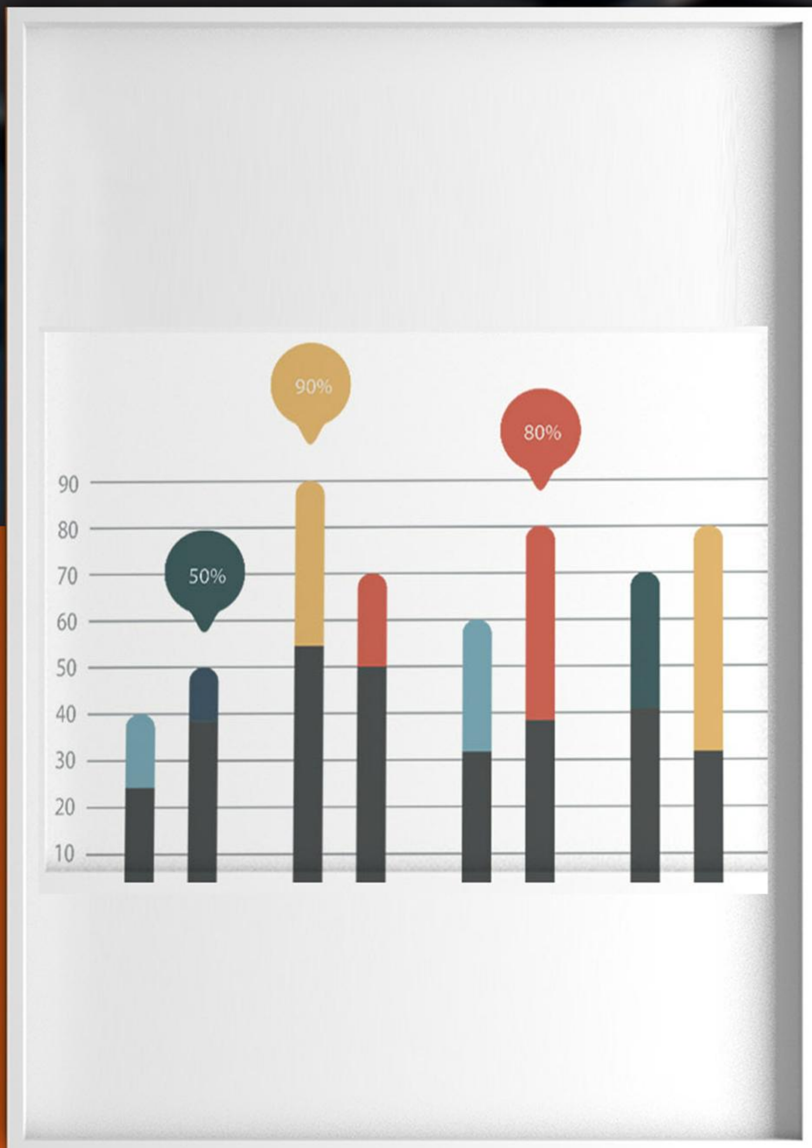
research@aib-axysafrica.com



AIB-AXYS Africa Primary Bond Auction Note

• W: www.aib-axysafrica.com • E: research@aib-axysafrica.com • P: +254-711047000

AIB-AXYS September 2025 Primary Bond Auction Note

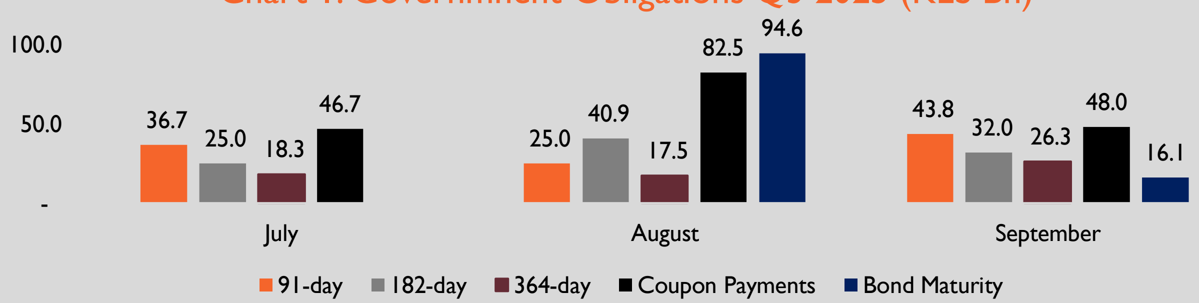
Summary – "Extending Maturities, Managing Risks"

- **The Exchequer is seeking to raise KES 40.00Bn through the re-opening of the FXDI/2018/020 & FXDI/2022/025** treasury bonds earmarked for budgetary support in FY25/26.
- The government is on track with its liability management strategy under the Medium-Term Debt Management framework, and through the FY 2025/2026 annual borrowing plan has signaled a shift toward increased reliance on medium- and long-term instruments while gradually reducing dependence on T-bills. Domestic borrowing is expected to rise over the fiscal year to bridge persistent revenue shortfalls, with the government maintaining focus on containing debt costs by gradually easing interest rates. In FY 2025/2026, the government began the year with an aggressive borrowing stance and is already ahead of its prorated target, largely supported by the reopening of infrastructure bonds in August and subsequent tap sales. This was necessary given the heavy maturities and coupon obligations in August amounting to KES 260.5 Bn, compared to KES 166.2 Bn in September. The front-loading strategy positions the government to better manage shortfalls and mitigate aggressive bidding, while supporting stability in the yield curve.
- **Our recommended competitive bidding yield on the paper is indicated in Table 1 on the right.**

Table 1: Key Auction Highlights

FXD1/2018/020 & FXD1/2022/025	
Issuer:	Republic of Kenya
Total Amount:	KES 40.0 billion
Purpose:	Budgetary Support
Tenor:	**FXDI/2018/020**-(12.5 Years)– Re-opened **FXD1/2022/025**-(22.2 Years)– Re-opened
Coupon Rate:	**FXDI/2018/020**– 13.2000% **FXD1/2022/025** – 14.1880%
Price Quote:	Discounted/Premium/Par
Period of sale:	26-August-2025 to 17-September-2025
Minimum Amount:	KES 50,000.00
Taxation:	10.00%
Maturity Dates:	**FXDI/2018/020**– 1-March-2038 **FXD1/2022/025** - 23-September-2047
Non-competitive bids per CSD A/C:	Maximum KES 50 million per CDS A/c
Competitive bid per CSD A/C:	Minimum KES 2 million per CDS A/c
AIB-AXYS Competitive Bidding Range Recommendation:	**FXD1/2018/020**– 13.74%-13.94% **FXD1/2022/025**– 14.19%-14.39%

Chart 1: Governmnent Obligations Q3 2025 (KES Bn)



Source: CBK, AIB-AXYS Africa Research

Term Structure of Interest Rates

In August, the yield curve continued to shift lower, following the seventh consecutive rate cut by the Monetary Policy Committee. From our in-house view, we had anticipated the committee would hold the CBR at 9.75% and resume rate cuts later in the year, but this was short of expectations after a 25-bps reduction. Yields have since softened further, particularly on the short end of the curve, which has eased by 192.88 bps on a year-to-date basis, as the fiscal agent maintained its focus on lengthening the debt maturity profile. The pace of decline is starting to moderate, with elevated government borrowing prompting investors to submit more aggressive bids in primary auctions. Looking ahead, we expect this trend to persist in the medium term, as the government is likely to continue relying on the domestic debt market to plug its fiscal deficit amid recurring revenue shortfalls

Market Liquidity

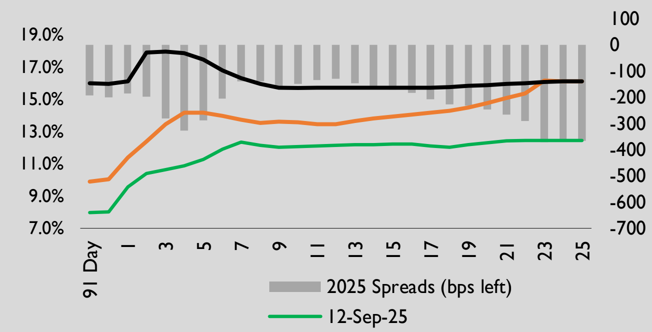
Effective 1st September 2025, the government rolled out the Kenya Shillings Overnight Interbank Average (KESONIA), which captures the average interest rate at which banks lend and borrow unsecured overnight funds in Kenya Shillings. The move is aimed at strengthening monetary policy transmission and improving market transparency.

Interbank activity rose by 31.1% in August, extending the 5.3% expansion recorded in July. The average interbank rate edged down by 0.095 points to 9.54% in August from 9.63% in July, following the 25 bps cut in the Central Bank Rate. Liquidity in the sector was further supported by a 100 bps reduction in the Cash Reserve Ratio (CRR) and the narrowing of the interest rate corridor, both of which have contributed to greater stability in the money market. Looking ahead, we expect the interbank rate to remain broadly stable, hovering around the 9.5% level.

Price Levels

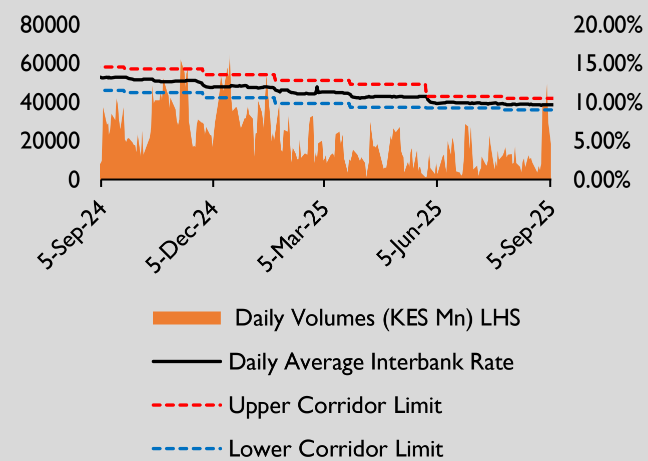
Going by the latest data from the Kenya National Bureau of Statistics, the national headline inflation rate, as measured by the Consumer Price Index (CPI), came in hotter at 4.5% in August 2025, up 40 bps from 4.1% recorded in July, and slightly higher than our in-house projections. Core inflation contributed 2.8% points, while non-core inflation added 1.7% points to the overall figure, with food and non-alcoholic beverages contributing 2.7% points. Looking ahead, we expect inflation to remain within CBK's target range, supported by a stable shilling, favorable weather conditions, and stability in fuel prices, especially after the reinstatement of fuel subsidies cushioning consumers from global shocks.

Chart 2: Domestic Yield Curve Evolution



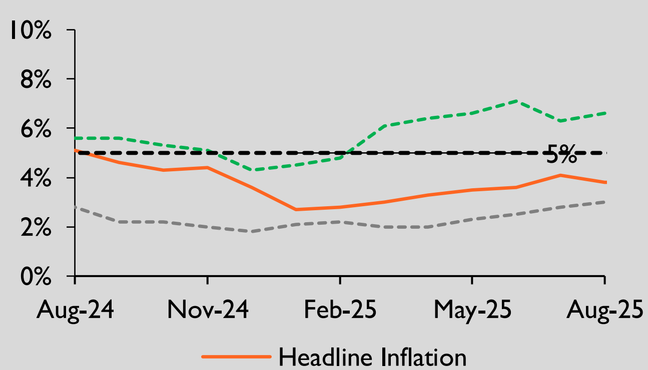
Source: CBK, AIB-AXYS Africa Research

Chart 3: Interbank Rate and Volumes



Source: CBK, AIB-AXYS Africa Research

Chart 4: Price Levels



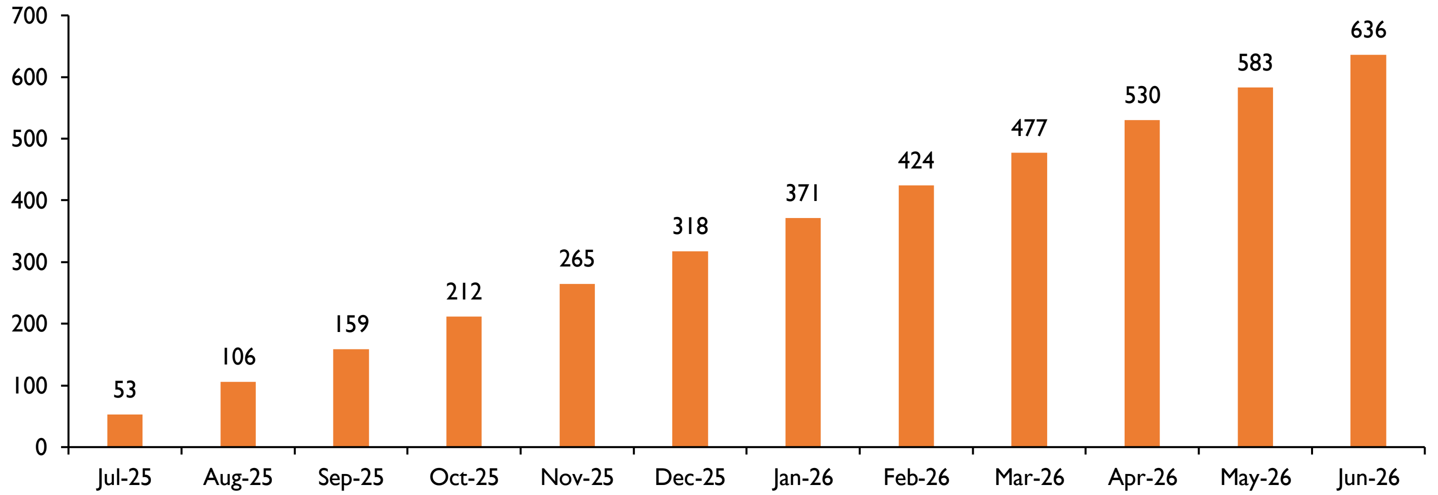
Source: Kenya National Bureau of Statistics, AIB-AXYS Africa Research

Table 2: Comparable Bond Duration Yields

Issue No.	Maturity Date	Remaining Tenor in Years	Outstanding Amount KES Mn.	Fixed Coupon Rate	Implied Yield to Maturity
Comparable Yields for the FXDI/2018/020 - (12.5 Years)					
FXD1/2022/015	6-April-2037	11.6	129,190.48	13.9420%	112.1309%
FXDI/2018/020	**1-March-2038**	**12.5**	**145,332.41**	**13.2000%**	**11.9279%**
FXD2/2018/020	5-July-2038	12.8	89,198.60	13.2000%	11.9000%
Comparable Yields for the FXD1/2022/025- (22.2 Years)					
IFB1/2021/021	18-Aug-42	17.0	106,742.20	12.7370%	11.8500%
FX1D/2022/025	**23-Sep-2027**	22.0	**103,141.56**	**14.1880%**	**12.1800%**

Source: CBK, AIB-AXYS Africa Research

FY25/26 Borrowing Target (KES Bn)



Source: CBK, AIB-AXYS Africa Research

CBK Previous Primary Bond Auctions

	Offered Amount (KES, Mn)	Paper(s)	Duration at Issuance (yrs)	Performance Rate	Coupon Rate (%)	Market Average Yield (%)	Accepted Average Yield (%)	Deviation from Yield Curve
Sep-24	15,000	IFB1/2023/17 -Tap Sale	15.7	**234.6%**	14.399%			
	30,000	FXD1/2024/010 - Re-opened	9.5		16.000%	16.972%	16.870%	17.82
		FXD1/2016/020 - Re-opened	12.0	**75.5%**	14.000%	17.349%	17.285%	175.8
Oct-24	30,000	FXD1/2016/010 Re-opened	1.8		15.039%	17.064%	16.984%	14
		FXD1/2022/010 Re-opened	7.6	**169.9%**	13.490%	17.340%	16.952%	1
	15,000	FXD1/2022/010 Tap sale	7.6	**110.0%**	13.490%			
Nov-24	25,000	FXD1/2023/010 Re-opened	8.3		14.151%	16.150%	15.972%	-17
		FXD1/2022/015 Re-opened	12.5	**132.2%**	13.942%	16.385%	16.299%	-21
	20,000	FXD1/2024/010 Re-opened	9.4	**277.9%**	16.000%	16.113%	15.855%	25
Dec-24	25,000	FXD1/2023/010 Re-opened	8.2		14.151%	14.864%	14.691%	84
		FXD1/2018/020 Re-opened	13.3	**285.3%**	13.200%	15.271%	15.112%	85
	20,000	FXD1/2024/010 Re-opened	9.3	**268.1%**	16.000%	14.782%	14.685%	4
Jan-25	30,000	FXD1/2018/015 Re-opened	8.3		12.650%	14.329%	14.210%	75
		FXD1/2022/025 Re-opened	22.8	**196.7%**	14.188%	15.743%	15.683%	8
Feb-25	70,000	IFB1/2022/014 Re-opened	11.8		13.938%	14.086%	13.978%	27
		IFB1/2023/017 Re-opened	15.1	**277.0%**	14.399%	14.416%	14.281%	118.5
Mar-25	25,000	FXD1/2018/025 Re-opened	18.3	**188.1%**	13.400%	13.938%	13.803%	51
Apr-25	70,000	FXD1/2020/015 Re-opened	9.9		12.756%	13.671%	13.665%	82.39
		FXD1/2022/015 Re-opened	12.1		13.942%	13.837%	13.828%	124.3
		FXD1/2022/025 Re-opened	22.6	**102.5%**	14.188%	14.237%	14.234%	65.33
	10,000	FXD1/2020/015 Tap-sale	9.9	**132.4%**	12.756%			
May-25	50,000	FXD1/2022/015 Re-opened	12.0		13.942%	13.942%	13.913%	145.42
		FXD1/2022/025 Re-opened	22.5	**114.2%**	14.188%	14.636%	14.538%	130.24
	30,000	FXD1/2012/020 Re-opened	7.6	**181.3%**	12.000%	13.733%	13.649%	137.9
Jun-25	50,000	FXD1/2020/015 Re-opened	9.7		12.756%	13.606%	13.487%	70.9
		SDB1/2011/030 Re-opened	15.7	**202.7%**	12.000%	14.181%	13.998%	152.55
Jul-25	50,000	FXD1/2018/020 Re-opened	12.8		13.200%	13.945%	13.899%	140.19
		FXD1/2018/025 Re-opened	18.0	**153.8%**	13.400%	14.435%	14.348%	137.85
Aug-25	90,000	IFB1/2018/015 Re-opened	7.5		12.500%	13.530%	12.993%	44.52
		IFB1/2022/019 Re-opened	15.6	**359.4%**	12.965%	14.237%	13.999%	41.5
		IFB1/2018/015 Tapsale	7.5		12.500%	13.530%		
	50,000	IFB1/2022/019 Tapsale	15.6	**414.9%**	12.965%	14.237%		
Average*	**38,333**		**12.3**	**191.8%**	**14.046%**	**15.246%**	**15.008%**	**71.156**

*Source: CBK, AIB-AXYS Research, * - Yearly average results excludes tap sales*

• W: www.aib-axysafrica.com • E: research@aib-axysafrica.com • P: +254-711047000

CONTACTS

Research Desk

Email: research@aib-axysafrica.com

Equities Dealing

Email: trading@aib-axysafrica.com

Bond Dealing

Email: trading@aib-axysafrica.com