Bank to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Bank to fair value interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

The tables below summarise the Bank's financial assets and liabilities and analyses them into the earlier of contractual maturity or re-pricing.

At 30 June 2026	1 – 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Non-interest bearing KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	774,356	-	-	-	-	774,356
Securities and advances to banks	17,480	5,301	38,141	1,332	-	62,254
Debt instruments at FVOCI	61,955	235,169	677,458	-	-	974,582
Funds held with International Monetary Fund (IMF)	-	-	-	70,963	-	70,963
Loans and advances	37	44	940	2,985	3,319	7,325
Other assets	-	-	-	-	492	492
IMF On-lent to GOK	-	-	-	-	442,602	442,602
Due from Government of Kenya	<u>630</u>	<u>91,548</u>	<u>4,440</u>	<u>9,464</u>	<u>94,786</u>	<u>200,868</u>
Total financial assets	<u>854,458</u>	<u>332,062</u>	<u>720,979</u>	<u>84,744</u>	<u>541,199</u>	<u>2,533,442</u>
Liabilities						
Deposits due to banks and government	-	-	-	-	899,075	899,075
Investment by banks	173,197	-	-	-	-	173,197
Other liabilities	-	-	-	-	4,599	4,599
Due to International Monetary Fund (IMF)	<u>833</u>	<u>-</u>	<u>-</u>	<u>197,643</u>	<u>442,602</u>	<u>641,078</u>
Total financial liabilities	<u>174,030</u>	<u>-</u>	<u>-</u>	<u>197,643</u>	<u>1,346,276</u>	<u>1,717,949</u>
Interest sensitivity gap	<u>680,428</u>	<u>332,062</u>	<u>720,979</u>	<u>(112,899)</u>	<u>(805,077)</u>	<u>815,493</u>

As at 30 June 2026, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 608 million (2025: KShs 739 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

At 30 June 2025	1 – 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Non-interest bearing KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	548,887	-	-	-	-	548,887
Securities and advances to banks	33,999	2,952	-	45,923	-	82,874
Debt instruments at FVOCI	118,392	281,438	540,648	-	-	940,478
Funds held with International Monetary Fund (IMF)	-	-	-	39,568	-	39,568
Loans and advances	146	347	1,254	1,992	3,319	7,058
Other assets	-	-	-	-	547	547
IMF On-lent to GOK	-	-	-	-	478,582	478,582
Due from Government of Kenya	<u>67,628</u>	<u>1,110</u>	<u>4,440</u>	<u>10,614</u>	<u>81,459</u>	<u>165,251</u>
Total financial assets	<u>769,052</u>	<u>285,847</u>	<u>546,342</u>	<u>98,097</u>	<u>563,907</u>	<u>2,263,245</u>
Liabilities						
Deposits due to banks and government	-	-	-	-	687,521	687,521
Investment by banks	106,018	-	-	-	-	106,018
Other liabilities	-	-	-	-	7,749	7,749
Due to International Monetary Fund (IMF)	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,358</u>	<u>478,582</u>	<u>678,940</u>
Total financial liabilities	<u>106,018</u>	<u>-</u>	<u>-</u>	<u>200,358</u>	<u>1,173,852</u>	<u>1,480,228</u>
Interest sensitivity gap	<u>663,034</u>	<u>285,847</u>	<u>546,342</u>	<u>(102,261)</u>	<u>(609,945)</u>	<u>783,017</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Monetary Policy Committee sets limits on the level of exposure by currency which is monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 30 June 2026. Included in the table are the Bank's financial instruments categorised by currency:

At 30 June 2026	USD KShs' million	GBP KShs' million	EUR KShs' million	SDR KShs' million	Others KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	443,567	18,590	216,153	-	96,046	774,356
Debt instruments at FVOCI	834,011	-	132,860	-	7,711	974,582
Funds held with International Monetary Fund (IMF)	-	-	-	70,963	-	70,963
Total financial assets	1,277,578	18,590	349,013	70,963	103,757	1,819,901
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	194,793	-	194,793
Deposits due to banks and government	41,328	3,022	49,436	-	891	94,677
Total financial liabilities	41,328	3,022	49,436	194,793	891	289,470
Net position	1,236,250	15,568	299,577	(123,830)	102,866	1,530,431

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Foreign exchange risk (continued)

	USD KShs' million	GBP KShs' million	EUR KShs' million	SDR KShs' million	Others KShs' million	Total KShs' million
At 30 June 2025						
Assets						
Balances due from banking institutions	307,648	34,766	172,853	-	33,620	548,887
Debt instruments at FVOCI	871,789	-	61,336	-	7,353	940,478
Funds held with International Monetary Fund (IMF)	-	-	-	39,568	-	39,568
Total financial assets	1,179,437	34,766	234,189	39,568	40,973	1,528,933
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	196,210	-	196,210
Deposits due to banks and government	30,022	3,607	55,922	-	3,154	92,705
Total financial liabilities	30,022	3,607	55,922	196,210	3,154	288,915
Net position	1,149,415	31,159	178,267	(156,642)	37,819	1,240,018

As at 30 June 2026, if the shilling had weakened/strengthened by 5% against the major currencies with all other variables held constant, the impact on the Bank's surplus and equity would have been:

- USD KShs 61,813 million (2025: KShs 57,471 million)
- British Pound KShs 778 million (2025: KShs 1,558 million)
- Euro KShs 14,979 million (2025: KShs 8,913 million)
- SDR KShs 6,192 million (2025: KShs 7,832 million)

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Bank's liquidity reserve on the basis of expected cash flows.

The table below analyses the Bank's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	On demand KShs' million	0 – 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Total KShs' million
At 30 June 2026						
Deposits due to banks and government	899,075	-	-	-	-	899,075
Due to International Monetary Fund (IMF)	-	1,335	40,199	296,807	302,737	641,078
Lease liability	-	17	52	47	-	116
Other liabilities	-	-	4,492	-	-	4,492
Total financial liabilities at 30 June 2026	<u>899,075</u>	<u>1,352</u>	<u>44,743</u>	<u>296,854</u>	<u>302,737</u>	<u>1,544,761</u>
At 30 June 2025						
Deposits due to banks and government	687,521	-	-	-	-	687,521
Due to International Monetary Fund (IMF)	-	-	31,310	343,998	303,632	678,940
Lease liability	-	13	52	71	-	136
Other liabilities	-	-	7,627	-	-	7,627
Total financial liabilities at 30 June 2025	<u>687,521</u>	<u>13</u>	<u>38,989</u>	<u>344,069</u>	<u>303,632</u>	<u>1,374,224</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

30. FAIR VALUE OF ASSETS AND LIABILITIES

a) Comparison by class of the carrying amount and fair values of the financial instruments

The fair values of fixed income securities, equity investments and securities and advances to banks (rediscounted treasury bonds) are based on price quotations at the reporting date.

Management assessed that the fair value of balances due from banking institutions, funds held with International Monetary Fund, securities and advances to banks (Treasury bills discounted, accrued interest bonds discounted, repo treasury bills & bonds, accrued interest repo and due from commercial banks), other assets (sundry debtors), deposits from government and banks and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair values of the Bank's staff loans and due from Government of Kenya and due to International Monetary Fund are determined by using Discounting Cash Flows (DCF) method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. This is shown in the table below:

	2026		2025	
	Carrying amount	Fair value	Carrying amount	Fair Value
	KShs' million	KShs' million	KShs' million	KShs' million
Financial assets				
Securities and advances to banks (rediscounted treasury bonds)	4,825	4,905	5,469	5,522
Loans and advances	3,955	3,689	3,670	3,371
liquidity support framework	14,656	14,490	18,657	18,809
Due from Government of Kenya	<u>200,868</u>	<u>180,621</u>	<u>165,251</u>	<u>119,134</u>
Financial liabilities				
Due to International Monetary Fund	<u>641,078</u>	<u>589,160</u>	<u>678,940</u>	<u>467,696</u>

b) Fair value hierarchy

The table below shows an analysis of all assets and liabilities measured at fair value in the financial statements or for which fair values are disclosed in the financial statements by level of the fair value hierarchy. These are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments on recognized exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and land and buildings with significant unobservable components.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

30. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

Year ended 30 June 2026	Level 1 KShs' million	Level 2 KShs' million	Level 3 KShs' million
Assets measured at fair value:			
Land and buildings	-	-	24,638
Debt instruments at fair value through other comprehensive income	974,582	-	-
Equity instruments at fair value through other comprehensive income	-	-	171
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	4,905	-	-
Loans and advances	-	3,689	-
Due from Government of Kenya	-	180,621	-
Liquidity support framework	-	-	14,490
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	=	589,160	=
Year ended 30 June 2025	Level 1 KShs' million	Level 2 KShs' million	Level 3 KShs' million
Assets measured at fair value:			
Land and buildings	-	-	23,737
Debt instruments at fair value through other comprehensive income	940,478	-	-
Equity instruments at fair value through other comprehensive income	=	=	12
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	5,522	-	-
Loans and advances	-	3,371	-
Due from Government of Kenya	-	119,134	-
Liquidity support framework	=	=	18,809
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	=	467,696	=

There were no transfers between levels 1, 2 and 3 in the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

30. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

The Bank's land and buildings were revalued in June 2026.

Description of valuation techniques used and key inputs to valuation of assets and liabilities

LEVEL 2	Valuation technique	Significant observable inputs	Range (weighted average) Interest rate
Loans and advances	DCF	Interest rate	10%-13%
Due from Government of Kenya	DCF	Interest rate	3% (SDR allocation and GOK loan)
Due to IMF	DCF	Interest rate	3%
Liquidity support framework	DCF	Interest rate	3%

LEVEL 3

Land and buildings	comparable / cost approach	comparable sales of properties similar to CBK properties.	-
Equity instruments at fair value through other comprehensive income	DCF	Incomparable market data.	

Reconciliation of the opening balances to the closing balances of the fair values of property and equipment: -

	1 July 2025	Additions/ Capitalization/ Disposal/ Reclassification	Change in Fair value	Depreciation charge to profit or loss/ depreciation on disposal	30 June 2026
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Freehold land and buildings	18,821	(750)	1,047	(822)	18,296
Leasehold land and buildings	<u>4,916</u>	<u>959</u>	<u>637</u>	<u>(170)</u>	<u>6,342</u>
	<u>23,737</u>	<u>209</u>	<u>1,684</u>	<u>(992)</u>	<u>24,638</u>

The significant unobservable inputs used in the fair value measurement of the Bank's land and buildings are price per acre and estimated rental value per sqm per month and depreciated replacement cost. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower/ (higher) fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2026

31. CONTINGENT LIABILITIES AND COMMITMENTS

The Bank is party to various legal proceedings. Based on legal advice, the directors believe that no loss will arise from these legal proceedings.

At 30 June 2026, the Bank had capital commitments of KShs 11,426 million (2025: KShs 7,846 million) in respect of property and equipment purchases.

Operating leases - Bank as a lessee

All the commitments relate to future rent payable for various premises based on the existing contracts and projected renewals. The lease agreements are between the Bank and the landlords and have no provisions relating to contingent rent payable. The terms of renewal vary from one lease to another and may include a written notice to the lessors before the expiration of the leases and the lessors will grant to the lessee new leases of the said premises/properties for a further term as may be mutually agreed by the parties.

The escalation rate varies from property to property and is factored into the operating lease commitment values presented above.

Operating leases - Bank as a lessor

The Bank has entered into operating leases on its land and buildings consisting of certain office buildings. These leases have terms of between one and fifteen years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Bank during the year is KShs 65 million (2025: KShs 44 million).

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	2026 KShs' million	2025 KShs' million
Within one year	28	29
After one year but not more than five years	83	99
More than five years	<u>75</u>	<u>87</u>
	<u>186</u>	<u>215</u>

32. SUBSEQUENT EVENTS

There have been no material events or transactions between 30 June 2026 and the date of approval of these financial statements that would have a material effect and would require adjustment of, or disclosures in the financial statements for the year ended 30 June 2026 in accordance with IAS 10-Events after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

33. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

Year ended 30 June 2026	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	774,173	-	774,173
Funds held with International Monetary Fund (IMF)	70,958	-	70,958
Securities and advances to banks	22,971	13,169	36,140
Loans and advances	81	3,874	3,955
Debt instruments at fair value through other comprehensive income	297,124	677,458	974,582
Equity instruments at fair value through other comprehensive income	-	171	171
Other assets	9,475	-	9,475
Gold holdings	-	230	230
Right-of-use asset	-	107	107
Property and equipment	-	29,370	29,370
Intangible assets	-	3,842	3,842
Retirement benefit assets	-	8,318	8,318
IMF Funds On – Lent to GOK	-	442,602	442,602
Due from Government of Kenya	<u>108,568</u>	<u>92,300</u>	<u>200,868</u>
TOTAL ASSETS	<u>1,283,350</u>	<u>1,271,441</u>	<u>2,554,791</u>
LIABILITIES			
Currency in circulation	-	400,902	400,902
Deposits due to banks and government	899,075	-	899,075
Investment by banks	173,197	-	173,197
Due to IMF	-	641,078	641,078
Other liabilities	<u>4,599</u>	<u>-</u>	<u>4,599</u>
TOTAL LIABILITIES	<u>1,076,871</u>	<u>1,041,980</u>	<u>2,118,851</u>
NET ASSETS	<u>206,479</u>	<u>229,461</u>	<u>435,940</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2026

33. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

Year ended 30 June 2025	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	548,702	-	548,702
Funds held with International Monetary Fund (IMF)	39,565	-	39,565
Securities and advances to banks	36,951	19,619	56,570
Loans and advances	493	3,177	3,670
Debt instruments at fair value through other comprehensive income	399,830	540,648	940,478
Equity instruments at fair value through other comprehensive income	-	12	12
Other assets	6,822	-	6,822
Gold holdings	-	238	238
Right-of-use asset	-	125	125
Property and equipment	-	28,587	28,587
Intangible assets	-	3,942	3,942
Retirement benefit assets	-	7,258	7,258
IMF Funds On – Lent to GOK	-	478,582	478,582
Due from Government of Kenya	68,738	96,513	165,251
TOTAL ASSETS	<u>1,101,101</u>	<u>1,178,701</u>	<u>2,279,802</u>
LIABILITIES			
Currency in circulation	-	357,015	357,015
Deposits due to banks and government	687,521	-	687,521
Investment by banks	106,018	-	106,018
Due to IMF	-	678,940	678,940
Other liabilities	7,749	-	7,749
TOTAL LIABILITIES	<u>801,288</u>	<u>1,035,955</u>	<u>1,837,243</u>
NET ASSETS	<u>299,813</u>	<u>142,746</u>	<u>442,559</u>



Central Bank of Kenya

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