

# Commercial banks backtrack, adopt CBR over Kesononia for loan pricing

Push for a market-driven benchmark stalls as lenders play safe

**GEORGE NGIGI**  
SPECIAL CORRESPONDENT

Commercial banks are using the Central Bank Rate (CBR) as their benchmark in setting loan prices despite earlier rejecting it and negotiating the creation of the Kenya Shilling Overnight Interbank Average (Kesononia), which they have now shelved.

Banks including KCB, Equity, Absa, NCBA and DTB have issued notices that they will be using CBR as their reference rate in the risk-based pricing model, which took effect on December 1.

Banks were expected to use Kesononia — which is based on the price at which banks borrow from each other, referred to as the interbank rate — as they were the ones who had pushed for its creation after they rejected the Central Bank of Kenya proposal to use the CBR as a benchmark for loan pricing.

“All new local currency variable rate loan facilities processed from December 1, 2025 will be priced under the revised model which comprises a common reference rate plus a premium (K),” said Absa Bank Kenya in a public notice.

“The common reference rate applicable will be the Central Bank Rate as determined by the Monetary Policy Committee of the Central Bank of Kenya, while the premium is determined by customer-specific risk profile among other factors.”

The bank said it was testing its core system before using Kesononia as its benchmark rate.

“We are doing thorough testing on Kesononia, including tests with our core banking and related systems that use Kesononia. We will avail Kesononia for use by



Central Bank of Kenya. Picture: Pool

our customers when we conclude the systems work,” said Yusuf Omari, Absa’s chief finance officer.

Banks had the option of using Kesononia or CBR as their reference rate under the new risk-based pricing model. Co-operative Bank of Kenya and its subsidiary Kingdom Bank are the only ones who have notified the public of adopting Kesononia.

Kenyan banks had rejected the use of CBR in April, arguing that it was equivalent to reintroducing interest rate capping because CBR is not market-driven but set in a boardroom by the CBK’s Monetary Policy Committee.

“By choosing to use CBR, a bank allows itself time to learn and accommodate system upgrades required before Kesononia use,” said Kenya Bankers Association

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Absa Bank Kenya



Kenya Bankers Association (KBA) Chief Executive Officer (CEO) Raimond Molenje

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“The industry remains committed to ensuring that pricing of credit always reflects market conditions and economic fundamentals,” he added.

Insiders in the industry said the banks were reluctant to use Kesononia as it was volatile, indicating they would have to review lending rates regularly. Such reviews need to be authorised by the CBK and communicated to customers before they take effect.

Banks had earlier insisted on the use of the interbank rate, arguing it captured market dynamics unlike the CBR.

“KBA does not support the CBK proposal in its entirety. By rejecting the interbank rate as a preferred unified base rate and proposing the CBR, the CBK will not operationalise the policy decision after setting the CBR,” Mr Molenje had argued in a memo rejecting use of CBR.