Central Bank of Kenya

Kenya Financial Sector Stability Report

"Navigating the Global Uncertainties, Sovereign-Financial Sector Nexus, and Emerging Risks to Financial Stability"

October, 2026



ABOUT THE FINANCIAL STABILITY REPORT

The Kenya Financial Stability Reports provide an assessment of the country's financial system stability by the Financial Sector Regulators in compliance with the Central Bank of Kenya Act, Section 4(2) and the Financial Sector Regulators Memorandum of Understanding (MOU) of 2009 (Revised in 2023). Maintaining and safeguarding financial system stability is vital in fostering the development of a vibrant, sound and stable, and inclusive financial sector that enables Kenya meet her national development goals in a sustainable manner. The Financial Sector Regulators Forum (FSRF) established vide the MOU provides a mechanism for collaboration and cooperation in information sharing, prudential supervision, financial stability and financial inclusion issues, among other areas of mutual interests. The Forum's members are; the Capital Markets Authority (CMA), Central Bank of Kenya (CBK), Insurance Regulatory Authority (IRA), Retirement Benefits Authority (RBA) and Sacco Societies Regulatory Authority (SASRA). The National Treasury and Planning, Department of Cooperative Development, Kenya Deposit Insurance Corporation (KDIC) and Policyholders Compensation Fund (IPCF) are Associate Members of the Forum. The information contained in this annual publication may be reproduced without restrictions provided due acknowledgement is made of the source. Any enquiries concerning the Kenya Financial Stability Reports should be addressed to: –

www.cma.or.ke	www.centralbank.go.ke	www.ira.go.ke	www.rba.go.ke	www.sasra.go.ke
The Director Regulatory Policy Strategy Capital Markets Authority Embankment Plaza, Longonot Road, off Kilimanjaro Avenue, Upper hill P.O Box 74800 - 00200 NAIROBI, KENYA Tel: +254 20 2264000/ 2264900 / 2221869 Cell: +254 722 207 767 E-mail:corporate@cma.or.ke	The Director Research Department Central Bank of Kenya Haile Selassie Avenue P.O Box 60000 – 00200 NAIROBI, KENYA Tel: +254 20 286 1000, +254 20 286 32000, +254 709 081 000, +254 709 083 000 E-mail: researchstat@centralbank.go.ke	The Chief Manager Policy Research & Development Insurance Regulatory Authority Zep-Re Place, Longonot Road P.O Box 43505-0100 NAIROBI, KENYA Tel: +254 20-4996000/ Toll Free No: 0800724499 E-mail:commins@ira.go.ke	The Chief Manager Research and Strategy Department Retirement Benefits Authority Rahimtullah Tower, Upper Hill Road P.O Box 57733 - 00200 NAIROBI, KENYA Tel: +254 20 2809000 Toll Free No: 0800720300 E-mail:info@rba.go.ke	The Chief Manager Research & Policy Department Sacco Societies Regulatory Authority UAP Old Mutual Tower, Upper Hill Road, Upper Hill P.O Box 25089-00100 NAIROBI, KENYA Tel: +254 20 2935101 E-mail: info@sasra.go.ke
Director-Deposit Insurance and Bank Surveillance Kenya Deposit Insurance Corporation. 17th Floor UAP Old Mutual Towers, Upper hill Cell: +254 709 043 000 E-mail: corporate@cma.or.ke	Director Corporate Service KWFT Center, 6th Floor Masaba Road, Upper Hill P.o. Box 24203-00100, Nairobi, Kenya. Tel: +254 794 582 700 Email: info@pcf.go.ke			

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EXECUTIVE SUMMARY

This 2025 Financial Stability Report provides an assessment of developments and risks that Kenya's economy and financial sector faced in 2025 and first half of 2026. Globally, the uncertainties have increased due to trade disruptions, wars in the Middle East and between Russia and Ukraine. However, monetary policy easing which reduced cost of funds and technological innovation mainly driven by digitalisation and artificial intelligence improved efficiency and sustained growth in 2025. The global financial system benefited from digitalisation and application of artificial intelligence to provide new products and services. However, digitalisation and artificial intelligence, has elevated cyber threats leading to financial losses. The cyber risks were also accentuated by the transnational nature of the cybercrimes and use of virtual assets.

The developing and emerging economies were resilient in 2025 and 2026 to reduction in spending from advanced countries and elevated prices due to disruption in supply as result of wars in the Middles East and between Russia and Ukraine. Additionally financial systems in Africa were resilient to shocks in 2025 and 2026, on account of strong capital and liquidity buffers as reflected in the improvement in the African Financial Stability Index. The integration of financial systems in Africa increase the ease with which shocks in one jurisdiction spread other jurisdiction. Furthermore, cyber threats and penetration of virtual assets have elevated crossborder vulnerabilities. However, collaboration between Kenya, East Africa Community, Common Market for Eastern and Southern Africa continental global bodies have enhanced risks assessment and mitigation.

Domestically, Kenya's economy was resilient to domestic and global shocks, expanding by 4.6 percent in 2025 compared to 4.9 percent in 2024. This was attributed to moderation in the real estate, information and communication, construction, and agricultural sectors. Nonetheless, financial and insurance services, transport and storage, wholesale and retail trade, accommodation and food services, and mining and quarrying sectors recorded growth.

The domestic economic is projected to expand by 5.0 percent in 2026 on improved agricultural sector performance, recovery in credit to private sector and implementation of major infrastructure projects. The downside risks to this outlook are the wars in the Middle East and between Russia and Ukraine, El Nino, drought and tightening global financial conditions. El nino followed by drought and escalation of the conflicts in the middle east and between Russia and Ukraine could further disrupt global supply chains and increase the prices thereby raising production costs, exacerbate inflationary pressures, and the current account deficit. This could increase public spending to mitigate adverse impact of the disruptions on households and firms as well as reduce public revenues. Increased public spending amid reduction in public revenues could undermine fiscal consolidation and elevate public debt. The disruption may also worsen financial conditions for households and firms, with implications on financial stability.

The tightening global financial conditions could increase external borrowing costs, constrain capital inflows, and heighten exchange rate and refinancing risks. These developments could moderate credit growth,

and increase credit risk, posing downside risks to financial sector stability. The financial system remained sound, stable, and resilient in 2025 to heightened external shocks, elevated credit risk, and increasing cyber threats. The banking sector maintained adequate capital and liquidity buffers, supported by strong profitability and improved asset quality.

The improvement in asset quality in 2025 and the first half of 2026, was supported by new lending and repayments. However, cyber-attacks remained an area of concerns, especially in the retail payments space and customers. The microfinance banks recorded an improvement in losses, but remained thinly capitalised in 2025 compared to 2024.

In the non-bank financial institutions, the capital markets recorded a strong recovery in 2025 and first half of 2026, underpinned by improved investor confidence, favourable macroeconomic conditions, easing domestic financial conditions, and continued regulatory reforms. All the leading market indicators recorded strong performance, during the period. The period also recorded resurgence in corporate bonds issuance since 2022, with a total of five companies (Linzi, Safaricom, EABL, I&M Bank and KMRC) raising KSh 97.45 billion between July 2025 and May 2026, the highest amount since inception of fixed income segment of the NSE. The risks to the capital markets include market concentration, foreign investor outflows, cybersecurity risks, and heightened global uncertainty.

The insurance sector remained resilient during the review period, reflected by strong growth in gross premiums, improved profitability, and robust asset base. Gross insurance premiums increased to KSh 464.72 billion, driven primarily by the long-term insurance business, while total industry assets expanded by 17.2 percent to KSh 1.47 trillion. The sector however remained vulnerable to persistent underwriting losses in the motor and medical insurance classes, high concentration of investments in government securities, reinsurance concentration risk, and increasing climate-related risks from frequent extreme weather events. In addition, liquidity constraints associated with shallow domestic capital markets could affect investment and returns on investment, while heightened geopolitical uncertainties could adversely affect investment insurance claims, and the availability and cost of reinsurance. Therefore, strengthening of underwriting framework, investment diversification, effective climate risk management, and supervisory oversight remains critical to safeguarding the resilience and stability of the insurance sector.

The Saccos sector improved in 2025 despite increase in the cost of living, which reduced disposable income used for saving and loan repayment. The dividend payout averaged 10 percent, while NPLs declined by 6.1 percent in 2024 to 5.2 percent in 2025. The sector also had strong capital and liquidity buffers against shocks. However, failure and subsequent placement of KUSCO, a National Apex Organization for Kenya's Co-operative Movement, in liquidation, posed systemic risks to the sector.

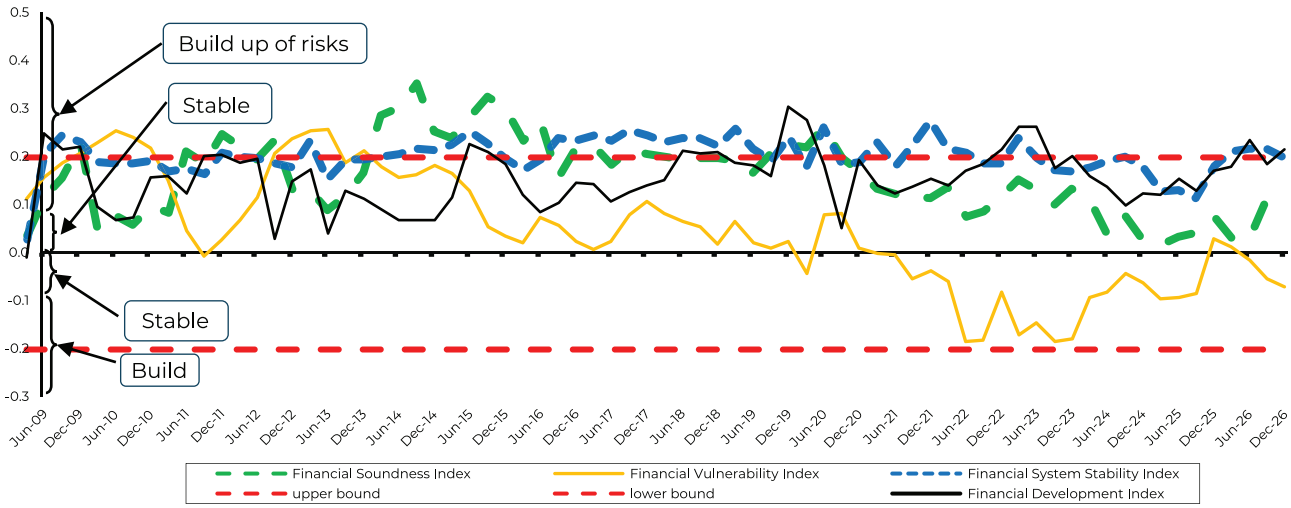
The Financial Markets Infrastructure continue to play its vital facilitative role, ensuring that payments and settlements were successfully concluded efficiently and effectively. The integration of the Dhow CSD with Clearstream and mobile money continue to enhance access and efficiency in the purchase and sell of securities in both primary and secondary

markets. The integration the Dhow CSD with payments and banking systems is expected to contribute to financial sector deepening, inclusion and stability. The enactment of the business amendment laws and virtual Assets and virtual assets providers act as well as the regulatory measures to enhance capital and liquidity as expected to enhance stability of the financial sector and safety of financial products and services.

Overall Financial System Stability

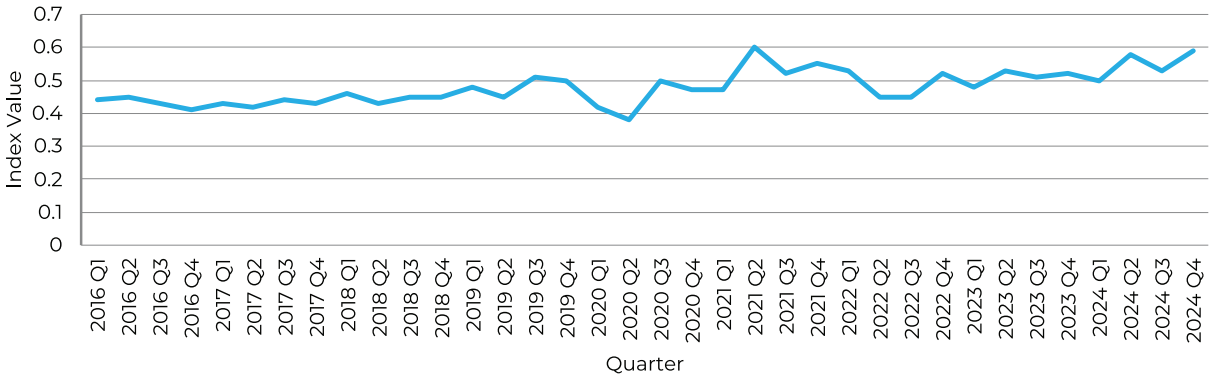
The Financial System remains stable as indicated by the financial system stability index, on account of strong capital and liquidity buffers and deepening financial markets. However, financial vulnerabilities are elevated due to increase in public debt, rising energy prices attributed to supply chain disruptions caused by the protracted wars in the Middle East and in Russia-Ukraine region. middle east, Russian and Ukraine.

Figure i: Kenya Financial System Stability Index



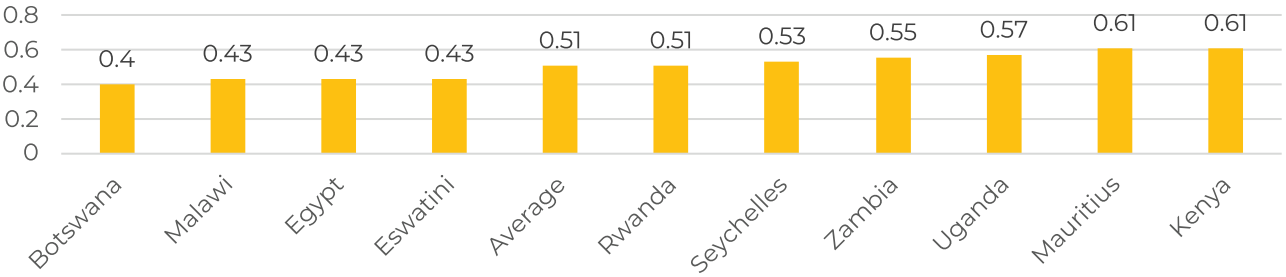
Source: *CBK*

Figure ii: Africa financial Stability Index



Source: *Africa Financial Stability Report 2024*

Figure iii: Financial Stability Index (FSI) at the Country Level in 2024 (Year Average)



Source: *Africa Financial Stability Report 2024*

Table i: Macrofinacial Indicators

Overall, macrofinancial conditions in Kenya remained resilient, supported by improvements in economic performance and financial sector resilience, although persistent vulnerabilities continued to pose risks to financial stability.

	2020	2021	2022	2023	2024	2025
Macro Economic Indicators						
Real GDP Growth	-0.3	▲ 7.6	▼ 4.8	▲ 5.6	▼ 4.7	▲ 4.6
Headline inflation	5.6	▼ 5.7	▲ 9.1	▼ 6.6	▼ 3.0	▼ 4.5
Debt/GDP	67.9	▲ 68.2	▼ 67.8	▲ 74.1	▼ 67.3	▼ 69.9
KES/USD	110.6	▲ 112.9	▲ 125.5	▲ 154.1	▼ 129.3	▲ 129.0
Average t bill rates	6.9	▲ 7.3	▲ 9.3	▲ 15.7	▼ 10.3	▼ 9.3
10 year yield	10.5	▼ 9.9	▲ 11.7	▲ 16.9	▼ 12.6	▲ 13.6
Public Sector Credit growth	38.8	▼ 30.3	▼ 12.2	▼ 11.1	▼ 4.5	▲ 12.7
Private Sector Credit growth	8.4	▲ 31.3	▼ 12.3	▲ 13.5	▼ 0.9	▲ 7.3
Lending Rate	12.0	▲ 12.2	▲ 12.7	▲ 14.6	▲ 16.9	▼ 14.8
Capital Markets Indicators						
NASI	152.1	▲ 166.5	▼ 127.5	▼ 92.1	▲ 123.5	▲ 186.6
Net Foreign Investor participation to total equity turnover	64.7	▼ 57.1	▼ 54.2	▼ 48.9	▲ 50.9	▼ 42.6
Liquidity	6.4	▼ 5.3	▼ 4.9	▲ 5.6	▼ 5.3	▼ 3.9
Bond index					1107.4	▲ 1,965.2
Bonds turnover ratio	2.3	▼ 1.6	▼ 1.3	▼ 1.1	▲ 2.3	▲ 4.5
Banking Indicators						
Capital Adequacy ratio*	19.0	▲ 19.5	▼ 18.9	▼ 18.6	▲ 19.6	▲ 20.6
Liquidity ratio*	54.6	▲ 56.2	▼ 50.8	▲ 51.0	▲ 55.8	▲ 59.3
NPLs Ratio	14.1	▼ 13.1	▲ 13.3	▲ 15.6	▲ 17.1	▼ 16.0
Return on Assets	2.1	▲ 3.3	▲ 3.7	▼ 2.9	▲ 3.4	▲ 3.7
Return on Equity	13.9	▲ 22.0	▲ 26.2	▼ 22.4	▼ 22.0	▼ 21.8
Deposit Growth	13.2	▼ 10.4	▼ 6.5	▲ 22.9	▼ -1.3	▲ 11.6
Insurance						
Combined ratio	101.3	▲ 106.2	▼ 103.3	▲ 103.9	▲ 107.5	▼ 104.6
Pensions						
Overall risk core	3.2	▼ 3.0	▼ 3.0	▼ 2.9	▼ 3.0	▼ 2.7
SACCO Indicators						
Deposit growth	13.1	▼ 9.8	▲ 10.4	▲ 29.7	▼ 10.7	▲ 11.0
Growth in NPLs	26.9	▼ 7.6	▲ 36.8	▼ -8.3	▲ 19.7	▼ 9.9
KDIC Indicators						
Coverage ratio	18.2	▲ 21.7	▲ 24.0	▲ 24.4	▲ 30.3	▲ 33.3
Payment Systems Indicators						
Growth in KEPSS value of transactions	1.7	▲ 4.7	▲ 10.1	▲ 19.4	▼ -0.4	▲ 2.3

* Regulatory minimum 14.5 percent

Improvement Worsening

Source: *CBK, CMA, SASRA, KDIC, IRA and RBA*

Measures Towards Implementing Macroprudential Policy and Surveillance

To align Kenya's financial system risks assessment to global best practices, the Central Bank established the Financial Stability Committee in March 2025 to formulate and implement financial sector policies that fall under the realm of the CBK. This was informed by the fact that financial institutions are increasingly becoming highly interconnected and complex, with cross-border and cross-sector operations and relationships. The Committee meets quarterly to assess domestic and global risks with systemic importance to the financial sector.

Key milestones for the Committee are enhancement of stress testing framework to capture dynamic risks and multiple shocks, adoption of financial system stability index, spearheading amendments to the CBK Act to anchor the emergency liquidity assistance in law, thus distinguishing loans and advances to banks for monetary policy from financial stability.

The Emergency Liquidity Assistance is expected to be operationalised by the end of 2026. The Committee also played a key role in establishment of Cybersecurity Operations Centres and tools to capture cyber vulnerabilities and cyber attacks to mitigate cyber risks in the financial sector.

The use of emerging technologies has brought efficiency gains and lowered transactions costs, but have come with risks. In particular, the use of machine learning and artificial intelligence in the sector, shared services, and third party technology service providers, have elevated concentration risks, cyberthreats and AML/CFT vulnerabilities. Rising cases of cyberfraud, scams through social engineering and phishing, misinformation and disinformation about financial products and institutions using artificial intelligence, pose real risks to the financial sector stability. However, the FSC has enhanced the assessment of risks associated with digitalisation, surveillance on third party services providers, cyber threats and issued and enforced third party guidelines, which have mitigated vendor concentration and cyber risks.

The FSC also continues to create awareness stem fraud through social engineering and to take action against developers of artificially generated content to misinform the public about financial institutions and products, to ensure integrity and stability of the financial sector.

Other areas being considered include climate change related risks, impact of global policy changes on domestic financial sector, as well global and domestic macroeconomic developments.

The CBK continues to enhance legal framework, institutional and analytical capacities for effective systemic risk surveillance of existing and emerging risks and aim to strengthen collaboration with other regulators and key players in the sector, especially with expected legal reforms

1. ECONOMIC AND FINANCIAL CONDITIONS

1.1 Global Conditions and Risks

The global economy is projected to moderate to 3.1 percent in 2026 compared to a growth of 3.4 percent in 2025, largely on account of Middle East war that disrupted flow of oil and other essential commodities, high energy prices, trade tensions, rising inflation, tighter financial conditions, and increased geopolitical uncertainty (WEO April 2026). Some countries have responded to trade wars with the U.S by either imposing reciprocal tariffs or non-tariff barriers not only on USA goods and services but also to other trading partners. The protectionist measures and the uncertainty in trade policy is expected to impact negatively on global trade and investment, with developing countries most affected.

The global financial markets were less volatile in 2025, but the global volatility Index rose from 14 percent at the end of 2025 to above 30 percent in March 2026 following the escalation of the Middle East conflict.

Trade disruptions and lengthy wars in the Middle East and the Russia-Ukraine, poses external vulnerabilities to Kenya's economy with passthrough to the domestic financial sector through decline in exports revenues, remittances and higher import bills. The situation could be worsened with fiscal consolidation measures among major economies as governments try to restore debt sustainability and rebuild fiscal buffers following the substantial increase in public debt and fiscal deficits during the COVID-19 pandemic. The rising debt servicing costs and demographic pressures in advanced economies have increased fiscal pressures, leading to reduction in funding of projects in developing and low income countries including Kenya.

Policy uncertainty, trade tensions, and geoeconomic fragmentation continue to impact the economy with implications for financial stability. Rising tariffs, non-tariff barriers,, and other trade restrictions reduce market access, weaken global value chains, and increase uncertainty for export-oriented firms. Lower export earnings and weaker labour market conditions can reduce household incomes and corporate profitability, adversely affecting borrowers' capacity to service debt, hence increased credit risk to the financial system. Trade policy uncertainty may also discourage private investment and delay business expansion, further weighing on economic activity.

The economies in the East African Community (EAC) remained resilient despite heightened geopolitical tensions, limited fiscal space, and slower private sector credit growth. Nevertheless, economic growth moderated to 5.3 percent in 2025 from 5.5 percent in 2024 reflecting weaker external demand, tighter global financial conditions, and elevated geopolitical uncertainty. Growth is projected to recover to 5.7 percent in 2026, supported by continued infrastructure investment, resilient domestic demand, and a recovery in agricultural output. Nevertheless, the outlook remains subject to downside risks arising from heightened geopolitical tensions, global policy uncertainty, elevated energy and shipping costs, tighter global financial conditions, constrained fiscal space and climate change risk.

The financial sector remained resilient in 2025 and first half of 2026 supported by robust growth and regulatory measures, which enhanced the capacity of financial institutions to withstand shocks. The assets

of the banking sector grew by an average of 10.2 percent between 2024 and 2025, liquidity and core capital adequacy ratios stood at an average of 18.2 and 32.1 percent, way above the regulatory minimum of 10.5 percent. Assets quality improved, with the ratio of NPLs declining from an average of 6.2 percent in December 2024 to 4.0 percent in December 2025 indicating easing credit risk. In addition, the regional stress test results indicate that the banking sector in the EAC is resilient to credit and exchange rate risks in the moderate scenarios.

Overall, policymakers face the challenge of striking a balance between restoring price stability, safeguarding debt sustainability, and supporting economic growth without compromising financial stability. Monetary policy should contain inflation sustainably within the target range while avoiding unnecessary tightening of financial conditions. At the same time, credible fiscal consolidation is necessary to rebuild fiscal buffers and place public debt on a sustainable path. This adjustment should be carefully sequenced to avoid excessively procyclical tightening, protecting productive public investment and preserving targeted, temporary support for vulnerable households and viable firms experiencing decline in earning, affected by energy and fertilizer price shocks due to disruptions in export and import induce by geopolitical conflicts.

A stable macroeconomic environment would strengthen investor confidence, support external demand, and enhance the resilience of the financial sector. Nevertheless, EAC economies remain vulnerable to tighter global financial conditions, elevated sovereign debt vulnerabilities, heightened geopolitical tensions, trade policy uncertainty, climate change and cyber security risk. Compounding this, tighter fiscal positions and declining concessional financing in advanced economies have reduced the external fiscal support available to many developing countries, underscoring the need to strengthen domestic resource mobilisation, improve public expenditure efficiency, and reduce reliance on external grants.

1.2 Domestic Economic Conditions and Risks

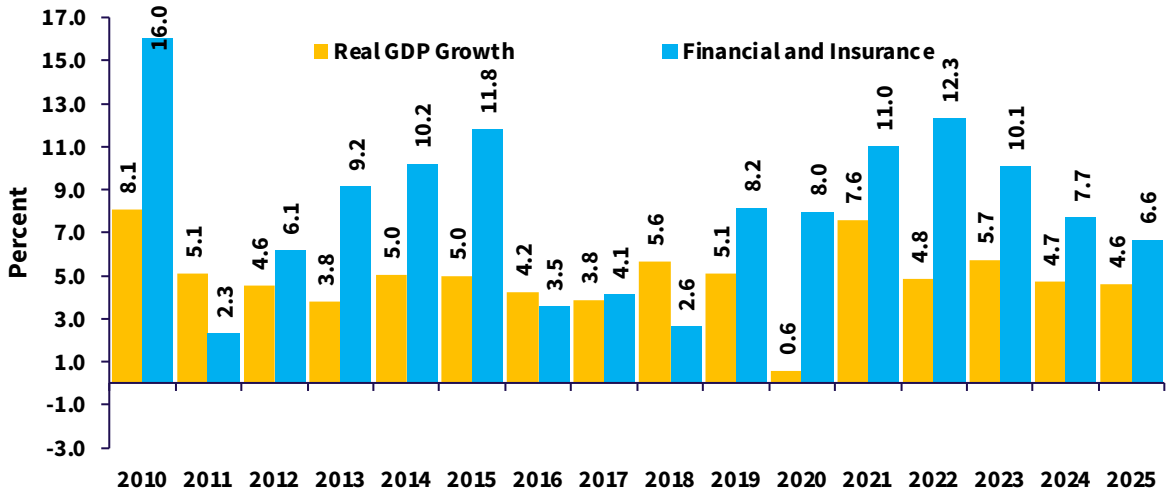
The domestic economy moderated to 4.6 percent in 2025, from 4.7 percent in 2024, reflecting a modest moderation in economic activity. This was attributed to weaker performance in the real estate, information and communication, construction, and agricultural sectors. Nonetheless, growth remained broad-based, supported by resilient performance in financial and insurance services, transport and storage, wholesale and retail trade, accommodation and food services, and mining and quarrying.

The resilient growth, easing monetary policy and robust lending to private sector supported domestic demand, which boosted economic activities and strengthened the financial sector **(Figure 1)**. As a result, a positive output gap of about 0.5 percent of GDP was recorded in 2025.

Kenya's economy strengthened in the second quarter of 2026, with real GDP growth increasing to 5.1 percent from 4.9 percent in the corresponding quarter of 2025. The improved performance was mainly supported by the services sector and selected industrial subsectors, particularly information and communication, transport and storage, finance and insurance, and manufacturing. However,

below-average rainfall slowed agricultural growth, while growth in construction, mining and quarrying, and accommodation and food services moderated. These developments present mixed implications for financial stability, with sectoral vulnerabilities potentially affecting borrowers' repayment capacity, asset quality, and the resilience of financial institutions Kenya's economy is projected to remain resilient, with real GDP growth projected at 5.1 and 5.3 percent in 2026 and 2027, due to macroeconomic stability, digitalisation and adoption of artificial intelligence and machine learning in the production and distribution process. The downside risk to the projected growth are elevated commodity prices due to disruptions in the supply of energy and fertilizer due to Russian -Ukraine and Middle East wars. The war is also disrupoting Kenya's exports market in the Middle East, increasing cost of travel and shipping, and impacting remittances sources. In addition, delays in monetary policy easing and elevated public debt are expected to tighten financing conditions in Kenya.

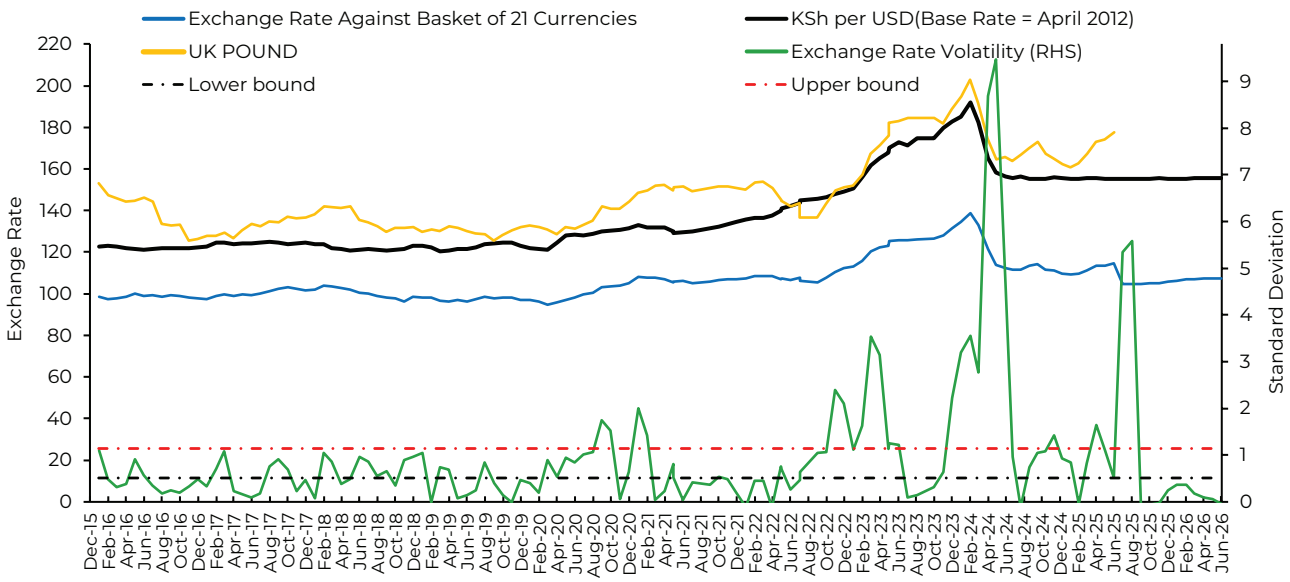
Figure 1: Kenya's Real GDP Growth



Source: staff computation

A balanced monetary policy implementation contributed to maintaining inflation and exchange rate stability. However, in 2026, inflation increased by about 4 percentage points 2026 over and above the 2025 level due to increase in energy prices and supply chain disruptions. The Kenya Shilling remained stable against regional and international currencies on account of pause in monetary policy tightening in advanced economies, steady inflow of diaspora remittances, narrowing current account deficit, financial markets reforms, and strong foreign reserves. In addition, the prudent and well-coordinated fiscal and monetary policies reduced volatility in exchange rate, which enabled the efficient functioning of the foreign exchange market. The exchange rate was resilient to large purchases and sales, with net open position averaging within USD ±50 in 2025 (**Figure 2**).

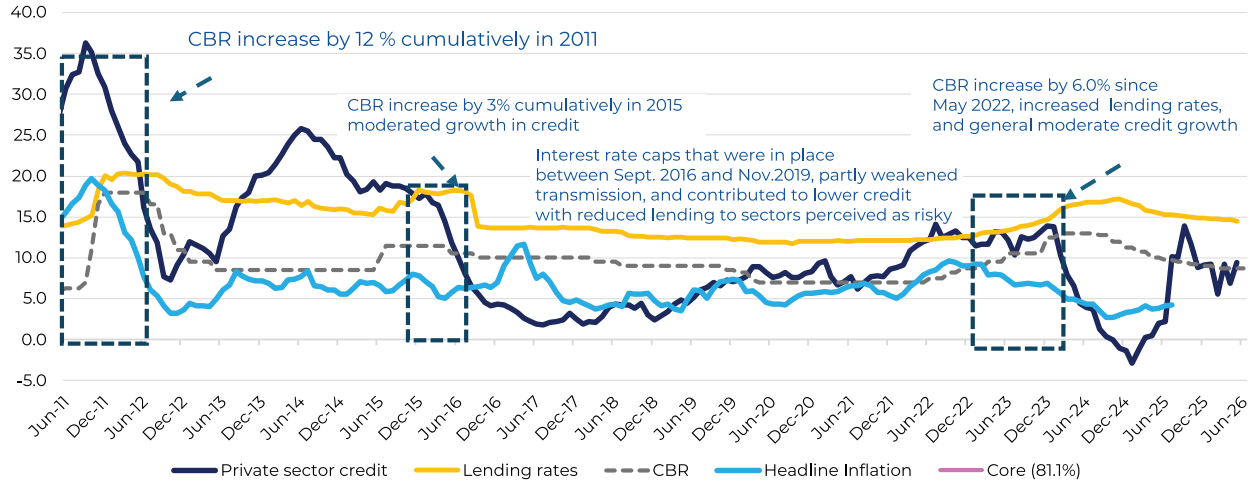
Figure 2: Kenya Shilling Exchange Rate



Source: Staff Computations

In Among the key policy reforms supportive of the stability in the exchange rate was the operationalisation of the Kenya Shilling Overnight Interbank Average (KESONIA) in 2025. KESONIA is the domestic overnight risk-free reference rate, which is based on actual unsecured overnight interbank transactions. The pricing of loans using KESONIA enhances transparency in money market pricing, supports the development of domestic financial markets, and provides a robust benchmark for pricing financial products and strengthening monetary policy implementation. This has ensured that the wide swings in the exchange rate pricing are minimised

Figure 3: Trends in Annual Growth in PSC, Lending Rates and CBR (Percent)



Source: CBK

The risk-based credit pricing model with KESONIA as the risk-free rate and premium k for risks strengthened monetary policy implementation and transmission. The transition to a price-based monetary policy framework anchored on the CBR, and supported by an active interbank market, enhanced the CBK's ability to influence short-term market interest rates.

Adoption of the overnight interbank rate as the operational target and alignment of liquidity management operations with policy objectives have strengthened the transmission of monetary policy signals through the financial system. The CBK introduced a new monetary policy implementation framework in August 2023, establishing an interest rate corridor of ±250 basis points around the Central Bank Rate (CBR) and reducing the applicable Discount Window interest rate from 600 to 400 basis points above the CBR. In June 2024, the corridor was narrowed from ±250 to ±150 basis points, while the Discount Window rate was reduced from 400 to 300 basis points above the CBR. In April 2025, the corridor was narrowed further to ±75 basis points, and the Discount Window rate was reduced to 75 basis points above the CBR. Most recently, in April 2026, the corridor was narrowed to ±50 basis points, while the Discount Window rate was reduced from 75 to 50 basis points above the CBR, aligning it with the upper bound of the corridor.

These successive adjustments have supported closer alignment of money market rates with the policy rate, improved the functioning of the interbank market and strengthened the predictability and effectiveness of monetary policy actions in support of the CBK's price stability mandate.

These reforms also contributed to the deepening and modernization of money markets. The expansion of horizontal repurchase agreements (repos), improvements in liquidity forecasting, and adoption of the Kenya Shilling Overnight Index Average (KESONIA) strengthened liquidity redistribution within the banking system and reduced reliance on unsecured interbank transactions. The development of collateralized money market instruments enhanced market resilience by reducing counterparty risk and promoting more efficient allocation of liquidity among financial institutions. As a result, the money market increasingly evolved into a reliable mechanism for transmitting monetary policy signals and managing liquidity conditions across the financial system, thus contributing to overall financial stability.

The financial market reforms have also led to significant narrowing of spreads in the interbank market, reflecting improved price discovery, enhanced liquidity distribution, and increased confidence among market participants. The narrower spreads not only reflect improved market efficiency, but they also lower transaction costs, reduced information asymmetries, and diminished perceptions of counterparty risk. This is a critical indicator of financial stability as markets are experiencing low liquidity stress and face limited market fragmentation implying effectiveredistribution of liquidity within the banking system.

The reforms in the interbank market, alongside the easing of monetary policy, supported the recovery in private sector credit. Private sector credit recorded annual growth of 9.1 percent in the year to December 2025, an increase of 8.2 percentage points from the growth rate recorded in the corresponding period of 2024 **(Table 1)**. The easing of monetary policy supported credit expansion by reducing financing costs and improving borrowing conditions, while reforms to the interbank

market strengthened the transmission of monetary policy signals and the management of liquidity in the banking system. The main sectors driving the acceleration in credit growth in 2025 were mining and quarrying, building and construction, and agriculture. Nevertheless, credit remained concentrated in manufacturing, trade and households, which together accounted for 54.4 percent of private sector credit. This concentration exposes lenders to shocks arising from a slowdown in economic activity, changes in trade policies, and geopolitical developments that disrupt trade and remittance flows, potentially weakening borrowers' repayment capacity and increasing credit risk.

Table 1: Annual Growth in Credit to Private Sector (Percent)

Sectors	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	May-26	Jun-26
Agriculture	22.3	14.9	19.4	15.5	22.5	15.9	8.6	5.9	1.1	8.5	9.7	11.9	31.8	25.4	29.5	35.2
Manufacturing	13.8	15.8	18.0	22.0	20.8	9.5	(0.5)	(14.3)	(12.1)	(5.4)	3.0	11.1	6.1	3.8	(6.7)	(5.2)
Trade	11.4	11.9	9.2	6.7	12.5	5.7	3.0	5.9	0.3	6.2	7.3	3.9	8.5	7.6	19.7	19.7
Building & construction	8.2	5.8	3.8	8.1	8.7	0.6	(7.5)	(13.6)	(13.9)	11.6	21.7	51.1	47.7	28.6	24.0	13.0
Transport & communication	23.5	17.4	19.6	18.3	20.5	6.7	4.3	1.4	(4.0)	5.7	(2.6)	(1.3)	(4.8)	(10.6)	(8.8)	(2.7)
Finance and insurance	7.6	28.4	29.9	40.7	60.1	12.9	3.2	0.4	(24.7)	(18.0)	(7.1)	(1.3)	16.7	25.1	23.0	26.4
Real estate	3.2	2.3	3.4	7.2	6.8	4.9	3.4	2.2	(1.3)	3.1	1.0	0.7	3.2	(0.3)	(1.1)	(2.8)
Mining & quarrying	31.3	83.2	24.5	21.1	15.0	34.0	110.0	95.2	(28.5)	(43.8)	(47.3)	(56.2)	52.2	90.8	30.2	57.2
Private households	8.2	7.2	10.9	10.4	7.4	19.6	8.2	10.5	11.1	7.1	8.4	7.1	9.0	8.8	7.9	7.6
Consumer durables	12.9	12.7	12.7	10.6	9.9	6.3	3.3	2.7	3.2	9.0	9.4	12.1	7.8	7.2	9.1	10.0
Business services	13.7	9.3	12.1	11.5	7.6	6.8	1.7	(2.8)	(9.9)	(12.3)	(10.3)	(4.2)	1.9	6.8	7.5	7.0
Other activities	41.8	11.9	8.3	4.6	18.4	27.1	25.8	6.2	36.8	(5.9)	4.6	15.3	(11.6)	30.8	37.5	40.9
Total Private Sector Credit	**12.5**	**11.6**	**12.0**	**12.2**	**13.5**	**11.5**	**5.4**	**2.6**	**0.9**	**2.4**	**4.4**	**13.9**	**7.3**	**8.5**	**9.2**	**10.3**

Source: CBK

The reforms in the financial sector between 2023 and 2026 strengthened the institutional framework for regulators to effectively supervise and resolve financial institutions as well as enhancing capital and liquidity buffers, against shocks. The Business (amendment) Act enhanced the capital for banks to Ksh 9 billion, which is to be staggered between 2025 to 2029. The increase in capital enables banks to absorb shocks and sustain lending, which contribute to economic growth. The amendment of the section 2 to clearly state the role of CBK fostering financial stability and section 36 provide loans and advances for financial stability and implementation monetary policy. The amendments of sections 2 and 36 of the CBK Act will enhance the effectiveness of the CBK in fostering financial and price stability, by distinguishing financial stability from monetary policy operations. Sections 2 and 36 enables solvent financial institutions experiencing transient liquidity shocks and cannot obtain from the money market, can access loans and advances from the Central Bank. This enables the financial institution to improve their liquidity in short run and avert disruptions in the payments systems. The Amendments also empowers the

CBK to grant the facility, effectively underwrite the collateral and institute internal liquidity assessment programme for a beneficiary institution to undress the underlying liquidity challenges. As a result, the facilities not only improve short term liquidity position, but also provide incentives for financial institution to wean themselves from relying on the CBK and shift to the money market. In addition, the perfection of the collateral for loans and advances protects the CBK assets in the event of default.

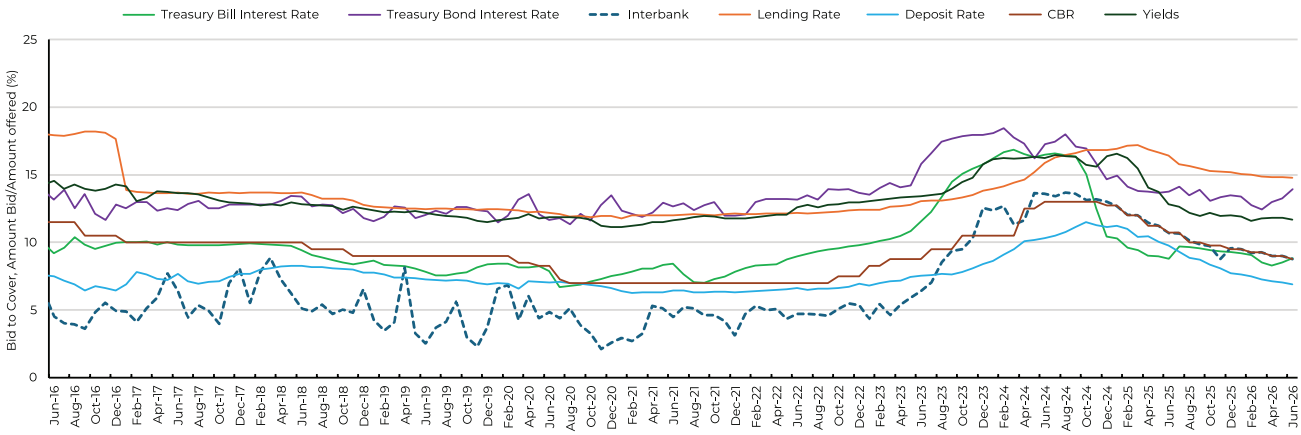
The CBK also upgraded the DhowCSD system in 2025 and in the first of 2026, to integrate with mobile payment services and enabled borrowing from commercial banks using government securities as collateral. These upgrades, improved transparency, broadened participation of investors and supported greater integration between money, securities, and foreign exchange markets. The integration between money, securities, and foreign exchange markets reduces transactions cost and catalyses growth of safe, affordable and reliable financial services.

The reforms in the foreign exchange market continue improve market functioning and restoring confidence in the exchange rate mechanism. The introduction of the Electronic Matching System enhanced transparency and price discovery, while reforms to the foreign exchange swap market improved liquidity management and risk-sharing among market participants. The adoption of the Kenya Foreign Exchange Code strengthened governance and market conduct standards, promoting greater professionalism and accountability in the foreign exchange market. The market also deepened, capable of executing large transaction without inducing volatility in the exchange rate.

The monetary policy easing cycle commenced in the second half of 2024 continued through 2025 as inflationary pressures subsided and macroeconomic conditions improved. Consequently, the Central Bank Rate (CBR), interbank rate, Treasury bill and Treasury bond yields, and commercial bank lending rates declined, reflecting improved monetary policy transmission and easing financing conditions.

Lending rates declined gradually in line with the easing of monetary policy, while deposit rates also decreased from their relatively high levels in 2024, when banks offered higher returns to attract deposits amid elevated yields on government securities. By June 2026, the weighted average lending rate had declined to 14.38 percent from 14.82 percent in December 2025, while the average deposit rate fell to 6.84 percent from 7.13 percent over the same period. Treasury bill yields generally moderated alongside the monetary easing cycle, although some short-term yields edged up in June 2026. These developments reflected the continued transmission of earlier policy rate reductions to market interest rates. (**Figure 4**).

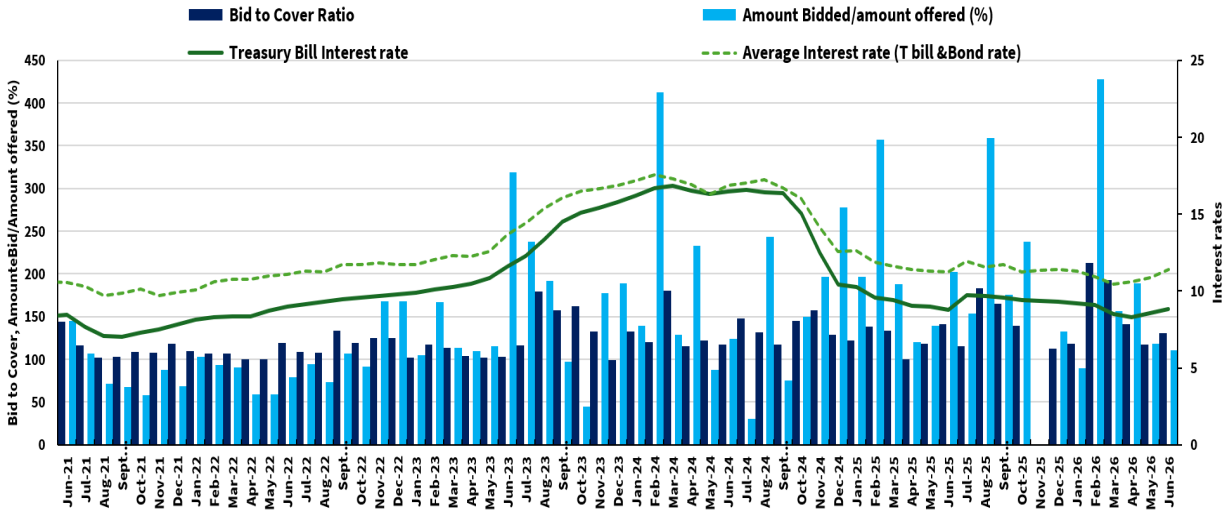
Figure 4: Trends in Key Interest Rates (Percent)



Source: *CBK*

Government securities market conditions improved during 2025 and the first half of 2026, as reflected in the moderation of yields and developments in Treasury bill auction performance (**Figure 5**). Treasury bill yields across the different maturities averaged 8.8 percent in June 2026, compared with 8.7 percent in June 2025 and 16.5 percent in June 2024. Similarly, the weighted average interest rate on Treasury bills and Treasury bonds declined to 11.3 percent in June 2026 from 16.9 percent in June 2024, indicating a substantial reduction in government borrowing costs.

Figure 5: Government Securities Performance



Source: *CBK*

The search for higher yields as liquidity conditions eased saw investors purchase more long term bonds, leading to increased average time to maturity (ATM). The higher ATM reflects reduced rollover and refinancing risks, thus contributing to financial stability. The ATM for government bonds averaged 8.0 years in June 2026, compared to 7.5 years in June 2024 **(Figure 6).**

Similarly, the ratio of Treasury bills to Treasury bonds was 16:84 in June 2026 compared with 17:83 in June 2025. Lengthening of the maturity profile of domestic public debt is not only strategic debt management objective, but it contributes to a stable yield curve that contributes to overall financial stability (**Figure 7**).

Figure 6: Average time to maturity for Government securities (Years)

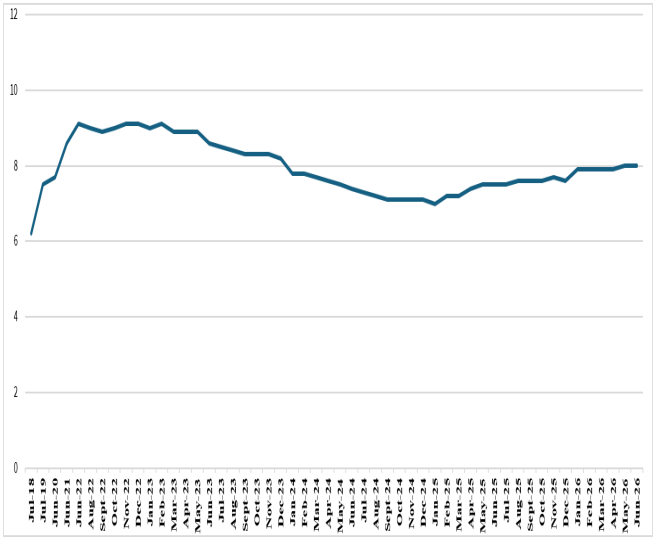
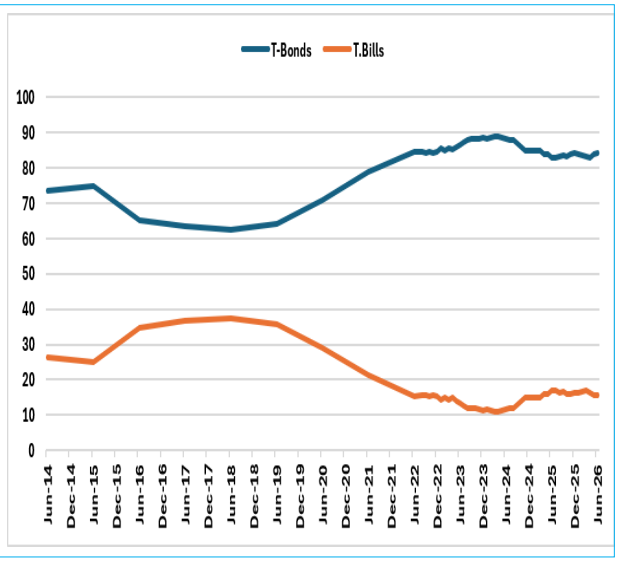


Figure 7: Ratio of Outstanding Treasury bills to Treasury bonds

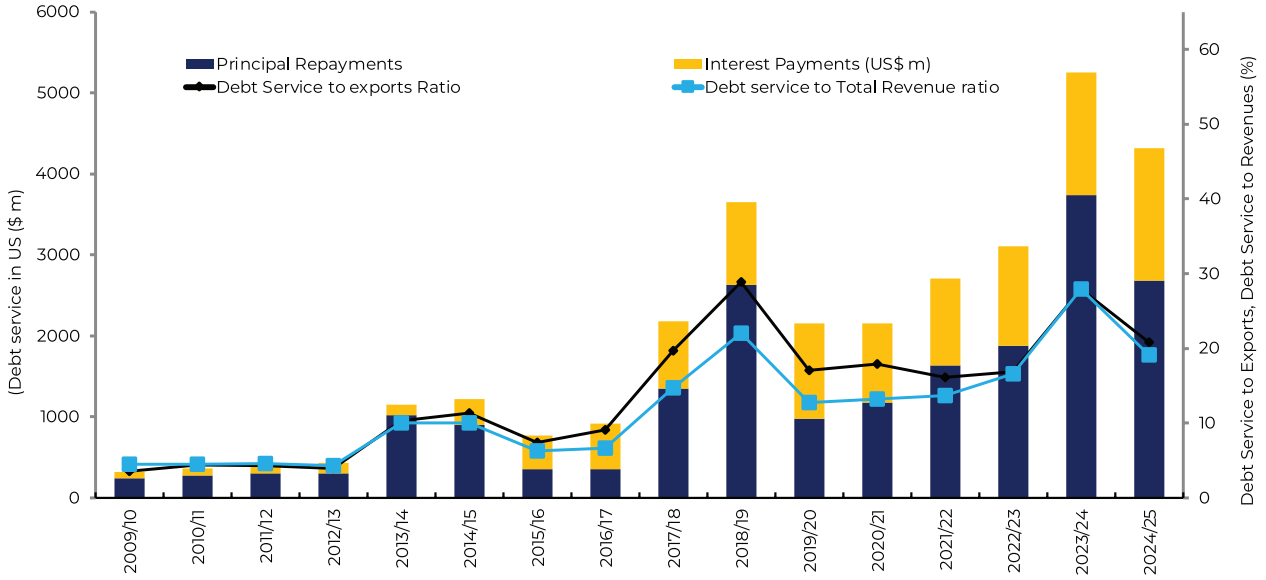


Source: CBK

The shift is consistent with the Government's strategy of lengthening the maturity profile of domestic debt to reduce refinancing risk and support debt sustainability. Lower interest rates and declining yields also supported investor demand for longer-dated securities by allowing investors to lock in returns over a longer investment horizon.

Kenya's fiscal space remained constrained in FY2023/24 and FY2024/25 due to elevated public debt servicing obligations. However, total debt service obligations moderated in FY2024/25, as reflected by decrease in debt service total revenue ratio and principal debt repayments (**Figure 8**). The fiscal consolidation programme, which targets a fiscal deficit of 3.5 percent of GDP, is expected to improve fiscal sustainability and reinforce macroeconomic and financial stability. This includes enhancement of domestic revenue mobilisation, improved expenditure efficiency, strengthening public debt management and privatisation of state owned enterprises.. Low fiscal deficit implies reduced pressure of public debt risks, thus contributing to the financial sector stability.

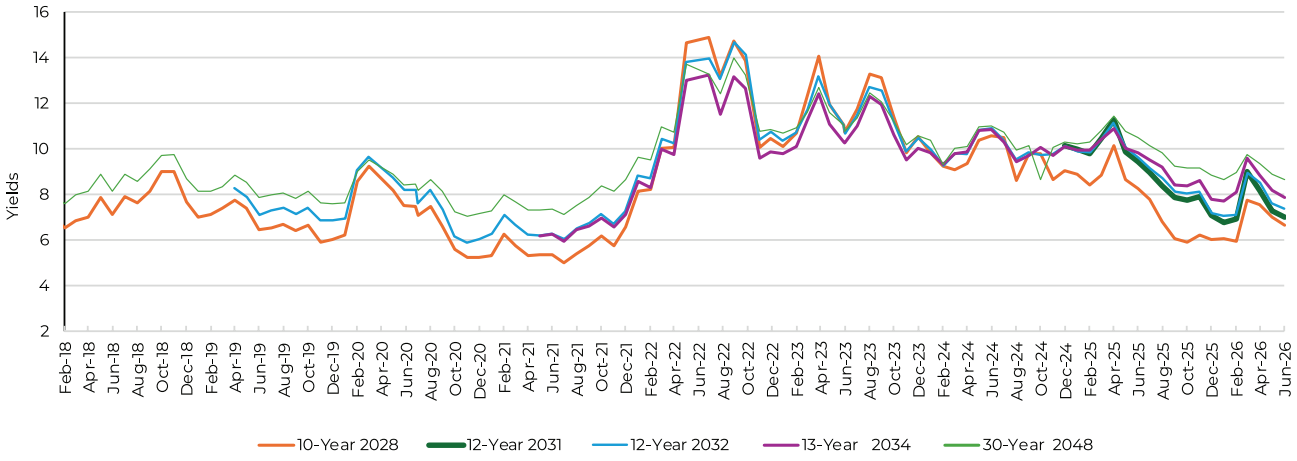
Figure 8: Public Debt Service



Source: *CBK*

In 2025, Kenya issued two Eurobond raising a total of US$3 billion through separate debt-management and refinancing operations. The March 2025 issue raised US D 1.5 billion at 9.50% coupon maturing in 2036, was used to partly to buy back Eurobond maturing in 2027. The October issue raised USD 1.5 billion, that was split into 7-year (US$750 million at 7.875% coupon) and 12-year (US$750 million at 8.8% coupon) tranches, to buyback Eurobond maturing in 2028. The yields on Kenya's Eurobonds were stable and declining, from 2024 through 2025 to the first half of 2026 (**Figure 9**).

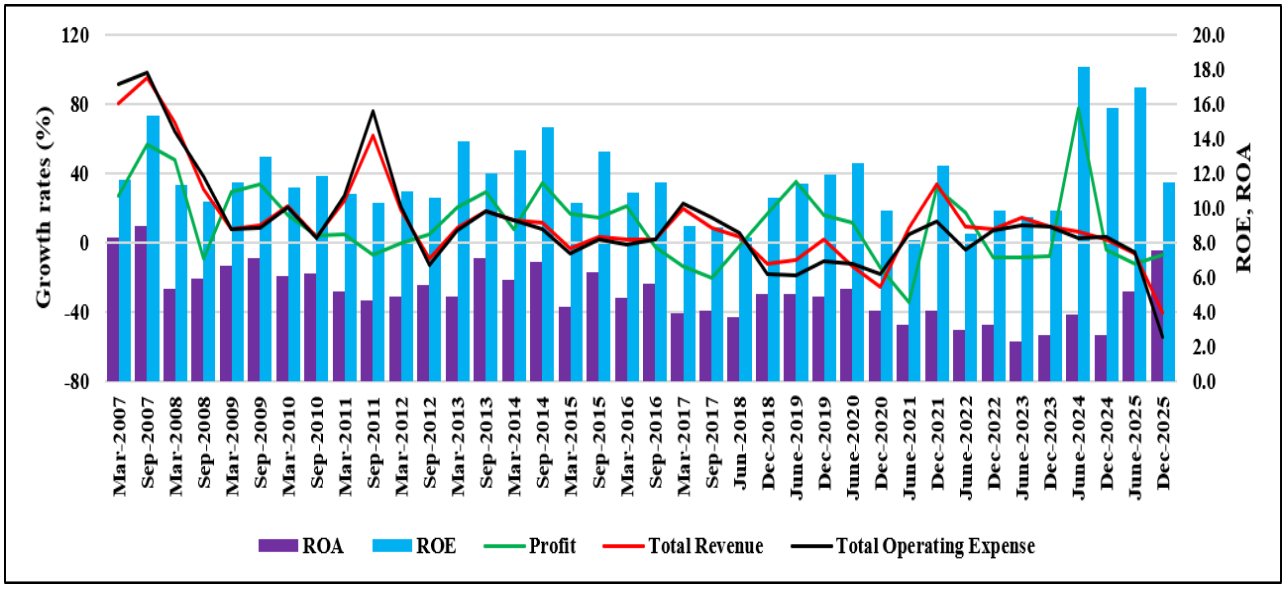
Figure 9: Eurobonds Yields



Source: *CBK*

The non-financial corporates listed on the Nairobi Securities exchange recorded improved profitability and decline in leverage in 2025 compared to 2024. The Return on assets (ROA) rose from 2.7 percent in 2024 to 7.5 percent in 2025 reflecting resilient growth due to digitalisation, adoption of artificial intelligence and stable macroeconomic policies **(Figure 10).** Digitalisation and the adoption of artificial intelligence could have contributed by automating business processes, reducing operating costs and enhancing productivity, while a stable macroeconomic environment may have supported business activity and contained cost pressures. However, the extent to which these factors explain the increase in ROA would depend on firm-level evidence on earnings, operating costs and asset utilisation

Figure 10: Profitability of NSE Listed Non-Financial Companies



Source: *NSE database*

The expenses of listed corporates declined from 8.1 percent to 2.75 percent. Expenses grew slower than revenue on account of, improved operation efficiency, while total revenue increased to about 7.5 percent. The improvement in profitability enables the corporates to build capital and liquidity buffers as well as invest and enhance their solvency and viability. The indebtedness of the corporates declined, with short and long-term debt to equity and asset ratios, reducing. This is mainly due to the resilient growth and government measures to improve business environment, which enabled the corporates to increase profits, repay their loans and expand their operations by investing assets.

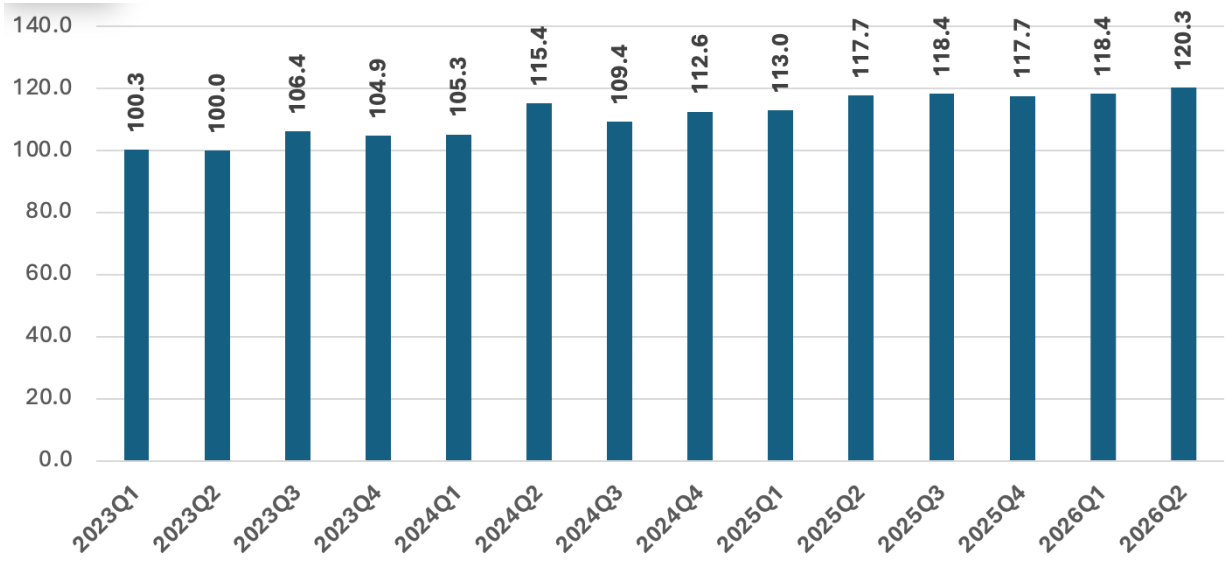
1.3 Residential property price index

Residential property prices continued to increase over the review period, although aggregate developments in the Residential Property Price Index (RPPI) mask significant differences across property segments. The overall RPPI increased from 117.7 in 2025Q2 to

120.3 in 2026Q2, representing a 2.2 per cent increase in residential property prices over the last one year. The increase was driven predominantly by standalone houses, whose index rose from around 130.49 in 2025Q2 to 134.47 in 2026Q2.

Since 2023 Q1, the overall RPPI has increased from 100.3 to 118.4 in 2026 Q2, equivalent to an 19.95 percentage points increase. The sustained rise in the aggregate index therefore reflects continued strengthening in residential property prices, notwithstanding persistent weakness in the apartment segment. From a financial stability perspective, the divergent performance across property segments is important because aggregate price indicators may conceal differences in valuation dynamics, collateral values and credit exposures. In particular, stronger appreciation in standalone houses could increase the value of property collateral supporting household and mortgage-related lending, while continued declines in apartment prices could result in weaker collateral valuations for exposures concentrated in this segment. The developments therefore warrant continued monitoring of property-market conditions alongside trends in mortgage credit, household indebtedness and financial-sector exposures to the residential property market.

Figure 11: Overall RPPI, 2023Q1-2026Q2



Source: *KNBS*

Residential property price inflation remained positive in the Second quarter of 2026, although developments across property segments continued to diverge.

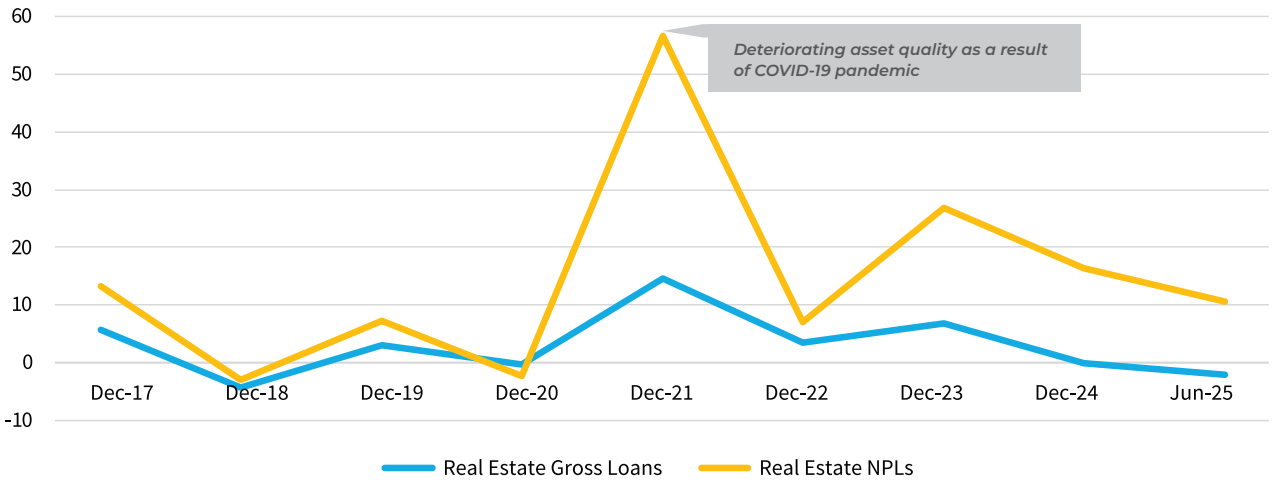
Table 2: Overall RPPI and Inflation, 2023Q1-2026Q2

2022=100	Overall RPPI	% Change on same quarter of previous year ('26 Q1/'25 Q1)	% Change on last quarter ('26 Q1/'25 Q4)
2023Q1	100.3	-0.4	1.8
2023Q2	100.0	-1.9	-0.3
2023Q3	106.4	7.8	6.4
2023Q4	104.9	6.4	-1.4
2024Q1	105.3	4.9	0.3
2024Q2	115.4	15.4	9.6
2024Q3	109.4	2.8	-5.2
2024Q4	112.6	7.3	2.9
2025Q1	113.0	7.3	0.3
2025Q2	117.7	2	4.2
2025Q3	118.4	8.2	0.6
2025Q4	117.7	4.5	-0.6
2026Q1	118.4	4.8	0.6
2026Q2	**120.29**	**2.2**	**1.6**

Source: *KNBS*

Credit Developments in the Real Estate Sector

Figure 12: Real estate loans and NPLs



Source: *CBK*

The real estate sector is expected to gradually strengthen in 2026 and 2027, supported by the resilient economic outlook, continued implementation of the Affordable Housing Programme, infrastructure and road development, public investment, and continued growth in private-sector credit. Asset quality for the real estate has improved has eased asset-quality pressures, although this has yet to translate into a sustained recovery in lending.

Downside risks to this improvement in real estate include constrained fiscal space, elevated public debt, tight credit conditions, and external financing and liquidity pressures.

Uncertainty surrounding policy, taxation, public expenditure and the broader operating environment could also weigh on investment and real estate activity.

1.4 Summary and Conclusion of the chapter

In conclusion, Kenya's economic and financial conditions remained broadly resilient during the review period, supported by macroeconomic stability, easing monetary policy, improved monetary policy transmission, and ongoing financial sector reforms. However, the moderation in economic growth during 2025 and the first half of 2026, coupled with heightened geopolitical tensions, elevated energy prices, trade disruptions and tighter financing conditions, presents downside risks to the economic outlook and financial stability.

While declining interest rates, improved corporate profitability, increased private sector credit and a lengthening maturity profile of government debt supported financial sector conditions, elevated public debt and potential reversals in interest rates remain important sources of vulnerability. Furthermore, divergent trends in residential property prices highlight the need to monitor collateral valuations and financial institutions' exposures to the real estate sector. Going forward, sustained financial stability will depend on prudent monetary and fiscal policy coordination, effective implementation of financial sector reforms, and continued monitoring of interconnected macroeconomic and financial risks to ensure that the financial system remains resilient and supportive of sustainable economic growth.

2. FINANCIAL SECTOR DEVELOPMENTS AND RISKS OUTLOOK

This chapter covers developments and risks outlook in banking, capital markets, insurance, pensions and Savings and Credit Cooperatives (SACCOs) sectors. These sectors are licensed, regulated and supervised by the CBK, CMA, IRA, RBA and SASRA, respectively. In 2025, and through first half of 2026, various policy measures undertaken ensured that the sector remained resilient to legacy and new risks .

Overall, Kenya's financial sector has transformed significantly in terms of size, sophistication and interconnectedness with the economy and across countries. The financial soundness indicators for banks, SACCOs, insurance and pension funds show improved performance in 2025 as compared to 2024. However, the indicators for microfinance banks and capital markets have deteriorated (**Table 3**).

Table 3: Select Indicators for the Financial Sector

		Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Jun-26
Banking secctor	Total Assets (KSh Bln)	6,008.0	6,537.4	7,690.7	7,568.0	8,349.7	8,877.4
	PBT (KSh Bln)	195.4	240.4	219.3	260.3	306.3	172.4
	Non-Performing Loans (KSh Mln)	426.8	503.2	641.3	697.3	696.9	688.2
	Core capital (KSh Bln)	757.3	809.1	893.6	989.2	1,107.4	1,139.9
SACCOs	Total Assets (KSh Bln)	700.3	764.2	981.5	1,080.9	1,210.7	1,105.6
	Gross Income (KSh Bln)	96.5	105.6	140.9	159.6	172.8	89.1
	Non-Performing Loans (KSh Bln)	35.4	48.4	44.4	53.1	58.4	56.6
	Core capital (KSh Bln)	119.6	142.3	162.3	188.7	227.7	216.9
Insurance	Assets (KSh Bln)	845.8	943.7	1,063.8	1,237.4	1,467.1	1,665.3
	Profit Before Tax (KSh Bln)	8.8	14.2	27.5	41.7	33.1	23.5
	Equity (KSh Bln)	173.1	186.6	202.6	239.8	266.5	268.1
Pension	Total Assets (KSh Bln)	1,547.4	1,576.2	1,725.4	2,255.3	2,810.6	3,166.8
	Overal Risk	3.0	3.0	2.9	2.9	2.7	2.7
Microfinance Banks	Total Assets (KSh Bln)	75.1	70.4	64.2	57.9	55.5	56.2
	PBT (KSh Bln)	(0.7)	(1.0)	(2.4)	(3.5)	(2.9)	(0.8)
	Non-Performing Loans (KSh Bln)	12.9	14.2	11.9	11.9	11.9	11.8
	Core capital (KSh Mln)	6.5	6.8	4.6	2,713.5	41.1	0.1
NSE	NASI Points (End Period)	166.5	127.5	92.1	123.5	186.6	224.2
	NSE 20 Points (End Period)	1,902.6	1,676.1	1,501.2	2,010.7	3,139.2	3,755.4
	Market Capitalization KSh Bns	2,592.9	1,986.1	1,439.0	1,939.7	2,944.5	3,761.7
	Equity Turnover KSh Bns	137.4	94.3	88.2	106.0	145.5	322.3
	Foreign Purchase (KSh Bns)	72.7	38.8	26.6	44.7	47.7	32.6
	Foreign Sales (KSh Bns)	82.9	63.2	47.9	61.2	59.6	42.6
	Ave. Foreign Investor Participation to Equity Turnover (%)	56.6	54.1	42.2	50.0	36.9	11.7
	Total Bond Turnover KSh Bns	957.0	741.8	644.0	1,544.4	2,710.4	1,703.1

Source: CBK, CMA, IRA, RBA and SASRA

2.1 Banking Sector

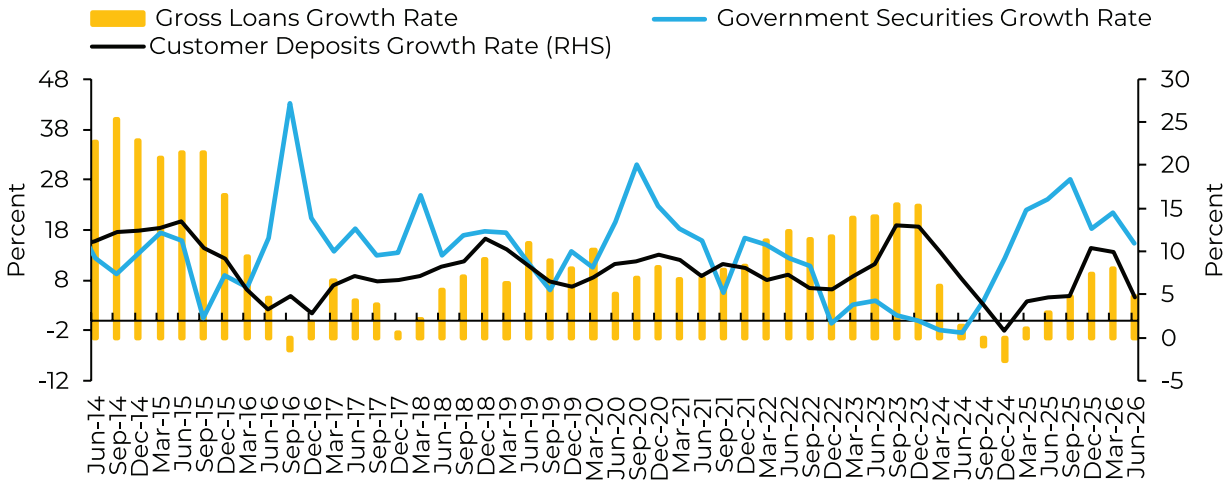
This section covers thirty-eight (38) commercial banks, one (1) mortgage finance company and fourteen (14) deposit taking microfinance banks (MFBs) that were operational in 2025 and the first half of 2026. Additionally, a total of 252 digital credit providers (DCPs) licensed and regulated by CBK were operational as of July 2026, up from 85 DCPs in the First Quarter of 2025. Other institutions regulated by the CBK, but not analysed in this report due to their limited analytical value to financial stability, include credit reference bureaus, Foreign Exchange Bureaus, money remittance providers, representative offices of foreign banks and mortgage refinance companies. Overall, banking subsector remained stable and resilient to shocks both domestic and external, with banks recording strong recovery in lending to the private sector and improved asset quality on accommodative monetary policy environment. Banks also continue to ramp up capital on strong earnings as they continue to comply with the new minimum regulatory capital requirements. Credit risk however remains elevated, albeit gradual moderation. Additionally, rapid adoption of technology has introduced operational risk related to cybercrimes, likely to become even more challenging as with faster growth in Artificial Intelligence. There are also perceived emergence of sovereign risks to the subsector as a result of holding of significant amount of government securities, especially long-term government bonds.

1.1.1 Commercial Banks and Mortgage Finance Companies

In the period under review, commercial banks on aggregate, held strong capital and liquidity buffers, positioning well to absorb shocks legacy and emerging risks, and continue to play their credit intermediation role. The core and total capital increased from KSh 989.2 billion and KSh 1,075.80 billion in December 2024, to KSh 1,107.37 billion and KSh 1,258.8 billion, respectively, in December 2025. The ratio of Core Capital and Total Capital to Total Risk Weighted Assets (TRWA) increased to 18.2 percent and 20.7 percent in December 2025, compared with 17.3 percent and 19.6 percent reported in December 2024, respectively. The ratios were well above the minimum statutory core and total capital requirement of 10.5 percent and 14.5 percent, respectively. The increase in capital reflects strong profitability and retained earnings. This has been crucial for banks to shore up capital in compliance with the revised minimum core capital requirement of Ksh. 3 billion by December 2025 and Ksh 5 billion by December 2026. The overall liquidity ratios increased from 55.8 percent in 2024 to 59.3 percent in December 2025 and 61.2 percent in June 2026. The newly introduced Liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR) averaged 293.9 percent and 186.0 percent as of June 2026, against the Basel III minimum requirement of 100 percent.

The total net assets increased by 10.3 percent, from KSh 7,568.0 billion in December 2024 to KSh 8,349.7 billion in December 2025, and KSh 8,877.4 in June 2026. The growth is mainly on account of increased net loans and advances, which accounted for 46.5 percent of the total net assets in 2025 and 47.4 percent in June 2026. The net loans and advances increased by 6.6 percent in 2025 compared to 2024 (**Figure 13**). This is important for ensuring stability of the banking sector as its balance sheet growth is driven by its main intermediation role.

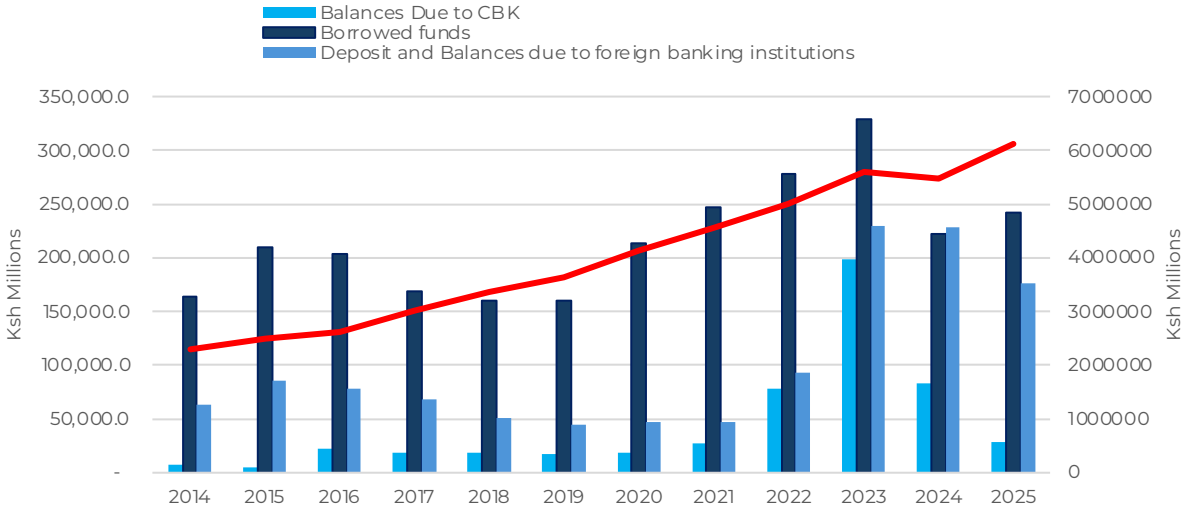
Figure 13: Balance Sheet Growth Dynamics (percent)



Source: *CBK*

The appreciation and stability of the KSh to the USD, saw the balances due to institutions abroad, reduce to KSh 176.7 billion in 2025 from KSh 228.6 billion in 2024, reflecting exchange rate gain. These counterbalanced the 18.18 percent increase in banks' ownership of government securities that increased from KSh 2,114.75 billion in 2024 to KSh 2,499.27 billon in 2025, and stood at KSh 2,874.78 in June 2026.

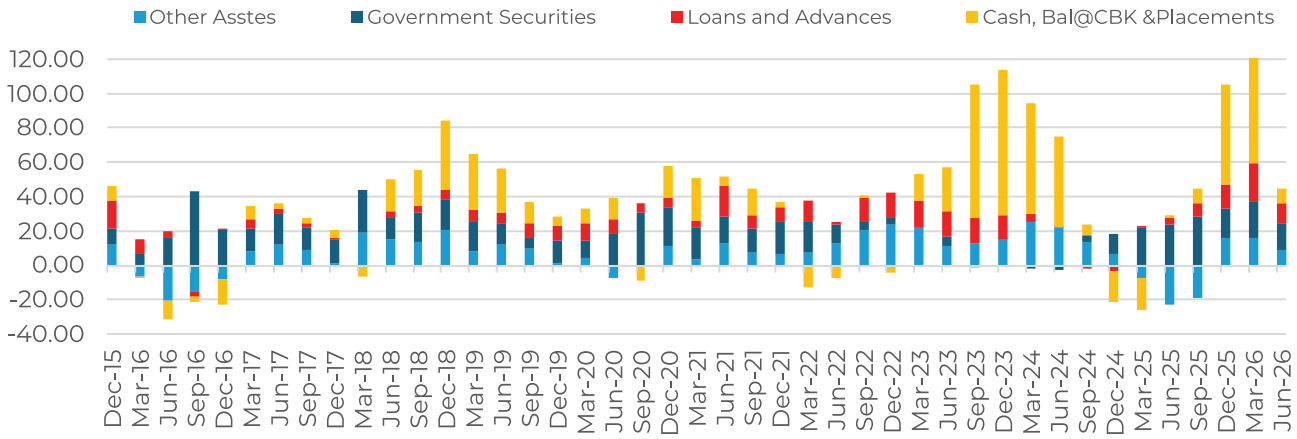
Figure 14: Trends in Banking Sector Funding Sources



Source: *published audited bank data*

The composition of assets in the banking sector has evolved in response to changes in monetary, fiscal and financial sector policies, as well as developments in the broader economy and financial system. During periods of heightened credit risk, particularly in 2015–2016 and the COVID-19 pandemic, banks increased their holdings of government securities, reflecting a shift towards relatively safer assets amid rising risks associated with loans and advances. In contrast, the elevated interest rates experienced in 2023 and the first quarter of 2024 increased interest rate risk and contributed to mark-to-market losses on government securities, which influenced holding of high quality liquid assets in the form of cash, balances at CBK and placement with other banks (**Figure 15**)

Figure 15: Assets Decomposition by Growth Rates (percent)



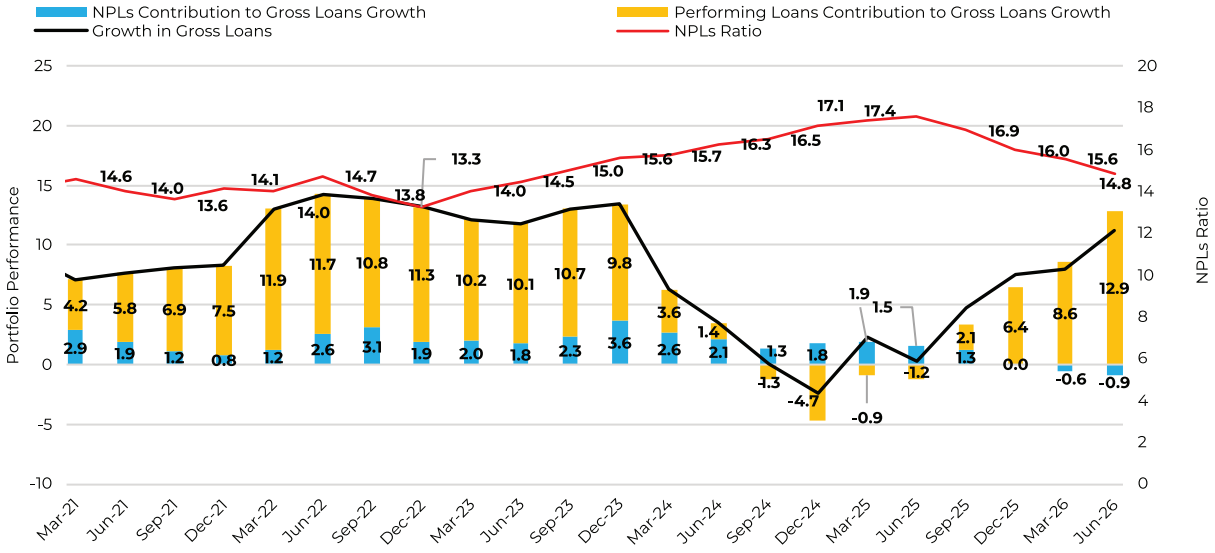
Source: *CBK Staff computation from published financial statements.*

Banks hold government securities as part of their investment and liquidity management strategies. These securities provide a source of income and generally carry lower credit risk than loans and advances to private-sector borrowers. They also provide banks with liquid assets that can be used to meet regulatory liquidity requirements and manage short-term funding needs

The implementation of the net stable funding and liquidity coverage ratio in which treasury bills and bonds are considered as level 1 and 2 assets, respectively, also encourages banks to hold government securities.

The aftermath of of tight monetary policy to stem inflationary pressures during the period 2022-2024 continued in the 2025. In 2025, reamined elavated but eased as reflected by decreased NPLs ratio credit risk was driven by increase lending and decreased in lending and increase non-performing loans (NPLs). The contribution of NPLs to growth in loans decreased 1.8 percent to 0.04 percent in December 2025, further to negative 0.9 percent in June 2026. This reflected in the NPLs ratio which decline from 17.1 percent in December 2024 to 16.0 in December 2025. The asset quality continued to improve through June 2026, on account new lending, and increased repayments (**Figure 16**).

Figure 16: Loans Growth by Contributions



Source: CBK 2025 Banking Sector Credit Risk Stress Test

The write off decreased by from an averaged of 1 percent in 2024 to an increase of 59.2 of 10 percent in 2025. **Table 4).**

Table 4: NPLs annual Growth Rates, recoveries and write offs

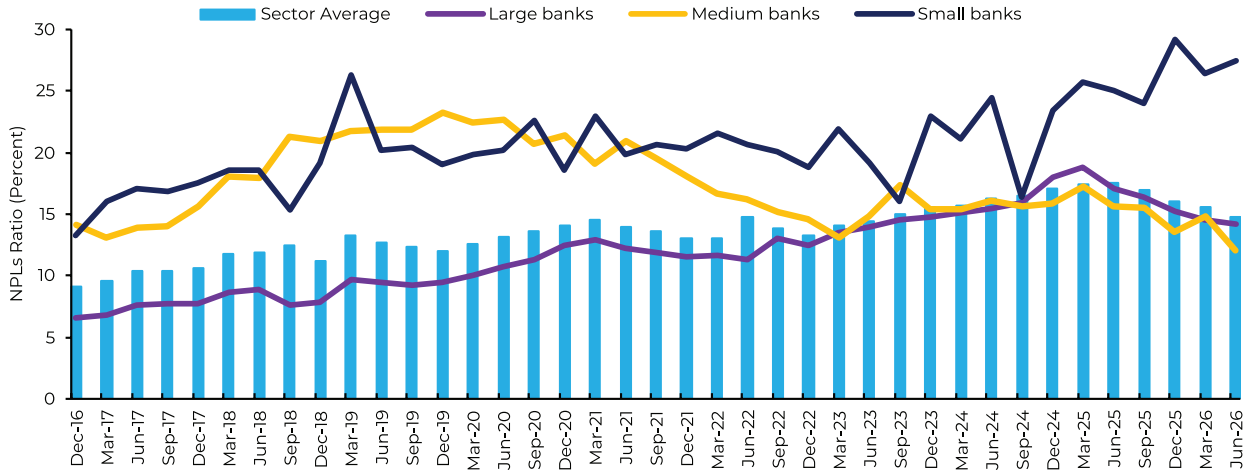
-	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Gross Go-ans (KSh Bln)	1,605.2	1,972.1	2,299.1	2,340.0	2,353.3	2,567.3	2,774.6	2,999.5	3,248.7	3,630.3	4,183.4	4,070.2	4,347.2
Gross NPLs (KSh Bln)	80.6	107.1	139.4	212.9	252.6	308.8	333.4	424.1	426.8	503.2	651.8	697.3	696.9
Cum-mulative Write-offs								25.7	69.1	120.7	175.0	278.7	381.2
Gross loans Growth (%)	17.9	22.9	16.6	1.8	0.6	9.1	8.1	8.1	8.3	11.7	15.2	(2.7)	6.8
Gross NPLs Growth (%)	30.9	32.9	30.1	52.8	18.7	22.2	8.0	27.2	0.6	17.9	29.5	7.0	(0.1)
Growth in									168.5	74.5	45.1	59.2	36.8
NPLs Ratio (%)	5.0	5.4	6.1	9.1	10.7	12.0	12.0	14.1	13.1	13.9	15.6	17.1	16.0

Source: CBK

Kenya's banking sector is categorized into small (Tier III), medium (Tier II) and large (Tier I) peer groups in terms of their market share. As of December 2025, there were 20 banks in small peer group, 11 banks in medium peer group and 8 banks in large peer group. In terms of combined weighted market share, the Tier I banks accounted for 69.8 percent, Tier II banks accounted for 23.2 percent while Tier III banks accounted for 7.1 percent in 2025.

The total net assets of Tier I, II and III banks accounted for 70.6 percent, 22 percent and 7.4 percent in 2025 of the banking sector. These differences also reflect the heterogeneity of assets quality whereby banks in the small peer group had the highest average in NPLs ratio of 29.2 percent in December 2025 compared 23.4 percent in December 2024. Banks in Tier II had an average NPLs ratio of 13.6 percent in December 2025, down from 15.9 percent in December 2024 while NPLs for large peer group banks averaged 15.3 percent in December 2025 down from 18 percent in December 2024 (**Figure 17**). In nominal terms , Tier I banks accounted for 73.0 percent, Tier II banks accounted for 13.57 percent while Tier III banks accounted for 13.46 percent of total NPLs of KSh 696.93 billion in 2025.

Figure 17: NPLs ratio by bank peer groups



Source: CBK staff computation

Overall decline in NPLs was on account of improved performance of loans in Transport & Communication and Energy & Water sectors. The continued growth in new lending, repayments, easing of monetary policy and prudence in lending are expected to contribute to further moderation in NPLs growth. The downside risks to this outlook, however, includes fiscal consolidation, macroeconomic risks and other sector-specific factors.

Profitability in the banking subsector registered robust growth, with profits before taxes (PBT) rising by 17.64 percent in 2025 compared to 2024 (**Table 5**). Strong growth in PBT is explained by strong recovery in lending attributable to declining interest rates and reduced in operational cost. Interest expenses declined significantly in 2025 compared to all previous years, reflecting steep decline in the cost of funds, as deposits and savings rates reduced. Bad debt charges however increased in 2025 compared to 2024, an indication of increased write-offs and provisioning for loan losses. Other expenses also increased during the period, but at a slower rate compared to significant decline in interest expenses, thus contributing to overall increase in PBT (**Figure 18**). The growth in lending with declining interest rate reduced interest on deposits and increased repayments, while digitalisation and application artificial intelligence, big data analytical and machine learning reduced operational cost in the banking sector, resulting to increase in PBT **(Figure 18).**

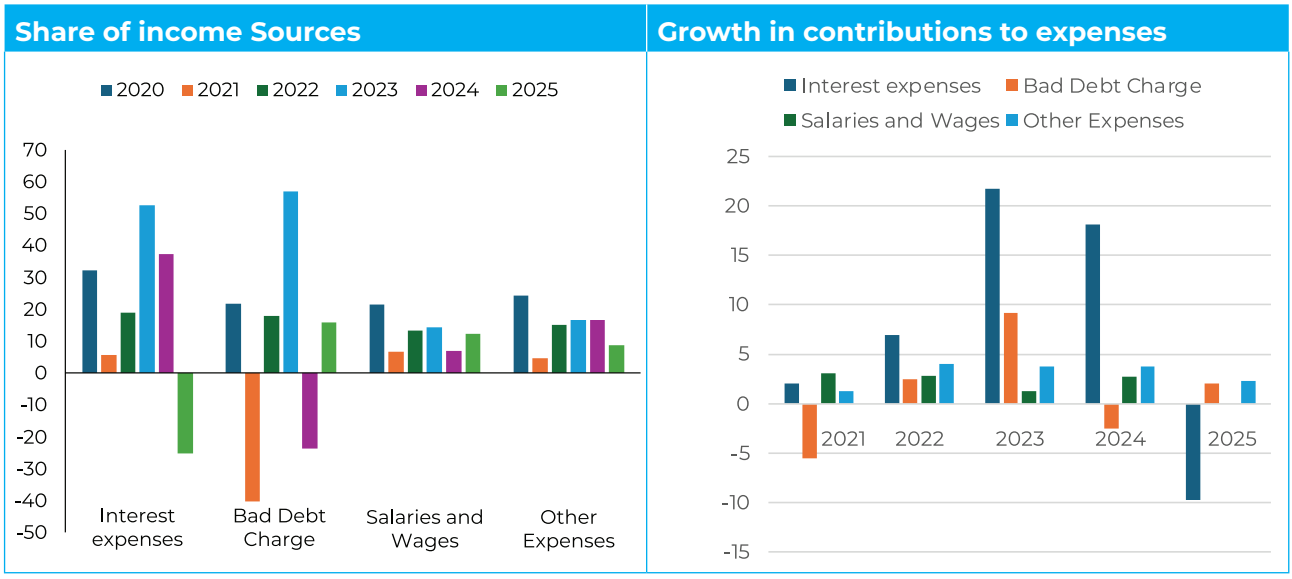
Besides the PBT, strong earnings in 2025 are also reflected in the increase of Return on Assets (ROA), from 3.4 percent in December 2024 to 3.9 percent in December 2025 on account of high performing assets. Banks however reduced the average Return on Equity (ROE) from 22.0 percent, in December 2024, to 21.8 in December 2025, raising their retained earnings to shore up capital towards meeting the revised minimum core capital requirements. Consequently, capital level of banks increased by 18.6 percent, to KES 1,403.8 billion in December 2025 from KSh 1,183.56 billion in December 2024, positioning most banks well enough to meet the targets of KES 5 billion by December 2026 and KSh 10 billion in 2029. The sector is also well prepared to absorb potential risks and continue lending given the strong capital buffers.

Table 5: Profitability of the banking sector

		2019	2020	2021	2022	2023	2024	2025	Percentage Change 2024-2025
All Banks (39)	PBT (Ksh.Bln)	159.1	112.1	112.1	240.4	219.3	260.3	306.3	17.64
	ROA (%)	2.5	2.1	2.1	3.7	2.9	3.4	3.7	0.23
	ROE (%)	21.2	13.9	13.9	26.3	22.4	22.0	21.8	-0.18
Large Banks(8)	PBT (Ksh.Bln)	142.9	97.5	97.5	208.3	185.6	232.4	257.6	10.86
	ROA (%)	4.0	2.4	2.4	4.2	3.1	4.1	4.1	0.93
	ROE (%)	26.5	16.3	16.3	30.6	25.3	26.2	25.6	0.84
Medium Banks (11)	PBT (Ksh.Bln)	18.3	17.2	17.2	29.2	29.9	26.6	41.2	54.89
	ROA (%)	2.3	1.9	1.9	2.8	2.7	2.3	3.0	-0.39
	ROE (%)	14.1	12.2	12.2	19.6	19.0	13.7	14.1	-5.26
Small Banks (20)	PBT (Ksh.Bln)	-2.1	-2.5	-2.5	2.9	3.7	1.3	7.4	456.33
	ROA (%)	-0.5	-0.5	-0.5	0.5	0.6	0.2	1.0	-0.39
	ROE (%)	-3.4	-3.7	-3.7	3.4	4.2	1.3	7.1	5.84

Source: CBK

Figure 18: Income Sources and Total Expenses



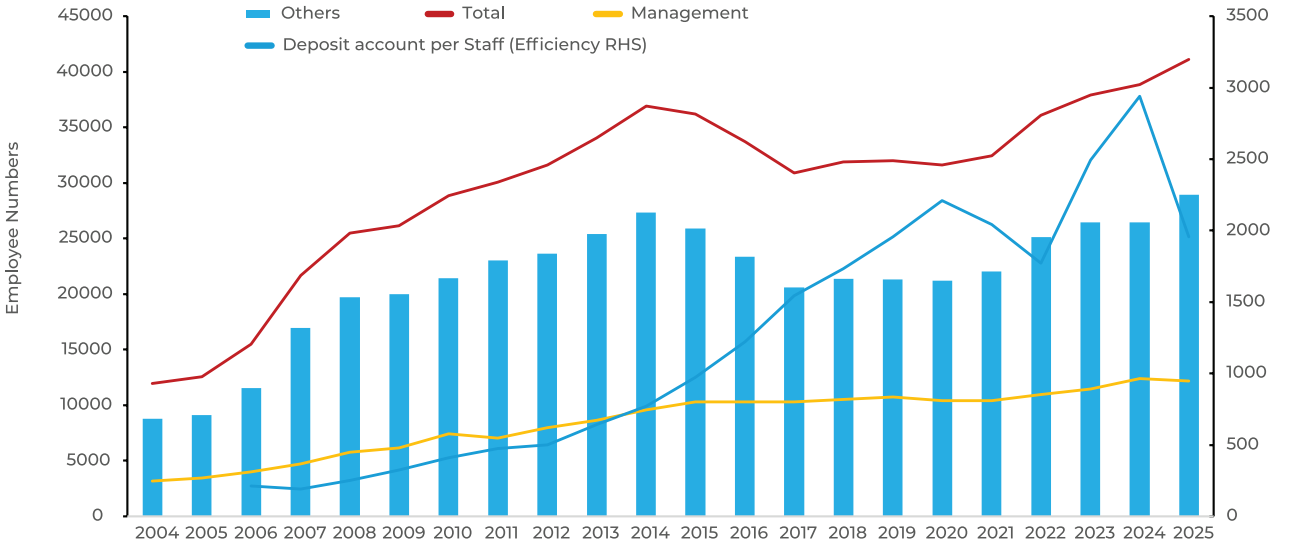
Source: CBK

The easing of monetary policy and the associated decline in market interest rates benefited the financial sector through higher market valuations of fixed-income securities. Financial institutions recorded mark-to-market gains on their holdings of government securities, strengthening their balance sheets. Higher bond valuations also increased the collateral value of government securities in money market and liquidity operations, improving banks' access to funding. Where such gains were realised through the sale of securities, they also contributed to improved profitability and capital positions

Banks in the large peer group recorded the highest proportion of PBT and capital and reserves, accounting for 84.12 percent and 67.08 percent of the total KSh 306.3 billion and KSh 1,403.84 billion, respectively in December 2025. Although banks in Tier II and Tier III had low PBT of KSh 41.2 billion (13.46 percent) and KSh 7.4 billion (2.42 percent), their capital and reserves of KSh 367.97 billion (26.21 percent) and KSh 94.06 billion (6.70 percent), respectively are adequate to cover the NPLs and enable continue lending. In addition, the ratio of specific provisioning to NPLs (coverage ratio) for large peer groups increased to 37.1 percent from 33.8 percent in December 2025, due to increase in earnings. Similarly, coverage ratio for medium peer groups increased from 33.3 percent to 35.4 percent in December 2025, while coverage ratio small peer groups decreased to 13.8 percent from 19.4 percent. Therefore, banks in the small peer group have to increase their provisions in tandem with the evolving credit risks, conduct robust credit risk assessment, implement risk-based pricing, diversifying loan portfolios, enhance collateral and guarantees, and strengthen their credit risk policies to mitigate and manage credit risk.

The banking sector continued to leverage technology to enhance efficiency in service delivery and manage operational costs, although this also introduced new operational and technology-related risks (**Figure 19**). Total employment in the banking sector increased from about 8,800 employees in 2004 to approximately 41,000 in 2025. At the same time, the number of deposit accounts served per staff member generally increased, rising from below 300 accounts per staff in the mid-2000s to about 1,900 accounts per staff in 2025. The rising number of deposit accounts relative to staff points to significant improvements in operational efficiency and staff productivity, partly reflecting increased adoption of digital technologies and automated banking services. The continued technology adoption has enabled banks to expand their customer base and service volumes without a proportionate increase in staffing.

Figure 19: Categories of staff and deposit per staff in the Banking sector

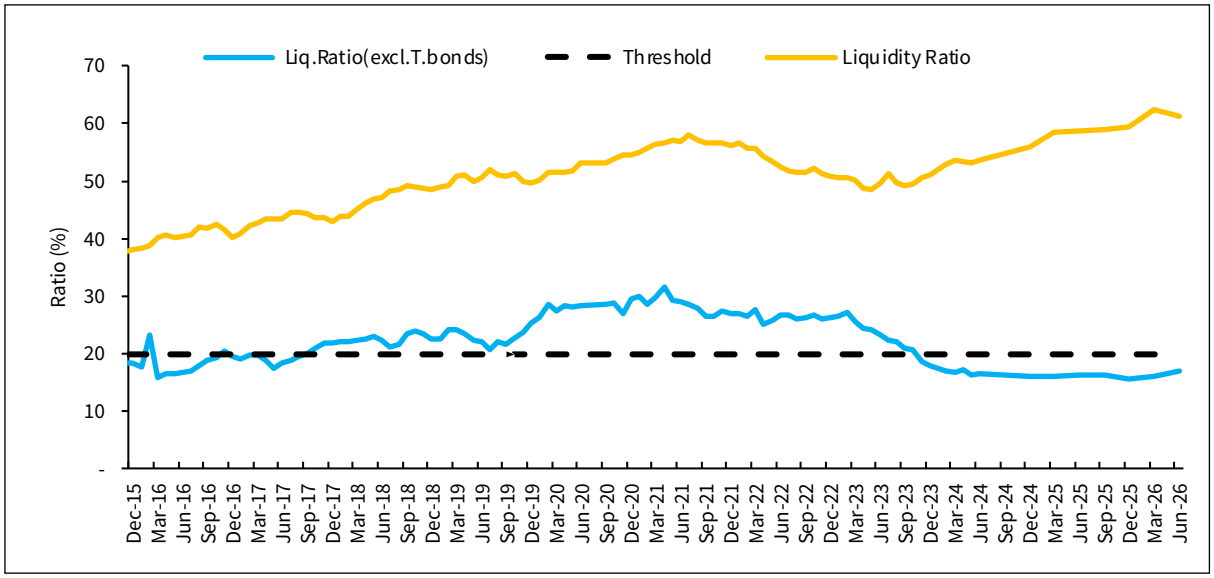


Source: Central Bank of Kenya

While technology adoption has increased efficiency in the delivery of banking services, it has come with risks to financial stability as reflecting in the rising case of Cyber threats. The cyberattacks are becoming sophisticated, using a variety of techniques to infiltrate banking and payment systems. The number of cyber threats, amount exposed and amount lost more than doubled between 2024 and 2025. The prevalent use of social media also acerbates risks to the banking sector by rapidly propagating and distorting information and sentiments that are detrimental confidence in the financial system.

An important metric for assessing banking sector soundness and stability is the ability of banks to meet their maturing obligations falling due without difficulties (liquidity ratio) as measured against the 20 percent minimum regulatory requirement. The liquidity in the banking sector as measure by ratio of the liquidity asset to short term liabilities averaged 59.29 percent in December 2025 compared to 55.80 percent in 2024. This signifies very strong liquidity buffers across the subsector. However, the distribution varied across the sector, with banks in the medium peer group having the highest liquidity ratios compared with banks in large and small peer groups. The increase in liquidity is mainly driven by increased balances with banks and investment in treasury bills which increased are mainly due government securities. The holding of treasury bills increased by 61.4 percent while balances with banks increased by 102.6 percent between 2025 and 2024 increased by 10 percent in December 2025 (**Figure 20**). Excluding the treasury bonds as liquid assets however, the liquidity ratio declines to 27.83 percent, from 59.29 percent against the minimum liquidity ratio of 20 percent. This implies that any shock to the government securities that would erode their value or make them less liquid, would significantly pose liquidity risks to banks, hence potential sovereign – bank nexus vulnerabilities.

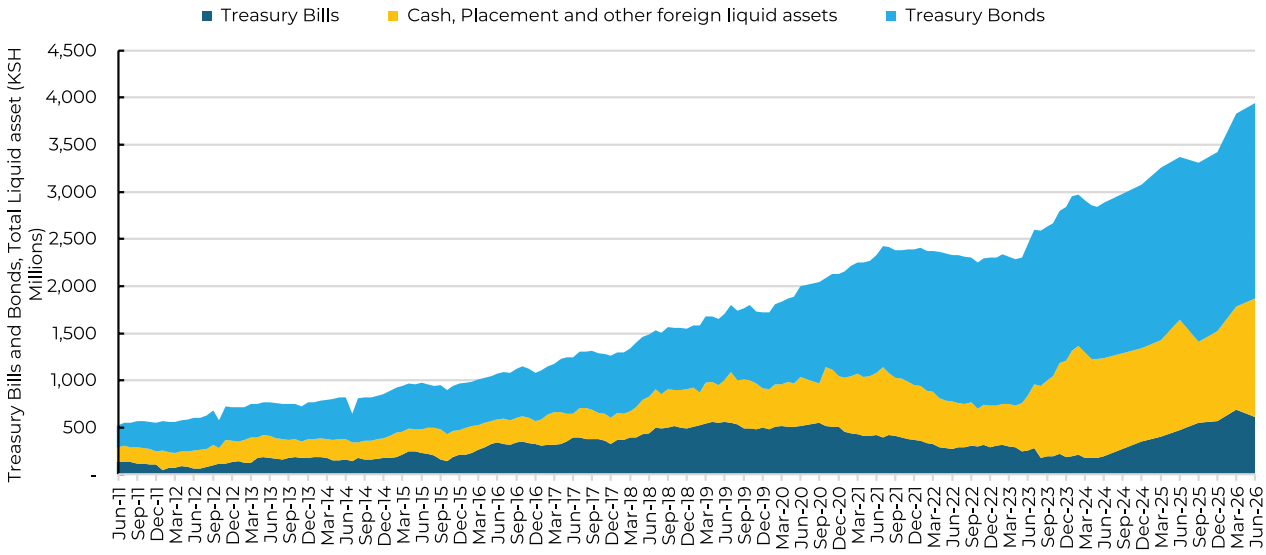
Figure 20: Liquidity Ratios Trends



Source: CBK

The share of tradable treasury bonds and bills in liquid asset held by banks increased from 63.8 percent in June 2024, to 69.0 percent in March 2026 (**Figure 21**). Banks also increased cash, placement and foreign liquid assets to cater for their liquidity needs

Figure 21: Composition of Liquid Assets



Source: CBK

2 **Liquid assets** – notes and coins, balances with central bank of Kenya, balances with domestic commercial bank, balances with banks abroad, balances with financial institutions balances with mortgage finance companies balances with building societies government of Kenya, treasury bills and bonds and foreign treasury bills & bonds

The Bank also implemented additional liquidity measurement tools by adopting the Basel III liquidity standards, that became effective October 2025, for a 6-months transition period to March 2026. These are Liquidity coverage ratio (LCR) and Net Stable Funding Ratio (NSFR). The Liquidity Coverage Ratio (LCR) is a Basel III regulatory requirement that requires banks to hold enough High-Quality Liquid Assets (HQLA) to survive a 30-day severe financial stress scenario of sudden significant cash withdrawals. Banks must maintain an LCR of at least 100 percent, which indicates that their liquid buffer must equal or exceed all projected net cash outflows during a 30-day crisis. The average LCR for Kenya's banking sector was 102 percent as of December 2025 and June 2026 against the regulatory minimum of 100 percent.

The Net Stable Funding Ratio (NSFR) on the other hand is a Basel III regulatory liquidity standard that requires banks to maintain a stable funding profile relative to the composition of their assets and off-balance-sheet activities over a one-year horizon. The minimum regulatory requirement is 100 percent, implying that a bank's reliable, long-term funding sources must equal or exceed the funding required for its less liquid assets and activities for a period of 1 year. The NSFR for Kenya's banking sector was 105 percent as of June 2026 against the regulatory minimum of 100 percent. The two ratios together with the Basel I liquidity ratio at 59.29 percent signifies adequate liquidity buffers, hence minimal liquidity risk for period under review..

1.1.2 Microfinance Banks

Kenya's banking sector also covers the microfinance banks (MFBs) licensed and supervised by Central Bank of Kenya. As of December 2025 and June 2026, there were 14 MFBs operating in Kenya. Overall, the MFBs have recorded dismal performance over the past five years, , reflecting structural shift on account of rapid adoption of digital credit providers that where lending information based. The MFBs have not been innovative and did not quickly transition to new business models that could enable them compete with banks, SACCOs, digital credit providers, development finance institution and collective investment schemes. Some of the MFBs also experienced corporate governance issues, leading to huge losses and customer retention challenges. Consequently, their their market share as measured by the total assets declined by 4.1 percent, to KSh.55.1 billion in December 2025, mainly on account of a 6.1 percent decline in net loans and advances (**Table 6**). Most of all other indicators of stability and soundness are in the negative, implying high vulnerabilities facing the subsector.

Table 6: Select Indicators for MFBs

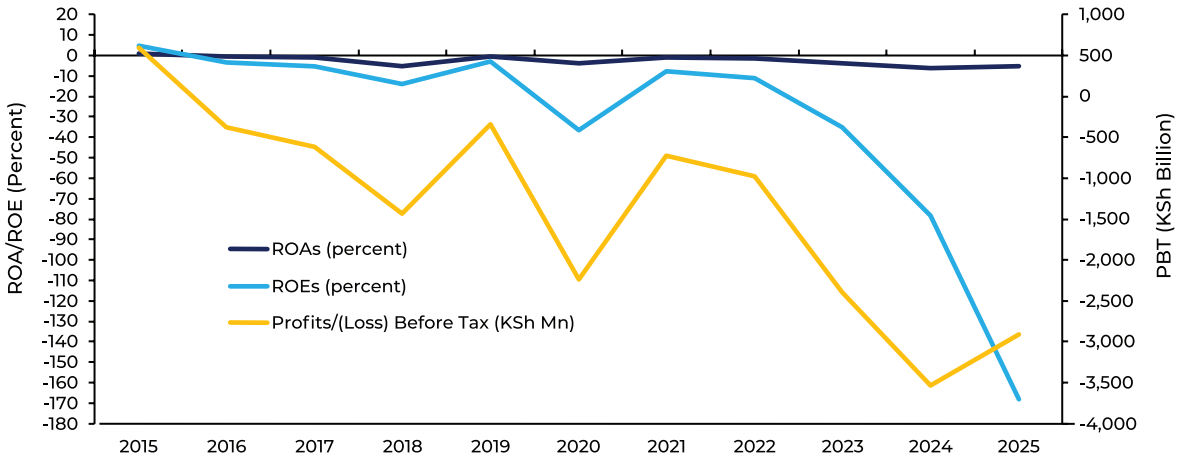
VARIABLE	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Annual Change (%)
Total Assets (KSh Mn)	56,972	69,465	72,510	67,597	70,754	76,353	74,879	75,138	70,427	64,202	57,893	55,535	-4.14
Net Advances/ Loans (KSh Mn)	39,184	45,749	47,047	42,847	44,179	46,651	44,179	40,359	39,334	37,467	31,180	29,291	-6.1
Gross NPLs (KSh mn)	2,348	4,264	7,288	9,300	9,891	9,817	12,980	12,895	12,502	11,893	11,868	11,859	-0.08
Total Deposits (KSh Mn)	35,862	40,589	40,198	38,916	40,961	43,941	49,356	50,157	46,491	43,863	42,997	45,106	4.90
Borrowings (KSh Mn)	6,994	13,220	16,435	13,413	14,607	14,934	11,340	9,082	9,328	9,193	5,723	4,409	-22.96
Capital & Shareholders Funds (KSh Mn)	10,600	11,633	11,622	11,301	10,443	11,177	8,113	9,235	8,752	6,802	4,518	1,734	-60.74
Profits/(Loss) Before Tax (KSh Mn)	1,002	592	-377.0	-622.0	-1437.0	-339.0	-2240.0	(722)	(980)	(2,391)	(3,531)	(2,915)	-17.45
ROAs (percent)	2	1.0	-0.5	-0.9	-5.5	-0.4	-3.8	-0.96	-1.39	-3.72	-6.10	-5.26	0.84*
ROEs (percent)	10	5.0	-3.2	-5.5	-13.8	-3.0	-36.3	-7.75	-11.20	-35.16	-78.15	-168.21	-90.06

Source: CBK

*Percentage points

There are however signs of gradual improvement in some indicators. For instance, total deposits recorded a 4.9 percent increase to KES 45.1 billion in 2025 after a long period of decline. Additionally, external borrowings declined by 23 percent, and profitability measures improved, though still in the negative territory. The total loss before tax for all MFBs declined from KSh 3.5 billion in December 2024 to KSh 2.9 billion in December 2025, contributing to an improved return on assets, mainly due to three institutions that recorded profits. However, return on equity deteriorated further, mainly due to a decline in capital attributed to one large MFB (**Figure 22**).

Figure 22: Profitability for MFBs

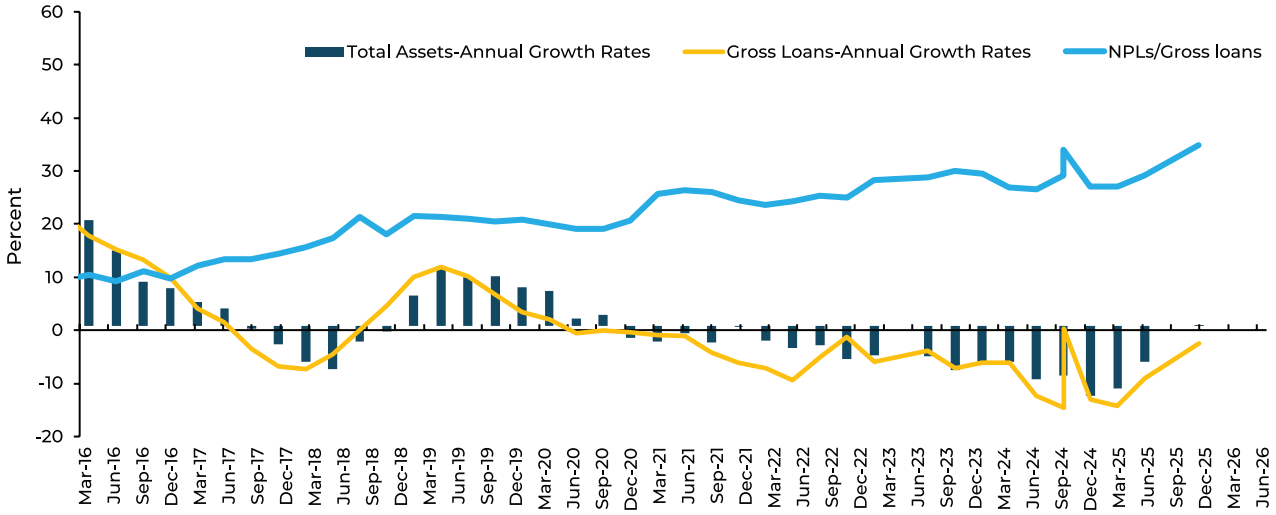


Source: *CBK*

The increase in losses erodes capital and liquidity buffers, which reduces the ability of MFBs to withstand shocks and to sustain intermediation. In addition, persistent losses in the industry reduces the propensity for investor to inject capital and liquidity in the institutions to enable them to restructure their business models, build buffers against shocks and effectively intermediate funds

Credit risk remains elevated for MFBs despite the 0.08 percent decline in gross NPLs, to KSh 11.86 billion in December 2025 (Figure 23). The MFBs Annual growth in gross loans contracted by 5.7 percent in December 2025 compared with 16.2 percent contraction in December 2024. The low uptake of loans/ disbursements further complicates the growth potential of the subsector.

Figure 23: Loans Growth Rate for MFBs



Source: *CBK*

The MFBs are expected to further contract in the medium term due to decline in customer deposit, capital, and access to external funding. In addition, investors consider MFBs to be too risky due to their subdued performance, increase in competition and loss of deposit. The new entrants into the micro and small consumer loans by FinTech, telecommunication firms, Government, non-Governmental organisation and development finance institutions in the niche market for MFBs, providing credit at lower has complicated the recovery path for MFBs.

The government policies have encouraged competition, innovation, stability and inclusivity in the financial sector. This is to ensure increased to financial services. In addition, regulatory requirement to protect personal data and enhance cyber security, require significant investment.

The MFBs subsector requires a significant shift in the businesses models leveraging digital platforms to reach wider customer base. However, their weak capital base constrains their ability make such investment or attract strategic investors. The ongoing

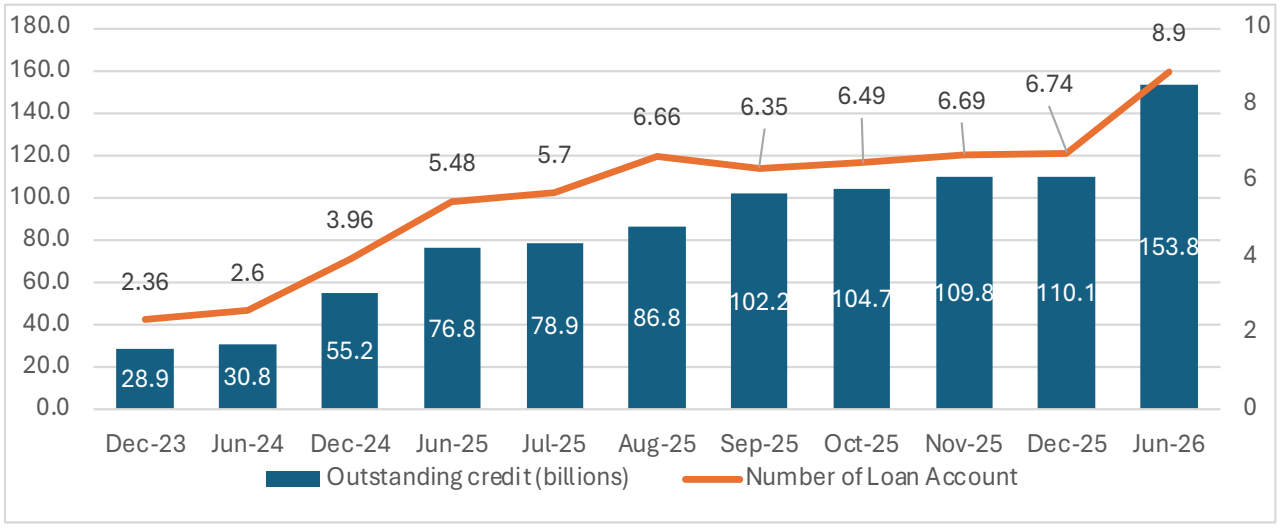
amendments to the MFB Act is expected to increase minimum core capital requirements, strengthen corporate governance, and expand the supervisory oversight of the Central Bank of Kenya (CBK), which will enable investment in credit infrastructure and build buffers against shocks. It may also lead to mergers or acquisitions to create my stronger institutions. Consolidation among MFBs presents another viable strategy, which enables the consolidated entity to have a larger deposit and capital base, which can be used as a buffer against shocks and to sustain lending.

On the upside, the consumers are increasingly looking for quality and tailor-made services, which can be provided by MFBs. Hence, demand for relevant and individualised services provides an opportunity for MFBs to meet them and improve their viability.

2.1.3 Digital Credit Providers

The enactment of the Central Bank of Kenya (Amendment) Act, 2022, enabled the CBK to regulate Digital Credit Providers (DCPs). The licensed DCP increased to 281 as at September 2026, with number of loan accounts increasing to 8.9 million in June 2026 from 5.5 Million in June 2025. The DCPs advanced KSh 153.8 billion to retail borrowers as of June 2026, more than all the lending by microfinance banks (**Figure 24**). Most of the loans are below KES 20,000, a niche market for DCPs model with tenures ranging from 1 week to 2 months. This can be attributed to DCPs harnessing the full benefits of digitalisation, adopting technology in identifying customers and tailoring products to their needs, leveraging on transactional and communication data to develop credit score for customers and enforce loan obligation which minimises credit risks.

Figure 24: DCPs Outstanding Gross Loans and Number of Loan Accounts, June 2026



Source: *CBK*

The short tenure of loans makes them relevant for meeting emergency needs and working capital for small businesses. However, the loans are too small to enable households and business to make investment that have significant impact on earnings. The ease of obtaining digital loans also predisposes providers to risky borrowers. DCP rely on transactional and communication data as well as adverse rating from credit information system as a deterrent against potential defaulters. The cost of recovering loans also exceed the loan extended, which discourages the DCP from recovering the loans. This entrenches loan delinquency in the financial system.

2.1.4 Banking Sector Safety Net and Resolution

The Kenya Deposit Insurance Corporation (KDIC) is a key financial safety-net and the designated resolution authority for member institutions in the Kenyan banking sector. Its mandate rests on three mutually reinforcing pillars: deposit insurance, providing incentives for sound risk management among member institutions, and timely resolution of failed banks in a manner that protects depositors and maintains financial stability. In fulfilling this responsibility, KDIC provides deposit insurance for 37 commercial banks, 14 microfinance banks and one mortgage finance organization.

This oversight role allows KDIC to protect depositors from losing their savings in the event of a bank failure by paying insured deposits. This helps to foster trust in the banking system by guaranteeing depositors that their savings are safe and that any problems at the bank can be resolved in an orderly and timely fashion. This confidence is critical in a rising, increasingly digital financial industry because depositors need assurance that formal banking channels are safe, reliable, and responsive to emerging dangers. The KDIC also moderate risk taking by deposit taking financial institutions by charging premium based on their risk appetite.

In accordance with the depositors protection mandate, the Corporation manages the Deposit Insurance Fund (DIF) (hence the Fund). The Fund enables eligible depositors to have timely access to their protected deposits in the event of a member institution's failure. This reduces the incentive for panic withdrawals by eliminating uncertainty about the safety of deposits and helps minimize contagion risks that may emanate from isolated institutional distress. The current coverage limit set at KES 500,000 per depositor aims to protect largely small and unsophisticated depositors, while also serving the wider purpose of maintaining market discipline in the banking system and enhancing financial stability.

During the review period, the Fund grew by 15.31 per cent from KES 248.89 billion in December 2024 to KES 287.00 billion as at December 2025. This growth enhanced the country's capacity to meet its depositor protection requirements and showed ongoing build-up of resources to underpin effective intervention and resolution operations. In the same period, deposit liabilities, excluding interbank deposits, grew by 9.61 per cent to close at KES 6.30 trillion. Of this sum, KES 860.85 billion, which accounts for 13.66 per cent of the total deposits, was fully covered by the Fund in the event of a bank failure.

The direction of the indicators suggests that the banking sector continued to attract deposits while retaining wide protection for

most account holders. Total insured deposits increased by 4.64 per cent, from KES 822.65 billion in 2024 to KES 860.85 billion in 2025. The growth rate of insured deposits was less than that of total deposits, but the Fund balance rose faster than both, thus increasing the effective cover of protected deposits. This trend is notable, since it reflects a more robust funding position relative to the fund's insured deposit exposure.

In 2025 the effective cover, which is the total Fund balance retained against insured deposits, was 33.34 percent up from 30.25 percent in 2024. The improvement was mainly due to the relatively faster growth of the Fund over insured deposits. It also reflects the influence of the transactional behaviour of clients, with many account balances remaining inside the insured limit since monies are regularly received, transferred and withdrawn in the usual course of economic activity. This means that a large proportion of accounts are fully protected, even if the value of fully protected deposits makes up a lesser part of overall sector deposits.

While the effective cover improved, the protection level of 13.66 per cent remains below the 20 per cent global standard often referred it is essential to ensure that growth is commensurate with growth in deposit liabilities, evolution of depositor behaviour and the changing risk profile of member institutions. As such, continued Fund expansion, risk-based monitoring, and timely resolution preparation will remain critical to safeguarding depositor confidence and reducing the fiscal and systemic consequences of a bank failure.

The account-based measures also highlight the inclusive role of deposit insurance in the financial system. In December 2025, the number of fully covered accounts was 83.31 million or 99.06 per cent of the total number of accounts in the banking system. This indicates that in the event of a member institution's failure, the vast majority of account holders would be fully covered within the present coverage limit ceiling. The high coverage ratio points to the importance of deposit insurance in protecting small depositors, increasing financial inclusion and facilitating continuing usage of regulated financial institutions.

The 2025 indicators also show a growing deposit insurance framework, supported by Fund expansion and broad coverage of account holders. However, the decline the level of protection relative to total deposits is declining indicating the necessity for sustained vigilance. Going forward, the success of KDIC will depend on the continued availability of well-resourced DIF, stronger early-warning and risk minimization systems and the ongoing capacity of resolution instruments to safeguard depositors and sustain vital banking services. The main deposit insurance metrics are summarized in **Table 7**.

Table 7: Select Key Fund Indicators for KDIC

Year Ending December	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Annual Change in percent (2024 - 2025)
Total Deposits (KSh Billion)	2,384.7	2,674.0	2,783.7	3,075.8	3,385.2	3,605.5	4,151.8	4,472.0	4,777.5	5,839.8	5,749.2	6,301.9	9.6
Total Insured (KSh Billion)	224.9	244.7	255.5	272.1	269.7	285.1	694.0	715.0	750.6	857.8	822.7	860.8	4.6
Protection Level (Row2/ Row1) (%)	9.43	9.15	9.18	8.85	7.97	7.91	16.72	16.0	15.7	14.7	14.3	13.7	-4.5
Fund Balance (KSh Million)	52.2	61.7	73.3	86.1	100.2	115.1	126.0	154.0	179.8	209.2	248.9	287.0	15.3
Effective Cover (Row4/ Row2) (%)	23.2	25.2	28.66	31.64	37.13	40.35	18.15	21.7	24.0	24.4	30.3	33.3	10.2
Total no. of accounts (KSh 000)	30.7	37.4	43.3	49.9	57.3	64.7	72.7	68.9	67.0	107.0	116.1	84.1	-27.6
Accounts fully covered (KSh Million)	29.6	36.1	41.8	48.4	55.9	63.1	72.0	68.2	66.4	106.2	115.3	83.3	-27.8
Protected accounts (Row7/ Row6) (%)	96.25	96.65	96.72	96.86	97.44	97.56	99.13	99.1	99.1	99.3	99.4	99.1	-0.3
Exposure Level (100% - Row 5) (%)	76.8	74.8	71.34	68.36	62.87	59.65	81.85	78.3	76.0	85.3	69.7	66.7	-4.4
Target Fund (%)	2.3	2.3	2.6	2.8	3.0	3.2	3.0	3.4	3.8	3.58	4.3	4.6	5.2

Source: KDIC

Box: Abridged Version of the May 2026 Banking Sector Stress Test

A. Background

The May 2026 stress test was conducted to assess the resilience of the banking sector to increase in NPLs as a result of slowdown in economic activities, and El Nino, as well as interest rate shock. The stress test used audited bank level data for the year ending December 2025 using a dynamic stress test model. The use of dynamic stress test framework has been necessitated by increase in the inter linkages between the banking sector and the economy which require a macroeconomic model, with financial, sovereign and banking sector blocks to capture shocks and their impact on the banking sector at a given point in time and over the stress test horizon. The model incorporates output and inflation forecasting, monetary and fiscal frameworks, which ensure consistency between the economy, balance sheet and profit and loss account of banks. This enables the evolution of shocks to the balance sheet to be endogenously determined.

B. STRESS TEST

i. Credit risk stress test: Slowdown in economic activities:

1. Assumptions underpinning stress test scenarios

Baseline Scenario: Trade disruptions through tariff on Kenya's exports and restrictions to inward remittances, high oil prices as a result of wars in the Middle East and between Russia and Ukraine. Implementation of government programmes, especially affordable housing, conducive weather and accommodative monetary policy, support the economy to grow by 5.0 percent in 2026 and 5.3 percent in the first half of 2027

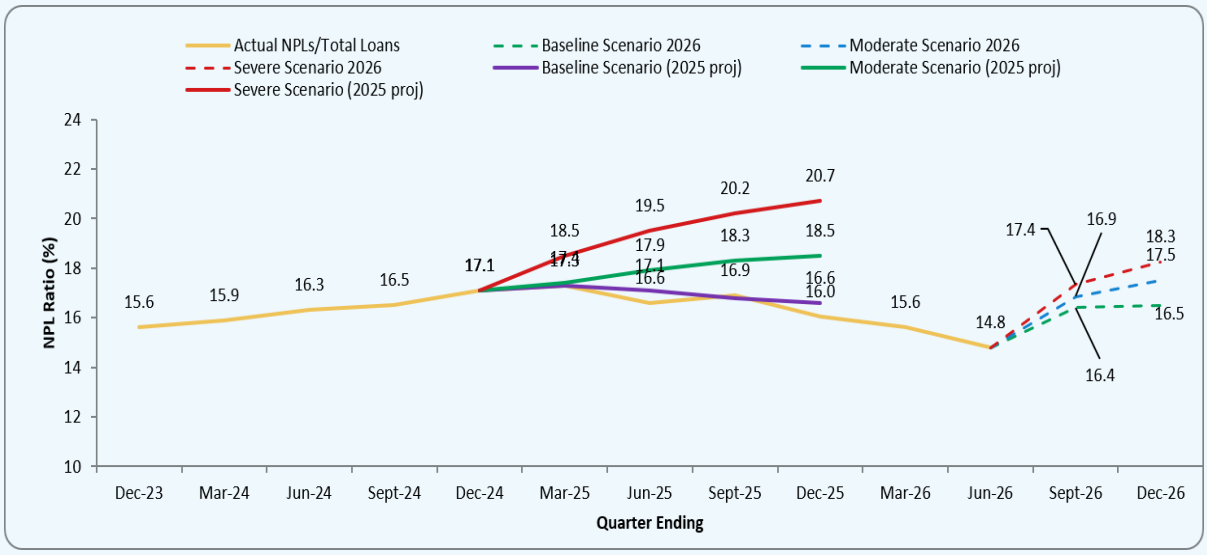
Moderate scenario: Economy slows by 0.59 ppt, 0.63 ppt and 0.78 ppt in the Q2, Q3 and Q4 2026 from the baseline due to increase in oil prices, trade disruptions, reduced remittances, exports and foreign investment.

Severe scenario: Economy slows down by 1.16 ppt, 1.24 ppt, 1.54 ppt in the Q2, Q3 and Q4 2026 from the baseline due:

a) to increase in oil prices, trade disruptions, reduced remittances, exports and foreign investment
b) Constrained fiscal support space; monetary policy easing reversal to stem secondary effects of oil price shocks and tariffs
c) Banks capitalise retain 15 percent of the profits, while write-offs are estimate at 1.0 percent per year.

If the above assumptions hold, gross loans are projected at KSh. 4,366.0 billion under severe scenario against the baseline of KSh. 4,768.5 billion in December 2026. The actual stock of loans was KSh 4,347.2 billion in December 2025 and KSh 4,645.5 billion in June 2026. The Gross NPLs are projected at KSh. 797.3 billion under severe scenario against a baseline projection of KSh. 787.3 billion in December 2026. Consequently, the declining gross loans against rising NPLs is projected to drive the NPLs ratio to 18.3 percent under Severe scenario against the baseline projection of 16.5 percent by December 2026. The actual NPLs ratio was 16.0 percent in December 2025. Figure I indicates the trajectory of NPLs ratio under the baseline, moderate and severe scenarios.

Figure i: Projected Non-Performing Loans Ratio



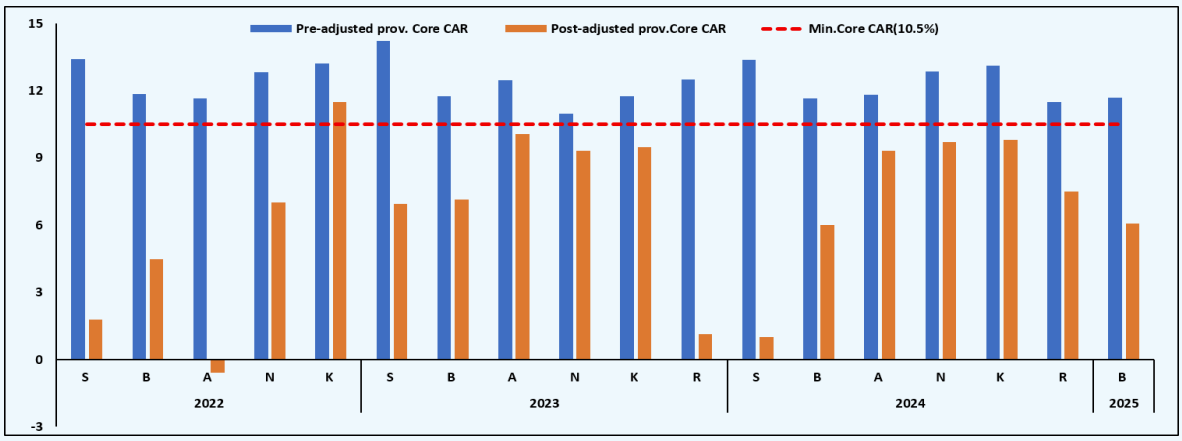
Source: Staff Computations

2. Preliminary Analysis

The May 2026 stress test was conducted on banks that fully met the regulatory capital requirements before applying any shock (Figure ii). Consequently, three (3) banks were not included in the stress test as their core capital to total risk weighted assets ratio (core CAR) was below the 10.5 percent regulatory threshold before a shock was applied. These banks require KSh. 2.4 billion in additional capital to meet the regulatory capital requirement.

The remaining thirty-six (36) banks were adjusted for full provisioning for capital adequacy in line with Prudential Guidelines . The post-provisioning Core CAR of one (1) bank declined below regulatory minimum of 10.5 percent and require additional KSh. 0.9 billion in capital to meet the minimum core CAR, an improvement from the 2025 stress test. This shows that banks have continued to build additional capital to comply with new regulatory requirement as well as ensuring sufficient provisioning (**Figure ii**).

Figure ii: Core CAR post- full provisioning adjustment



3. Credit Risk stress test results

(a) Baseline/Uniform stress test: Shocks Calibrated from Historical NPLs reflecting slow economic, policy and lending conditions in May 2024 stress test

The May 2026 Baseline (Uniform) stress test uses the shocks used in the May 2025 stress test on the December 2026 data to assess the resilience of the banking sector to May 2025 shocks. The may 2025 shocks are applied on the May 2026 data to assess whether the banking has built additional capital buffers and implemented required measures to deal with shocks that existed in May 2025 and are likely to persist in 2026. The 2025 Baseline stress test assumed that NPLs increased by 9.7 percent, 17.9 percent, and 27.4 percent under the baseline, moderate and severe scenarios. As a result, NPLs would grow to KSh 695.7 billion, KSh 711.4 billion and KSh738.0 billion under the baseline, moderate and severe scenarios, respectively, by December 2026 (**Figure v**).

Figure iii: Baseline Stress Test Results Based on December 2026 Data

Transmission Channel	Impact on Minimum Core CAR due to Increase in NPLs	May 2025 Stress Test Based on December 2024 Data			May 2025 Stress Test Based on December 2026 Data		
		Baseline Scenario	Moderate Scenario	Severe Scenario	Baseline Scenario	Moderate Scenario	Severe Scenario
Size of the Shock Applied Under Each Scenario		9.72	17.91	27.44	9.72	17.91	27.44
1. A Shock Increase in Overall NPLs	Pre-shock Core Capital Ratio (%)	17.76	17.76	17.76	17.62	17.62	17.62
	Post-shock Core Capital Ratio (%)	16.15	15.93	15.68	**16.63**	**16.34**	**16.12**
	Number of Banks below minimum Core CAR	5	6	6	1	2	4
	Capital required (KSh Mn) by banks to meet the minimum Core CAR of 10.5%	3,174.89	4,080.87	5,288.69	1,208.13	1,394.56	2,133.43
2. A Shock Increase in Sectoral NPLs	Pre-shock Core Capital Ratio (%)	17.76	17.76	17.76	17.62	17.62	17.62
	Post-shock Core Capital Ratio (%)	16.19	16.01	15.73	**16.63**	**16.35**	**16.13**
	Number of Banks falling minimum Core CAR	5	6	6	1	2	3
	Capital required (KSh Mn) by banks to meet the minimum Core CAR of 10.5%	3,167.20	3,997.15	5,683.51	1,206.80	1,473.00	1,975.70

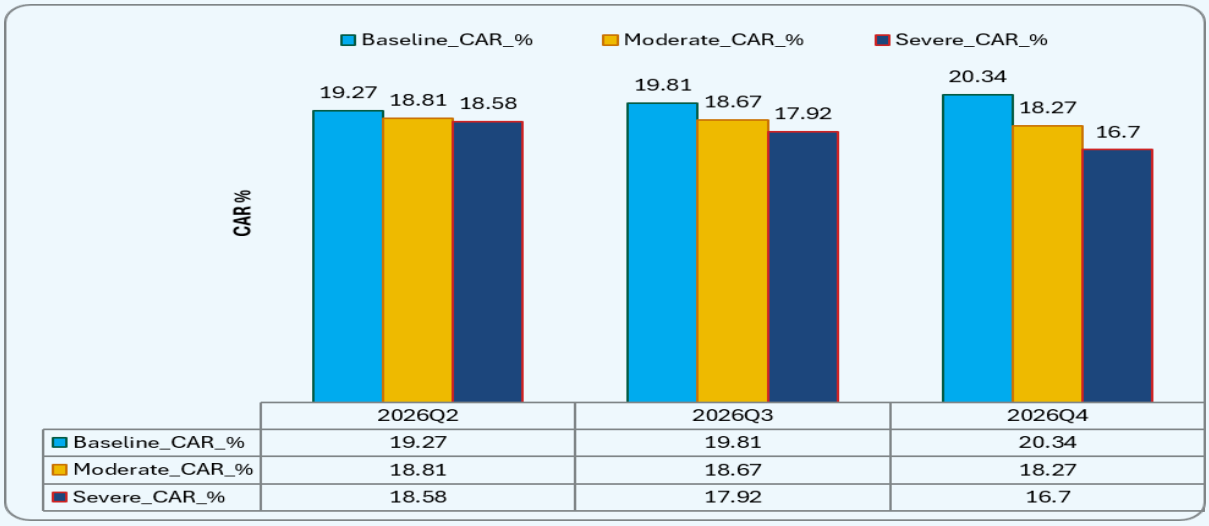
Source: CBK Staff Computations

Overall, banks hold adequate capital to withstand severe shock and continue lending by December 2026. Under the severe scenario, a 27.4 percent shock increase in overall NPLs would reduce core CAR from 17.6 percent in pre-shock to 16.1 percent, which is still above the minimum core CAR of 10.5 percent. A total of four (4) banks may not meet the minimum regulatory capital threshold if this shock materializes a reduction from 6 banks in May 2025. Consequently, the amount of capital injections required to comply with regulatory requirements reduces to KSh. 2.1 billion in December 2026 if the severe scenario materializes from Ksh.5.3 billion. All the four banks (4) are in tier III. The May 2026 stress test shows that banks have enhanced capital buffers compared to the May 2025 stress test, as indicated by post-shock core CARs, the number of banks with core CAR below the minimum of 10.5 Percent, and amount of additional capital required to meet minimum capital requirement. The results for the sectoral shocks shows that banks have enhanced their resilience to as indicated by high Core CARs, lower number of banks

failing the stress test and amount in additional capital needed after increase sectoral NPLs. The banks also have diversified their sectoral lending to mitigate sectoral credit concentration risk

(b) Event-based Stress Test 1: slowdown in economic activities and credit risk
The results of the dynamic stress test for the slowdown in economic activities indicate that the banking sector remains resilient under the baseline scenario. The NPLs ratio under baseline increases to 16.4 percent September and 16.5 percent in December, 2026. The aggregate core capital adequacy ratio (CAR) increases from 19.27 percent in 2026Q2 to 20.34 percent in 2026Q4 under baseline scenario. Under the moderate scenario, NPL ratio increases from 16.28 percent, while core CAR declines from 18.67 percent in September and 18.62percent in December. In the severe scenario, the NPLs ratio increase to 17.35 in September to 18.26 percent in December. percent under the moderate scenario and 16.65 percent under the severe scenario by the same quarter. The core CAR decline to he core CAR decline from 17.9 percent to 16.70 percent (Figure iv). The deterioration in asset quality and capital adequacy underscores the need for continued monitoring of credit risk and building capital buffers to strengthen the banking sector's resilience to adverse economic conditions

Figure iv: Capital evolution based on dynamic stress test model



	2026Q2	2026Q3	2026Q4
Baseline_CAR_%	19.27	19.81	20.34
Moderate_CAR_%	18.81	18.67	18.27
Severe_CAR_%	18.58	17.92	16.7

ii. Interest Rate stress test

1. Assumptions underpinning the scenarios are as follows:

In this stress test, we assess the resilience of the banking sector to increase in interest rate two transmission channels:

a. Slowdown of credit uptake and increase in cost of servicing loans, which accelerate impairment of the quality of loans.

b. Revaluation losses on government bonds held under Available for Sale and for trading categories

The interest rate shock is transmitted through increase in NPLs and revaluation losses on government bonds held under Available For Sale under moderate and severe scenarios against a baseline. The moderate and severe scenarios were generated form the estimated of the relationships between policy rate, NPLs, yields and lending rate using a vector autoregression model. The overall impact the shock is measured by the amount bank capital eroded under moderate and severe scenarios.

2. Interest rate stress test results

Figure iv: Interest rate stress test results

CAPITAL	LARGE BANKS (8)	MEDIUM BANKS (11)	SMALL BANKS (20)	TOTAL
Pre-Shock (KSh '000s) (Banks subjected to the test)	840,445,141.65	269,897,077.64	72,371,423.52	1,182,713,642.81
Pre-Shock (Core CAR in %)	17.08	22.90	20.04	18.30
1. Impact on NPLs through lending rates following increased CBR (100 basis points)				
PP, with an impulse increase in lending				
Core CAR (percent)	15.85	21.57	19.53	17.10
No. of Banks failing ST	-	2.00	3.00	5.00
Change CAR Post-Shock (ppts)	(1.22)	(1.33)	(0.52)	(1.20)
Capital needed to meet 10.5% (KSh '000s)	-	1,002,749.86	3,519,566.85	4,522,316.71
Severe Scenario (NPLs increase by 2.89PP)				
Core CAR (percent)	15.77	21.51	19.42	17.02
No. of Banks failing ST	0	3	4	7
Deterioration in CAR post-Shock (ppts)	-1.30	-1.39	-0.62	-1.28
Capital needed to meet 10.5% (KSh '000s)	-	4,302,808.50	3,667,840.98	7,970,649.48
2. Impact on increase in CBR on Bonds Repricing (100 basis points)				
Moderate Scenario 195 basis points				
Core CAR (percent)	15.83	21.20	16.88	16.86
No. of banks failing ST	0	3	4	7
Deterioration in CAR post-Shock (ppts)	-1.25	-1.69	-3.16	-1.44
Capital needed to meet 10.5%	-	4,531,564.65	9,243,873.45	13,775,438.09
Severe Scenario (243 basis points)				
Core CAR (percent)	15.80	21.11	16.25	16.79
No. of banks failing ST	0	3	5	8
Deterioration in CAR post-Shock (ppts)	-1.28	-1.79	-3.80	-1.52
Capital needed to meet 10.5% (KSh '000s)	-	5,594,648.15	10,988,734.04	16,583,382.19
3. Combined shock				
Moderate Scenario				
Core CAR (percent)	15.66	21.07	16.65	16.70
No. of banks failing ST	0	4	4	8
Deterioration in CAR post-Shock (ppts)	-1.42	-1.83	-3.39	-1.61
Capital needed to meet 10.5%	-	5,357,877.32	9,565,320.99	14,923,198.31
Severe Scenario (200 basis points)				
Core CAR (percent)	15.50	20.86	15.84	16.49
No. of banks failing ST	1	4	6	11
Deterioration in CAR post-Shock (ppts)	-1.58	-2.03	-4.20	-1.81
Capital needed to meet 10.5% (KSh '000s)	1,110,749.63	7,141,375.14	11,482,732.53	19,734,857.30

Source: Staff Computation

a. Under moderate scenario, the monetary policy rate increase by 1 percentage point, which results increase in the NPLs increase by 1.94 percent shock affer two quarters, which results to 5 bank fails the stress test. The banks would require KSh 4.5 billion in capital injection to meet minimum regulatory capital of 10.5 percent.

In addition, the core CAR declines by 1.20 percentage point from the pre-shock capital of 18.30 percent. Under the severe scenario, NPLs increase by 2.89 percent in response to rising interest rates. As a result, KSh 8.0 billion in total capital will be required for banks to meet the regulatory requirement is. The core CAR declines by 1.28 percentage points and seven banks fail the stress test.

b. The stress test also assessed the impact of repricing of government bonds held by banks under the Available for Sale and/or Held for Trading categories. The prices on the secondary market are used to reprice the bonds held under Held to Maturity used in this stress test. This is because, during liquidity stress bonds sold on the secondary market at discount or discounted at the CBK at 3 percentage points above the higher of coupon rate or prevailing market yield. The losses arising from liquidation of bonds are assumed to be charged on income and the balance charged on core capital.

c. The average bond yields are estimated to increase by 195 basis points and 289 basis points from the historical average of 13.379 percent under moderate and severe scenarios, to an average of 15.329 percent and 16.269 percent, respectively. If the moderate scenario materialises, core CAR of banks declines from 18.30 percent to 16.86 percent in June 2027. A total of seven (7) banks will fail the stress test. The banks would require additional capital injection of KSh 13.8 billion to meet the minimum regulatory capital requirement of 10.5 percent.

d. If severe scenario materialises, core CAR of banks would decline to 16.79 percent in June 2027. A total of eight (8) banks would fail the stress test and would require additional capital injection of KSh 16.58 billion to meet the minimum regulatory capital requirement of 10.5 percent.

e. The combined stress test assumes that banks are simultaneously exposed to credit losses due to increase in the lending rate and market valuation losses arising increase in the monetary policy. A combined shock of credit and valuation losses materialises core CAR for banks decline to 16.70 percent in June 2027 under the moderate scenario. The banks that fail the stress test will require a total of Ksh, 14.92 billion in capital injection to attain 10.50 core CAR. Under the severe scenario, core CAR declines to 16.49 percent from be the actual of 18.30 percent. The banks that fail the stress test under the severe scenario would require additional capital injection of KSh 19.73 billion to meet the minimum regulatory capital requirement of 10.5 percent.

iii. Climate Change Stress Event

Rain fall data is used to map episodes of drought, above normal and normal rains. The nromal rain period is used to compute aggregate growth, while growth during episod eof above not is designated as counter factual growth for overall and sectoral output. The size of shocks is based on the differences between output with normal rains and output with excess rains. The scenarios for el nino consists of flooding and severe flooding. The flooding episode occurs when rains are 10-20 percent above normal, while severe flooding when rains are above 20 percent above normal. Normal rain occur when they volume is within the median range of the 5 year average.

Overall, the banking is resislient to el nino shock. Under the moderate and severe scenario with moderate and severe flooding, where overal NPLs increase by 4.4 percent and 6.1 percent, respectively. These results to banking sector core CAR declining from 17.62 percent to 16.76 percent, which is above the minimun core CAR of 10.5 percent. Under the severe El Nino, output growth decelarates to 4.5 percent and NPLs increase by 6.1 percent from the baseline of 10.01 percent. The banks will require capital innjection of Ksh 1.5 billion to meet minimu core capital require by of 10.5 percent.

Heavier than normal rainfall has a differentiated impact on the sector of the economy. Whereas, el Nino boost agricuture production, othere sector contract which increases NPLs in the banking sector. The exposure of banks to increase in sectoral NPLs depends on the distribution of its loans in the sectors of the economy and their vulnerability to flooding. The sectoral shocks under moderate and severe scenarios are shown in table 1. Under the moderate flooding, the the banking sector is resilient despite core CAR declining from 17.62 percent to 16.98 percent. However, one small bank fails the stress test and would require about Ksh 1.2 billion to meet minimu core capital adequate ratio of 10.5 percent. Under severe scenario, the core CAR decline to 16.95 percent. The bank that fails the stress under moderate scenario, would require KSh 1.21 billion to attain minimu core Car of 10.5 percent by june 2027.

Table 2: Results

Transmission Channel		March 2026 Dynamic Stress Test Based on December 2026 Data	
		Moderate Scenario	Severe Scenario
	Output	**4.82**	**4.57**
Size of the Shock Appiled Under Each Scenario		**14.78**	**16.51**
1. A Shock Increase in Overall NPLs	*Pre-shock Core Capital Ratio (%)*	**17.62**	**17.62**
	Post-shock Core Capital Ratio (%)	**16.76**	**16.66**
	Number of Banks below minimum Core CAR	2	4
	Capital required (KSh Mn) by banks to meet the minimum Core CAR of 10.5%	1,315.09	1,507.46
2. A Shock Increase in Sectoral NPLs	*Pre-shock Core Capital Ratio (%)*	17.62	17.62
	Post-shock Core Capital Ratio (%)	**16.98**	**16.95**
	Number of Banks falling minimum Core CAR	1	1
	Capital required (KSh Mn) by banks to meet the minimum Core CAR of 10.5%	1,203.41	1,215.79

D. SUMMARY OF STRESS TEST RESULTS

1. Credit risk remains elevated albeit easing on account of improving macro-financial conditions.
2. Concentration risk remains high but easing as reflected by the number of banks affected and amount of capital needed if top 3 borrowers per bank default under severe scenario.
3. Overall, the banking sector has sufficient capital to absorb to interest rate shock under the baseline scenario and under moderate and severe scenario for El Nino. However, under moderate and severe scenarios for bond repricing and increase in NPLs as result of increase in interest rate, banks that failed the stress test require additional capital to meet the minimum regulatory capital requirement of 10.5 percent.

E. RECOMMENDATIONS

1. Banks to adequately provide for their assets to reflect risk appetite
2. Closer monitoring of top borrowers per bank, including a review of banks' business models and those of their top borrowers to mitigate concentration and credit risks
3. Continue monitoring potential impact of climate change stress event on the financial sector and ensure adequate provisioning and mitigations

2.1.5. Risks Assessment and Outlook for the Banking Sector

The banking sector remained stable and resilient in 2025 through first half of 2026, despite legacy and emerging risks . The resilience, reflected in strong capital and liquidity buffers on account of recovery in new lending, easing of credit exposures and strong earnings . The sector however, continued to face numerous downside risks in 2025 and 2026 on account of vulnerabilities arising from domestic and global developments. Other risks are institutional-specifc, but could spillover to the rest of the sector, hence need for closer monitoring for timely and effective policy interventions. Among the downside risks discussed in this report are credit, concentration risk, contagion risk, climate change risk, interest rate, liquidity risk and cyber risk.

Credit risk remains elevated as reflected by high non-performing loans, but easing as new lending gather pace. However, any monetary policy tightening and tighter financial conditions in 2026 could however reverse the trend. The sector is also faced with challenging business environment characterised by delays in loan repayments by households and firms on account of erosion of disposable incomes, and delays by government to pay suppliers of goods and services as fiscal consolidation continues to be implemented. It is however expected that interest rates reversals remain low on stable macroeconomic environment and government to accelerate payment of pending bills, thus easing credit risk further.

Liquidity risk remains low given the high liquidity ratios above the 20 percent minimum requirements as well as above the newly implement Liquidity Coverage Ratio and Net Stable Funding Ratio against the 100 percent threshold. While liquidity ratios have remained well above the minimum regulatory requirement of 20 percent across all banks, introduction of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) into the CBK's current liquidity framework as envisaged under the Internal Liquidity Adequacy Assessment Process (ILAAP), could impact some banks negatively. Additionally, fully implementation of the Treasury Single Account, could impact negatively for some banks that heavily rely on government-related deposits. Lastly, signicant increase in interest rates could make government securities less liquid due to mark-to-market losses, thereby impacting liquidity levels of some banks. These securities form a large proportion of liquidity ratios across the banking sector.

Climate change shocks is emerging as a key risks facing Kenya's financial sector. The main risks arising from Climate change shocks to Kenya are physical risks. Signicatly high amounts of rainfall that cause floods have in the past damaged collaterals leading to huge insurance claims or total loss of assets. Additionally, the increasingly high frequesncy of drought episodes impact Agriculture negatively and lead to high energy prices. Sectors such as agriculture, transport, tourism and energy, which accounted for 18.8 percent of gross loans and 17.4 percent gross NPLs in December 2024, have in the past borne the brunt of extreme weather events, highlighting the overall direct impact to the financial sector. While the transition and liability risks are less prominent for now, banks with exposure to high carbon emission sectors are likely to face transition risk with compliance to new standards for climate change. In the outlook, the, the government and financial sector

players have initiated measures to address this risk while at the same time tap into its emerging opportunities.

Operational and governance risks expected to increase as banks become more interconnected with sectoral and cross–border operations coupled with rapid technological innovations. Expansion of Kenyan banks in the East African region not only comes with country risk, but it also introduces governance issues if not well managed. This combined with expansion into other sectors such as insurance, capital markets and even non-financial related sectors, comes with institutional complexities that can be a source of risks. Risks transmission through this channel has not materialised in the past but requires closer monitoring of interconnectedness.

Perhaps the most significant and emerging operational risk facing the financial sector is associated cybercrime. The incidences of frauds, data privacy concerns, cyber-attacks, and cybersecurity threats increased in 2025, while recovery of amount stolen declined.

The sovereign–financial sector nexus remains a potential source of systemic risk, given the significant exposure of banks, pension funds and insurance companies to government securities. Similar risks exist across the East African Community (EAC), where sovereign exposures and the interconnectedness between governments and financial institutions could amplify fiscal shocks and transmit financial instability. This underscores the need for continued monitoring of sovereign exposures and regular stress testing to strengthen financial sector resilience.

2.1.5. Policy Developments in the banking sector to enhance financial stability

- **Central Bank of Kenya (Amendment) Act, 2026**. The Central Bank of Kenya (Amendment) Act, 2026 strengthened the statutory framework governing liquidity support by providing greater legal clarity on the Central Bank's lender-of-last-resort function and distinguishing routine monetary policy operations from emergency liquidity assistance (ELA). The Act provides a clear legal basis for the Central Bank to extend liquidity support to banks and microfinance institutions in the implementation of monetary policy and maintenance of orderly market conditions. It also establishes a comprehensive framework for the provision of ELA to solvent and viable institutions whose distress could pose systemic risks to the financial system. The framework incorporates prudential safeguards, including solvency, viability and systemic importance assessments, and provides that ELA shall be discretionary, temporary and subject to terms and conditions determined by the Central Bank. The amendment strengthens Kenya's financial safety net by enhancing the Central Bank's capacity to respond effectively to liquidity shocks, contain contagion risks and preserve confidence in the financial system. By providing legal certainty on the scope and conditions for emergency liquidity support, the Act promotes market discipline, reduces moral hazard, strengthens coordination during periods of financial stress, and aligns Kenya's crisis management framework with international best practices on central bank liquidity assistance. The ELA framework is expected to become operational by December 2026 on official gazettement of the accompanying regulations.

- **Banking Sector Penalties Framework** Following the amendments to the Banking Act through the Business Laws (Amendment) Act, 2024, the Central Bank of Kenya operationalised the Banking (Penalties) Regulations, 2025 to strengthen enforcement and regulatory compliance in the banking sector. The Regulations provide a transparent and consistent framework for assessing and imposing penalties on institutions and senior management for violations of the Banking Act, prudential guidelines and supervisory directions. The revised framework promotes a stronger compliance culture, enhances corporate governance and aligns Kenya's supervisory practices with international standards, thereby strengthening the resilience and integrity of the banking sector.

- **Greening the Financial System.** The Central Bank issued the Climate Risk Disclosure Framework (CRDF) and the Kenya Green Finance Taxonomy (KGFT) in April 2025 to strengthen the integration of climate-related financial risks into the CRDF advances transparency and accountability in climate related financial risk management, aligning the banking sector with global standards including the International Sustainability Standards Board (ISSB), International Financial Reporting Standard S2 (Climate related Disclosures) IFRS S2 and Basel Committee principles. The framework is structured around four pillars namely: Governance, Strategy, Risk Management, and Metrics and Targets.

  The KGFT provides a common framework for classifying environmentally sustainable economic activities, enabling consistent and credible identification, assessment, and disclosure of green finance. It defines eligible activities, establishes technical screening criteria and environmental and social safeguards, and supports financial institutions in measuring, reporting, and mobilising green finance across priority sectors

- **Basel III Liquidity and Leverage Standards.** The Central Bank continued implementing Basel III reforms through the rollout of the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Leverage Ratio (LR) frameworks. During 2025, commercial banks submitted regulatory returns under these prudential standards. The frameworks strengthen banks' ability to withstand short-term liquidity shocks, promote stable long-term funding structures and limit excessive leverage, thereby enhancing the resilience of the banking sector to financial stress.

- **Strengthening the effectiveness of the Anti-Money Laundering, Countering The Financing of Terrorism and Countering Proliferation Financing (AML/CFT/CPF) framework.** The Central Bank continued implementing reforms under the Kenya Credit Reporting Strengthening Project (KCRSP) to improve the effectiveness of the Credit Information Sharing (CIS) framework. Key developments included the rollout of the CIS ValiData platform to enhance data validation, improve the quality and consistency of credit information submitted by financial institutions and facilitate simultaneous reporting to licensed credit reference bureaus. The reforms are expected to strengthen credit risk assessment, support risk-based pricing and improve access to credit, particularly for micro, small and medium-sized enterprises.

- **Strengthening the AML/CFT/CPF Framework.** The Central Bank continued implementing reforms to strengthen Kenya's Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing (AML/CFT/CPF) framework following Kenya's commitment under the Financial Action Task Force (FATF) Action Plan. Key initiatives included strengthening supervisory capacity, enhancing implementation of preventive measures, issuing guidance on customer due diligence and beneficial ownership, and supporting implementation of the Virtual Asset Service Providers Act, 2025. These reforms are expected to enhance the integrity of Kenya's financial system, strengthen financial crime risk management and improve compliance with international standards.

- **Regulation of Virtual Asset Service Providers.** Kenya strengthened the regulatory framework for virtual assets through the approval of the National Policy on Virtual Assets and Virtual Asset Service Providers (VASPs) and the enactment of the Virtual Asset Service Providers Act, 2025. The legislation establishes a legal framework for licensing and supervising virtual asset service providers, with the Central Bank of Kenya and the Capital Markets Authority designated as the responsible regulators. The framework aims to promote innovation while addressing risks related to money laundering, terrorist financing, consumer protection and financial stability arising from the growing adoption of virtual assets. Development of supporting regulations was ongoing at the end of 2025.

- **Enhanced Core Capital Requirement.** The 2025 marked the first year of banks compliance with the revised core capital requirement of KES 3 billion. While a majority of banks met this target, a few could not, but were in the process of implementing capital raising measures. The target for 2026 is KES 5.0 billon as per the transition plan issued by the Bank, towards the final compliance period of December 2029.

- **Introduction of a revised Risk-Based Credit Pricing Model anchored on the Kenya Shilling Overnight Interbank Average Rate (KESONIA).** The new model is expected to enhance monetary policy transmission, improve transparency in lending rates, and promote risk-sensitive pricing of credit. By the end of the year, all banks had obtained Board approval for their pricing frameworks and commenced implementation of the new model.

- Overall, these policy measures, reforms and initiatives are expected to strengthen the banking sector's response to shocks and thus contribute to overall financial stability.

2.2 Insurance Sector

The insurance industry comprised of 57 insurance companies, 6 microinsurance companies, 5 reinsurance companies, 237 insurance brokers, 36 reinsurance brokers, 52 medical insurance providers, 26 bancassurance intermediaries, 13,975 insurance agents and 398 insurance service providers.

The insurance premium stood at KSh 464.72 billion as of December 2025 largely driven by growth in long-term insurance business premium that has for the first time commanded a larger portion of the market

premium. Industry profitability also increased mainly supported by investment income realised from investments. Assets in the insurance industry grew by 17.2% to KSh 1.47 trillion as at the end of December 2025. The robust growth in premium, profitability and assets support financial stability in the market.

Table 8: Key Performance Indicators for Insurers

Key Performance Indicators for Insurers										
Indicator	Years									
	2017	2018	2019	2020	2021	2022	2023	2024	2025*	Annual Change
	KSh '000'	KSh '000'	KSh '000'	KSh '000'	KSh '000'	KSh '000'	KSh '000'	KSh '000'		
Gross Premium Income	209,001,289	216,261,729	229,499,718	234,775,753	273,710,831	310,273,121	364,852,109	400,594,563	464,722,656	16.0%
Net Premium Written	165,852,034	172,322,202	182,658,282	187,853,004	221,133,803	249,190,282	287,465,804	320,274,528	384,360,754	20.0%
Claims Incurred (Gen. Business)	56,151,961	56,928,003	58,961,581	58,311,459	69,835,740	77,095,539	87,860,423	98,762,568	108,725,557	10.1%
Commissions	12,495,181	11,487,628	10,957,562	11,157,093	13,521,938	15,341,053	17,201,794	18,414,098	24,104,664	30.9%
Management Expenses	41,197,262	44,072,857	45,702,207	44,173,611	46,513,554	50,280,745	58,137,365	59,851,116	66,914,228	11.8%
Investment Income**	51,675,571	44,514,367	66,982,398	50,608,392	70,308,222	66,827,002	76,493,164	140,007,989	158,614,767	13.3%
Profit/Loss After Taxation**	13,642,972	7,269,268	15,119,928	6,388,955	8,645,622	14,715,312	26,179,548	30,423,137	33,068,629	8.7%
Investments**	483,799,656	524,237,249	594,568,115	656,460,833	733,461,323	833,722,972	941,689,834	1,099,999,396	1,305,267,638	18.7%
Assets**	590,953,337	635,035,110	709,045,429	765,932,477	850,506,382	956,871,079	1,076,661,510	1,252,046,103	1,467,081,311	17.2%
Shareholders' Funds**	147,255,007	149,134,602	161,635,278	166,069,303	167,914,107	184,166,513	210,437,134	232,064,288	266,070,088	14.7%
Key Performance Ratios for Insurers (Per cent)										
ROA	3.2	1.8	2.9	1.3	1.6	2.4	2.7	2.3	3.0	0.8
ROE	9.7	4.9	9.7	3.9	5.2	8.4	13.3	13.8	13.3	-0.5
Combined ratio Gen Business)	101.1	102.8	103.4	102.5	106.2	102.9	103.9	107.5	104.6	-3.0
Insurance Penetration Ratio	2.7	2.4	2.3	2.2	2.2	2.3	2.4	2.5		0.1

** Unaudited*

Source: IRA

The insurance industry is exposed to financial risks arising from the domestic and global economies, as well as interconnectedness in the financial sector. These risks are exacerbated by low insurance penetration, underwriting losses (low profitability), concentration in sovereign debt, reliance of reinsurance, climate risk exposures, liquidity stress, and evolving operational risks. These risks require macroprudential oversight that provides the basis for systemic risk monitoring, early warning of contagion and spillover effects and effective management of risks. The risks in the insurance sector in Kenya include the following;

i) Underwriting Losses and Product Profitability

The nonlife insurance segment in Kenya is largely dominated by the motor and medical classes of general insurance business. These classes, which constitute

about 65% of the general insurance business premium, are typically characterised by low profit margins and high claims frequency which result in persistent losses. The loss-making aspect is amplified by the fact that insurers underwriting these classes over rely on conventional insurance models that are cost-heavy in distribution and marred with price-based competition. In addition, these insurers rely on investment income for profitability. The underwiring losses weaken insurer balance sheets, erode capital buffers, and undermine solvency. These structural underwriting deficits can amplify systemic risk when economic stress increases claim frequency and severity.

ii) High Sovereign Debt Exposure

The insurance industry balance sheet expanded by 17.2 percent in 2025 to stand at KES 1.47 trillion. The asset base is largely composed of income generating investments to the tune of 89 percent. The industry largely invests in government debt securities (treasury bonds and treasury bills). Of the total industry total assets, 73 percent were held in government securities as of 31st December 2025. The attractiveness of this asset class stems from the high returns associated with government securities as well as their perceived low probability of default. Whereas this asset class is generally liquid and safe, overconcentration exposes insurers and the industry to fiscal risks, interest rate volatility and credit downgrades. In addition, sharp rise in yields or sovereign stress could lead to significant unrealised losses.

iii) Reinsurance Concentration and Counterparty Risk

Insurers globally typically rely on reinsurance as a risk transfer tool, improvement of financial stability, enhancement of underwriting capacity, and protection against catastrophic events or unexpected losses. By transferring/sharing risks with reinsurers, insurance companies can diversify their portfolios without exposing themselves to excessive financial strain. Reinsurance also stabilizes an insurer's performance by smoothing volatility in claims experience, supports capital management and reduces regulatory capital requirements.

The sector's significant reliance on a relatively small number of regional and international reinsurers for risk transfer and capital relief results in concentration among a few counterparties that can expose insurers to credit and liquidity risks in the event of reinsurer financial distress, delayed recoveries, or withdrawal of capacity from the market.

Such risks may be amplified during periods of global financial stress or large catastrophe events, potentially affecting insurers' solvency and liquidity positions. Effective management of reinsurance counterparty exposures through diversification, strong credit quality requirements, collateral arrangements, and prudent supervisory oversight is essential to maintaining resilience and ensuring policyholder protection.

iv) Climate and Catastrophe Risk

The episodes of severe climate-related events such as droughts, floods, landslides, and extreme weather variability has increased in frequency and severity. These have increased losses across various lines of insurance business such as property,

agriculture, motor, and consequential loss (business interruption) covers. The frequency and severity climate related events and the related losses have not been accurately captured by traditional risk models and pricing approaches used by insurers. These developments expose insurers to losses, increase reinsurance costs, and capital pressures. Therefore, upscaling catastrophe risk modelling, climate stress testing, and risk-based pricing, may contribute to the mitigation of climate-related risks and losses in the insurance industry. In addition, strengthening climate resilience through innovative products such as index-based agriculture insurance, enhanced data and analytics, and coordinated policy action by industry stakeholders and the regulator are critical in ensuring the long-term sustainability and financial stability of the Kenyan insurance sector. Furthermore, developing green insurance taxonomy may inform underwriting decision, while adoption of green finance taxonomy in the financial services sector will support climate change mitigation and adaption through investment.

v) Liquidity Stress and Market Depth

Insurers rely on investment income to meet claims obligations and operating expenses. These investments comprise of government and corporate securities, land and property, deposit and equities. The capital markets in Kenya are relatively shallow which limit the ability of insurers to quickly liquidate assets without incurring significant losses. Therefore, liquidity stress and limited market depth pose a potential risk to the stability of the insurance industry in Kenya, especially in periods of financial market volatility or large claims events.

There are limited asset class options in the local financial markets also restrict investment decisions for insurers to maximise return on investment, minimise risks and effectively manage liquidity risks. As result, a large share of insurers' investments is concentrated in government securities, which comprise of 73 percent of the total assets, while other asset classes are 28 percent. This creates liquidity challenges in the event several insurers liquidate their assets simultaneously during periods of stress, potentially leading to market price declines and liquidity pressures. These also exposes the insurance industry to sovereign risks.

In addition, sudden increase in claims arising from catastrophic events or economic slowdown may require insurers to quickly liquidate their assets, which may lead to realisation of asset values below prevailing prices. Therefore, strengthening liquidity risk management practices, diversification of investment portfolios, and enhancing market development initiatives and regulatory oversight may mitigate liquidity, and concentration risks.

vi) (Geo)political and domestic Risks

The jurisdictional conflicts in the Middle East and the resultant trade disruptions triggered volatility in energy prices and financial markets which adversely affected insurers's balance sheets, the value of investment portfolios, and claims costs. In addition, elevated inflation and disruption of freight and trade networks reduced uptake of insurance services in Kenya.

Domestically, political tensions heighten risks arising from civil unrest, business disruptions, and property damage which in

turn increases demand for political violence and terrorism covers while also exposing insurers to potential losses. The recent protests resulted to damages to property and business interruption. The disruption of business reduces uptake of insurance, while business with disruption packages file claims. The domestic and geopolitical risks also affect reinsurance availability and reinsurance pricing in global markets, increasing the cost of risk transfer for Kenyan insurers and businesses.

The foregoing highlights the need for stronger risk monitoring, scenario analysis, and macroprudential oversight by relevant authorities and regulators to ensure that insurers and other financial institutions remain resilient to both domestic and international geopolitical shocks that could affect financial stability.

Insurance Sector Safety Net

The Policyholders Compensation Fund (PCF) is a State Corporation under the National Treasury, established under Section 179 of the Insurance Act (Cap. 487, Laws of Kenya). Its primary mandate is to provide compensation to policyholders and claimants of insurers that have collapsed. In addition, PCF is mandated to monitor the risk profiles of licensed insurers and to participate in statutory management and liquidation processes upon appointment. The maximum compensation payable per claim is KShs. 500,000, an enhancement effected vide Gazette Notice No. 971 of 23rd January 2026 from the previous limit of KShs. 250,000. The PCF is financed through a contributory levy charged on both policyholders and insurers at 0.25 percent of the premium paid by each party — a combined 0.5 percent of premium. These contributions are invested primarily in Government securities, which constitute the Fund's assets. The policy holders compensation fund asset increased from **KShs. 24.6 billion** in 2024 to **KShs. 28.7 billion** in 2025.

In 2025, the PCF compensated policyholders and claimants of **five (5) insurers** whose licences had been cancelled by the Insurance Regulatory Authority (IRA). As at 31st December 2025, the Fund's assets had grown to **KSh 28.7 billion**, while the Fund's exposure to the insurance industry as measured by total outstanding claims is **KSh 166.5 billion**.

Table 9: PCF key indicators, 2021–2025 (KShs. billion, unless otherwise stated)

Indicator / Year ended	2021	2022	2023	2024	2025	Change 2024–25
PCF Fund Assets	15.41	17.38	20.68	24.55	28.75	**+17.1%**
Exposure — General insurers	47.15	60.49	58.06	69.71	80.53	**+15.5%**
Exposure — Long-term insurers	47.68	53.16	60.50	65.11	85.96	**+32.0%**
Exposure — Micro-insurers	–	–	–	–	0.03	**New**
Total industry exposure	**94.82**	**113.65**	**118.56**	**134.82**	**166.52**	**+23.5%**
Fund Coverage Ratio (%)	16.25	15.29	17.44	18.21	17.26	**–0.94 pp**

pp = percentage points. Micro-insurer exposure was first recorded in 2025 (KShs. 31.78 million). Figures may not sum exactly due to rounding.

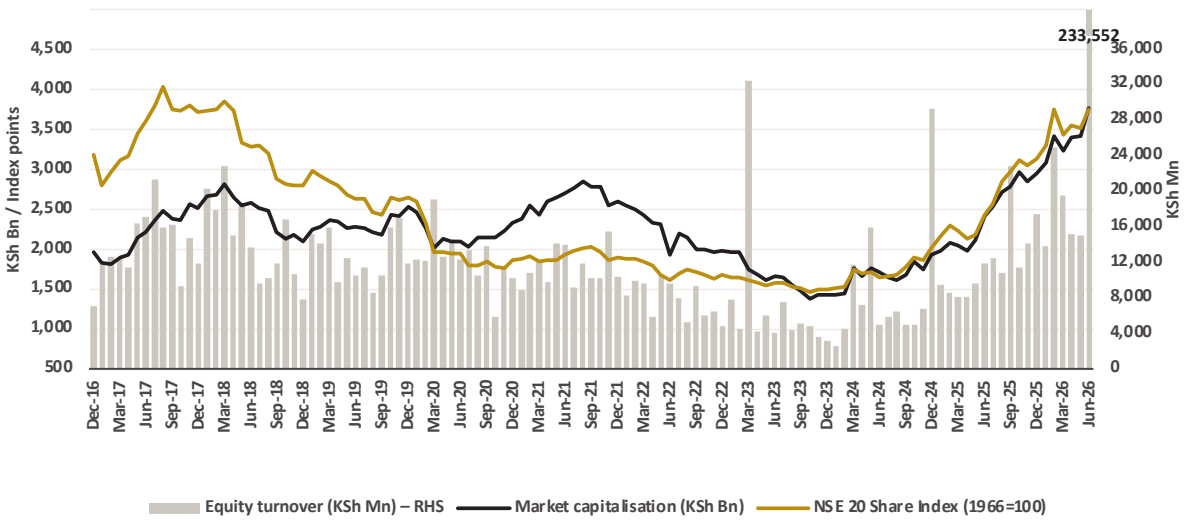
Source: Policyholders Compensation Fund

The total industry coverage ratio (Fund assets relative to total industry exposure) has remained broadly stable, ranging between 15% and 18% since 2021, indicating that Fund's assets increased in tandem with industry exposure. In 2025, the ratio eased marginally to **17.26%** (from 18.21% in 2024) as total industry exposure rose by 23.5% driven mainly by a 32.0% increase in outstanding claims from long-term insurers outpacing the 17.1% growth in Fund assets. This implies that the fund is inadequate to cover the exposures, which exposes the insureds to losses. The Fund assets are largely invested in government securities and held as deposit in the banking sector. The continued reliance on Government securities underpins the stability and liquidity of its asset base, supporting its capacity to meet compensation obligations as they crystallize. However, this exposes the funds to volatility in yields associated with developments in sovereign risk and monetary policy.

2.3 Capital Markets

Capital markets performance was resilient in 2025, driven by sustained gains in equity prices. The NASI and NSE 20, increased by 51.1 percent, 56.1 percent, respectively, in December 2025 compared to December 2024, while market capitalisation rose by 51.8 percent. The momentum continued into the first half of 2026, with the NASI and NSE 20 increasing by 20.1 percent and 19.6 percent, respectively, and market capitalisation by 27.8 percent, between December 2025 and June 2026. The total equity turnover and total shares traded also increased by 37.3 percent and 28.3 percent, respectively, in 2025 compared to 2024, while in the first half of 2026 total equity turnover and total shares traded amounted to KShs.322.3 billion and 9.6 billion shares, respectively (**Figure 26**). The gains in market capitalisation are attributed to rally in equity prices and new listings in the market. The surge in equity turnover and shares traded in June 2026 was mainly due to the divestiture of the Government of Kenya's 15 percent stake in Safaricom PLC to Vodacom Group through a block trade.

Figure 26: Select Equities Market Performance Indicators



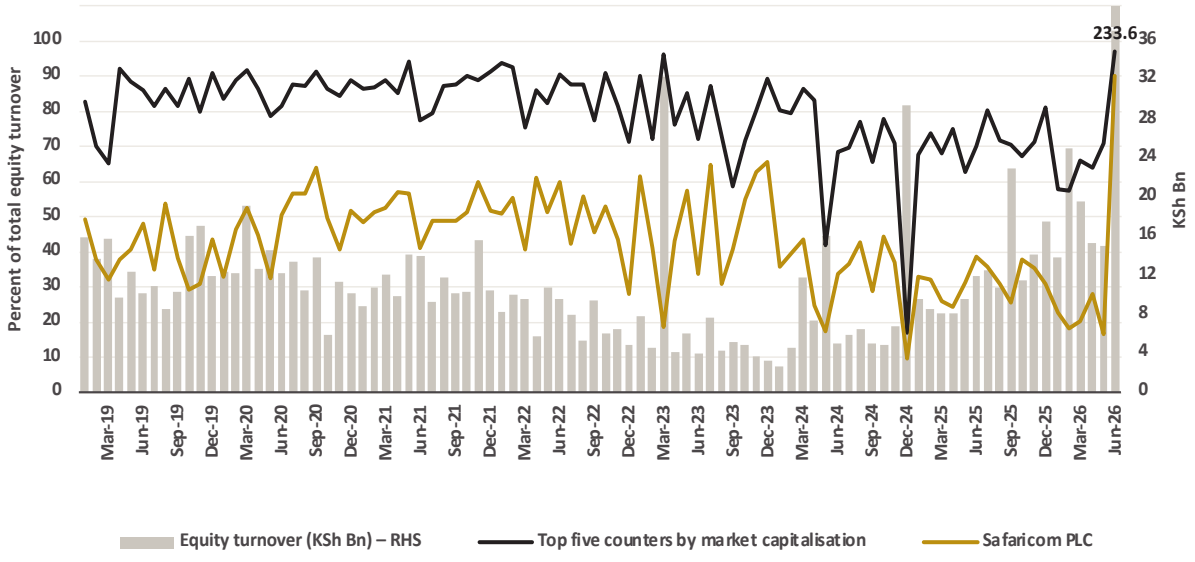
Source: NSE data

The equity market was recorded despite elevated backdrop of geopolitical disruptions and trade tensions in the global and regional economies. The rally in equity prices was underpinned by improved growth and profitability of listed companies, supported by the economic recovery and monetary policy easing.

The liquidity of the equities as measured by the ratio of equities turnover to market capitalisation declined further since from 5.5 percent to 4.9 percent in 2024 and June 2026. The ratio rose to 8.6 percent in the first half of 2026, largely due to the Safaricom block trade, and was 3.1 percent excluding the transaction. The decline in the liquidity of equities at the NSE, reduces propensity of short term investors to invest in equity. Furthermore, the illiquidity of equities discourages investors for holding equities in their portfolios for liquidity management for a short time.

The market concentration increased in 2025 and the first half of 2026, predisposing the market to trading activities of the top five companies at the NSE. The value of equities of the top 5 companies constituted 72.1 percent and 87.6 percent of the total equity turnover in 2025 and the first half of 2026, respectively, compared to 55.0 percent in 2024. The lower concentration in 2024 reflected one-off transactions in counters outside the top five, notably the takeover of Bamburi Cement and a block trade in I&M Group. The higher concentration in the first half of 2026 was mainly due to the divestiture of the Government of Kenya's 15 percent stake in Safaricom PLC to Vodacom Group through a block trade in June 2026. The companies are in the telecommunication, banking, manufacturing and allied sectors (**Figure 27**).

Figure 27: Market Concentration Risk remains

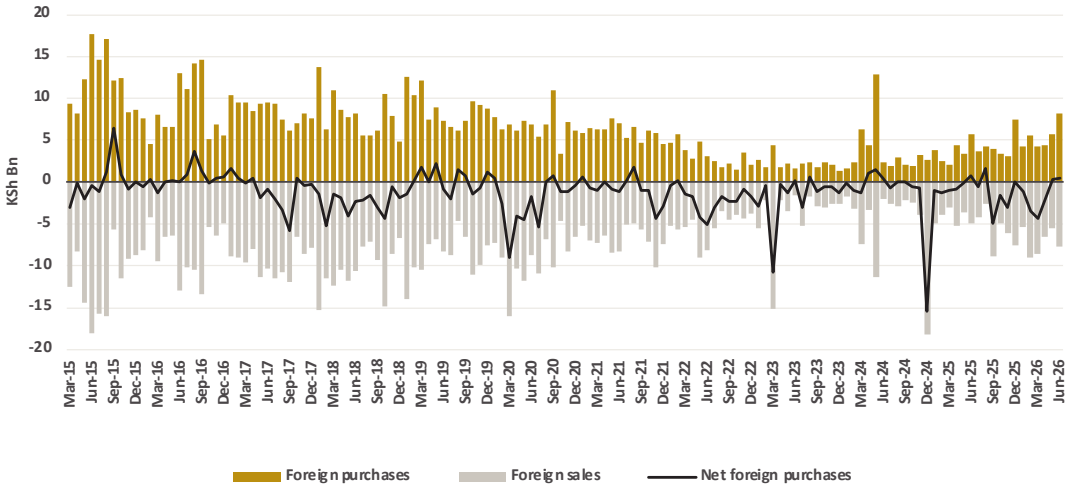


Source: NSE data

The concentration of trading activities predisposes the market to the performance of the top five companies, which are also exposed to correlated shocks, elevating systemic risks at the NSE. The listing of Kenya Pipeline Company following its initial public offering in 2026 is expected to broaden the market and reduce concentration over time.

The average foreign investor participation declined to 38.0 percent in 2025 and 28.9 percent in the first half of 2026 (34.0 percent excluding June 2026, when the Safaricom block trade inflated total turnover), from 50.9 percent in 2024 (**Figure 28**). The equities sold by foreign investors were purchased by domestic investors, whose increased trading activity contributed to the decline in foreign participation at the NSE. The geopolitical conflicts and trade tensions elevated the risk profile of developing countries, including Kenya, relative to advanced economies, prompting some foreign investors to take profits following the rally in equity prices and to reduce their holdings in favour of equities in advanced economies.

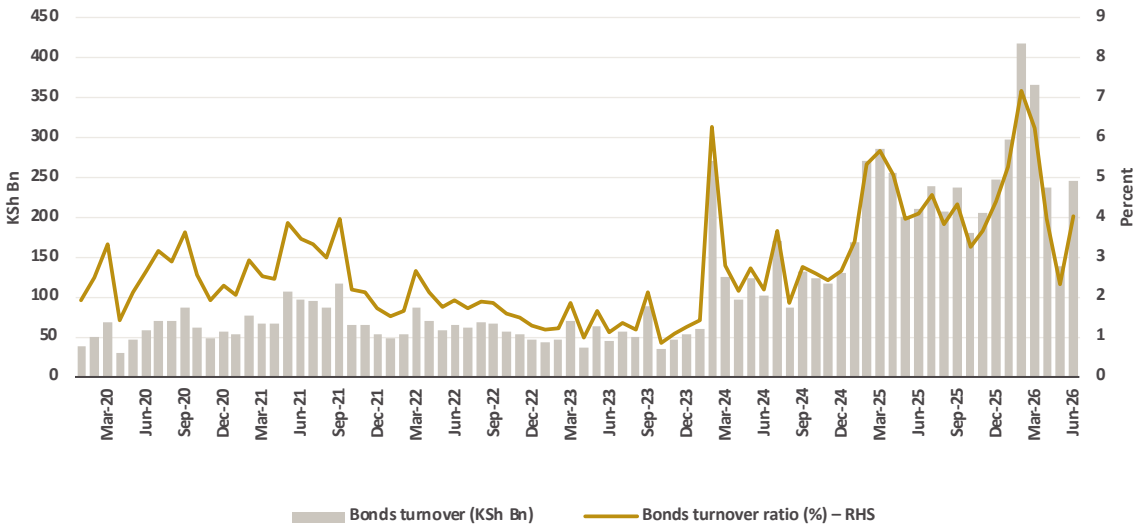
Figure 28: Foreign Investor Activity at the NSE



Source: NSE data

The fixed income segment at the NSE recovered in 2025 with Safaricom PLC and East African Breweries PLC issuing medium-term note. The bonds traded in the domestic secondary market increased by 75.5 percent from 1,544.4 KSh billion in 2024 to KSh 2,710.9 billion in 2025, mainly dominated by treasury bonds. The momentum continued in the first half of 2026, with bonds traded increasing by 22.4 percent to KSh 1,703.1 billion, from KSh 1,391.8 billion in the first half of 2025. A similar strong investor appetite for Government bonds was recorded in the primary market, where most bonds offered were oversubscribed. The ratio of bonds turnover to the face value of outstanding bonds increased from 2.66 percent in December 2024 to 4.38 percent in December 2025, indicating an increase in the liquidity of bonds (**Figure 29**). This can be attributed to the decline in mark to market losses as result of decline in yields. The ratio eased to 4.02 percent in June 2026, but remained above the 2.66 percent recorded in December 2024.

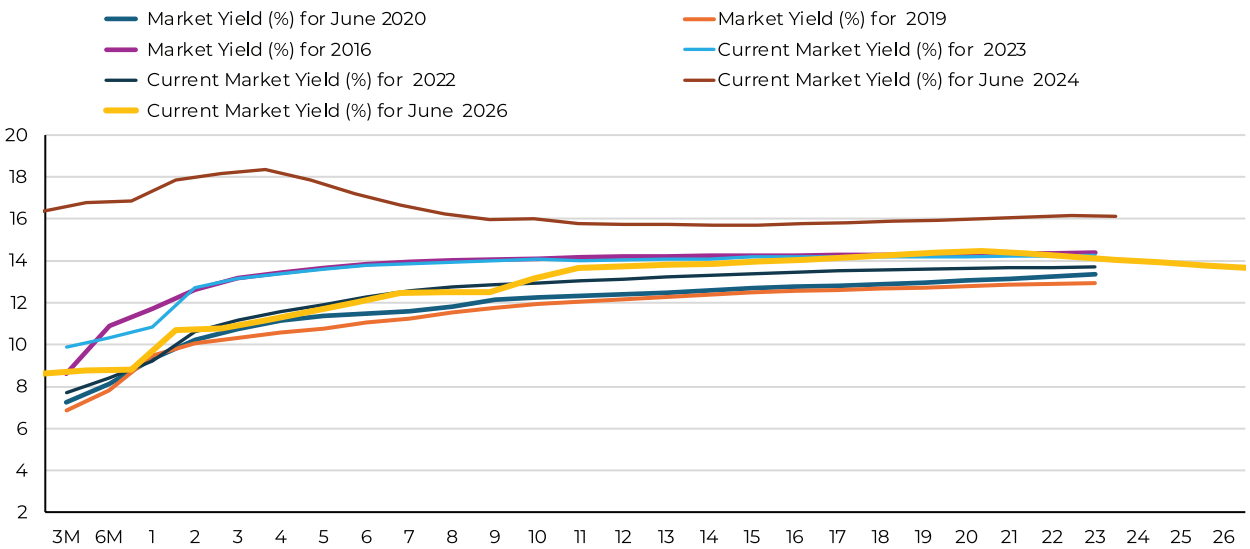
Figure 29: Local Currency Bonds Secondary Market Activity



Source: NSE and CBK datasets

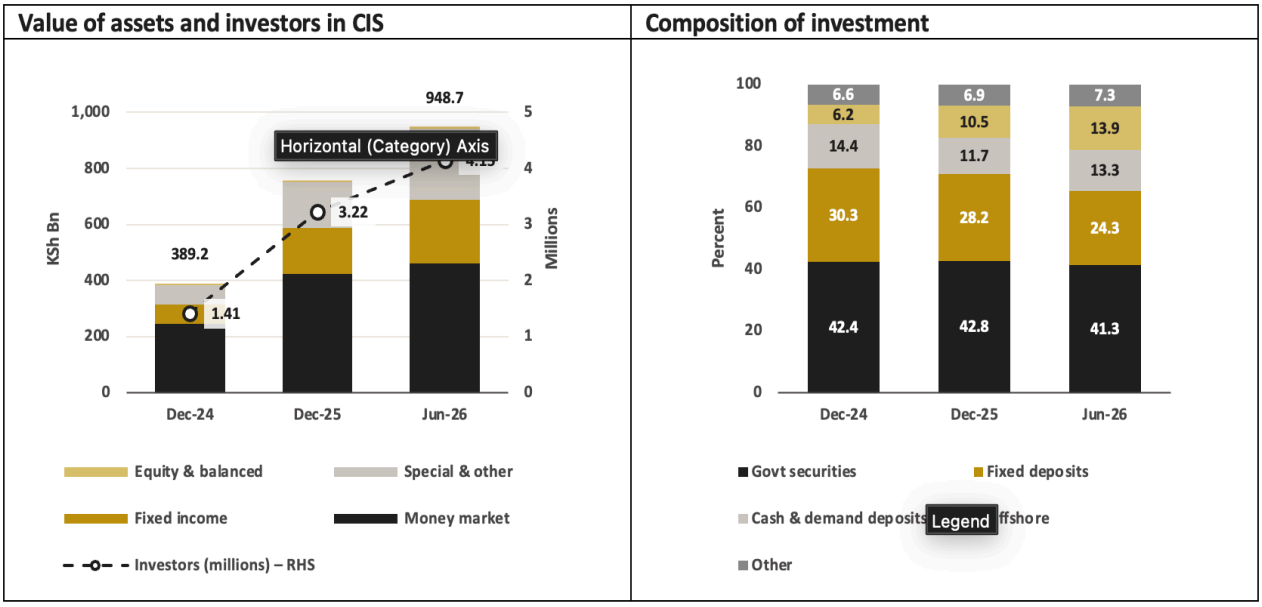
The yield curve on bonds shifted downwards as interest rate declined in the domestic and international markets. The yields on the secondary market are influenced by monetary policy rate, financial conditions in the domestic and foreign economies and riskiness of the issuer. In 2025 and first half of 2026, monetary policy, the domestic and financial conditions eased which alleviated the riskiness of the Kenya Government and corporates. In addition, debt management and resilient growth the reduced the risk on government securities, which moderate, the yields (**Figure 30**).

Figure 30: Yields of Government Bonds



The collective investment scheme segment recorded significant growth and development due to investors increasingly being aware of the opportunities to save and invest through the capital market. The CIS have also leveraged regulatory changes to advance the investment interest of the groups. The number of investors under CIS increased by 128.8 percent from 1.4 million in December 2024 to 3.2 million in December 2025, and further to 4.1 million in June 2026, while assets under management increased by 94.3 percent from KSh 389.2 billion to KSh 756.2 billion, and further to KSh 948.7 billion in June 2026 (Figure 30). The assets are predominantly invested in Government of Kenya securities, fixed deposits, and cash and demand deposits.

Figure 31: Assets under CIS, Investors and Composition of Assets



Source: CMA

The concentration of assets in government securities, fixed deposits, and cash and demand deposits, which accounted for 78.9 percent of the total assets under management in June 2026 compared to 87.1 percent in December 2024, indicates that the CIS have a lower risk appetite. However, compression of interest rate margins in the money market reduces returns to investment compared to investment in equities. Offshore investments increased to 13.9 percent of total assets in June 2026 from 6.2 percent in December 2024.

Despite the increase in market risks as a result of narrowing of interest rate margins due to easing of monetary policy, the distribution of CIS assets between Money Market, Equity, Fixed Income, Balanced and Special funds reduces the risks. The Money Market Fund and Special Fund accounted for 48.5 percent and 26.6 percent, respectively, of the total assets under management in June 2026, compared to 63.4 percent and 18.2 percent (special and other funds) in December 2024. The money market and special funds are the most preferred due to lower risks and flexibility in the choices of the investment portfolio. Fixed income funds are also preferred for their flexibility in investment and income from instruments purchased, with their share rising to 24.0 percent from 17.2

percent. The equity and balanced funds are the least preferred, at 0.6 percent and 0.2 percent, respectively, even though they generate returns in the longer run and are therefore preferred by investors who have a longer-term perspective of the return on assets. In addition, CIS also hold foreign denominated assets. The foreign currency denominated funds under management amounted to KSh 110.5 billion in June 2026, representing a market share of 11.6 percent, up from KSh 41.7 billion (10.7 percent) in December 2024. Holding foreign currency denominated bonds mitigates exchange rate risks and eases repatriation of benefits for non-residents. Therefore, the distribution of the assets under management under diverse CIS and holding of foreign denominated assets minimises the risks to the investors.

Trends of key developments and risks

1. The equity market recorded a strong rally in 2025 that continued into the first half of 2026, supported by monetary policy easing and improved corporate earnings. The rally was largely driven by domestic investors, as foreign investors remained net sellers amid elevated geopolitical and trade tensions.

2. The privatisation of state corporations gained momentum following the enactment of the Government-Owned Enterprises Act, 2025. The Kenya Pipeline Company was listed on the NSE in March 2026 following an oversubscribed initial public offering, while the Government divested part of its stake in Safaricom PLC to Vodacom Group through a block trade in June 2026.

3. The corporate bond market revived, with East African Breweries PLC and Safaricom PLC issuing medium-term notes in 2025, including Safaricom's green bond. The Kenya Mortgage Refinance Company also listed a green bond in 2026, broadening the range of fixed income instruments available to investors.

4. Kenya's leadership in sustainable finance continued to grow, with the National Treasury launching its first sovereign sustainability-linked bond in June 2026, tied to environmental and social targets, complementing green bond issuances by corporates.

5. The regulatory framework for virtual assets was established following the enactment of the Virtual Asset Service Providers (VASP) Act, 2025, which designates the CBK and the CMA as regulators of virtual asset service providers. The VASP Regulations, 2026 were subsequently gazetted, operationalising the licensing framework for virtual asset service providers.

6. Collective investment schemes continued to record rapid growth in assets under management and number of investors, driven by new funds, digital distribution channels and increased investor awareness. Special funds, fixed income funds and offshore investments gained prominence, reducing the dominance of money market funds.

7. The CMA approved the NSE trading rules which, effective August 2025, established a recovery board for the Main Investment Market Segment (MIMS) and the Small and Medium sized Enterprises (SMEs) segment, to host companies facing financial and governance challenges. This will enhance market integrity, protect investors, and facilitate the recovery of fragile listed firms.

8. The NSE trading rules also removed the minimum trading lot of 100 shares, allowing investors to trade in multiples of one share to enhance retail participation in the equity market.

Mitigation measures and embedded Safety nets

1. The Authority enhanced the supervision of collective investment schemes through quarterly reviews of fund managers' portfolios, which identify breaches of investment limits, including exposure to unlisted securities, single issuers and related parties, and the tenor of money market fund investments, and require corrective action. Reporting by fund managers was also harmonised through the Authority's REGMIS platform.

2. The Capital Markets (Licensing Requirements) (General) Regulations, 2025 and the Capital Markets (Collective Investment Schemes) Regulations, 2023 have strengthened the requirements for market intermediaries and fund managers, including the quarterly submission of management accounts and portfolio reports.

3. The recovery board provides investors with clear information on the risk profile of listed companies facing financial and governance challenges, while giving the companies an opportunity to restructure before delisting.

4. The VASP Act, 2025 and the VASP Regulations, 2026 bring virtual asset service providers under licensing, supervision and anti-money laundering requirements, reducing the risks posed by unregulated platforms.

5. The Authority continues to issue public notices on unlicensed entities and to conduct investor education to curb losses from unlicensed online investment schemes.

6. The distribution of assets across money market, fixed income, special, equity and balanced funds diversifies risks in collective investment schemes, while foreign currency denominated funds help investors hedge against exchange rate risk.

Risks and Outlook

1. Market concentration remains high, with trading activity dominated by a few large companies in the telecommunication, banking and manufacturing sectors, exposing the market to company-specific and correlated shocks.

2. The liquidity of equities remains low, as growth in market capitalisation outpaced trading activity. Low liquidity limits the ability of investors to adjust their portfolios without affecting prices.

3. Persistent foreign portfolio outflows, elevated geopolitical and trade tensions, and shifts in global interest rates could trigger capital outflows and price volatility in the equity and bond markets.

4. Following the strong rally in equity prices, the market is susceptible to corrections and profit-taking, particularly if corporate earnings or macroeconomic conditions weaken.

5. The rapid growth of collective investment schemes, the concentration of assets in money market funds and government securities, and the increasing exposure to

offshore investments and special funds raise interest rate, liquidity and foreign exchange risks. Breaches of investment limits, including exposure to unlisted and related-party investments, remain a concern.

6. The large share of government securities in the portfolios of collective investment schemes and other investors exposes them to changes in yields arising from fiscal pressures and sovereign risk.
7. Increased digitisation and the growth of online investment platforms elevate cybersecurity risks and the risk of losses from unlicensed schemes and virtual asset platforms, as the VASP licensing framework is implemented.
8. The capital markets are expected to remain resilient, supported by the privatisation programme under the Government-Owned Enterprises Act, continued issuance of corporate and green bonds, the growth of collective investment schemes, and the planned replacement of the NSE automated trading system in 2026.

2.4 Pensions Sector

The assets of the pension sector grew by 24.57 percent, to KSh. 2,811 billion as of December 2025. This growth was driven by an increase in both member contributions and investment income. The rise in contributions is largely attributed to the enhanced NSSF contributions, which in February 2025, entered the third year of implementation, raising the lower limit from KSh. 7,000 to KSh. 8,000 and the upper limit from KSh. 36,000 to KSh. 72,000.

The contributions provided more funds for investment, contributing to positive growth in government securities, quoted equities, guaranteed funds, listed corporate bonds, private equity, and offshore investments. However, immovable property recorded a negative growth of 8.24 percent as pension schemes took advantage of more liquid investment opportunities available.

The pension sector continues to shift towards fixed income assets such as government securities, guaranteed funds and fixed deposits. This is reflected in schemes investing significantly more in government securities and guaranteed funds, motivated by increased returns in the asset classes over the period.

Government securities remained the dominant investment class, accounting for 52.1 percent of total assets under management. This was followed by guaranteed funds at 18.6 percent, quoted equities at 11.1 percent, and immovable property at 8.6 percent.

Table 10: Pension Sector Assets Allocation

Assets Class	2020		2021		2022		2023		2024		2025	
	Kshs. (Bn)	%	Kshs. (Bn)	%	Kshs. (Bn)	%	Kshs. (Bn)	%	Kshs. (Bn)	%	Kshs. (Bn)	%
Government Securities	625.7	44.7	707.0	45.7	722.0	45.8	818.9	47.5	1,183.3	52.5	1,465.5	52.1
Quoted Equities	218.1	15.6	254.6	16.5	215.2	13.7	145.1	8.4	202.3	9.0	312.8	11.1
Immovable Property	251.3	18.0	254.5	16.5	248.4	15.8	242.1	14.0	249.2	11.1	241.0	8.6
Guaranteed Funds	230.6	16.5	259.8	16.8	298.0	18.9	358.1	20.8	437.5	19.4	522.4	18.6
Listed Corporate Bonds	5.3	0.4	6.8	0.4	7.8	0.5	6.6	0.4	6.3	0.3	28.3	1.0
Fixed Deposits	39.0	2.8	27.9	1.8	42.2	2.7	81.9	4.7	53.7	2.4	56.5	2.0
Offshore	11.4	0.8	19.4	1.3	14.1	0.9	27.2	1.6	64.5	2.9	85.2	3.0
Cash	12.2	0.9	9.5	0.6	16.8	1.1	25.0	1.4	23.1	1.0	33.2	1.2
Unquoted Equities	3.4	0.2	3.5	0.2	5.0	0.3	3.6	0.2	4.0	0.2	8.9	0.3
Private Equity	1.7	0.1	3.0	0.2	3.6	0.2	5.7	0.3	16.2	0.7	29.9	1.1
REITS	0.3	0.0	0.4	0.0	0.3	0.0	11.1	0.6	11.7	0.5	14.4	0.5
Commercial Paper, Non-listed bonds & Others	0.0	-	1.1	0.1	2.7	0.2	0.02	0.001	3.20	0.1	12.1	0.4
Any Other Assets				1.12	2.67	0.00			0.2	0.0	0.5	0.0
TOTAL	**1,398.96**	**100.0**	**1,547.43**	**100.00**	**1,578.85**	**100.00**	**1,725.44**	**100.00**	**2,255.20**	**100.00**	**2,810.64**	**100.00**
Overall Risk Score		**3.15**		**2.98**		**2.96**		**2.94**		**2.96**		**2.67**

Source: RBA data

Key Risks and Mitigation Measures

The pension subsector is faced with the following risks:

i. **Funding Risks:** The risk manifests through underfunding in defined benefits schemes and unremitted contributions in defined contribution schemes. As at 30th March 2026, the average funding level of the forty-six (46) registered defined benefit schemes was eighty-eight percent (88%). However, twenty (20) schemes reported a funding level which was below the required minimum funding level of defined benefit schemes of one hundred percent (100%) and total actuarial deficit of Kshs 64.5 billion. In addition, the total unremitted contribution as at 31st December 2025 was Kshs 66.05 billion, which was apportioned between public and private sectors in the ratios of ninety-six percent (96%) and four percent (4%) respectively.

ii. **Concentration risk –** 90.43% pension assets are invested in just four asset classes, despite the Retirement Benefits Authority (RBA) providing more than 15 approved investment avenues. This high concentration exposes the pension sector to significant vulnerability, as shocks in any of the four asset classes could have a widespread and pronounced impact across the industry.

iii. **Operational Risks:** Most of the retirement benefits schemes are small and may not have adequate internal controls, systems and resources to adequately manage the pension scheme assets.

iv. **Agency Risk:** The retirement benefits sector has outsourced most of its services including administration, custodial and fund management. This therefore poses a risk to the sector due either to excessive fees or conflict of interest among the players.

v. **Demographic Gaps and Informal Sector Coverage:** Pension coverage is currently majorly concentrated in the formal sector. The low coverage among informal workers exposes them to old-age poverty and consequently results in pressures on national social safety nets.

vi. **Macro-Fiscal and Disposable Income Threats** – A high cost of living and tight fiscal policies may squeeze household disposable incomes, lowering personal savings margins and reducing voluntary member contributions. In addition, a shift toward lower investment returns mainly driven by cooling yields on government securities also threatens to slow asset growth and weaken long-term pension adequacy.

Mitigation Measures

1. **Enforcing Remedial Funding Plans and Debt Recovery** - Requiring underfunded defined benefit schemes to strictly adhere to approved funding plans to clear the actuarial deficit. For unremitted contributions, the regulator is aggressively pursuing legal enforcement and collaborating with public sector sponsors to structuralize debt repayment schedules, targeting the 96% backlog concentrated in the public sector.

2. **Promoting Diversification into Alternative Assets** - Encouraging schemes to spread investment risk beyond the traditional four asset classes by utilizing the broader 15 RBA-approved categories. This includes driving allocations into high-yielding infrastructure papers, private equity, and green housing funds to reduce the sector's 90.43% concentration risk and shield it from market shocks.

3. **Encouraging Scheme Aggregation (Umbrella Transition)** - Mitigating operational risks for small, under-resourced individual schemes by facilitating their transition into collective Umbrella arrangements. This consolidation enhances internal controls, improves compliance efficiency, and reduces administrative overheads.

4. **Strict Intermediary Oversight and Cost Caps** - Strengthening thematic reviews and active supervision over outsourced service providers (administrators, custodians, and fund managers) to curtail excessive fee structures and eliminate conflicts of interest.

5. **Product Innovation for the Informal Sector -** Expanding coverage to the informal economy by supporting digital micro-pension products and bundled initiatives like the Hustler Fund savings component. These flexible, low-cost avenues lower the barrier to entry, helping to insulate informal workers from long-term old-age poverty.

Dynamic Asset-Liability Management and Income Shields - Helping schemes counter high costs of living and falling yields by encouraging asset-liability matching and flexible contribution frameworks.

2.5 Sacco Sector

The regulated SACCO industry maintained a strong growth trajectory during the review period, with total assets increasing from Kshs 1.08 trillion recorded in December 2024 to close at Kshs 1.21 trillion in December 2025. This represents an annual growth of 12.01% reflecting sustained member confidence, resulting into increased mobilization of savings to facilitate higher uptake of credit facilities across the regulated SACCO Societies.

The above growth in Total Assets was largely driven by significant improvement in loans and credit advances which recorded a growth of 12.56% in gross terms to close at Kshs 948.67 billion in 2025 from Kshs 845.8 billion reported in 2024. These loans were majorly funded by savings deposits mobilized from members which grew by 10.95% to reach Kshs. 832.8 billion in 2025 from a total deposit base of Kshs. 750.6 billion in 2024. This underscores the regulated SACCO industry's growing significance in financial intermediation and its contribution to deepening financial inclusion within the economy. Nonetheless, the pace of asset growth necessitates continued supervisory vigilance to ensure that such expansion is underpinned by prudent credit risk management, adequate capital buffers, and sound liquidity positions.

The Authority will therefore continue to closely monitor sectoral developments to safeguard financial stability, promote resilience, and ensure that regulated SACCO Societies operate within the prescribed prudential and regulatory framework to harness the gains realised.

Institutional capital for the DT-Category increased by 10.75% to KShs 143.87 billion, reflecting improved internal capital generation. On the other hand, retained earnings and disclosed reserves for the NWDTS category closed at KShs 11.17 billion from KShs 14.07 billion reported in 2024. This represented a decline of 20.62% as a result of transitioning of one large tiered NWDTS to DT category.

Gross income grew by 8.29% from KShs 159.6 billion to KShs 172.83 billion. This is a decrease from the 13.27% recorded the previous year. On the other hand, operating expenses increased by 12.2%, representing an increase from 10.25% recorded in 2024. Unchecked growth in operating expenses against incomes generation have the potential of constraining future capital accumulation thereby weakening cost income ratio. Consequently, regulated SACCO Societies are advised to implement cost containment and operational efficiency measures including diversification of income streams. **Table 11** is a summary of key financial metrics for the regulated SACCO Societies.

Table 11 Key Financial Metrics for Regulated SACCOs

Metric	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Change 2025/ 2024 (%)
Total Assets	392.80	441.80	497.30	555.90	630.90	700.30	764.20	981.50	1,080.90	1,210.70	12.01
Gross Loans	291.40	331.30	373.20	420.50	474.70	523.00	586.00	759.00	842.80	948.67	12.56
Total Deposits	272.40	307.00	342.30	381.10	431.10	473.30	522.40	677.80	750.60	832.80	10.95
Core Capital	58.10	66.80	78.30	95.10	100.40	119.60	142.30	162.30	188.70	227.66	20.64
Institutional Capital	34.00	38.80	46.30	59.30	59.80	73.60	90.60	104.00	129.90	143.87	10.75
External Borrowings	20.20	21.80	22.20	22.10	23.50	24.60	24.30	26.80	25.20	27.76	10.14
Earning Assets	313.50	357.00	403.80	455.60	517.00	567.40	574.40	838.70	927.10	990.78	6.87
Liquid Assets	40.30	47.10	55.20	67.70	85.80	105.90	108.00	126.50	155.90	165.52	6.17
Non-Performing Loans	14.80	19.90	22.90	25.90	32.90	35.40	48.40	44.40	53.10	58.37	9.92
Provisions for Loan Losses	8.90	11.20	14.60	18.60	23.90	26.20	37.50	43.80	55.50	61.00	9.91
Gross Income	52.60	60.70	69.30	80.20	84.50	96.50	105.60	140.90	159.60	172.83	8.29
Operating Expenses	18.30	20.70	23.10	25.70	26.90	31.50	36.00	43.90	48.40	54.30	12.20
Net Interest Margin	29.00	33.00	41.70	44.10	48.90	58.00	62.80	76.50	83.80	73.55	-12.24
Short-Term Liabilities	79.40	86.80	100.20	133.20	121.20	138.60	147.30	176.40	192.90	90.04	-53.30
Net Financial Income	31.40	36.10	41.70	47.50	52.00	59.40	66.40	85.10	94.60	96.78	2.30

Source: SASRA database. Figures in KShs billion where applicable. 2025 figures are extracted from audited financial statements while prior years are drawn from December of each year return.

Merger in the SACCO Subsector

During the year under review, membership of one of the regulated SACCO Societies voluntarily joined another DT-SACCO representing a strategic consolidation initiative consistent with the provisions of the Co-operative Societies Act. It was observed that the process sought to address operational inefficiencies, strengthen financial resilience, and achieving economies of scale necessary to support sustainable growth and improved service delivery to members.

From a financial stability perspective, the integration is expected to strengthen capacity to withstand shocks through enhanced capital base, improved liquidity position, and diversification of the loan asset. Additionally, the consolidation of members provides an opportunity to address structural weaknesses, improve governance frameworks, and enhance compliance with prudential and regulatory requirements across the combined entity.

Nevertheless, the realisation of these stability benefits is contingent upon the adequacy of pre-merger due diligence, proper valuation of assets and liabilities, and the effective integration of governance, risk management, and operational systems. The Board is therefore expected to ensure that the merger process is

supported by a comprehensive regulatory impact assessment, clear amalgamation plan, and robust post-merger integration framework to mitigate transitional risks, including operational disruptions, member attrition, and potential deterioration in asset quality.

The Authority will continue to closely review the proposed merger to ensure full compliance with statutory and prudential requirements and to safeguard the interests of members, creditors, and the stability of the SACCO sector. This is in line with the Ministry of Cooperative Development and MSME long-term strategic focus of preventing failure through regulatory interventions like voluntary mergers rather than dissolution.

Licensing Status

The Authority considered and processed two (2) license certificates for non-withdrawable deposit taking SACCOs that transited to deposit taking category during the year. On the other hand, one NWDTS was acquired.

i. Liquidity risks

Regulated DTS were compliant with regulatory ratio requirement of 15% of total deposit liabilities to close at 185.66%. However, an assessment of liquidity using loans to deposits ratio translated to 113.91% from 112.28% reported in 2024 indicating that loans exceed member deposits contributions. This signals growing reliance on external borrowings, with heightened liquidity exposure in stress scenarios. Further, this has the potential of weakening stable funding structure. Consequently, the Authority advises the regulated SACCO Societies to strengthen their deposit mobilisation initiatives and limit excessive reliance on external borrowings, which recorded growth of 10.14% during the period under review.

Safety nets

The SACCO Societies (Amendment) Bill, 2025 proposes to introduce a comprehensive liquidity safety net aimed at strengthening financial stability and protecting member deposits across the Regulated SACCO industry. It envisages the establishment of a Central Liquidity Facility (CLF) and a central liquidity pooling framework through introduction of a Secondary co-operative which will enable participating SACCO Societies to access short-term funding, facilitate inter-SACCO lending, and manage liquidity shocks more effectively. In addition, the Bill mandates liquidity reserve requirements and enhances the Authority's role in prescribing capital and liquidity standards, thereby improving prudential oversight and reducing the risk of isolated liquidity failures.

Complementing these measures, the Bill introduces system-wide protection mechanisms, including the operationalisation of a Deposit Guarantee Fund (DGF) to compensate members in the event of a Regulated SACCO failure. These mechanisms create a layered safety net similar to the banking sector, comprising liquidity support, early intervention, and deposit protection, aimed at restoring confidence, mitigating systemic risk, and enhancing crisis resilience.

ii. Credit Risks

Regulated SACCOs recorded an increase in non-performing loans (NPLs) from KShs 53.1 billion in 2024 to KShs 58.37 billion in 2025 in line with increased loans issuance during the period under review. This translated into an increase of 9.92% during the period under review. On the other hand, computed NPL ratio translated to 6.15% compared to 6.3% recorded in 2024. However, growth in loans during the same period registered an increase of 12.56%

to close at KShs 948.67 billion thereby outpacing the improvement in

On the other hand, provisions during the year were reported at KShs 61 billion against non-performing loans of KShs 58.37 billion. The NPL coverage ratio remained relatively unchanged at 104.51% compared to 104.5% reported in 2024 highlighting the adequacy of the provisioning and stronger buffers in business loss absorption.

Safety net

Regulated SACCOs maintained non-performing coverage ratio at over 104.51% during the period under review underscoring the adequacy of loan loss provisions providing a strong buffer against credit losses and reinforcing the overall financial stability and risk absorption capacity. The Authority will continuously monitor non-performing loans and adequacy of provisions thereof

3. FINANCIAL MARKETS INFRASTRUCTURE DEVELOPMENTS AND RISKS

This chapter presents development and risks outlook in the systematically important retail and wholesale national payments and settlements systems, as well as the regional payments and settlement systems. The chapter also incorporates developments in the *Dhow* Central Securities Depository (*Dhow* CSD) for Kenya government securities.

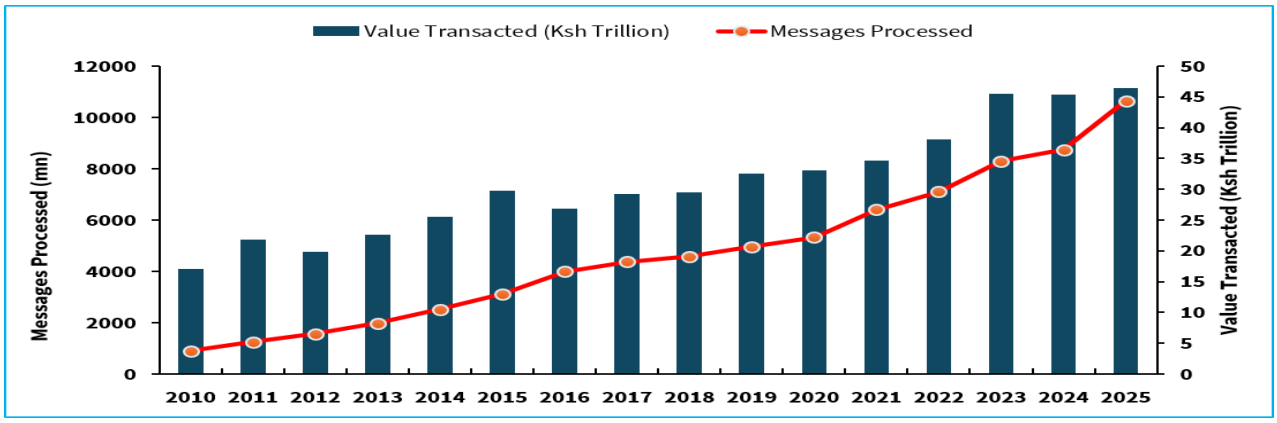
3.1. Payments and Settlement Systems

The Central Bank of Kenya is mandated by National Payments Act 2012 to formulate and implement such policies as best to foster the establishment, regulation, and supervision of efficient and effective payment, clearing and settlement systems. Kenya's National Payment System comprises of; large-value payment system or the Real Time Gross Settlement (RTGS) system, also known as Kenya Electronic Payment and Settlement System (KEPSS); low-value (retail) payment system (mobile money, cards, electronic funds transfers (EFT) and cheques); and regional payments system. The latter clears and settles through the links established by EAC and COMESA central banks with KEPSS.

Overall, the national payment systems continued to play its pivotal role of facilitating transactions efficiently and effectively in 2025. This has contributed to enhanced trust and confidence among users, which is critical in supporting the economy. The fast-changing consumer behaviour on account of demographic dynamics and technological revolution contributed to rapid growth in digital financial innovations traversing the health, agriculture, education, and transport sectors. This further highlights the significant role developing an efficient and stable digitalised economy envisaged under economic pillar of Vision 2030.

Kenya's Real Time Gross Settlement (RTGS) system, which is the country's systemically Important Payment System processed 10.6 million transaction messages worth KSh. 46.4 trillion in 2025. This was above 8.7 million messages worth KSh. 45.3 in 2024 (**Figure 31**). The performance indicates continuous improvement in operational efficiency of KEPSS that guarantees speed, security, and reliability.

Figure 31: Volume and Value Transacted Through KEPSS



Source: CBK National Payments Data

3.1.1. Key risks for KEPSS in 2025

***Settlement risk*:** The growth in the values and volumes processed through the RTGS system requires stronger oversight to ensure appropriate measures are put in place to mitigate potential risks, such as fraud related to endpoint security and liquidity risk. These are critical for effective settlement of obligations and enhancing confidence among users of finality and irrevocability of payment instructions.

***Systemic Risk*:** KEPSS operations and settlements serve highly interconnected participants, thus a potential source of systemic risk. The ability to settle transactions by counterparties underpins the smooth functioning of the KEPSS. The KEPSS operations and settlement settled all the transactions, eliminating systemic risk arising from default of counterparties or un availability of the system. The CBK mitigated credit risk in KEPSS by providing intraday and overnight liquidity to KEPSS participants minimise counter party risks.

To align KEPSS platform to best practices, Kenya's payments industry completed transitioning to the ISO 20022 transaction messages formats. This is a common, global and end-to-end standard that is expected to standardise communication, enhance data quality and customer experience. The ISO 20022 is enhance security and governance of the messages.

3.2. Regional Cross-border Payments Systems

Kenya's regional interconnectedness through trade is supported by a well-functioning Regional Payment and Settlement Systems to facilitate cross-border payments and settlements. Transactions settled through the East African Community (EAC) Payment and Settlement System (EAPSS) in increased in 2025 compared to 2024 (**Table 12**).

Table 12: Transactions via Regional Payments Systems

TRANSACTIONS SETTLED VIA REPSS					TRANSACTIONS SETTLED VIA EAPSS						
Year	Value (USD Million)	Volume	Value (EURO)	Volume		Volume			Value (USD Million)		
					YEAR	Inward	Outward	Total	Inward	Outward	Total
2020	76.04	910.00	401,562.00	4.00	**2020**	9,867.00	18,544.00	28,411.00	221.95	234.12	456.07
2021	90.70	1,260.00	480,500.29	23.00	**2021**	10,763.00	23,179.00	33,942.00	300.09	298.76	598.85
2022	106.49	1,426.00	628,998.00	18.00	**2022**	15,249.00	28,803.00	44,052.00	407.17	415.73	822.90
2023	111.00	1,586.00	876,310.00	11.00	**2023**	15,609.00	20,907.00	36,516.00	449.00	456.00	905.00
2024	98.21	1,333.00	101,644.43	20.00	**2024**	18,529.00	21,261.00	39,790.00	622.00	624.00	1,246.00
2025	93.34	1,382.00	1,815,002.00	7.00	**2025**	19,170.00	31,012.00	50,182.00	877.15	885.38	1,762.53

Source: CBK

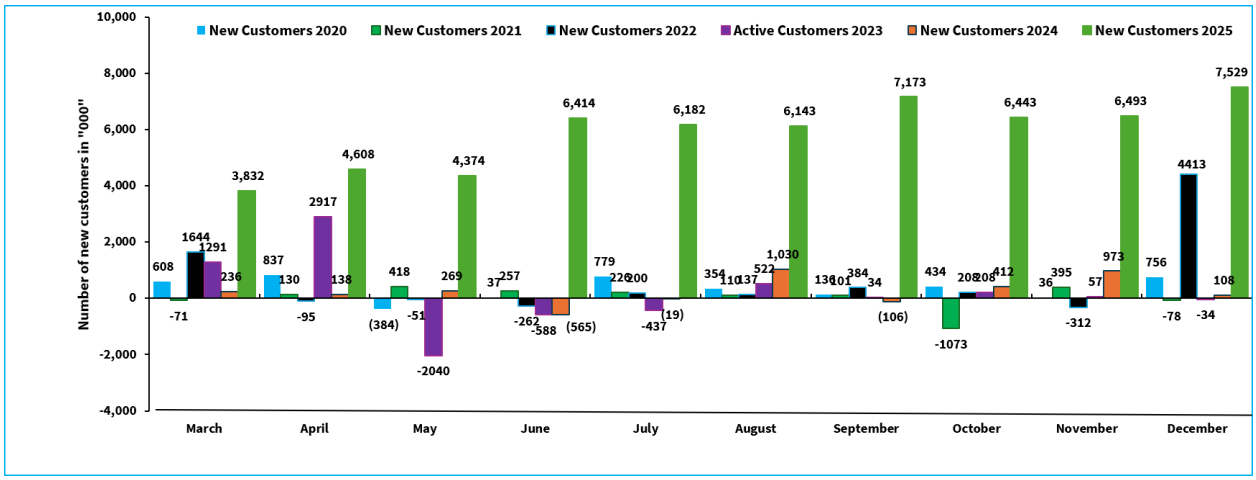
The Common Market for Eastern and Southern Africa (COMESA) Regional Electronic Payment and Settlement System (REPSS) continue to record steady growth since operationalization in 2019. The number of messages processed increased from 910 in 2020 to 1382 in 2025, while the value of transactions settled increased from Euros 401,562 to Euros 1,815,002 during the period. The USA dollar value of transaction settled increased from USD 76.0 million in 2020 to USD 93.34 million in 2025. The steady growth indicates increasing integration and cross-border trade in the EAC and COMESA region. The stability of these regional payments infrastructure is therefore critical for integrating economies, deepening financial systems and supporting international trade.

Pan-African Payment and Settlement System (PAPSS). Intra-African trade has the potential to increase further, particularly amid changing global trade patterns and increased trade restrictions in advanced economies. The realisation of this potential will require safe, efficient and reliable cross-border payment infrastructure, including the Pan-African Payment and Settlement System (PAPSS). As at June 2026, PAPSS had more than 190 participating financial institutions across 15 African countries, while its extended network provided access to more than 250 additional institutions, reaching 31 African countries. In Kenya, five banks with a further 48 banks and SACCOs and one mobile wallet reachable through the extended network. The expanding PAPSS network is expected to enhance the efficiency of cross-border payments for retail and wholesale transactions, strengthen interoperability across African payment systems and support greater regional financial integration.

3.2.1 Retail payment system

The retail payments system serves the highest number of customers and the value of transactions and therefore has wider outreach in the economy. The retail payments system comprises of forty-two Payment Service Providers (mobile money, Pesalink, cards, cheques, and electronic funds transfers (EFTs)) that facilitate end-to-end business and person transactions. As of December 2025, mobile money providers had a total active 30-day customer base of 44.4 million customers, an increase from 36.9 million in December 2024, implying that About 7.5 million new mobile money users registered in twelve months to December 2025 (**Figure 32**).

Figure 32: Monthly New Mobile Money Active Customers (millions)



Source: CBK, NPS data

While the mobile money remains the most dominant retail payments system, there are other channels in this space that continue to play a key role settling transactions. These are use of cards (credit and debt), Automated Teller Machines (ATMs), Point of Sale (POS) devices, and Automated Clearing House (ACH) that facilitates Electronic Funds Transfers (EFTs).

The number of cards and Point of Sale (POS) terminals increased slightly in 2025. However, the number of Automated Teller Machines (ATMs) decreased to 2228 in December 2025 from 2,289 in December 2024 signalling closing of branches. The ACH, which facilitates the exchange of cheques and electronic funds transfers (EFTs) between banks and their customers was upgraded to International Organization for Standardization (ISO) 20022 to enhance efficiency through Straight-Through-Processing (STP) as well as inclusion of more information in payment transactions. The ACH migrated to the new flexible and data rich ISO 20022 Standards in March 2024 in line with the National Payment Strategy 2022-2026 and global standards. The upgrade, spearheaded by Kenya Bankers Association in collaboration with CBK, has improved efficiency, flexibility scalability and availed rich remittances data, which provides insights in payments. The CBK is also developing the fast payment system to enhance interoperability, affordability and efficiency in the payments system.

3.2.2 Virtual assets

The enactment of the virtual assets (VA) and virtual assets providers (VASPs), Act 2025 in, provides an opportunity for the utilisation of crypto assets, stable coins and non fungible virtual assets for payments. The act also provides safeguards against **money laundering, terrorist financing, and fraud** due to their pseudonymous nature and rapid cross-border transfer capabilities.

Despite Kenya enacting legal and regulatory framework for Vas and VASPs, only about 70 out of 184 jurisdictions have regulations. In addition, most countries require VASPs to be licensed or registered. However, there inconsistencies in enforcement, while compliance with the Travel Rule—which mandates sharing originator

and beneficiary information—is incomplete in many jurisdictions. Other providers have resisted compliance even in jurisdictions with robust legal and regulatory frameworks, while customers continue to access VAs from unlicensed providers. These elevate risks of regulatory arbitrage. For Kenya, the close relationship between licensed and unlicensed providers can be misused to bypass regulatory controls.

The backing mechanism influences the stability of the value of virtual assets. The stable coin are backed by fiat money, gold or securities, while crypto assets attempt to maintain stability through automated smart contracts that expand or contract token supply. However, the backing mechanisms are not sufficient to maintain stability of the value or at least the value to change in tandem with goods and services produced and. The Vas and VASPs Act mitigates volatility in the value of stable coins through backing with the Kenya shillings and government securities held in trust accounts. In addition, regulatory and supervisory measures mitigate non fundamental changes in the value of the virtual assets. The stability in the value of virtual assets enables the assets to be used as a means of payment. However, virtual assets can also be used for storing value, unit of account and standard of differed payment. Investors also hold VAs for capital gains. The integrity of VAs to fulfil these functions other than payment depends on the stability of their value and issuers, who are more of profit seeking than benevolent. The volatility of virtual assets exposes investors to financial losses, while the lack of transparency in some token offerings, including NFTs, increases the risk of fraud and market manipulation. This predisposes the VAs to volatility in value, which undermine their integrity and effectiveness of being used for storing value, unit of account and standard of differed payment, especially for customers who would like to substitute fiat money for stable coins.

3.3 Risks Assessment and Outlook

The increase in the number of PSP to 42 has significantly contributed to the growth and diversification of payment service delivery across the country. However, this also comes with consumer protection, financial stability and Money laundering, terrorism financing and proliferation financing risks. In addition, the prevalent use of payments data for credit scoring and designing other products provides incentive for misuse of personal data and data breaches. However, the CBK has authorised pricing proposals aimed at enhancing affordability and accessibility, thereby broadening consumer choices and improving overall service quality. Furthermore, to strengthen corporate governance standards within the sector, CBK conducted comprehensive vetting exercises and approved the appointments of senior officials across various PSPs, ensuring leadership integrity, accountability, and regulatory compliance.

To further enhance compliance, CBK conducted sensitization and capacity building initiatives on emerging trends and cyber-security threats, Money Laundering, Terrorism Financing, and Proliferation Financing (ML/TF/PF) for the PSPs. The CBK has acted on cases of non-compliance with the aim of enhancing discipline in licensed PSPs and compliance to the law. Additionally, all PSPs have been mandated to file supervisory reports, with CBK linking its data warehouse with that of Payment Service Providers systems to timely and accurate reporting for effective

supervision. These initiatives have increased compliance by Payment Service Providers (PSPs), governance, financial health, cyber security, AML/CFT/CPF, legal and regulatory requirements.

Geo-political conflicts and geoeconomic fragmentations pose risks in terms of concerns for localization of processing of card transactions and payments. This is slowing down integration of the payments system and accelerating a switch to national system. Risks such as maintaining a robust business continuity framework, updating existing legal frameworks and guidelines to operationalize such initiatives may emerge. Enhanced oversight of the risks identified among other existing ones is paramount. Additionally, the implementation of a risk-based framework will assist in the supervision of the licensed entities, where the approach, mitigation and enforcement measures will reflect the level of risk brought by each entity.

Cyber security risks. Cyber risks have increased due to the digitalisation of payments and transfer of money from person to person. The cyber threats increased from 3.5 billion in 2023/24 to 8.6 billion in 2024/25 and 5.4 billion in the three quarters of 2025/26 (**Table 13**) signalling a significant increase in cyber security risk. System misconfiguration had the highest increase in 2023/24 and 2024/25 while web application attacks were the lowest.

Table 13: Cyber threats

Cyber Attack Vector	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 Q3	2023/24	2024/25	2025/26 three quarters
Malware attacks	4,146,435	16,306,547	40,893,141	101,651,143	122,524,531	218,639,597	121,250,616	33,187,524	85,860,852	139,761,641	103,110,078
Web application attacks	2,656,675	3,743,638	6,109,184	7,662,793	17,668,736	1,231,271	677,781	199,435	525,477	22,540,899	32,782,691
Botnet/ DDOS	952327	3,756,334	4,852,022	1,475,537	16,236,587	120,064,763	55,841,666	38,646,836	45,980,517	34,535,392	63,430,457
System vulnerabilities/ misconfiguration	-	6,158	47,913	108,596	1,974,698	104,120,175	677,784,925	871,223,680	3,316,966,977	8,298,719,478	5,159,992,631
Brute Force										127,661,475	62,817,008
Total Cyber threats	**7, 755,498**	**23,815,972**	**51,903,286**	**110,898,069**	**158,404,552**	**444,055,806**	**855,554,988**	**943,257,475**	**3,449,333,823**	**8,623,218,885**	**5,359,315,857**

Source: CBK and Communications Authority of Kenya

Cyber criminals are primarily motivated by financial gain when targeting financial institutions. Cyber fraud remained prevalent in the banking sector in 2025, with reported cases increasing from 353 in 2024 to 385 in 2025. The amount exposed also increased from 1.96 billion to 2.03 billion, while the actual loss following fraud increased significantly from 1.59 billion to 1.90 billion during the period. The increase in actual losses underscores the continued financial impact of cyber fraud on banks, with potential implications for their profitability and capacity to build capital.

Table 14: Fraud cases and Exposure

Type of Fraud	No. of cases		Amount Exposed ('000s)		Amount lost ('000s)	
	2024	2025	2024	2025	2024	2025
Computer Fraud	12	16	203,413.0	222,251.34	203,394.9	212,451.17
Internet Scam	9	22	6,074.9	86524.6	6,073.8	86524.6
Mobile Banking Fraud	146	136	981,723.6	659,498.78	810,679.5	634,251.52
Online Banking Fraud	106	132	129,125.6	169,526.39	111,834.4	157,465.21
Card Fraud	24	16	439,440.0	659,498.78	263,288.5	645,194.37
Identity Theft	56	63	203,377.4	234,190.25	199,082.3	168,174.00
Total	**353**	**385**	**1,963,154.3**	**2,031,490.23**	**1,594,353.4**	**1,904,060.87**

Source: *CBK*

4. FINANCIAL STABILITY ASSESSMENT AND OUTLOOK

The global financial stability outlook remains subject to heightened uncertainty arising from escalating geopolitical conflicts, trade policy uncertainty, geoeconomic fragmentation and elevated sovereign debt vulnerabilities. The intensification of trade tensions, including the introduction of higher tariffs and other trade restrictions by major economies, has increased uncertainty surrounding global trade and investment, weakened business confidence and moderated global economic growth. At the same time, the conflicts in the Middle East and the continued Russia–Ukraine war have disrupted global supply chains, increased energy and commodity price volatility, and heightened risks to inflation and financial markets. These developments have resulted to a pause in monetary policy easing in major advanced economies, resulting in tighter global financial conditions, higher borrowing costs and capital flows to developing economies to Emerging Markets and advance economies.

Fiscal consolidation measures in advanced and emerging economies have not only reduced official development assistance and aid to developing economies including Kenya, but also reduced demand for exports. Reduced fiscal space, declining official development assistance and tighter external financing conditions could further constrain growth prospects in developing economies, while elevated sovereign borrowing costs may reinforce sovereign-financial sector linkages and increase refinancing risks.

Financial sector digitalisation continues to transform financial intermediation through increased adoption of digital financial services, artificial intelligence and machine learning. While these innovations improve efficiency and financial inclusion, they also increase operational vulnerabilities associated with cyber-attacks, data breaches and third-party service providers. Cyber-attacks have resulted to increase in the amount of money lost, while recovery rate of funds is lows. In addition, the rapid growth of virtual assets and other digital financial products further heightens risks related to money laundering, terrorist financing and proliferation financing. Continued strengthening of cyber resilience, supervisory technology, regulatory frameworks and cross-border cooperation will therefore remain critical in preserving confidence and resilience in the financial system.

The Sub-Saharan African and the EAC regions are expected to remain resilient despite a challenging external environment. However, the region continues to face elevated sovereign debt vulnerabilities, constrained fiscal space, tighter global financing conditions and increased refinancing risks. Persistent Eurobond spreads and reduced access to international capital markets continue to increase borrowing costs for several economies. Policymakers should continue pursuing prudent fiscal consolidation while safeguarding priority social and development expenditures and maintaining macroeconomic stability. Strengthening domestic revenue mobilisation, improving debt management and deepening domestic capital markets remain critical to enhancing resilience against external shocks.

The financial institutions have expanded their operations in the East African Community and in the Common Market for Easter and Southern African, while financial multinational corporations have established entities in Kenya. This has increased exposure of the Kenya's

financial system to geopolitical and economic shocks. In addition, cyber threats have become more transnational. The collaboration in the EAC and COMESA is expected to improve regional risk assessment and mitigation.

Domestically, Kenya's economy is projected to remain resilient, supported by easing inflationary pressures, exchange rate stability, continued recovery in private sector credit, improved agricultural production and resilient performance in the services sector. Nevertheless, downside risks arising from constrained fiscal space, elevated public debt, ongoing fiscal consolidation, tight global financial conditions, heightened geopolitical tensions, trade policy uncertainty, and domestic policy uncertainty, remain. These risks could weaken private sector investment, moderate credit growth and increase borrowing costs.

The banking sector is expected to remain sound, stable and resilient, supported by strong capital and liquidity buffers, improved profitability and easing credit risk. Ongoing reforms, including increase in minimum capital requirements, implementation of Basel III liquidity and leverage standards, the Kenya Green Finance Taxonomy, the Climate Risk Disclosure Framework, strengthened AML/CFT/CPF measures and the enhanced legal framework for Emergency Liquidity Assistance under the Central Bank of Kenya (Amendment) Act, 2026, are expected to further strengthen the resilience of the banking sector. Nevertheless, financial institutions should continue enhancing cyber resilience, governance and risk management frameworks to address operational, technology and climate-related risks.

The insurance sector is expected to remain resilient, supported by continued growth in premiums, investment income and assets. However, structural vulnerabilities, including underwriting losses in selected business lines, concentration of investments in government securities, climate-related risks, reinsurance concentration and liquidity constraints associated with relatively shallow domestic capital markets, continue to require close supervisory attention. Similarly, capital markets are expected to benefit from favourable macroeconomic conditions, easing domestic financial conditions and ongoing regulatory reforms.

The enactment of the business amendment laws and virtual Assets and virtual assets providers act as well as the regulatory measures to enhance capital and liquidity are expected to enhance stability of the financial sector and safety of financial products and services. In particular, the increase in capital and liquidity for banks, regulated entities in the capital markets and for pension umbrella schemes as well as implementation of Net stable funding and liquidity coverage ratios are expected to enhance financial stability. In addition, operationalisation of the cyber security operation centres and enhanced collaboration of law enforcement agencies and financial sector regulators is expected to mitigate cyber related risks and increase recovery of funds stolen in the financial sector. However, market concentration, cybersecurity risks, foreign investor behaviour and global financial market volatility remain key vulnerabilities requiring continued monitoring.

Overall, the global macro financial conditions outlook remains positive albeit legacy risks. This is also reflected in the domestic macro financial conditions for Kenya. Policy makers, regulators, authorities, and other players should remain vigilant to take appropriate measures and mitigate the risks for macro financial stability in 2026 and beyond. Collaboration and effective coordination among all stakeholders is key to achieving this goal.

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Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi |Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000

www.centralbank.go.ke