KMRC

KENYA MORTGAGE REFINANCE COMPANY

2023 ANNUAL INTEGRATED REPORT AND FINANCIAL STATEMENTS 2023

DID YOU KNOW?

Your rent can

Buy You A Home!

- ✓ **Single Digit** Interest Rate
- ✓ **Fixed** Interest Rate
- ✓ Long repayment period **(up to 25 years)**
- ✓ Financing up to 105%

CONTACT US: **0111 022 400**

Kenya Mortgage Refinance Company

KMRC is licensed and regulated by the Central Bank of Kenya.

AFFORDABLE Home LOANS

powered by KMRC

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LIST OF ABBREVIATIONS

ABBREVIATIONS	MEANING
AfDB	African Development Bank
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
CSR	Corporate Social Responsibility
DEI	Diversity, Equity and Inclusion
DFIs	Development Finance Institutions
E&S	Environmental & Social
ESG	Environmental Social and Governance
ESRM	Environmental and Social Risk Management
GHG	Greenhouse Gas
HFHI	Habitat for Humanity International
IASB	International Accounting Standards Board
ICT	Information Communication and Technology
IFRS	International Financial Reporting Standards
KAHC	Kenya Affordable Housing Conference
KGBS	Kenya Green Building Society
KMRC	Kenya Mortgage Refinance Company
LLP	Limited Liability Partners
LTV	Loan to Value
MFBs	Micro Finance Banks
MPC	Monetary Policy Committee
MTR	Medium Term Review
MOU	Memorandum of Understanding
PML	Primary Mortgage Lender
RMF	Risk Management Framework
RSF	Risk Sharing Facility
SDGs	Sustainable Development Goals
SDHUD	State Department for Housing and Urban Development
WB	World Bank
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
IESBA	International Ethics Standards Board for Accountants

OUR STRATEGIC OBJECTIVES

01 To develop and optimise the institutional capacity of KMRC

02 To provide liquidity financing to PMLs

03 To support the development of improved mortgage lending practices within PMLs

04 To raise long term finance efficiently and sustainably

05 To support developments in the housing market

ABOUT US

Kenya Mortgage Refinance Company PLC (KMRC) is a non-deposit taking financial institution established in 2018 under the Companies Act 2015. It is set up under a public private partnership (PPP) model with strong and diverse shareholding that includes the Government of Kenya represented by the National Treasury holding 25% ownership, and a mix of private sector players owning the remaining 75%. KMRC is regulated by the Central Bank of Kenya (CBK), with the Capital Markets Authority (CMA) providing oversight over its bond issuance operations.

KMRC's mandate is to provide long-term funds to primary mortgage lenders (Banks and SACCOs) for purposes of increasing availability of affordable home loans to Kenyans. As a wholesale financial institution, KMRC has a developmental role which includes contributing to the growth of Kenya's capital markets through issuance of corporate bonds as a source of sustainable long-term finance, supporting standardization of mortgage origination practices and generally contributing to the growth of the mortgage market in Kenya.

KMRC is a key driver in increasing homeownership to Kenyans by facilitating long-term, fixed-rate and single-digit home loans through the participating Primary Mortgage Lenders (PMLs). KMRC augments the Government's commitment to turn the housing challenge into an economic opportunity.

OUR BUSINESS MODEL

KMRC extends credit to its participating PMLs secured by mortgage loan portfolios that meet the KMRC eligibility criteria. The Company does not acquire or hold mortgage loans in its books; neither does it assume any direct credit risk on mortgage loans offered as collateral. The PMLs assign their interests in the mortgage portfolio in favour of KMRC but the pledged loans remain on the PMLs' balance sheet. If a loan pledged to KMRC becomes non-performing, the PML is required to replace it with a performing loan.

REFINANCING PROCESS

STEP 01 Primary Mortgage Lenders submit Mortgage Portfolios to KMRC.

STEP 02 KMRC reviews, identifies and selects eligible home loans for refinancing as per the eligibility criteria.

STEP 03 KMRC advises PMLs on eligible amount and PMLs make applications through Drawdown Notice.

STEP 04 KMRC issues Loan Disbursement Agreement to PMLs

STEP 05 KMRC instructs lawyers from panel to perfect security (ies) (Lien Security agreement & assignment deed).

STEP 06 KMRC disburses funds to PMLs.

STEP 07 PMLs service the loans and report performance of the portfolios on a monthly basis.

OUR PRODUCTS

Affordable Housing Loans

These are loans up to **KES 10.5 million** extended to Primary Mortgage Lenders to finance borrowers with a monthly income of **KES 200,000** and below.

Market Housing Loans

Loans extended to Primary Mortgage Lenders to refinance mortgage loans above the Affordable Housing loans threshold. These loans have no income limit.

IS SHORT TERM LOANS A PROBLEM?

KMRC has you covered with up to 25 years to repay. Imagine that!!!

AFFORDABLE Home LOANS
powered by KMRC

CORPORATE INFORMATION

Principal Place of Business

27th Floor, Old Mutual Tower, Upper Hill Road, Upper Hill,
P.O. Box 15494 - 00100
Nairobi, Kenya

Registered Office

27th Floor, Old Mutual Tower
Upper Hill Road, Upper Hill, P.O. Box 15494 - 00100
Nairobi, Kenya

Company Secretary

Elisha Nyikuli
27th Floor, Old Mutual Tower, Upper Hill Road, Upper Hill,
P.O. Box 15494 - 00100
Nairobi, Kenya

Principal Bankers

Co-operative Bank of Kenya
Moi Avenue, P.O. Box 48231 - 00100
Nairobi, Kenya

KCB Bank Kenya Ltd
Moi Avenue, P.O. Box 48400 - 00100
Nairobi, Kenya

NCBA Bank Kenya PLC
NCBA Centre, P.O. Box 44599 - 00100
Nairobi, Kenya

Absa Bank Kenya PLC
Absa Towers, Loita Street,
P.O. Box 46661 - 00100
Nairobi, Kenya

Independent Auditor

Grant Thornton LLP
Certified Public Accountant (Kenya)
5th Floor, Avocado Towers
Muthithi Road, Westlands
P.O. Box 46986 00100
Nairobi, Kenya

ABOUT THE REPORT AND FINANCIAL STATEMENTS 2023

KMRC is pleased to present its Annual Integrated Report, which covers the period between 1st January 2023 to 31st December 2023. This report contains comprehensive information about our financial performance, stakeholders, governance, our sustainability journey, and other material issues relating to the execution of our Strategic Plan 2020-2024.

Scope and Purpose

The **KMRC** Integrated Report and Financial Statements is our principal statutory and regulatory reporting obligation for the financial year ended 31st December 2023. It covers the primary activities of the Company across all our business operations and gives a comprehensive review of our financial and non-financial metrics. The report highlights how we executed our strategy, entrenched sustainability, created shared value and governed our business. The goal of this report is to provide our stakeholders with a complete and integrated view of our Company operations. It also provides vital information to our present and future investors to enable them to make informed decisions. It demonstrates our commitment to accountability and aims to strengthen the trust our stakeholders have bestowed upon us.

Forward-looking statements are not a guarantee of future financial or operating results as they involve assumptions of future conditions in the operating environment, some of which are not within the Company's control.

Framework

This report was developed in accordance with international best practices, reporting guidelines and prudent accounting standards. It complies with the Kenya Companies Act of 2015, the Capital Markets Authority (CMA)'s rules, and the Central Bank of Kenya (CBK)'s regulatory requirements. The Company's financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). We continuously strive to incorporate additional frameworks and metrics in our reporting to improve our transparency and meet the diverse information needs of our stakeholders. Please provide any feedback or direct your questions to communications@kmrc.co.ke for any additional information on matters contained within this report.

Process and Assurance

Our Integrated Report process started with a wide-scale review of all key developments in executing our strategy across our business in 2023 we adopted an integrated approach to messaging to present a unified and all-rounded view of the Company's inputs, processes, outputs, and outcomes. Internal reviews to ensure accuracy of the disclosures were undertaken, and the auditor's opinion of the Company's Annual Financial Statements provided further assurance.

OVERVIEW OF KMRC

Our Achievements

01

Increased uptake of mortgage facilities with **12 institutions** having been refinanced to date.

02

KES 26 Billion
Total assests as of December 2023.

03

KES 9.6 Billion
Total Loan Disbursements by end of FY 2023.

04

KES 1.6 Billion
Revenue Reserves by the end of FY 2023.

05

Return on Equity (ROE): 24%
Return on Assets (ROA): 3%

06

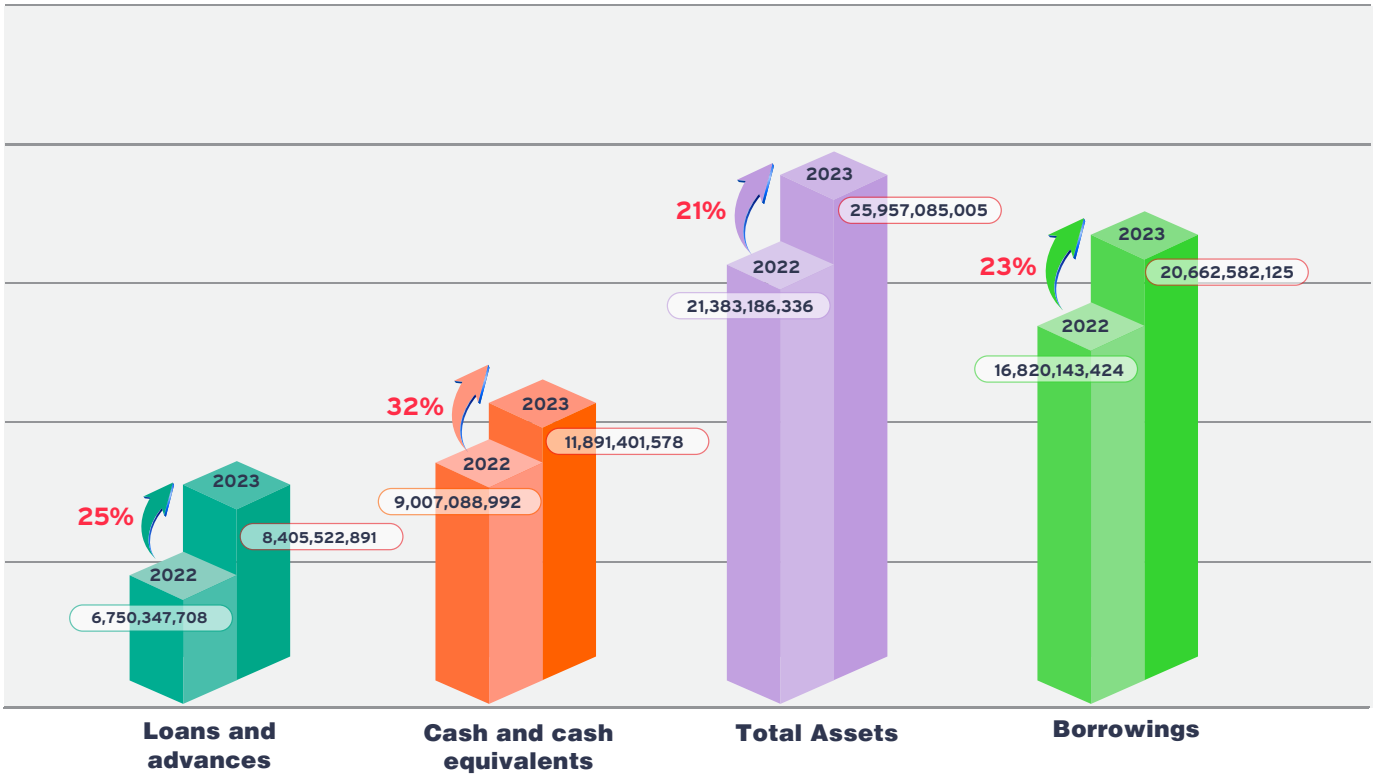
3,128
Number of refinanced Mortgages as of December 2023 (12.5% growth from 2022).

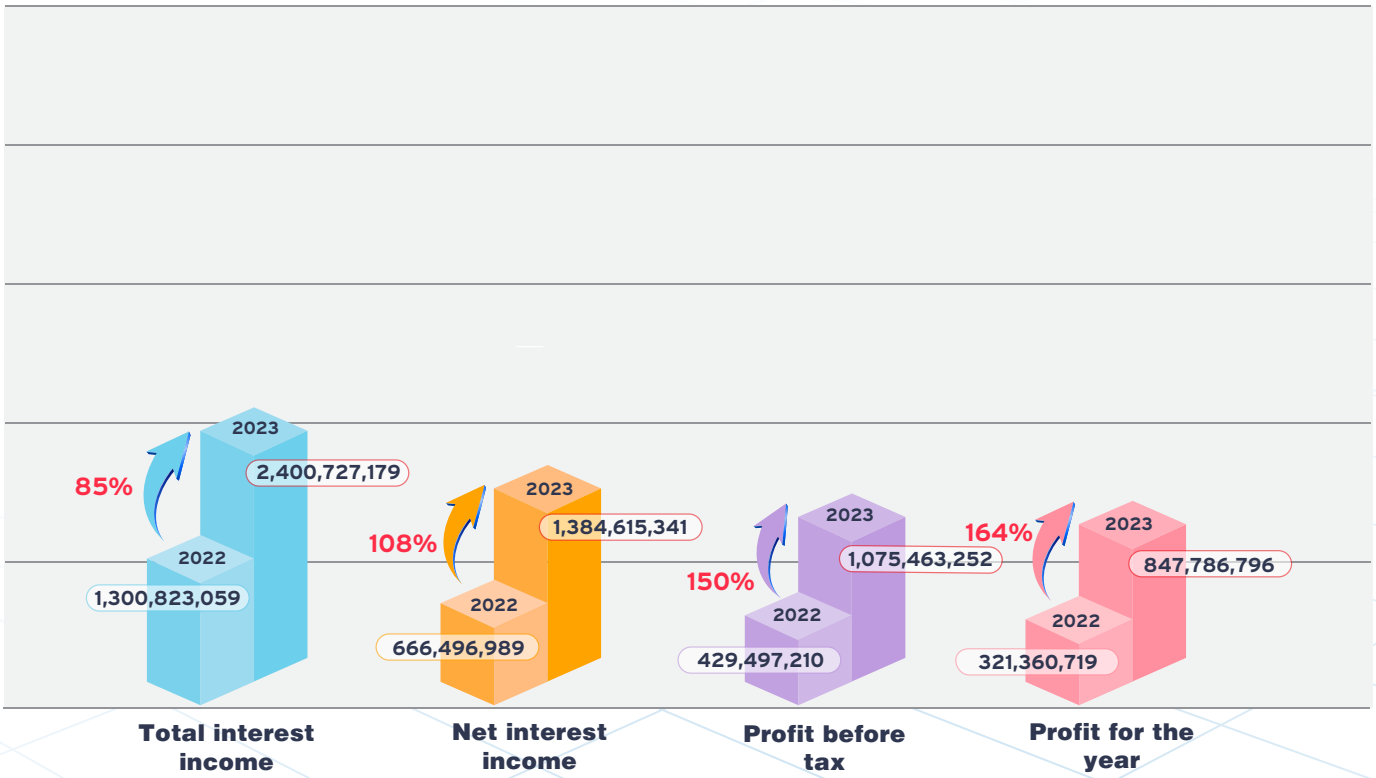
46% of the refinanced mortgages were female beneficiaries.

07

Advocacy and Policy Influence:
Initiated legislative amendments to the Income Tax Act to include SACCOs among institutions whose borrowers qualify for Mortgage Interest Relief.

FINANCIAL PERFORMANCE HIGHLIGHTS





OUR SHAREHOLDERS

DESCRIPTION	NAME	PERCENTAGE
Government of Kenya	National Treasury	25%
Commercial Banks	KCB Bank Kenya Cooperative Bank DTB HFC Limited NCBA Bank Absa Bank Kenya Stanbic Bank Credit Bank	44%
SACCOS	Kenya Police Mwalimu National Safaricom Apstar *(Formerly Ukulima)* Bingwa Imarisha Unaitas Imarika Tower Stima Harambee	7.9%
Micro Finance Bank	Kenya Women Microfinance Bank (KWFT)	0.6%
Multilateral Development Partner	International Finance Corporation (IFC)	11.8%
Pan African Housing Finance Institution	Shelter Afrique Development Bank	11.1%

MEMBERSHIPS AND AFFILIATIONS

AFFILIATION	ORGANISATION
Member	African Union for Housing Finance
Member	International Secondary Mortgage Market Association (ISMMA)
Member	The Blue Company
Member	UN Global Compact

AWARDS AND ACCOLADES

AWARD	RECOGNITION
Africa Housing Awards	Africa Housing Finance Company of the Year 2023
AUHF Affordable Housing Awards	Most Innovative Housing PPP - Africa 2023

KMRC is your go-to for 105% financing on home loans.

Who knew owning a home could be this affordable?

AFFORDABLE Home LOANS
powered by KMRC

BOARD OF DIRECTORS

Dr. Haron Sirima
Chairman

Mrs. Susan Maira
Independent &
Non-Executive Director

Mr. Osman Khatolwa
Non-Executive
Director

Mrs. Annastacia Kimtai
Non-Executive
Director

Mr. Imtiaz Khan
Non-Executive
Director

Mrs. Jane Mwangi
Independent &
Non-Executive Director

Mr. Robert Kibaara
Non-Executive
Director

Mr. Johnstone Oltetia
Chief Executive
Officer & MD

STATEMENT FROM THE LEADERSHIP

Chairman's Statement

Dear Shareholders,

Resilience under a challenging environment

On behalf of the Board of Directors, I am delighted to present the Annual Integrated Report for the year ended 31st December 2023 that highlights the Company's financial performance and activities.

The global economy has been turbulent due to the prolonged and protracted Russia-Ukraine conflict that has disrupted global supply chains, fueled inflationary pressures, increased interest rates. In addition, extreme weather conditions adversely affected fiscal position of economies. Global growth is estimated to have grown by 3.2 percent in 2023 and is forecast to grow at the same pace of 3.2 percent in 2024 and 2025.

The Kenyan economy has shown resilience amidst challenges growing at 5.6 percent in 2023 compared to 4.9 percent in 2022 anchored by a rebound of the agriculture sector and robust performance of services sector. Interest rates during the year witnessed upward adjustments in response to the Central Bank of Kenya monetary policy rate which was raised to 12.5 percent in December 2023 to anchor inflation expectations and reduce inflation within target range. The Kenya shilling exchange rate remained relatively stable against major international currencies despite high demand for the US dollar in the international financial markets. Supported by increased foreign remittances and adequate foreign exchange reserves and exports receipts, the Kenya shilling exchanged at an average of Kshs 154.1 to the US dollar in December 2023 compared to Kshs 122.9 in December 2022. Inflation remained above the target range during the first half of the year standing at 7.88 percent in June 2023 but declined to 6.6 percent in December 2023. The inflationary pressures weakened household purchasing power and rising interest rates slowed uptake of mortgages particularly demand for variable interest rate mortgages. Although the overall quality of the mortgage industry loan book deteriorated during the year under review, the Company's balance sheet had an impressive growth on account of support from our customers, the primary mortgage lenders (PMLs).

Corporate Governance: Our Pillar of Strength

We continue to uphold the highest standards of corporate governance. We constantly and continuously strive for excellence in our business operations and professional conduct. As a Company, we value accountability and transparency, and anchor our business activities and decision-making processes on our Company's core values: Integrity, Collaboration, Innovation and Efficiency. Board Evaluation and continuous capacity building represent pivotal strategies in enhancing the effectiveness and sustainability of organizational governance.

To this end, a Board Evaluation was conducted during the year with an impressive overall score of 91 percent, an attestation to the right mix of directors and desired competencies. We continue to implement a robust board capacity building plan to navigate the complexities of today's business environment. Such initiatives not only bolster the board's expertise but also foster a culture of lifelong learning and adaptability. During the year, one independent and two non-executive directors were appointed. Currently, independent directors constitute about 38 percent of the Board and the same ratio applies to the female directors composition. This diversity not only enriches our strategic deliberations but also enhances our ability to foresee and adapt to market changes, identify, and mitigate risks, and uncover new opportunities. It underscores our commitment

to inclusive leadership and governance, setting a strong foundation for a resilient and forward-thinking organization.

Strategy Implementation: Tremendous Progress and the Journey that Lies Ahead

Over the span of our first strategic plan, the 2020-2024 Strategic Plan, we have continued to register impressive success, with 91 percent of the initiatives in the strategy implemented, underscoring the strength and efficacy of our strategy execution. This remarkable achievement can be attributed to our adaptive business model, unwavering commitment to customer satisfaction, and the relentless pursuit of excellence by the Board, management, and staff of Kenya Mortgage Refinance Company. As we reflect on these past years, it's clear that the Strategic Plan has not only served as a roadmap but as a catalyst for transforming challenges into opportunities, setting a solid foundation for continued success and growth in the years to come.

Looking Ahead

As Kenya strides forward into the future, the landscape of mortgage refinancing is poised for a transformative shift, particularly in the context of the Government's commitment to deliver affordable housing under the Bottom-up Economic Transformation Agenda (BETA) and as prioritized in the Fourth Medium Term Plan of the Kenya Vision 2030. The government's focus on making housing both accessible and affordable to its citizens has injected renewed vigor into the mortgage refinancing sector, promising to catalyze a wave of innovation and accessibility.

We aim to further re-invigorate the mortgage market by providing long-term funding to primary mortgage lenders, thereby reducing the cost of mortgages, and increasing the tenure of loans available to Kenyans to sustain the drive towards homeownership in Kenya. Picking on the lessons learnt in the implementation of the 2020-24 Strategic Plan and the rapidly changing business environment and customer needs our second strategic plan, the 2024-29 Strategic Plan will commit to further deepen the mortgage market through refinancing as a cornerstone for expanding affordable housing through innovative solutions.

Dr. Haron Sirima, EBS
Chairman

Over the span of our 2020-2024 Strategic Plan, we continued to register tremendous success, with 91 percent of the initiatives in the strategy implemented, underscoring the strength and efficacy of strategy execution.

Say goodbye to sky-high loan interest rates and **hello to your dream home!**

KMRC-backed home loan
a fixed, single digit (below 10%) interest rate
on your home loan.

AFFORDABLE Home LOANS
powered by KMRC

CEO's REPORT

Overview

Driven by the changing macroeconomic environment, 2023 saw sustained tightening of policy rates by the Central Bank of Kenya (CBK). The tightening monetary conditions affected market interest rates with the lending rates being adjusted upwards from an average of 12.6 percent in December 2022 to about 15 percent as at December 2023. Noting that over 88 percent of market rates including mortgages rates in Kenya are variable, the affordability and accessibility of home loans became highly dependent on the timing of these policy adjustments. As a result, the higher interest rates increased the cost of borrowing, making it more challenging for Kenyans to access home loans. KMRC continues to support affordable homeownership with its unique product offering of single-digit and fixed interest rates. Fixed interest rates provide stability, predictability, and peace of mind to borrowers looking for certainty in their financial commitments. This has the potential of reducing loan defaults and positively impact uptake of home loans in Kenya.

Robust Growth: Our Year in Review

During the year, we continued to register impressive performance. Profit before tax (PBT) increased by 150 percent to Kes. 1.07 billion from Kes. 429.50 million in the previous year buttressed by an 85 percent increase in total interest income from Kes. 1.3 billion in 2022 to Kes. 2.4 billion in 2023. We refinanced 3,128 mortgages worth Kes. 9.6 billion in 2023 to 12 participating primary lenders, a significant stride in enhancing affordable housing finance.

Promoting Developments in Affordable Housing

To enhance affordable homeownership, we increased the maximum loan amount an individual can access through the KMRC home loans to Kes. 10.5 million from Kes. 8 million. At the same time, we reviewed the borrower's monthly income limit from Kes. 150,000 to Kes. 200,000. In addition, we successfully influenced national policy on affordable housing, with our proposal to include SACCOs as part of the institutions whose borrowers qualify for mortgage interest relief. Borrowers taking home loans through SACCOs started benefiting from this tax relief effective July 2023 following promulgation of the Finance Act 2023.

In order to push home financing further down market, we are currently exploring implementation of a Risk Sharing Facility (RSF). A risk sharing facility is a partial mortgage guarantee arrangement whose key objective is to de-risk potential home loan borrowers particularly those with irregular income. The scheme will help improve housing finance affordability as the product will bear some of the credit risk for lower income borrowers. The RSF provides partial credit default loss protection to primary lenders and as a result encourages them to extend credit to the underserved demographics. This will not only foster financial inclusion but will also stimulate economic activity within the informal sector, contributing to broader economic growth. Effective implementation of the partial mortgage guarantee arrangement will require digital credit assessment mechanism that helps to determine creditworthiness of borrowers with irregular income.

Adapting to Thrive: Embedding Sustainability

Underpinned by the dynamism in our operating environment, we are proactively embedding

sustainability initiatives into our operations through a multifaceted approach that considers environmental, social, and economic impacts. During the year under review, we continued to implement our Environmental and Social Risk Management Policy that integrates Environmental and Social Risk Management (ESRM) practices in our refinancing activities. In addition, we have been implementing energy-efficient measures within our premises and remain committed to reducing our carbon footprint. By embedding sustainability into our operations, we are not only contributing to a more sustainable housing sector but also driving positive social and economic impacts in our communities.

Uniting Strengths: Partnerships Driving Progress

As a responsible corporate citizen, we embody the ethos of "Partnerships towards sustainable and inclusive progress." Towards this end, we continue to forge strategic collaborations to enhance affordable homeownership. During the year, we successfully hosted the third annual Kenya Affordable Housing Conference in November 2023 under the theme "Affordable Housing for Economic Transformation and Social Inclusion". This brought together key stakeholders in the housing value chain including Government, development finance institutions, banks, SACCOs, developers, and investors, together to address the rigidities and identify opportunities in order to drive the affordable housing agenda in Kenya. Similarly, we actively participated in influential housing fora through the African Union for Housing Finance and International Secondary Mortgage Markets Association. These fora provide an opportunity for exchange of ideas and identifying issues that require policy interventions in the affordable housing space. Through these synergistic partnerships, we are not just facilitating access to affordable housing but fostering a holistic housing ecosystem.

Our Team: The Bedrock of Success

At KMRC, our team stands as the bedrock of success, driving our mission to revolutionize mortgage refinancing and foster affordable homeownership in Kenya. Comprising dedicated professionals with diverse expertise, our team is united by a shared passion for innovation and excellence. As a Company, we have institutionalized diversity and inclusion policies to ensure a diverse and equitable workplace. Our commitment, resilience, and unwavering dedication to our vision enables us to foster new relationships, open doors and launch new ideas that create business opportunities.

Going forward

As we look into the future, we remain steadfast in our commitment to drive affordable homeownership by providing liquidity to primary mortgage lenders while also deepening the capital markets in Kenya. Going into the future, we are introducing a suite of initiatives designed to incentivize and support mortgage lending further down market through enhanced risk-sharing mechanisms, capacity building programs, and tailored financial products that mitigate the risk of lending to lower-income households. We strongly believe that through these initiatives, we will catalyze demand for affordable housing and consequently enliven increased homeownership in the Country.

As we embark on developing the KMRC 2024-29 Strategy for value creation, our eyes remain focused on growing sustainably while continuing to drive the desired societal impact as we contribute to the national development goals working closely with our partners.

Mr. Johnstone Oltetia
Chief Executive Officer and Managing Director

At KMRC, our team stands as the bedrock of success, driving our mission to revolutionize mortgage refinancing and foster affordable homeownership in Kenya.

MANAGEMENT TEAM

Mr. Johnstone Oltetia
Chief Executive Officer & MD

Olive Gitau
Head of Internal Audit

Elisha Nyikuli
Head of Legal Services & Company Secretary

Geofrey Mwaura
Head of Credit

Deborah Masara
ICT Manager

Nyale Yanga
Chief Finance Officer

Erick Wambua
Finance Manager

Florah Muthaura
Head of Risk
& Compliance

Daniel Saruni
Head of Human Resources
and Administration

Josea Cheruiyot
Research &
Strategy Lead

Gideon Rutto
Procurement &
Logistics Manager

A PEEK INTO OUR STRATEGY

Housing Agenda

KMRC convened its third Kenya Affordable Housing Conference in November 2023, bringing together key stakeholders in the public and private sectors including The National Treasury, ministries, development finance institutions, banks, SACCOs, developers, investors, among others. This annual forum aims to foster collaborative discussions between players from the housing supply and demand sides to drive the affordable housing agenda in Kenya. The theme of the conference *"Affordable Housing for Economic Transformation and Social Inclusion"* put into perspective the important role that home ownership plays in Kenya's economic growth and development.

The Government continues to support the affordable housing agenda through the construction of affordable housing units across the country to address the annual housing deficit of 250,000 units. The Ministry of Lands, Public Works, Housing and Urban Development has also demonstrated its commitment through various initiatives including implementation of the ArdhiSasa platform to streamline property registration and strategic partnerships with county governments and private developers to spur housing supply. Private players, including financial institutions, have also been instrumental in supporting the supply side through construction of housing units and/or provision of housing finance.

KMRC provides funding to participating financial institutions to increase accessibility and availability of home loans to Kenyans. As at 31st December 2023, we had disbursed a total of Kes. 9.6 billion to 12 participating primary lenders (7 Banks and 5 SACCOs).

We continue to be drivers of policy change to increase home ownership in Kenya. A key legislative amendment initiated by KMRC during the reporting period was the inclusion of SACCOs among institutions whose borrowers qualify for mortgage interest relief, which came into effect in July 2023 through the Finance Act 2023. We believe that through policy interventions, we are laying the groundwork for a future where all Kenyans have access to affordable housing.

Achieving the affordable housing agenda requires a multi-faceted approach involving strategic partnerships, housing and infrastructure development, housing finance, community involvement and regulatory reforms. We shall keep collaborating with key stakeholders in the affordable housing space to deliver on our mandate of increasing home ownership in Kenya.

Social Responsibility and Stakeholder Engagement

At KMRC, responsible business practices involve not only maximizing shareholder value but also making a positive contribution to the communities where we operate. We conduct all our business operations with a high regard for our stakeholders and a continuous effort to minimize environmental impact.

Our decisions are guided by internal policies, standards, and targets. During the reporting period, our social responsibility initiatives included leading strategic engagement programs to enhance homeownership education and promote financial literacy.

- Some of the stakeholder engagements held during the period were:

No.	FORUM
1.	SACCO Leaders Breakfast Meeting
2.	Co-operative Bank Breakfast Meeting
3.	Kenya Homes Expo
4.	Kenya Editors Guild Forum
5.	Kenya Teachers SACCO Association 12th Annual Conference
6.	Kenya Secondary Schools Heads Association Conference
7.	Devolution Conference
8.	Africa Climate Summit
9.	Nairobi International Trade Fair
10.	AfDB Mission Stima SACCO
11.	Kenya Affordable Housing Conference

- Efforts to address housing inequality and foster social integration were bolstered by various initiatives to make housing more affordable. Key to these efforts was the provision of affordable housing finance, which made it easier for a larger number of Kenyans to secure home financing. KMRC played a significant role in this by refinancing mortgages amounting to Kes. 2.4 billion, benefiting 606 homeowners in the process. Cumulatively, the Company had extended Kes. 9.6 billion as at 31st December 2023, benefiting 3,128 homeowners.

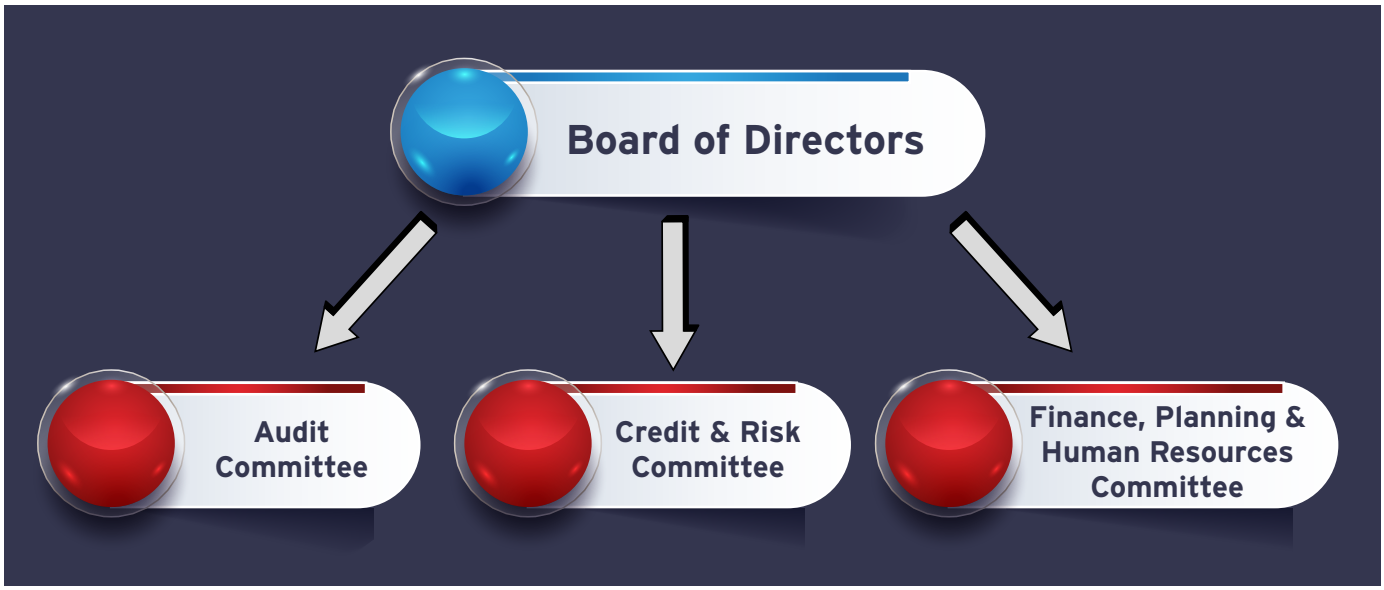
LEADERSHIP AND CORPORATE GOVERNANCE

Corporate Governance Statement

Good corporate governance practices are critical to the long-term success of KMRC. Consequently, the Board continues to put in place structures, policies, procedures, processes and systems in alignment with the requirements of the Central Bank of Kenya contained in the CBK (Mortgage Refinance Companies) Regulations 2019, the guidelines issued by the Capital Markets Authority via the Code of Corporate Governance Practices for Issuers of Securities to the Public 2015 (the Code), and other global best practices to direct the Company towards long-term value creation and the protection and satisfaction of legitimate stakeholder interests.

The Board ensures that high standards and principles of corporate governance and ethics are maintained across the Company and continues to progressively implement the recommendations of the Code as appropriate. To underscore its commitment in this regard, the Company has made budgetary provisions for a governance audit to be undertaken by an independent auditor accredited by the Institute of Certified Public Secretaries of Kenya. The findings of this audit will be reported to shareholders and other stakeholders in the next integrated annual report. The Company continues to monitor the level of adherence to applicable laws, regulations and standards.

Board Organogram



Board Mandate

The primary mandate of Board members is to exercise their business acumen in overseeing the Company's conduct and acting in the best interests of the Company, its shareholders, and other stakeholders. It is their main responsibility to protect and enhance the value of the assets of the Company and foster a culture of honesty, integrity, and excellent performance. The Board is also responsible for overseeing the corporate governance framework of the Company.

Matters reserved to the Board include:

- Strategy formulation and implementation
- Setting credit and procurement limits
- Constitution of committees and development of committee TORs
- Financial reporting and control
- Approval of capital raising & debt issuing
- Approval and amendment of company policies

Board Composition, Size and Independence

The Board Charter and Articles of Association require the Board at its full complement to comprise of seven members, with two thirds as non-executive directors. These constitutive documents deem the Chief Executive Officer an executive member of the Board but is not counted in considering the full constitution of the Board. The Board currently comprises five non-executive directors, two independent and non-executive directors, and the Chief Executive Officer as the Managing Director. Three directors were appointed in the year and approved at the Annual General Meeting in June 2023. This marked a significant milestone in the Company since it brought the Board to full complement.

With over 87% of the directors being non-executive, the Board is aptly equipped to provide independent oversight on strategy, give appropriate leadership and direction to management and leverage on its networks for the benefit of the Company while ensuring that adequate risk management measures have been put in place. The longest serving independent and non-executive director has been at the Company for the last five (5) years and remains eligible to hold the position as per the recommendations of the Code.

The Company maintains a directors and officers liability insurance cover to indemnify members of the Board from liabilities arising out of corporate activities and the performance of their mandate jointly and severally. This insurance cover is renewed annually.

2023 Board & Committee Membership and Attendance

The Board members and meetings they attended in the year under report were as follows:

No.	Name	Position	Full Board	Audit	Credit & Risk	Finance Planning & Human Resources
1.	Dr. Haron Sirima	Chairperson; Non executive	5	n/a	n/a	n/a
2.	Mr. Asman Khatolwa	Non-executive	5	4	5	4
3.	Mrs. Annastacia Kimtai	Non-executive	3	4	n/a	4
4.	Mrs. Susan Maira	Independent and Non-Executive	5	4	5	n/a
5.	Mr. Imtiaz Khan	Non-executive	5	4	5	n/a
6.	Mr. Robert Kibaara	Non-executive	5	4	n/a	4
7.	Mrs. Jane Mwangi	Independent and Non-executive	3	n/a	4	3
8.	Mr. Johnstone Oltetia	Executive	5	n/a	5	4

Board Committees

The Board Committees are constituted from amongst the Board members and are governed by terms of reference (TORs) approved by the Board. The TORs set out the operational elements and responsibilities of each committee.

The established Board Committees are:

i. Audit Committee

The mandate of the Board Audit Committee (BAC) is to support the KMRC Board to fulfil its oversight duties related to the integrity of the Company's financial statements, internal controls, the performance and independence of the external auditors, the internal audit function, and their reporting responsibilities.

The BAC plays a crucial role in upholding high standards of corporate governance. During the year under review, the Committee oversaw the appointment of the external auditor, ensured their independence and performance of the audit engagement by reviewing and approving the audit engagement plan. Additionally, the BAC reviewed the statutory financial statements and recommended them to the Board for approval. The Committee also maintained oversight of the internal audit function, ensuring its independence and objectivity.

The BAC approved the annual risk-based internal audit plan which covered key strategic business processes with contributions from management. They reviewed the adequacy of internal controls across the Company's core and support functions, including refinancing operations, liquidity and cashflow management, compliance reporting, funding operations, information systems and supporting ICT infrastructure.

The Chairperson and members of the committee are non-executive directors and professionally qualified in accounting, audit, finance, business administration and management and strategic leadership.

The following were the BAC members in the year under review:

No.	Name
1.	Mr. Asman Khatolwa - Chairman
2.	Mrs. Susan Maira
3.	Mrs. Annastacia Kimtai
4.	Mr. Robert Kibaara
5.	Mr. Imtiaz Khan

ii. Credit and Risk Committee

The mandate of the Board Credit & Risk Committee (BCRC) is to assist the Board in effectively fulfilling its responsibilities pursuant to the Company's Credit Policy and constituent refinancing guidelines of the Company to inculcate prudent lending standards and practices and ensure that relevant regulations are complied with. The BCRC is also responsible for ensuring that a sound risk management program is in place for effective identification, measurement, control, and monitoring of all risks affecting the Company.

Throughout the year 2023, the Committee diligently focused on assessing, monitoring, and mitigating all strategic, credit and operational risks to ensure the stability and sustainability of our lending activities. The Committee actively engaged in an ongoing review of key policies to ensure that they align with regulatory requirements and industry best practices. The Committee conducted comprehensive mortgage portfolio reviews, stress testing scenarios, and reviewed the current credit scoring model to enhance credit decision-making process.

The KMRC risk management framework is centered on maintaining a healthy balance between growth objectives and prudent lending practices. The committee ensured intensive credit analysis procedures, including assessment of the primary mortgage lenders and review of collateral to ascertain creditworthiness and prudency. Adhering to regulatory standards as outlined by the primary regulator, the Central Bank of Kenya has been the Committee's foremost priority.

Integrity of the credit risk assessment process was enhanced through consistent compliance with legal requirements, internal policies, and industry guidelines.

The Credit and Risk Committee remains dedicated to upholding the highest standards of integrity, transparency, and fiduciary responsibility while safeguarding stakeholders' interests and driving sustainable growth for the Company.

The following were the BCRC members in the year under review:

No.	Name
1.	Mrs. Susan Maira - Chairperson
2.	Mr. Asman Khatolwa
3.	Mrs. Jane Mwangi
4.	Mr. Imtiaz Khan
5.	Mr. Johnstone Oltetia

iii. Finance, Planning and Human Resource Committee

The mandate of the Finance, Planning and Human Resource Committee (FP&HRC) is to assist the Board in providing strategic guidance in matters relating to strategy, finance and accounting, planning, information technology, procurement and human resource management.

During the year under review, the Committee approved policies relating to human resources management. It also provided strategic guidance on the changes in the Board, restructuring of the Kenya Affordable Housing Finance Project and on the Company's initiative to spearhead the formation of a risk sharing facility. The Committee provided oversight on implementation of key strategic initiatives that were undertaken by the Company which led to the growth in PML's net lending from Kes. 6.8 billion in 2022 to Kes 8.4 billion in 2023. It further provided oversight on budget development and monitoring, corporate performance, and compliance with legal and regulatory requirements.

In line with the procurement policy, the Committee received quarterly reports on procurement activities and reviewed large expenditures. The Company has established a procurement system that plays the role of a lever for sustainable supply chain management, engagement, and transformation.

The following were the FP&HRC members in the year under review:

No.	Name
1.	Mr. Robert Kibaara - Chairman
2.	Mrs. Annastacia Kimtai
3.	Mr. Asman Khatolwa
4.	Mrs. Jane Mwangi
5.	Mr. Johnstone Oltetia

Board Diversity

The Board's composition encompasses a dynamic mix of diverse skills, professional qualifications, expertise, experience, industry knowledge, gender and a balance of Independent and non- executive directors. The Board recognizes that opportunities for increased diversity and inclusion exist with any future appointment of directors and is in the process of formulating a Board policy to ensure inclusivity and diversity in board recruitment and appointment processes and set measurable objectives to implement diversity at the board.

Board Performance Management, Evaluation and Capacity Building

To ensure sustainability of its operations, the Board undertakes an annual board evaluation exercise aimed at reviewing its performance and identifying areas of improvement. The evaluation covers the board mandate, size, composition, meetings, independence, legal and ethical duties. The 2023 board evaluation was undertaken by an independent consultant and recorded an impressive overall score of 91.6%, which is an attestation to the right mix of directors and desired

competencies. The evaluation was undertaken on the Chairperson of the Board and each director, which included director self-assessment. The Managing Director was also evaluated in his capacity as Chief Executive Officer. The results of the evaluation were presented at the Quarter 1 Board meeting and recommendations for improvements discussed and approved for implementation. The Board is pleased to confirm that each board member continues to perform effectively and is fully committed to their role.

For the year under review, the directors received timely, accurate and complete information on all matters for which the Board was responsible for. Board and Committee papers were circulated electronically prior to all meetings affording the directors ample time to review the content and request clarification. An electronic board platform was used by the Company to allow real-time access and update of board papers and information packs. This enriched discussions and the output of the Board.

Separation of Roles and Responsibilities

In the year under review the positions of Board chairperson, CEO and Company Secretary were held by different individuals in line with the Company Articles of Association, Board Charter and the Code. This separation of powers and responsibilities ensured the increased capacity for independent decision making at the board, accountability and an appropriate balance of power. In line with the Board Charter, the Chairperson provided effective leadership, approved the agenda for board meetings, chaired all board meetings and ensured that records of the proceedings of all board meetings were kept. The Company Secretary in coordination with the CEO and the Board facilitated the board's work plan, board evaluation process, director induction and continuous professional development plans and ensured effective communication between the Company and its shareholders.

Board compensation and succession planning

The determination of Board compensation is a mandate of the board enforced by way of a board resolution. Director compensation was not reviewed in 2023. The details of directors' compensation for 2023 are captured in page 102 of the Company's financial statements. The CEO did not receive any additional compensation for his service as an executive director to the Board.

In adherence to the requirements of the Articles of Association, two (2) directors retired and were re-elected at the 2023 Annual General Meeting. The Board Rotation Matrix was revised to incorporate of the three new directors. The new directors received their appointment letters detailing the terms of their engagement. The Rotation Matrix continues to be reviewed on a need basis, always ensuring the highest level of transparency and consistency.

Information and Communication Technology (ICT) Governance: Policies, Efficiency, and Security

The Board recognizes the critical role of ICT in enhancing core operations and service delivery. To achieve this, the Company has strategically invested in robust systems and applications that streamline internal business processes. These investments ensure operational efficiency and contribute to overall effectiveness.

In addition to efficiency, the Company has prioritized business continuity. Our disaster recovery initiatives guarantee the availability of essential services even during unforeseen disruptions. We remain agile by embracing technological advancements and adapting to changes in the Information Technology landscape. Security is paramount, the Company has implemented comprehensive solutions and stringent measures to safeguard Company assets against unauthorized access. Our emphasis on

employee security awareness training reinforces our human defense against cyber threats.

To guide our ICT practices, we adhere to a well-defined ICT Policy. This policy outlines guidelines, principles, and standards for managing ICT resources. It covers critical areas such as information security, acceptable use, project management, change management, and hardware/software acquisition and disposal. Regular biennial reviews ensure its alignment with the dynamic technology landscape.

RISK MANAGEMENT

OUR APPROACH TO RISK MANAGEMENT

Efficient risk management facilitates the achievement of our strategic goals and ensures the sustainable growth of our business. As we navigate through dynamic market conditions and an evolving regulatory landscape, we endeavor to maintain a vigilant approach towards risk management. The Company has prioritized robust risk management strategies to navigate through uncertainty and ensure the protection of our stakeholders' interests. We recognize the potential impact of these economic factors on our operations, including increased borrowing costs and heightened credit risks. Therefore, we have implemented comprehensive risk management protocols aimed at identifying, assessing, and mitigating these risks effectively. Our strategies include closely monitoring market trends, stress testing our portfolios, and diversifying our funding sources to enhance resilience. By proactively managing risks amidst these challenging conditions, we aim to safeguard our financial stability and sustain long term value for our shareholders.

OUR RISK MANAGEMENT GOVERNANCE FRAMEWORK

KMRC's risk management framework contains the following elements of a sound risk management system.

Active Board and Management Oversight

KMRC's Board has the ultimate responsibility for the level of risk taken by the Company. Accordingly, the board approves the Company's overall business strategies and significant policies, including those related to managing and taking risks and ensures that senior management is fully capable of managing the activities that they conduct. KMRC's directors have a clear understanding of the types of risks to which the Company is exposed and receive regular reports that identify the size and significance of these risks.

Management is responsible for implementing strategies in a manner that limits risks associated with each strategy. Management is therefore fully involved in KMRC's activities and possess sufficient knowledge of the company's refinance business to ensure that appropriate policies, controls, and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated. Management is also responsible for establishing and communicating a strong awareness of and need for effective internal controls and high ethical standards. Meeting these responsibilities requires KMRC's management to demonstrate a thorough understanding of developments in the financial sector and a knowledge of the activities that KMRC conducts, including the nature of the internal controls necessary to mitigate the related risks.

Adequate Policies, Procedures and Limits

KMRC's Board of Directors and management have tailored the company's risk management policies and procedures to the types of risks that arise from the activities the company conducts. Once the risks are properly identified, the policies and procedures provide detailed guidance for the day-to-day implementation of the company strategy and include limits designed to shield the organization from excessive and imprudent risks.

Adequate Risk Monitoring and Management Information Systems (MIS)

KMRC's risk monitoring activities are supported by information systems that provide management and directors with timely reports on the financial condition, operating performance, and risk exposures of the company. These reports include monthly balance sheets and income statements, a watch list for potentially troubled loans, a report of overdue loans, loan performance reports and other relevant reports including compliance reporting to regulators.

MATERIAL RISKS

Credit Risk

The risk of PMLs defaulting on refinance loans due to a rise in nonperforming loans in the banking sector poses a potential credit risk to KMRC. According to data from the CBK, there was a 7.8% increase in gross non-performing loans (NPLs) by end of December 2023, with personal and household and real estate sectors contributing 29% to this increase. This situation presents a heightened credit risk to KMRC because of the loans it extends to PMLs. To mitigate this risk, management has implemented cautious risk management measures. These measures include conducting comprehensive due diligence on the financial health of primary mortgage lenders, monitoring their asset quality, capital adequacy, and risk management practices. Additionally, regular monitoring of key financial metrics and regulatory disclosures is conducted to stay informed about any changes in the credit risk profiles of PMLs. Currently, all collateral backing the refinanced mortgages is performing well, with no instances of the collateral falling below the required threshold in relation to the loan amount.

Market Risk

Fluctuating interest rates, foreign exchange rates, inflation, and national debt have the potential to influence future funding requirements for KMRC. The company relies heavily on concessional financing to offer affordable housing finance to PMLs. Any rise in future funding expenses would lead to higher lending costs for PMLs. KMRC primarily obtains long-term liquidity through issuing bonds in the capital markets. However, increased government borrowing has pushed up interest rates for government securities, which serve as a benchmark for pricing corporate bonds. While the company secured approval to raise capital market funding through a 5-year Medium Term Note (MTN) program worth Kshs. 10.5 billion, issuing additional tranches is currently not feasible due to the elevated interest rates. This delay in accessing additional capital market funding affects the company's ability to establish a robust track record and diminishes its source of funds for refinancing mortgages, thereby impacting business sustainability. To address this challenge, management is exploring alternative funding sources, with a particular emphasis on green financing as part of its sustainability agenda.

Economic Environment Risks

Macroeconomic factors such as high unemployment rates, and inflation had an impact on the demand for mortgage refinancing due to low mortgage uptake at the PML level. The current high inflationary environment has eroded the purchasing power of money over time. As the cost of goods and services continues to rise, individuals are finding it more challenging to afford large purchases such as homes. Additionally, Inflationary pressures has led to increased construction costs due to increased costs of steel and cement thus resulting to higher home prices, further reducing affordability for potential homebuyers. In such circumstances, there is a delay by individuals entering the housing market, resulting in lower mortgage uptake.

Sustainability/ESG Risks

KMRC recognizes the significant environmental challenges the world faces due to a changing climate and the implications that this can have on our business. Climate risk emanating from floods, mudslides among others has the potential to adversely affect the refinanced portfolio of mortgages. Potential negative impacts and vulnerabilities can arise from unsustainable practices, behaviors, or decisions within the business and also externally as a result of environmental, economic, social, and cultural systems and practices. With a call to action towards embracing sustainability practices in both the private and public sector and introduction of sustainability reporting standards, we do recognize the company's performance will be evaluated both in terms of the impact it creates to the environment and to its stakeholders (both Internal and external stakeholders). Management has thus embedded sustainability as part of the company strategy and is developing a sustainability strategy to guide the business in implementing various sustainability initiatives.

Legal, Regulatory and Compliance Risk

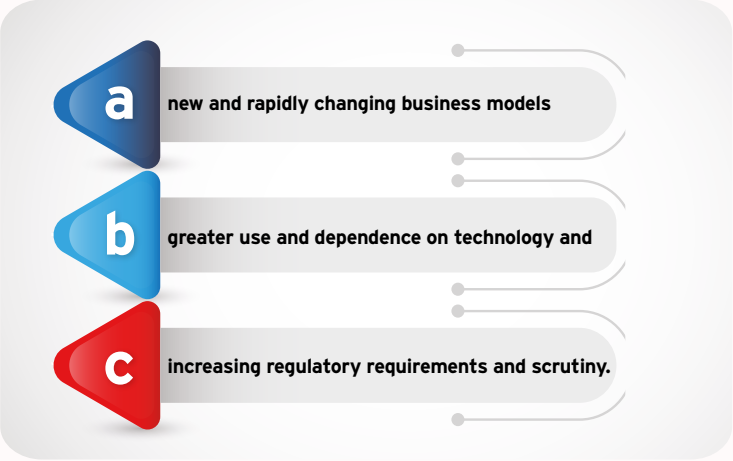
Changes in laws and regulations have a potential impact on the operational costs of KMRC by increasing its expenses, hence reducing its earnings. There is also the potential risk of noncompliance to regulatory requirements and standards due to numerous laws and standards introduced that would lead to regulatory penalties and sanctions. Further, the company is in contractual relationships with various parties ranging but not limited to funders, investors, shareholders, primary mortgage lenders, employees, and suppliers. Management has implemented a monitoring mechanism to track changes in laws In light of the impact on the budget so as to inform decisions. Management also maintains a tracker of all regulatory and contractual requirements that the company is required to adhere to.

Technology and Cyber Security Risk

KMRC relies on a robust ICT infrastructure for its business operations, internal communications, risk management and reporting. There is a constant threat of sophisticated cyber-attacks including phishing, ransomware, malware, and social engineering. The macro-risk level continues to rise with the number of cyber related attacks reported in the financial industry becoming more frequent. Our approach to managing these threats is multifaceted, we invest significantly in state of-the-art technologies and systems to fortify our defenses against cyber threats. This includes implementing advanced next generation firewalls, Network access solutions, encryption protocols, intrusion detection systems, and endpoint security solutions to mitigate the risk of unauthorized access, data breaches, and cyberattacks. Moreover, we prioritize ongoing monitoring and assessment of our technological infrastructure to identify and address emerging risks proactively. We also proactively conduct user awareness training to management and staff to fortify human defenses. Our dedicated technology team conducts regular vulnerability assessments, penetration testing, and Technology and security audits to provide assurance of the resilience and integrity of our systems.

Internal Control Framework

The Company's system of internal controls comprises governance structures, systems, policies, procedures and measures adopted to safeguard its assets, check the accuracy and reliability of its data, promote operational efficiency and encourage adherence to prescribed laws and regulations. The Board and management have been keen to develop and implement an internal control framework that adapts to changing business and operating environment, mitigates risks to acceptable levels and supports sound decision making and governance. KMRC's adoption of effective internal controls through continuous review has enhanced its adaptability to:



As part of its internal control framework, KMRC's internal controls are geared to the achievement of the Company's objectives, effected by people,processes consisting of ongoing tasks and activities, adaptable to the Company's structure and able to provide reasonable assurance.

To support the achievement of the Company's objectives, the internal controls applied support:

During the year, the Board approved various policies which continued to provide a basis of establishing relevant procedures that support business as part of the governance process.

Internal audit function continues to be a key corporate governance mechanism that complements other cornerstones of corporate governance namely, External Auditors, Audit Committee and Management.

OUR VALUE CREATION MODEL

VISION

To sustainably promote homeownership.

MISSION

To increase affordability of home loans through refinancing.

RESOURCE INPUTS

FINANCIAL CAPITAL
Shareholders Equity Kes. 1.8 billion
Borrowings Kes 22 billion
Retained Earnings Kes 1.6 billion

MANUFACTURED CAPITAL
KMRC invested approximately Kes 25,000,000 in 2023 as part of strengthening the company's ICT and security infrastructure.

INTELLECTUAL CAPITAL
Robust Risk Management

Research and development efforts and market insights.

The Company invested Kes. 21, 500,000 to train its staff on different skills and capabilities.

Investment in Knowledge Management System

HUMAN CAPITAL
23 Employees,
56% are women.
67% are under 40 years of age.
76% Full-time employees.

SOCIAL CAPITAL
Investment in partnerships with housing non-profits (HFHI) and the local government (SDHUD).

NATURAL CAPITAL
Energy-efficient measures in company operations
Issuance of Social Bonds Alignment towards issuance of green bonds.

VALUE OUTPUTS

- Cumulative Loan Growth to Kes. 9.6 billion
- Number of PMLS Refinanced Twelve (12)
- Number of affordable mortgage / housing loans refinanced 3,128.
- Percentage mortgage / housing loans refinanced by KMRC extended to women (Percentage)-46%
- Average maturity of mortgage loans refinanced by KMRC in the year 11 years.

- Reduced exposure to cyberthreats.
- Automation of business processes to streamline and optimize various processes across different departments.
- The IT infrastructure enables the company to efficiently process loan applications efficiently leading to faster turnaround times for clients. The IT infrastructure in place enables collaboration, data sharing and is easily customizable to meet the business needs.

- Improved Decision Making
- Enhanced Customer service all employees understand the KMRC product and can respond to customer queries
- Drive Innovative Solutions (Product development)

Skilled and Competent Employees

- Collaborative initiatives promoting affordable housing advocacy, catalyzing development of affordable housing, and community engagement.
- Established Linkages between demand and supply.

- Environmentally friendly housing developments, green mortgage products incentivizing energy-efficient upgrades, and conservation initiatives.

IMPACT OUTCOME

Increased access to homeownership for low to moderate-income households, reduced housing cost burden, and improved financial stability For PMLs.

Improved operational efficiency contributes to a 25% increase in refinancing services, boosting overall company performance.

Risk Mitigation
Business growth
100% Employee retention

Customer Satisfaction and Innovative products

Strengthened social cohesion and improved access to financial services fo low-income homeowners. Increased housing supply supporting demand side

Reduced carbon footprint, improved air and water quality, and enhanced resilience to climate change impacts in affordable housing communities.

OUR MATERIAL TOPICS

These are the most significant issues that reflect KMRC's economic, environmental, and social impact. They substantially influence the assessments and decisions of stakeholders. Our material topics have been linked to the Sustainable Development Goals (SDGs) with the Company's contributions to the relevant goals specified. In 2023, we signed on as a member of the UN Global Compact further aligning our corporate sustainability. Our material topics meet fundamental responsibilities in the areas of human rights, labor, environment and anticorruption through the Ten Principles of the UN Global Compact.

The Company's focus is on using SDGs as drivers of growth in providing long-term financing to primary mortgage lenders to create synergies towards value creation to increase accessibility and affordability of housing loans in Kenya.

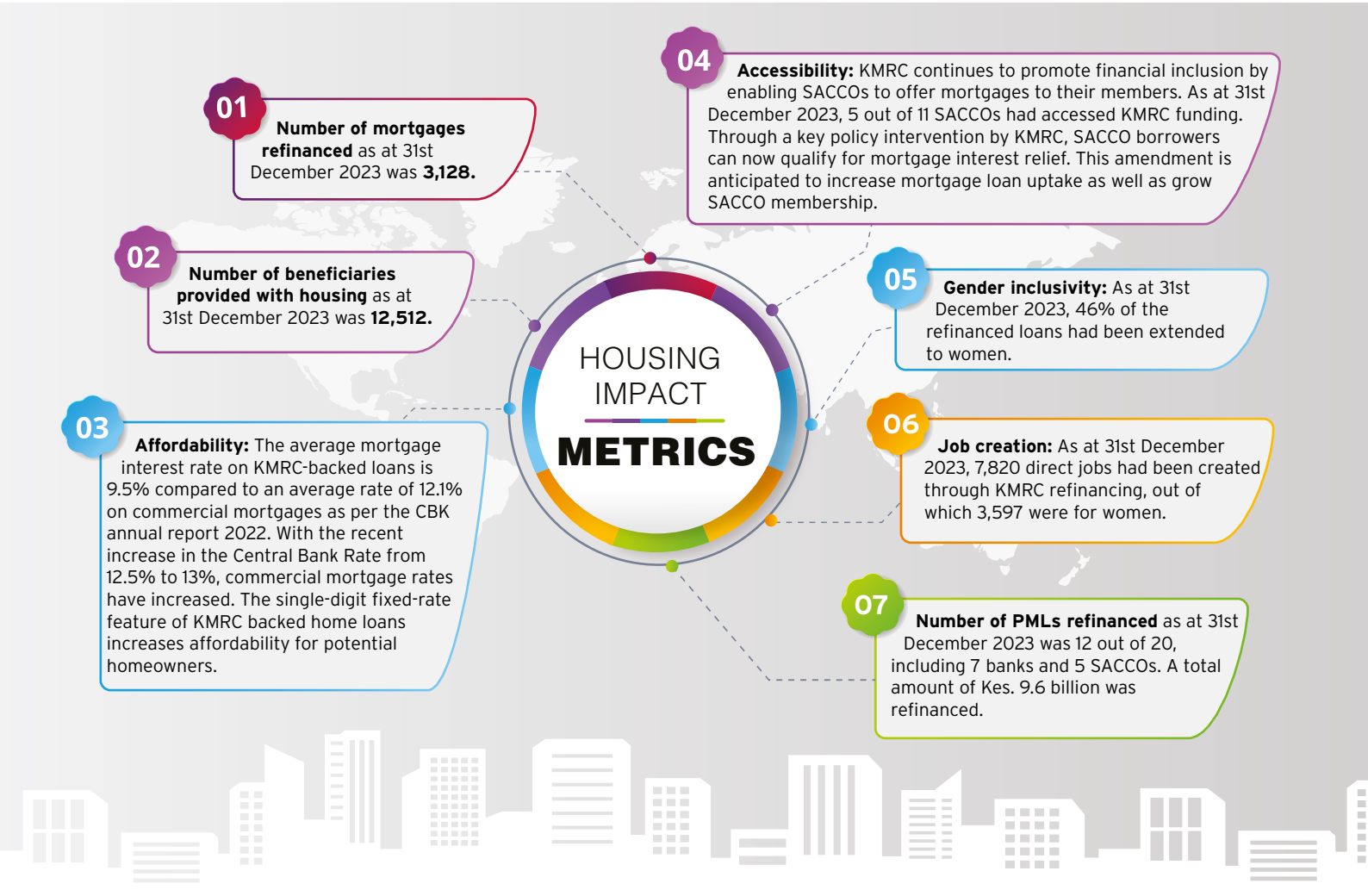
In 2022, the Company embarked on a comprehensive exercise of determining our material topics. This involved extensive research and review of industry trends, emerging issues and global best practice, consultation with internal and external experts and engagement with our stakeholders. In addition, a review of the Company's activities, business relationships and sustainability context was carried out.

The material topics determined in 2022 were retained in 2023 as they remained relevant and aligned with our business strategy.

1. Housing Impact

KMRC measures impact by assessing various aspects to determine the benefits and effectiveness of its funding to Kenyans.

Housing Impact Metrics



Rosemary's Story of Financial Freedom

Ms. Rosemary Nyonga's journey to homeownership started when she was in college, about twenty years ago when her mentors encouraged her to plan her retirement through investments. One investment option that seemed to stand out from the recommendations given to her was homeownership, something she didn't put much thought into, because as she was in her late teens, she thought she still had a lot of time to figure it out. She, however, admits that she's lucky she had great mentors around her who gave her good advice and always pointed her in the right direction.

Rosemary got a job as soon as she graduated college and immediately started saving in SACCO,
despite her meagre salary at that time. Her desire was to build a home, as opposed to buying a ready one. Together with her husband, they combined their savings and put in a deposit towards purchase of a piece of land and offset the rest of the payment through monthly instalments. Upon completion of the land purchase payment, they were both very excited to get started on house construction and approached a number of several financial institutions for an affordable home loan.

A Daunting Experience

Rosemary and her husband would soon realize that an affordable home loan would be an impossible venture, especially seeing as they had spent all their savings on land purchase, yet financial institutions required them to raise a significant amount of loan deposit and take care of the incidental costs. Other factors that put a damper on their aspirations were exorbitant double digit interest rates and complex processes involved. They decided to put a pause on their plan for some time to explore other alternatives.

"We were initially super excited at the prospect of finally constructing our home after a long period of paying for the land. Then we realized that financing construction would be expensive and very complicated. We realized that we could not, at that time, afford what the financial institutions demanded," says Rosemary.

Unaitas SACCO; a Sigh of Relief Comes to Church

While in church in early 2022, a visiting organization announced that it had partnered with other stakeholders to provide affordable housing loans to wananchi to support their home ownership aspirations. Rosemary got intrigued and followed up with the organization's representatives to get more information. That organization was Unaitas SACCO.

One of KMRC's participating institutions, Unaitas SACCO came in and Rosemary's affordable home ownership dream, guiding them through the process, which she says was very seamless and straight forward, and construction started shortly after! With the much needed advice from the SACCO, her construction was fast tracked, enabling Rosemary's family to move in, a just couple of months after. She says she was tired of paying rent, so this to her was the biggest sigh of relief.

"I am glad I went to church that Sunday. Being a homeowner had always been a dream of mine, and I'm happy that I got to achieve in the most affordable way. I would recommend that more financial institutions have similar products that target low-income earners and provide proper guidance," she says.

Unaitas SACCO is on a mission to empower as many of its customers as possible to become homeowners. The SACCO targets low-income earners and encourages a culture of prudent saving. From these savings and consistent

financial literacy programs to the members, the SACCO is able to determine how much they can afford and recommend the kind of home to purchase and/or build.

An empowered idol

Rosemary says being a homeowner has been a blessing to her and her family. She often gets invited to speak to young people and demonstrate that it is possible to achieve anything. "You've just got to put your heart into it, get good advice and great financial advisors," she says.

With this newfound confidence behind her, Rosemary has achieved even more and is now seen as a role model in her community, especially to her rural peers. Because of her zeal, she sets an example for many families in her neighborhood, church and workplace to venture out of their comfort zones and become homeowners.

2. Customer Experience

Key concerns/challenges raised by PMLs during the reporting period mainly revolved around the need to consistently enhance KMRC's product offering to perfectly fit customers' needs.

This is attributed to a dynamic housing finance landscape, which ultimately affects borrowers' purchase power and greatly influences their tastes and preferences. KMRC addressed these concerns as follows:

a) Review of loan and income thresholds

In response to changes in the macro-economic environment that had impacted the cost of construction and reduced the disposable income of potential home loan borrowers, KMRC engaged its funding partners to review the loan and income thresholds.

The engagements resulted in:

- An increase in the household income threshold from Kes. 150,000 to Kes. 200,000.
- A change in the maximum loan threshold from Kes. 8 million to Kes. 10.5 million across the country.

The review of these thresholds aims to reduce entry barriers for mortgages, push financing down market and thus, accelerate the uptake of affordable home loans across the country.

b) Review of KMRC product offering

KMRC reviewed its product offering to allow the following product variations on condition that they met the eligibility criteria of first-time homeowners, owner occupier property, single-digit interest rate and performing loans:

i. Re-mortgages or takeovers for mortgage loans issued after April 2021
ii. Conversion of unsecured loans used to purchase owner-occupier properties into mortgages.

c) Inclusion of SACCOs among institutions whose borrowers qualify for mortgage interest relief

KMRC initiated a key legislative amendment to the Income Tax Act through a policy proposal to The National Treasury to include SACCOs among financial institutions whose borrowers are entitled to mortgage interest relief. The amendment came into effect on 1st July 2023 through the Finance Act 2023 and is expected to increase borrowers' net income, enhance uptake of mortgage loans by SACCOs and increase their membership.

CEO Johnstone Oltetia (centre) with Mr. Charles Hinga- Principal Secretary of the State Department for Housing and Urban Development (L) and Abdullswamad Sheriff Nassir- Mombasa County Governor, during the third Kenya Affordable Housing Conference in November 2023, in Mombasa.

d) Increased PML capacity building and sensitization sessions

KMRC conducts annual PML capacity building initiatives to enhance mortgage lending capabilities for participating banks and SACCOs. Some of the sessions convened during the year included the SACCO Leaders Breakfast Meeting and the 3rd annual Kenya Affordable Housing Conference.

We also engage in sensitization sessions with PMLs and the broader market to enhance financial literacy and raise awareness on affordable housing with the goal of enabling PMLs to offer exceptional customer experience and drive mortgage uptake. KMRC participated in various sessions during the reporting period including the Kenya Editors Guild Forum, the Devolution Conference,

the Africa Climate Summit, and the Nairobi International Trade Fair.

e) Increased commitment towards data protection

KMRC is committed to achieving and upholding compliance with data protection laws and regulations in Kenya. Given our frequent interaction with customer personal data, we recognize the need to comply with the Data Protection Act 2019, the regulations issued by the Office of the Data Protection Commissioner (ODPC), and best practices.

To demonstrate our commitment, we have applied to the ODPC to be registered as a Data Controller and Data Processor. Prioritizing data protection and handling personal data with integrity has been integrated into our procedures and processes. This extends to how we handle our relationships, interactions, and transactions with stakeholders. We have put in place technical and operational safeguards to protect personal data and instituted ethical management of personal information within the Company.

How KMRC's Funding Helped Fuel Unaitas SACCO's Growth

Mr. Peter Munyange:
Head of Real Estate
Unaitas SACCO Society Ltd

Unaitas SACCO was registered in 1993 as a co-operative society under the Cooperatives Act, initially known as Murang'a Tea farmers SACCO, Muranga District Tea Growers and later Muramati SACCO. Originally it comprised of a group of farmers who had a mutual vision of pooling resources to create a financial basket where they could save and advance loans at affordable rates. Unaitas SACCO has since evolved and boasts of an enormous customer base of over 400,000 members, making it one of the largest in Africa. The SACCO takes pride in its extensive footprint, with 29 branches and 2 satellite offices spread across 13 counties in Kenya.

Unaitas SACCO has continued to achieve impressive growth in its loan disbursement, defying economic slowdown, with a loan book worth Kes 17.8 billion out of which Kes 585 million accounts for its KMRC home loans. Admittedly, Unaitas SACCO stands as a beacon of financial empowerment in Kenya's Co-operatives industry, especially with its wide variety of products for members.

At the heart of the SACCO's strategy was a commitment to financial inclusion. The pressing need for affordable housing financing is one of

the reasons that encouraged Unaitas SACCO's decision to join Kenya Mortgage Refinance Company as a participating lender. Leveraging KMRC's housing concessional funds, the SACCO introduced innovative mortgage products tailored to the diverse needs of its members. These affordable funds enabled Unaitas to wholesomely fulfil its members' homeownership financial needs. Prior to its partnership with KMRC, the SACCO provided incremental funding for members' home construction, which experienced an array of challenges including longer completion tenor.

"KMRC has come in handy to assist Unaitas SACCO and its members to own homes very conveniently, which I think is great, given that we were initially not able to do it," said Peter Munyange, Head of Real Estate at Unaitas SACCO.

With KMRC's concessional funding, Unaitas has disbursed Kes 658 million, with about Kes 400 million in the pipeline. Mr. Munyange says that some of the value adds accrued from the SACCO's partnership with KMRC includes longer loan tenor, given that the SACCO's maximum tenor for its loans is ten years. Currently, Unaitas runs two affordable home loans; Jenga loan and Nunua Keja loan, for construction and purchase of ready houses respectively. Both are sized at Kes 10.5 million maximum, priced at 9.95%- reducing balance with a % LTV of up to 105%, for both salaried and self-employed members.

"Our affordable home loans have continued to gain popularity since inception mostly because of the convenience that the SACCO's product comes with. This includes access to inhouse professionals like Quantity Surveyors, who guide members through the construction process," adds Peter. Unaitas, under the Jenga Keja plan, allows for incremental/staged construction based on their customer ability which resonates with Kenyans at different economic levels but have the strong desire to own a home.

The SACCO attributes the positive shift of its loan portfolio largely to its partnership with KMRC, citing lots of opportunities that it has leveraged as a result. Says Peter, "Initially, the Agribusiness portfolio used to take the lead, but now that has changed to real estate since we partnered with KMRC." This shift, according to Mr. Munyange, is attributed to the KMRC's support with initiatives such as capacity building for its Credit staff as well as availing platforms for the SACCO and other stakeholders to network, share experiences and propose best practices for adoption. To date, through its transformative agenda, Unaitas SACCO has impacted millions of lives and continues to audaciously actualize the dreams & aspirations of its members.

"Unaitas simply means 'you and me' joining hands to ensure that we deliver the most superior financial products to our members, and affordable housing is one of them. Every loan disbursed, every dream realized, fuels our unwavering mission to build a brighter, more inclusive future for all of our members," concludes Peter

CEO Johnstone Oltetia (2nd left) with other dignitaries during the official launch of the report following the research on Systemic Barriers to Access and Usage of Housing Finance in Kenya, in August 2023. The research was implemented collaboratively by KMRC, Habitat for Humanity International and the Association for Microfinance Institutions (AMFI) Kenya.

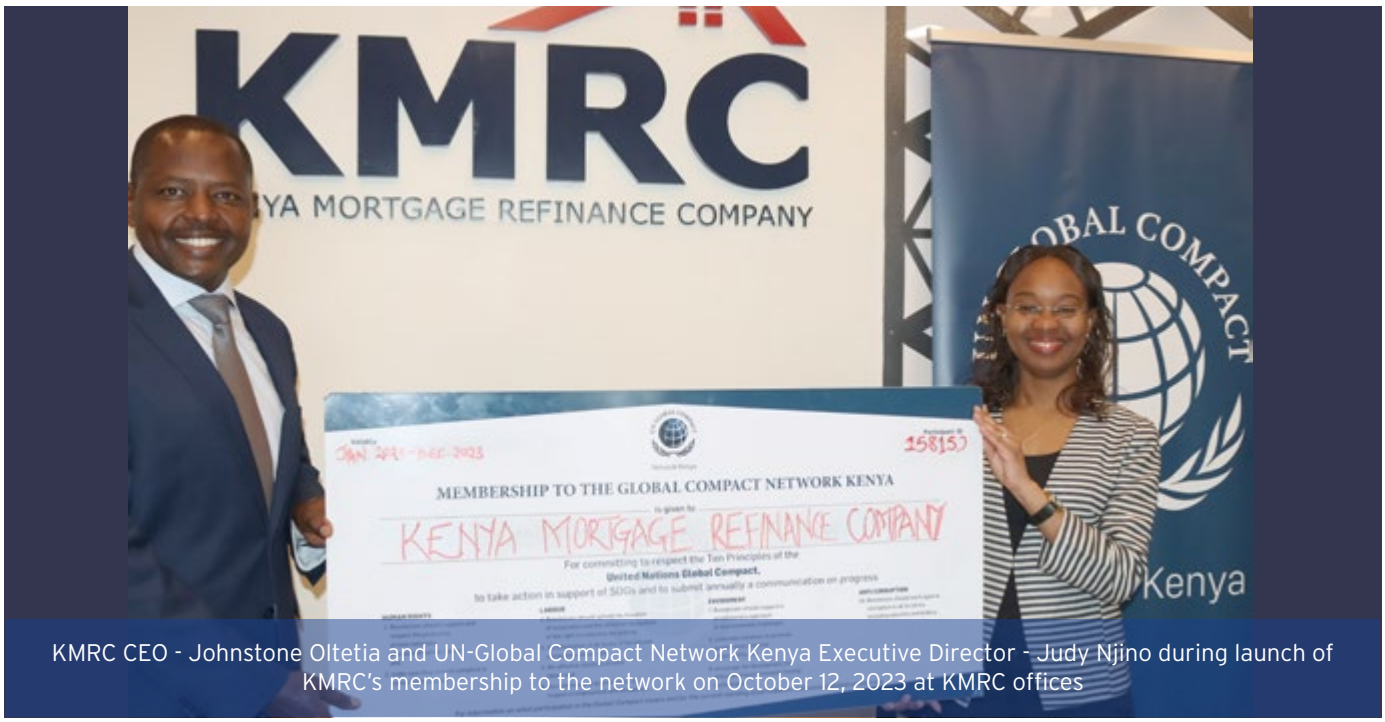
KMRC partnered with Habitat for Humanity International (HFHI) to conduct a research study which identified systemic barriers that have historically been responsible for preventing access of and affordability of housing finance in Kenya. This collaboration and research study is key in unlocking new housing finance opportunities for low-income families in Kenya. KMRC will leverage on the outcome of this research to create new products to increase access to housing finance for low-income families.

3. Partnerships

Addressing the mismatch between demand and supply in affordable housing requires collaboration through various initiatives including Government intervention, private sector participation, community involvement and supportive policies and regulations. KMRC partners with key stakeholders including the Government of Kenya, development finance

Partnerships	Description
Government Agencies	The National Treasury
	Ministry of Lands, Public Works, Housing and Urban Development
	Ministry of Cooperatives and Micro, Small and Medium Enterprises Development
	Central Bank of Kenya (CBK)
	Sacco Societies Regulatory Authority (SASRA)
	Capital Markets Authority (CMA)
Development Partners	World Bank Group
	African Development Bank
	Shelter Afrique Development Bank
Financial Institutions	1 microfinance bank
	8 commercial banks
	11 SACCOs

institutions, financial institutions, developers, investors, suppliers, and local communities to achieve the goal of providing affordable housing solutions for all Kenyans. KMRC continually engages its stakeholders through annual affordable housing forums and scheduled sensitization sessions to promote collaboration, policy dialogue and knowledge sharing among different players in the housing ecosystem to address housing challenges.



KMRC CEO - Johnstone Oltetia and UN-Global Compact Network Kenya Executive Director - Judy Njino during launch of KMRC's membership to the network on October 12, 2023 at KMRC offices

Three employees of the Company teamed up with experienced authors to contribute content for the fourth edition of the Housing Finance in Africa Yearbook. This publication, now in its 14th edition, serves as a comprehensive resource focusing on innovative affordable housing projects across Africa. The collaborative effort involved 73 authors and co-authors from various countries, covering 55 nations on the continent.

KMRC CEO Johnstone Oltetia moderates a panel discussion during the EAPI Summit 2023, in Nairobi on innovative strategies to support Housing Finance.

4. Leadership and Governance

The Board continues to entrench a strong corporate governance culture as the foundation for a sustainable and well-run Company. As indicated earlier herein, the Board evaluates its own performance against the Company's strategic objectives to ensure the promotion of accountability, transparency, and ethical behavior. Further, all the new board members appointed in 2023 underwent induction in line with regulatory requirements.

The Board also provides oversight and guidance to our management team in the development, implementation and review of the corporate strategy, risk management, corporate culture and other important aspects of our business, including sustainability. There exists healthy interaction between the Board and the management team through the quarterly board meeting schedule. Further, the Board continues to maintain a balance in its composition to ensure a diverse range of skills, backgrounds, and experience.

The Board continues to implement a robust annual board capacity building plan for the purpose of upskilling directors and to ensure compliance with regulatory requirements on governance. Continuous development training requirements are determined by the Board based on the changing business environment, business needs, feedback from board evaluations and/or regulatory changes. In 2023, a number of directors underwent a diverse range of high-quality corporate governance trainings and received various updates on new legislation.

5. Sustainable Finance and Climate Action

As a mortgage refinance Company committed to driving positive change, we recognize the significance of integrating Environmental, Social, and Governance (ESG) considerations into our operations. In this context, sustainable finance and climate action stands as a pivotal pillar guiding our strategic direction and decision-making processes.

Policies Aligned to Sustainable Finance

KMRC acknowledges that its primary mortgage refinance business exposes it to Environmental and Social (E&S) risks through the mortgage lending activities of Primary Mortgage Lenders (PMLs). These risks could pose financial, legal and reputational challenges to KMRC, particularly regarding the quality of the properties used as collateral in mortgage loan portfolios presented for refinancing.

To address this, KMRC has implemented the Environmental and Social Risk Management Policy, which outlines guiding principles and processes to effectively uphold KMRC's commitment to environmental and social sustainability.

Through implementation of this policy. KMRC actively supports PMLs in establishing and executing robust Environmental and Social policies, procedures, and tools. These measures aim to screen primary mortgage loans for environmental and social risks before they are submitted to KMRC for refinancing.

Climate change poses significant risks to our business, including increased exposure to extreme weather events having a direct impact on housing. PMLs are therefore required, as part of their credit assessment process, to integrate KMRC applicable E&S requirements as part of their mortgage underwriting processes. KMRC Conducts verification of PMLs' due diligence against KMRC Exclusion List and E&S screening criteria for all mortgage/housing loans presented to KMRC for refinancing based on associated environmental and social risk and impacts.

By proactively identifying and mitigating climate related risks, we aim to safeguard our assets and ensure the resilience of our operations.

Development and Implementation of ESMS

KMRC is committed to operationalizing and promoting an appropriate internal Environmental and Social Management System (ESMS) as well as for the financial institutions it on-lends to effectively assess and manage the E&S risk exposure. The ESMS is a framework that integrates ESRM into overall procedures for lending operations supported by KMRC.

Core components of the ESMS include.

- ESRM Policy with clearly specified applicable E&S requirements and standards.
- ESRM procedures for screening, identification, assessment, mitigation, and monitoring of E&S risks; these procedures include record keeping, disclosure, and reporting.
- Capacity, roles, and responsibilities within the organizational structure of KMRC and PMLs for managing E&S risks
- Guidance and tools: Practical resource materials for implementing ESRM provisions internally by KMRC and among PMLs; these tools are developed and improved on an on-gong basis.

ESG Integration in the mortgage refinance process

We integrate ESG criteria into our lending process, ensuring that our lending practices align with sustainability principles. By allocating capital to affordable housing with positive environmental and social impacts, we contribute to the transition towards a low-carbon economy while generating long-term value for our stakeholders.

Internal Initiatives to Drive Climate Action

- Implementation of energy-efficient measures in Company operations and facilities through Installation of motion sensors or timers to automatically control lighting in areas with low occupancy, such as conference rooms, meeting rooms, enclosed offices and hallways.

KMRC staff (L-R) J.Oltetia, Nyale Yanga and Talaso Gollo during the 7th Kaptagat Annual Tree Planting activity on July 1, 2023

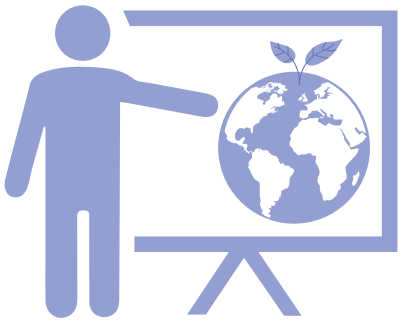
- Implementation of power management settings on laptops to reduce energy consumption during periods of inactivity.
- Implementation of bottleless water dispensers to reduce plastic waste and conserve the environment.
- Implementation of waste segregation to facilitate recycling and correct onward disposal.
- Replacement of plastic water bottles with recyclable water bottles.
- KMRC participated in the Kaptagat annual tree planting initiative spearheaded by Netfund in partnership with the government and other stakeholders to contribute towards achieving fifteen (15) Billion trees by 2032. KMRC's investment was five (5) thousand trees in 2023.
- Supporting sustainable land development practices that prioritize preservation of natural habitats, biodiversity, and ecosystem services. KMRC does not refinance mortgages originating from properties built in locations and / or in a manner that involves significant degradation or conversion of critical habitats and/or legally protected areas. These also include properties built in locations and / or in a manner that involves significant adverse impacts on critical cultural heritage.

Staff Capacity Building on ESG and climate finance

Training on ESG and sustainable finance is crucial for our staff to understand the principles, practices, and implications of integrating ESG factors into business decisions. During the past year, three employees participated in a Sustainable Finance course offered by the University of Cambridge, which equipped them with a thorough understanding of sustainable finance principles and methodologies.

Two of our staff attended a one-week Housing Finance Course for Sub-Saharan Africa, organized and offered by the University of Cape Town and The Wharton School, University of Pennysylvania in the USA. The workshop covered the critical challenges faced by the housing finance industry in Sub-Saharan Africa as well as the conceptual, managerial, and practical tools needed to build strong housing finance systems with aim of expanding housing finance sustainably.

One of KMRC's core values is integration of innovation in all operations, staff capacity building included. The goal is to ensure that efficiency becomes a guiding principle in all aspects of the Company. Some of the training and other staff capacity building initiatives were offered on virtual platforms, including LinkedIn Learning as well as stakeholders' platforms. In the LinkedIn Learning platform, sustainability and ESG was among the most explored content with repeat learners indicating desire to learn, understand and practice the learnings. KMRC will continue to invest in additional resources to increase the internal capacity of staff to implement sustainable practices in the Company.



Driving **sustainable homeownership** for a **resilient** and **inclusive future**

KMRC's Sustainability Goals

- Sustainable Finance and Climate Action
- Employee Welfare
- Housing Impact
- Partnerships
- Leadership and Governance
- Customer Experience

LEADING BY EXAMPLE - HOW KMRC HAS INTEGRATED SUSTAINABILITY IN ITS OPERATIONS

A conversation with Florah Muthaura - Head of Risk and Compliance

1. Please walk us through the Sustainability journey at KMRC

Sustainability at KMRC encompasses various initiatives aimed at reducing negative environmental impact, promoting social responsibility and ensuring long-term economic viability. Some of the initiatives include:

a). Environmental Sustainability

- Environmental and social risk assessment forms part of KMRC's mortgage refinancing eligibility criteria. KMRC has implemented an E&S Policy as part of its commitment to run a responsible business. The assessment includes an evaluation of environmental and social factors as a minimum requirement to qualify for KMRC's refinancing. Environmental factors consider the sustainability of the property financed in terms of location and compliance with legal & regulatory requirements. The social factors consideration entail labor and working conditions for the PMLs and extends to cover the workers involved in the property construction.
- KMRC has also implemented various energy-efficient practices within the office, such as using occupancy light sensors to automatically turn

off lighting in areas with low occupancy, as well as implementation of power management settings on equipment to reduce energy consumption during periods of inactivity.

- The Company has also replaced traditional plastic bottled water with bottle-less water dispensers therefore, reducing plastic waste. Additionally, single-use plastic bottles during meetings have been replaced with glass bottled water, which also contributes to plastic waste reduction.

b). Social Responsibility

- The KMRC business model is hinged on social responsibility through promotion of homeownership for the middle income and low income segment of Kenya's population.
- Further, the income limit for borrowers is capped at Kes 200,000, thus expanding the number of qualifying borrowers, and ultimately, home ownership rate. KMRC also offers fixed rate, long-term refinancing to PMLs, enabling them to pass on the benefit to individual borrowers, which offers predictability and assurance in meeting their mortgage obligations comfortably over the extended term.
- The Company fosters a diverse and inclusive workplace, promoting equal opportunities for all employees regardless of gender, ethnicity, or background. The organization provides resources and programs to support the health, safety, and well-being of its employees through initiatives that include annual medical check-up, flexible work arrangements and professional development opportunities.

c). Governance Practices

KMRC undertakes an annual assessment and disclosure of ESG performance for stakeholders. The Board has also upheld its commitment to implement sustainability initiatives within the Company through approval of the Environmental and Social Risk Management Policy and Diversity and Inclusion Policies.

2. Why was it important for KMRC to embed Sustainability in its operations?

Embedding sustainability into our operations has proven crucial for several reasons:

- Environmental Responsibility: Incorporating sustainability practices is an imperative way for KMRC to minimize its environmental footprint. The environmental risk assessment that we undertake during the mortgage origination process guides onhousing loans that are ineligible for KMRC's refinancing, based on associated environmental and social risk and impacts. Through implementation of the E&S exclusion list, the Company contributes to preserving natural ecosystems, conserving biodiversity and mitigating loss as a result of climate change, thereby fulfilling its responsibility to protect the environment.
- Risk Mitigation: Integrating sustainability into operations enables KMRC to identify and mitigate risks associated with Environmental, Social and Governance (ESG) factors. Proactively addressing issues such as regulatory compliance, change in macroeconomic factors and reputational risks helps safeguard the Company's longterm viability and resilience in the face of changing market dynamics.

- Stakeholder Expectations: Primary Mortgage Lenders (PMLs), investors, employees, and other stakeholders increasingly expect the Company to demonstrate a commitment to sustainability. By aligning our operations with stakeholder expectations and industry best practices, the organization enhances its reputation, builds trust and maintains competitiveness in the marketplace.

3. As the Company's sustainability captain, please tell us about your experience in developing and implementing sustainability strategies at KMRC?

KMRC embarked on its sustainability journey in 2022 with a comprehensive capacity building initiative that was aimed at educating both staff and the Board on the core tenets of sustainability and its implications on the Company. Following this foundational step, KMRC undertook a rigorous process to identify its material topics which include those areas of most significant impact to KMRC and its stakeholders.

This approach encompassed a meticulous identification and prioritization of Environmental, Social and Governance (ESG) issues that influence key stakeholders, our reputation, financial performance and most importantly the need for positive impact for the Company. The material topics that we mapped out are: Sustainable Finance, Employee Welfare, Customer Experience, Housing Impact, Partnerships, and Leadership and Governance.

To further align with global sustainability frameworks, KMRC successfully mapped its material topics to six (6) Sustainable Development Goals (SDGs), ensuring a robust integration of its objectives with international sustainability targets. Additionally, the organization strategically appointed internal champions to spearhead various sustainability initiatives under each of the six material topics, enhancing accountability and driving focused action.

In a significant milestone, KMRC published its inaugural integrated report for the year ending December 2022, marking a pivotal step towards transparent and holistic reporting of its sustainability efforts. Looking ahead, the organization is poised to continue its commitment to sustainability by preparing to release stand-alone sustainability reports, demonstrating its ongoing dedication to responsible business practices and stakeholder engagement.

4. How has KMRC effectively engaged and supported its stakeholders, both internal and external, in their sustainability efforts?

KMRC has achieved this through:

Offering impactful sustainability related training and capacity building Programs: - Internally, the Company provides diverse training to its employees to increase their understanding of sustainability principles, practices and the Company's sustainability goals. The Company has also implemented an annual capacity building program for all its customers (primary mortgage lenders) on environmental and social risk management.

Transparent Communication: The Company keeps stakeholders informed about the Company's sustainability efforts through publication of the integrated report. This includes updates on sustainability initiatives

and sharing success stories or case studies showcasing the Company's impact from a social responsibility perspective. We also communicate the Company's sustainability efforts through all the engagements with stakeholders throughout the year; the point being to keep them as updated as possible and for KMRC to understand their challenges and expectations.

KMRC has taken a proactive step towards addressing housing challenges by establishing the Kenya Affordable Housing Conference (KAHC), the Company's flagship event that convenes all stakeholders in the housing sector. This initiative serves as the perfect platform for stakeholders to engage in constructive dialogue, identify key challenges and explore collaborative solutions. Through open and inclusive discussions, participants from the Government, financial institutions, real estate developers and other relevant entities exchange insights and perspectives on pressing issues such as housing affordability, regulatory barriers, financing constraints and infrastructure deficiencies. The conference facilitates sharing of best practices, innovative ideas and lessons learned, fostering a collective understanding of the complex dynamics shaping the housing landscape in Kenya. By promoting collaboration and synergy among stakeholders, KAHC creates opportunities for joint action towards unlocking housing opportunities to bolster the sector.

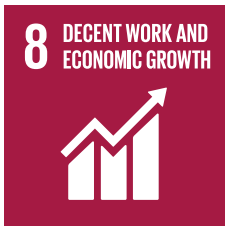
5. How is Sustainability expected to revolutionize Kenya's affordable housing industry?

Growing awareness of sustainability issues and increasing consumer demand for environmentally friendly housing options are key to driving market demand for sustainable affordable housing. Sustainable housing developments that prioritize environmental conservation, social equity, and good governance will be perceived as more attractive investment opportunities, leading to increased access to financing from ESG-focused investors.

Kenya has embraced green building certification programs such as Excellence in Design for Greater Efficiencies (EDGE) and Leadership in Energy and Environmental Design (LEED) to encourage developers to construct energy efficient and environmentally friendly buildings. These certifications promote sustainable construction practices and resource efficiency. This will drive adoption of green building practices including energy efficient designs, renewable energy integration, water conservation systems, and eco-friendly materials. These practices will reduce carbon footprint, lower utility costs, and contribute to a healthier living environment.

Sustainable affordable housing ensures that individuals and families of diverse socioeconomic backgrounds have access to safe, decent, and sustainable affordable housing options. By providing housing that is within reach of low- and moderate-income households, affordable housing initiatives will help address disparities in access to housing and promote social and economic inclusion.

6. Employee Welfare



Our Employee Welfare covers a broad range of services and benefits that we offer to employees. In today's world, the health of employees represents the health of the Company. Therefore, employees should be healthier, physically fitter, mentally more flexible, and emotionally more stable. Healthy and focused individuals are likely to be more flexible (physically, mentally, and emotionally) hence more adaptable to change and likely to perform better both internally and externally.

At KMRC, welfare is approached holistically to include emotional and spiritual factors. It is wide-ranging in its attention to diverse issues, rather than led by regulatory agendas. This is in support of SDG 8, target 8.5 to achieve a full and productive employment and decent work for all women and men, including young people and persons with disabilities by 2030. The Company is continually investing in human resource development, focusing on but not limited to the below.

a). Training and Development

In 2023, the Company substantially invested in staff development to ensure they are well equipped with both soft and technical skills to enable them carry out their duties effectively.

The Company has tapped LinkedIn Learning to provide modern online learning for skills development (upskilling and reskilling) in the age of technology advancement and disruptions. Staff found LinkedIn learning resourceful with timely and relevant learning content from industry experts. The platform offered learning from the following broad areas; business, technology, and software engineering; professional development; diversity, equity and inclusion. The platform also allows tracking skills trends over time in a dashboard. While considering diversity and inclusion, 57% of our workforce drawn from all cadres and departments were enrolled in the LinkedIn learning. The learning engagement scorecard was as follows:

- The activation rate for 13 seats purchased was at 100% compared to peer industry median of 83%.
- The monthly average log in was at 66% compared to peer median at 31% and videos per user at 28.1 compared to peer median at 14.6 videos indicating the teams' high affinity for learning and continuous development.
- There were 74% repeat learners compared to peer median at 58% indicating desire to learn, understand and practice the learnings.
- The active learners developed 297 skills from LinkedIn learning. The outcomes of the developed skills imply that active learners in our industry are 3.5 times more likely to transition to a new role internally and 3.0 times more likely to get promoted.

To ensure that climate change and sustainable finance are aligned with our core business, KMRC became a member of Global Compact Network. The key areas of focus include human rights, gender equality, anti-corruption and governance, SDG integration, climate change and supply chain management.

We developed a Talent Management and Succession Planning Policy in 2023, which will enable identification and customization of specific individual development interventions to enhance employee productivity.

KMRC staff participants of a training on Finance for Non-Finance Managers, coordinated by the Kenya School of Monetary Studies (KSMS) in August 2023, in Nairobi

During the period under review, the Company organized training sessions and study trips covering various subjects such as risk-sharing facilities in Pakistan and Cagamas, leadership, strategic planning, customer service, communication, audit, risk management, finance, marketing, and technology for its employees. These training programs were conducted by accredited institutions and trainers, utilizing both virtual and in-person formats.

Additionally, three employees were selected to contribute content for the fourth edition of the Housing Finance in Africa Yearbook, a publication by CAHF aimed at housing finance practitioners, investors, developers, researchers, and government officials. The yearbook serves as a comprehensive resource highlighting innovations in affordable housing, including aspects like end-user finance, building design, construction materials or methods, and green building initiatives.

At KMRC, we pride ourselves in empowering our staff to take up leadership roles. In 2023, two of our staff were privileged to get leadership roles in their respective professional associations following competitive election processes. This speaks to the calibre of people we continue to build and the environment we are providing them for continuous growth and development.

Olive Gitau is a Council Member at the Institute of Certified Public Accountants of Kenya (ICPAK) and Carlos Makhandia is the Secretary General of the Kenya National Statistical Society.

Olive Gitau receiving the certificate of election from the ICPAK Returning Officer, CPA Elizabeth Meyo and the former Chairman, FCPA George Mokua

b). Diversity and Inclusion

KMRC is an equal opportunity employer as embedded in our HR policy as well as in our recruitment strategy. KMRC aims to implement programs that promote diversity and inclusion. We are committed to reaching and maintaining gender parity in our staff composition.

We have a team of 23 employees across the business. The ratio of women to men stands at 57% to 43% respectively. Additionally, the Company has made deliberate efforts in creating a conducive environment through the provision of different amenities including a lactation room

to facilitate a comfortable transition back to work for nursing mothers. The Company has been deliberate in creating and availing opportunities for employees with disabilities as well as the minority and/or marginalized groups.

c). Staff Engagement and Well-being

We believe that the key tenet of building a healthier organization is to actively cultivate a culture of staff engagement that is anchored on continuous communication, transparency, accountability, and inclusivity. As part of this, KMRC carried out a staff satisfaction survey at the end of the year under review. The survey recorded an employee satisfaction index of 75.8%, a high score with room for improvement as the organization grows.

During the year, the Company conducted annual medical check-ups for staff, and held talks on financial and mental wellness. Team building initiatives were implemented as part of staff engagement to develop teamwork competencies such as communication, compromise and collective reasoning. KMRC has staff grievance processes in place, and additionally offers anonymous reporting through an employee satisfaction survey. We have implemented a comprehensive pension scheme that extends to both permanent and contract staff. We further conducted extensive training on occupational safety and health that addressed the health, safety and welfare of employees in accordance with the Occupational Safety and Health Act (OSHA).

We believe that motivated employees are more likely to be productive and actively participate in the Company's mission, resulting in an inclusive work environment, lowering staff turnover and fostering better relationships with customers, all of which are positive factors for the business' bottom line.

d). Performance Management

A strong performance driven culture is critical for KMRC success in the delivery of its strategy. The Company has implemented a compensation framework focused on promoting and rewarding sustainable performance and contributions based on delivery, behaviors and conduct, across all levels of the organization. The HR function will continue to drive strategic compensation initiatives to ensure any regulatory compliance, deliver improved management and governance of KMRC compensation costs and continuously strengthen the link between performance and pay outcomes.

KMRC staff follow a presentation on Lifestyle Diseases- one of the activities carried out during the staff annual wellness awareness and health check.

These employee welfare initiatives contribute towards achieving SDG 8, "Target 8.5: achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value."

KMRC has developed and implemented a performance management policy that drives every employee to deliver outstanding personal and business results. It is also used to monitor, review, and implement the KMRC strategy and business plans and build a sustainable high-performance culture. All employees at KMRC received regular performance and career development reviews, covering 100% of the workforce.

All work and no play.... KMRC staff during a team building activity in December 2023.

It achieves this through: -

(i) Setting clear goals and expectations which are measurable and align with the Company's overall vision and mission.

(ii) Encouraging open and honest communication across all levels of the organization, staff get an opportunity to share ideas, concerns and feedback openly.

(iii) Providing Training and development opportunities that help employees improve their skills, stay up to date with new technologies and learn new ways of working

(iv) Encouraging cross functional cooperation between departments to enhance productivity.

(v) Modelling behavior that promotes high performance e.g., demonstrating good communication skills, encouraging teamwork, prioritizing ongoing learning and appreciation for hard work.

KMRC
KENYA MORTGAGE REFINANCE COMPANY

SDGs CONNECTION TO KMRC

In alignment with the United Nations Sustainable Development Goals (SDGs), KMRC remains steadfast in its commitment to fostering sustainable practices across its operations. Recognizing the integral role of affordable housing in sustainable development, KMRC actively contributes to SDG 11: Sustainable Cities and Communities. By providing accessible financing solutions for affordable housing projects, KMRC aims to address the housing finance gap and improve human livelihood, thereby creating inclusive and resilient communities. Moreover, KMRC's emphasis on promoting financial inclusion and supporting cooperative institutions aligns with SDG 8: Decent Work and Economic Growth, fostering economic empowerment and livelihood opportunities for underserved populations. Through strategic partnerships and proactive risk management, KMRC endeavours to ensure the long-term viability of its initiatives, thereby advancing progress towards the broader SDG agenda and fostering sustainable development pathways for present and future generations.

The Company incorporated ESG, Sustainability and climate change matters in its revised strategic plan in 2022 subsequently onboarding SDGs as a framework for addressing most pressing economic, social and environmental challenges. This emphasis persisted throughout 2023, with a concerted effort to hasten the adoption of SDGs through the identification of specific targets. Our SDGs connection is based on alignment of our business operations and impact to the relevant SDG targets.

Material Topic	Adopted SDGs	KPIs
Sustainable Finance and Climate Action		• Joined UN Global Compact membership in June 2023. • Carbon footprint reduction initiatives: - Replaced use of plastic bottles with refillable glass bottles, replaced the standard water dispenser with bottleless water purification dispenser. • 3 staff competed a course on sustainable finance as a precursor to preparing for green funding options.

Material Topic	Adopted SDGs	KPIs
Employee Welfare	13 CLIMATE ACTION 8 DECENT WORK AND ECONOMIC GROWTH	• 100% training plan implementation in 2023 including CPD training, skills enhancement and staff development through study tours. • The board approved a Diversity, Equity & Inclusion (DEI) Policy and Talent Management & Succession Planning Policy. • Achieved 80% organization performance based on accomplishment of annual corporate plan and mortgage refinancing business. • Implemented various work life balance strategies employee annual medical checkup & wellness day, two team building activities, quarterly unwinding and bonding sessions and celebrated corporate & individual milestones. • 100% compliance to OSHA requirements. • Improved organization culture and team cohesiveness. • Achieved employee Satisfaction Score of 75.8%.
Housing Impact	11 SUSTAINABLE CITIES AND COMMUNITIES 8 DECENT WORK AND ECONOMIC GROWTH 17 PARTNERSHIPS FOR THE GOALS 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 7 AFFORDABLE AND CLEAN ENERGY	• 606 additional mortgages were refinanced to PMLs valued at Kes 2.4 billion in 2023. • 46% of the loans refinanced were extended to women. • 7,820 direct jobs have so far been created through KMRC refinancing.

Material Topic	Adopted SDGs	KPIs
Leadership and Governance	8 DECENT WORK AND ECONOMIC GROWTH 13 CLIMATE ACTION	• Board approved policies Diversity, Equity and Inclusion & Talent Management and Succession Policy, Data Protection and Compliance Policies • The annual compliance plan was achieved through submission of regulatory compliance reports. • Published the first integrated annual report that incorporated sustainability aspects. • KMRC retained its certified Blue Company status.
Customer Experience	8 DECENT WORK AND ECONOMIC GROWTH 17 PARTNERSHIPS FOR THE GOALS	• Based on customer feedback, we attained 90% customer satisfaction. • As part of our thought leadership and financial literacy responsibility, we continued to keep our online platforms active and updated with relevant information. These significantly increased traffic to our website as well as social media pages. • KMRC continued to diversify its public awareness activities and leveraged various platforms including print, broadcast, digital as well as collaborations with stakeholders. • The Company achieved a 12.5% increase in new mortgage portfolios refinanced. • 98 % of customer queries raised with respect to access of KMRC products from the PMLs were addressed and resolved. 2% are in the process of resolution..

Material Topic	Adopted SDGs	KPIs
Partnerships		• KMRC continues to optimize its mortgage refinance business with partner-sourced funding from World Bank and AfDB. • The Company undertook various engagements with other MRCs and affiliate bodies through study tours in Pakistan and Malaysia. Other discussions were held virtually. These engagements are aimed at continuously learning from industry peers as well as sharing our local best practices. • KMRC continued with associations and affiliations with existing partners including Habitat for Humanity International (HFHI), Kenya Property Developers Association (KPDA), Kenya Green Building Society (KGBS), African Union for Housing Finance (AUHF), Centre for Affordable Housing Finance Africa (CAHF) and the International Secondary Mortgage Market Association (ISMMA).

Adoption of UN Global Compact Ten (10) Principles

KRMC was welcomed into the UN Global Compact Network in June 2023. By applying for this membership, the Company was displaying its commitment to building a sustainable future.

PRINCIPLE	MATERIAL TOPIC	KPI
01 Businesses should support and respect the protection of internationally proclaimed human rights;	• Employee Welfare • Customer experience	• HR policies and procedures support internationally proclaimed human rights.
02 Make sure that they are not complicit in human rights abuses		• Internal whistle blowing process in place. • Weekly staff engagement sessions • Implemented performance appraisal system. • Customer engagement processes in place to resolve queries raised • Grievance mechanism in place • KMRC has high level of compliance with legislation and regulations including, Employment Act and the Constitution of Kenya being regulated by the CBK.
03 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.		
04 The elimination of all forms of forced and compulsory labour.		
05 The effective abolition of child Labour		
06 The elimination of discrimination in respect of employment and occupation.		
07 Businesses should support a precautionary approach to environmental challenges;	• Sustainable Finance and Climate Action • Housing Impact	• Adoption of ESG principles in the business strategy • Environmental & Social Risk Management Policy published on the website and being implemented. • Stakeholder engagements towards refinancing green mortgages. • Carried out SR activities that centered on growing trees addressing SDG 13 on climate action, target 13.1 to strengthen resilience and adaptive capacity to climate related hazards and natural disasters. • Supporting use of alternative materials towards affordable housing. • Adoption of SDGs that support renewable energy, water and sanitation and climate action.
08 Undertake initiatives to promote greater environmental responsibility;		
09 Encourage the development and diffusion of environmentally friendly technologies.		
10 Businesses should work against corruption in all its forms, including extortion and bribery.	• Leadership and Governance	• KMRC is a certified Blue Company.

Financial Statements for the Year Ended 31 December 2023

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements for the year ended 31 December 2023, which show the state of the Company's affairs.

1. Incorporation

The Kenya Mortgage Refinance Company PLC was incorporated on 19 April 2018 under the Companies Act 2015. It is a public limited liability Company domiciled in Kenya. The address of the registered office is as set out on page 10.

2. Directors

The directors who held office during the year and to this report's date are on page 17.

3. Principal activity

The principal activity of the Company is providing secure long-term funding to primary mortgage lenders (Banks, Microfinance Banks and SACCOs).

The Company is regulated by the Central Bank of Kenya as a non-deposit taking financial institution, with the Capital Markets Authority (CMA) providing oversight over its bond issuance operations.

There have been no material changes to the nature of the Company's business from the prior year.

4. Business review

During the year under review, the total interest income of the Company increased to KES. 2,400,727,179 from KES. 1,300,823,059 in 2022, attributable mainly to interest income on loans and advances to Primary Mortgage Lenders (PMLs) and interest income from investments in financial assets. The profit before tax increased to KES. 1,075,463,252 from KES. 429,497,210. The increase in profitability was due to the increase in the Company's refinancing business to PMLs and income from investments.

KMRC continues to drive availability and affordability of home loans to Kenyans by providing low interest, fixed rate, and long-term finance to participating banks and SACCOs. The Primary Lenders pass this benefit to their clients/members by providing fixed rate home loans at single digit interest rates. By the close of the year, the Company had cummulatively processed loan applications from twelve (12) PMLs and disbursed a total of KES. 9.6 billion to the twelve (12) PMLs, namely, HFC Ltd, Credit Bank Ltd, Co-operative Bank of Kenya, KCB Bank Kenya Ltd, Absa Bank Kenya Plc, Stanbic Bank, NCBA, Ukulima SACCO, Tower SACCO, Stima SACCO, Unaitas SACCO and Safaricom SACCO.

The number of mortgages refinanced created 7,820 direct jobs to the Kenyan economy at an average of two and a half jobs created for every mortgage generated and refinanced by KMRC.

5. Principal Risk and Uncertainties

Principal risks and uncertainties facing the Company include:

a). Credit Risk

The risk of PMLs defaulting on refinance loans due to a rise in non-performing loans in the banking sector poses a potential credit risk to KMRC. According to data from the Central Bank of Kenya (CBK), there was a 26% increase in the volume of bad loans held by banks by the end of October 2023, with the real estate sector identified as a major contributor to this increase.

This situation presents heightened credit risk to KMRC because of the loans it extends to PMLs. To mitigate this risk, management has instituted mechanisms under the refinance agreements where if any of the refinanced loans becomes non- performing, the same is replaced by a performing loan. Further, management ensures

that the loans refinanced are collateralized up to one hundred and twenty percent. Management also continuously monitors the financial health of the PMLs and their compliance with key performance indicators as part of the credit scoring and determining the thresholds for refinancing.

b). Legal and Regulatory Risk

Changes in some Laws and Regulations have a potential impact on KMRC's business. Changes to the Income Tax Act for example, have a direct impact on the net disposable income of potential mortgage borrowers and in turn affect the uptake of mortgages in the country. The developments of the Affordable Housing Act, 2024 will have an impact on the supply side of the affordable housing value chain and this has a correlation to the demand side where KMRC operates. KMRC is also regulated by the Central Bank of Kenya as well as the Capital Markets Authority and any changes in regulations have an impact on the operation of the Company. Management continuously tracks changes in policies, regulations and laws that have the potential to impact on KMRC's business and makes submissions to policy makers for consideration.

c). Economic Environment Risks

Macroeconomic factors such as high unemployment rates, rising inflation and depreciation of the Kenya Shilling against major foreign currencies impact on ability of potential homeowners to access home loans due to reduced disposable incomes and increased property prices due to increased costs of construction inputs. The KMRC's home loan features of fixed rates, longer terms of up to twenty-five years and single digit continues to enhance affordability of home loans to Kenyans. The high interest rate environment also negatively impacts on KMRC's ability to access funding from the Capital Markets for mortgage refinancing due to the high cost of funding. Management continues to explore alternative sources of funding with emphasis on green financing to ensure sustainability.

d). Sustainability/ESG Risk

Potential negative impacts and vulnerabilities that can arise from unsustainable practices, behaviors, or decisions within the business and externally because of environmental, economic, social, and cultural systems and practices. The introduction of sustainability reporting standards, the Company's performance will be evaluated both in terms of the impact it creates to the environment and to its stakeholders. Management has embedded sustainability as part of the Company strategy and implemented a sustainability matrix, documenting activities to be implemented to enable the Company to operate sustainably and contribute towards the achievement of the Sustainable Development Goals.

6. Interest Rate Environment

In 2023, the inflation rate in Kenya began the year at 9.0% and ended at 6.6% in December, with the highest rate of 9.2% reported in March 2023. The CBR, which influences other lending rates, started 2023 at 8.75% and fluctuated throughout the year due to inflationary pressures, ending the year at 12.5%. Interest rates on commercial bank loans remained high throughout 2023 thereby limiting access to affordable credit for various sectors, including mortgage seekers. The 91-day, 182-day, and 364-day Treasury bill rates moved from an average of 9.5%,9.9% and 10.4% in January 2023 to an average of 15.8%,15.9% and 15.91% respectively in December 2023. These high market interest rates continue to present an opportunity for the KMRC home loan product which offers fixed rate, long term, and single digit interest rates through the participating PMLs.

7. Key Initiatives

The Company continues to pursue initiatives that will spur uptake of affordable home loans to Kenyans.

a) Continuous engagements with stakeholders to

enhance understanding of the opportunities that KMRC home loans present.

b) Implementation of the Risk Sharing Facility to encourage our Primary Mortgage Lenders (PMLs) to lend more to the section of the population which is considered risky due to low- and inconsistent-income streams.

c) Continuously identify and pursue policy reforms that support the affordable housing sector.

d) Explore possibilities of onboarding additional PMLs so as to increase the reach of KMRC product offering to.

8. Corporate Governance Statement

KMRC adopts high standards of best corporate governance practices and applies strict rules of conduct as highlighted on page 30 to 36 of the report.

9. Dividend

The directors do not recommend the declaration of dividend for the year ending December 31st, 2023.

10. Financial statements

The Directors are not aware of any circumstances which would render the values attributed to the assets in the financial statements misleading as at the date of this report.

11. Directors' benefits

There directors' fees and sitting allowances were paid as shown in Note 8 and Note 30.

12. Statement as to disclosure to the Company auditor

Each of the persons, who was a director at the time the report was approved confirms that:

(1). there is, so far as the person is aware, no relevant audit information of which the Company's auditor is unaware;

(2). the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information to establish that the Company's auditor is aware of that information.

13. Terms of appointment of independent auditor

Grant Thornton LLP have been appointed and are willing to continue in office in accordance with the Company's Articles of Association and Section 723 of the Kenyan Companies Act, 2015 and the provisions of Central Bank of Kenya (Mortgage Refinance Companies) Regulations, 2019. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor appointment and the related fees.

14. Approval of the Financial Statements

The annual financial statements set out on pages 77 to 115, which have been prepared on the going concern basis, were approved by the board of directors on 7th March 2024, and were signed on its behalf.

By order of the Board

Elisha Nyikuli
Company Secretary
7th March 2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare annual financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company maintains proper accounting records that are sufficient to show and explain the transactions of the Company and disclose, with reasonable accuracy, the financial position of the Company. The directors are also responsible for safeguarding the assets of the Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these annual financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of annual financial statements that are free of material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the annual financial statements does not relieve them of their responsibilities.

The annual financial statements set out on pages 77 to 115, which have been prepared on the going concern basis, were approved by the board of directors **on 7th March 2024** and were signed on its

Director
Dr. Haron Sirima, EBS

Director
Mr. Johnson Oltetia

INDEPENDENT AUDITOR`S REPORT

To the Shareholders of Kenya Mortgage Refinance Company PLC

Report on the Audit of the Annual Report And Financial Statements Opinion

We have audited the accompanying annual report and financial statements of Kenya Mortgage Refinance Company PLC (the Company) set out on pages 77-115, which comprise the statement of financial position as at 31st December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual report and financial statements, including a summary of significant accounting.

In our opinion, the annual report and financial statements present fairly, in all material respects, the financial position of Kenya Mortgage Refinance Company PLC as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual report and financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of annual report and financial
statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Kenya. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual report and financial statements of the current period. These matters were addressed in the context of our audit of the annual report and financial statements as a whole, and in forming Our opinion thereon, and we do not provide a separate opinion on.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Key Audit Matter	
Allowance for expected credit losses on financial assets	**How the matter was Addressed**
The expected credit losses on financial assets carried at amortised costs are determined in accordance with IFRS 9: Financial Instruments. The financial assets measured at amortized cost include; Financial assets at amortized cost (note 19), loans and advances and (note 20), and Cash and cash equivalents (note 21). The impairment assessment of these financial asset was considered to be key audit matter because significant judgement was involved in determining the expected credit losses as disclosed in note 1 (f) to these Financial Statements. Key areas of judgement included: • the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the company's expected credit loss model; • the identification of exposures with a significant deterioration in credit quality; • assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macro-economic factors (e.g. inflation rate and lending rate); and, • the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model. The relevant disclosure in the financial statements have been done in note 7 through profit or loss.	Our audit procedures included the following; • We assessed and tested the design and operating effectiveness of the controls over the: 1. Data used to determine the impairment losses on loans, including transactional data captured at loan origination and ongoing internal credit quality assessments. 2. Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. • We assessed the modelling techniques/methodology against the requirements of IFRS 9: Financial Instruments. • We assessed and tested the material modelling assumptions as well as overlays with focus on the: 1. key modeling assumptions adopted by the Company; 2. basis for and data used to determine overlays; and 3. Sensitivity of the collective provisions to changes in modeling assumptions. • In addition, we assessed the adequacy of the disclosures in the financial statements.

Other Matter

The Annual Report and Financial Statements of the Company for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 03 March 2023.

Other information

The other information comprises the information included in the Annual Report other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the Annual Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements, or our

knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the Annual Report and Financial Statements

The directors are responsible for the preparation and fair presentation of the annual report and financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determines is necessary to enable the preparation of annual report and financial statements that are free from material.

In preparing the annual report and financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process Auditor's responsibilities for the audit of the Annual Report aand Financial Statements.

Our objectives are to obtain reasonable assurance about whether the annual report and financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual report and financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Company internal control.

Auditor's responsibilities for the audit of the Annual Report And Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going

- Evaluate the overall presentation, structure and content of the annual report and financial statements, including the disclosures, and whether the annual report and financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the annual report and financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory matters as prescribed by the Kenya Companies Act, 2015

As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that in our opinion the information given in the report of the directors on page 69 - 71 is consistent with the annual financial.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Dipesh V. Shah - P/1729.

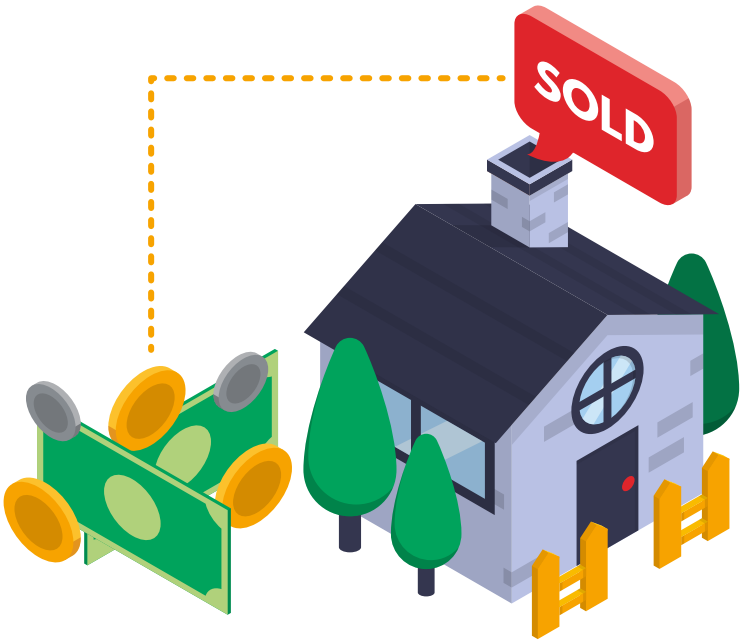
For and on behalf of Grant Thornton LLP
Certified Public Accountants (Kenya)
Nairobi

7th March 2024
K/1703/1223/AUD

Kenya Mortgage Refinance Company PLC

Annual Financial Statements for the year ended 31 December 2023
Statement of Comprehensive Income

	Note	2023 KES	2022 KES
Revenue			
Revenue from interest determined using effective interest rate			
Interest on loans and advances	5 a)	390,074,989	195,339,115
Other interest income	5 b)	2,010,652,190	1,105,483,944
Total interest income		**2,400,727,179**	**1,300,823,059**
Finance cost	6	(1,016,111,838)	(634,326,070)
Net interest income		**1,384,615,341**	**666,496,989**
Net movement in expected credit losses	7	(1,579,227)	(1,095,321)
Governance expenses	8	(18,406,752)	(14,861,108)
Marketing expenses	9	(23,817,007)	(14,800,199)
Staff costs	10	(134,622,939)	(105,199,154)
Administration expenses	11	(97,397,115)	(55,247,332)
Other operating expenses	12	(5,629,409)	(19,746,931)
Depreciation and amortisation expenses	13	(27,699,640)	(26,049,734)
Profit before tax		**1,075,463,252**	**429,497,210**
Income tax expense	14	(227,676,456)	(108,136,491)
Profit for the year		**847,786,796**	**321,360,719**



Kenya Mortgage Refinance Company PLC

Annual Financial Statements for the year ended 31 December 2023
Statement of Financial Position as at 31 December 2023

	Note	2023 KES	2022 KES
Assets			
Property and equipment	15	31,845,355	47,333,813
Intangible assets	16	3,577,221	8,765,320
Right-of-use assets	17	16,207,426	24,311,140
Other assets	18	160,281,987	256,586,597
Current tax receivable	14	122,136,511	77,824,477
Financial assets at amortized cost	19	5,311,481,388	5,203,521,087
Loans and advances	20	8,405,522,891	6,750,347,708
Cash and cash equivalents	21	11,891,401,578	9,007,088,992
Deferred tax	22	14,630,648	7,407,202
Total Assets		**25,957,085,005**	**21,383,186,336**
Equity and Liabilities			
Liabilities			
Borrowings	23	20,662,582,125	16,820,143,424
Debt securities in issue	24	1,331,063,298	1,459,167,332
Lease liabilities	25	23,511,777	31,651,105
Other liabilities	26	417,007,220	390,254,400
		22,434,164,420	**18,701,216,261**
Capital resources			
Share capital	27	1,808,375,125	1,808,375,125
Revenue reserves		1,624,216,144	792,787,685
Other reserves	31	7,098,349	13,934,635
Statutory reserve	20	83,230,967	66,872,630
Equity		**3,522,920,585**	**2,681,970,075**
Total liability and Equity		**25,957,085,005**	**21,383,186,336**

The financial statements on pages 77 to 115 were approved for issue by the board of directors on 7th March 2024 and were signed on its behalf by:

Director:
Dr. Haron Sirima

Director:
Mr. Johnstone Oltetia

Kenya Mortgage Refinance Company PLC

Annual Financial Statements for the year ended 31 December 2023
Statement of Changes in Equity

	Notes	Share capital KES	Revenue reserves KES	Statutory reserve KES	Other reserve KES	Total KES
Year ended 31 December 2022						
As at January 2022		1,808,375,125	525,499,229	12,800,367	20,770,920	2,367,445,641
Profit or the year		-	321,360,719		-	321,360,719
Amortisation		-	-		(6,836,285)	(6,836,285)
Transfer to statutory reserve		-	(54,072,263)	54,072,263	-	-
At 31 December 2022		**1,808,375,125**	**792,787,685**	**66,872,630**	**13,934,635**	**2,681,970,075**
Year ended 31 December 2023						
As at 1 January 2023		1,808,375,125	792,787,685	66,872,630	13,934,635	2,681,970,075
Profit for the year		-	847,786,796	-	-	847,786,796
Amortisation		-	-	-	(6,836,286)	(6,836,286)
Transfer to statutory reserve	20	-	(16,358,337)	16,358,337	-	-
At 31 December 2023		**1,808,375,125**	**1,624,216,144**	**83,230,967**	**7,098,349**	**3,522,920,585**

Kenya Mortgage Refinance Company PLC

Annual Financial Statements for the year ended 31 December 2023
Statement of Cash Flows

	Note	2023 KES	2022 KES
Cash flows from operating activities			
Profit before tax		1,075,463,252	429,497,210
Adjustments for:			
Depreciation of property and equipment	15	14,497,377	13,782,376
Depreciation on right-of-use assets	17	8,103,714	8,103,714
Amortisation of intangible assets	16	2,762,755	2,762,755
Amortisation of treasury bonds	19	2,335,794	1,400,889
Write off of assets	16	411,220	548,700
Interest receivable on treasury bonds	19	(110,296,095)	(97,833,453)
Interest on debt securities in issue	24	67,707,604	59,167,332
Interest on lease liabilities	6	1,402,385	2,003,009
Income tax paid	14	(279,211,936)	(168,863,275)
Operating profit before working capital changes		783,176,070	250,569,257
Increase in other assets	18	96,304,610	(95,204,149)
(Decrease)/increase in other liabilities	26	26,752,820	(255,101,359)
Increase in loans and advances	20	(1,655,175,183)	(5,463,629,710)
Net cash used in operating activities		**(748,941,683)**	**(5,563,365,961)**
Cash flows used in investing activities			
Purchase of property and equipment	15	(3,574,068)	(1,061,400)
Purchase of treasury bonds	19	-	(3,552,288,907)
Net cash used in investing activities		**(3,574,068)**	**(3,553,350,307)**
Cash flows from financing activities			
Proceeds from borrowings	23	3,842,438,701	10,048,554,726
Net Movement issue of debt securities	24	(195,811,638)	1,400,000,000
Payments of principal portion of the lease liability	25	(9,798,726)	(9,541,713)
Net cash from financing activities		**3,636,828,337**	**11,439,013,013**
Increase in cash and cash equivalents		2,884,312,586	2,322,296,745
Cash and cash equivalents at start of year		9,007,088,992	6,684,792,247
Cash and cash equivalents at end of year	21	**11,891,401,578**	**9,007,088,992**

Kenya Mortgage Refinance Company PLC

Annual Financial Statements for the year ended 31 December 2023

Notes to the Financial Statements

1. Summary of significant accounting policies

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

These financial statements comply with the requirements of the Kenyan Companies Act, 2015. The statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Transfer between levels of the fair value hierarchy are recognized by the directors at the end of the reporting period during which the change occurred.

Going concern

The financial performance of the Company is set out in the report of the directors and in the statement of comprehensive income. The financial position of the Company is set out in the statement of financial position. Disclosures in respect of principal risks and uncertainties are included within the Director's Report and disclosures in respect of risk management and capital management are set out in notes 3 and 4 respectively.

Based on the financial performance and position of the Company and its risk management policies, the directors are of the opinion that the Company is well placed to continue in business for the foreseeable future and as a result the

financial statements are prepared on a going concern basis.

As highlighted in the statement of cash flows, the Company generated negative operating cash flows of KES 748,941,683 (2022: KES 5,563,365,961) which maybe an indicator of risk of going concern. However, The core mandate of the business is to provide long term liquidity to the Primary Mortgage Lenders and as such in the earlier years of operation, more cashflows need to be disbursed out to Primary Mortgage Lenders. The principle and repayments of these funds to the Company are spread over the length of the loans. Based on the financial performance and position of the Company and its risk management policies, the directors are of the opinion that the Company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

b) New and revised standards

i). Adoption of new and revised standards

In the current year, the Company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Initial application of IFRS 17 and IFRS 9 - Comparative information

A narrow-scope amendment to the transition requirements of IFRS 17 for entities that first apply IFRS 17 and IFRS 9 at the same time. The amendment regards financial assets for which comparative information is presented on initial application of IFRS 17 and IFRS 9, but where this information has not been restated for IFRS 9. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9.

The effective date of the amendment is for years beginning on or after January 1, 2023.

The Company has adopted the amendment for the first time in the 2023 annual report and financial statements. The impact of the amendment is not material.

Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12

The amendment adds an additional requirement for transactions which will not give rise to the recognition of a deferred tax asset or liability on initial recognition. Previously, deferred tax would not be recognised on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit or loss. The additional requirement provides that the transaction, at the time of the transaction must not give rise to equal taxable and deductible temporary differences.

The effective date of the amendment is for years beginning on or after January 1, 2023.

The Company has adopted the amendment for the first time in the 2023 annual report and financial statements. The impact of the amendment is not material.

Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2

IAS 1 was amended to require that only material accounting policy information shall be disclosed in the annual report and financial statements. The amendment will not result in changes to measurement or recognition of financial statement items, but management will undergo a review of accounting policies to ensure that

only material accounting policy information is disclosed.

The effective date of the amendment is for years beginning on or after January 1, 2023.

The Company has adopted the amendment for the first time in the 2023 annual report and financial statements. The impact of the amendment is not material.

Definition of accounting estimates: Amendments to IAS 8

The definition of accounting estimates was amended so that accounting estimates are now defined as "monetary amounts in annual report and financial statements that are subject to measurement uncertainty."

The effective date of the amendment is for years beginning on or after January 1, 2023.

The Company has adopted the amendment for the first time in the 2023 annual report and financial statements. The impact of the amendment is not material.

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.
The effective date of the amendment is for years beginning on or after January 1, 2023.

The Company has adopted the amendment for the first time in the 2023 annual report and financial statements. The impact of the amendment is not material.

ii) New and revised standards that have been issued but are not yet effective

The Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2024 or later periods

Supplier finance arrangements - amendments to IAS 7 and IFRS 7

whereby finance providers pay the suppliers of the entity, thus providing the entity with extended payment terms or the suppliers with early payment terms. The entity then pays the finance providers based on their specific terms and conditions. The amendment requires the disclosure of information about supplier finance arrangements that enable users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows as well as on the entity's exposure to liquidity risk.

The effective date of the amendment is for years beginning on or after January 1, 2024.

The Company expects to adopt the amendment for the first time in the 2024 annual report and financial statements.

It is unlikely that the amendment will have a material impact on the Company's annual report and financial statements.

Non-current liabilities with covenants - amendments to IAS 1

The amendment applies to the classification of liabilities with loan covenants as current or non-current. If an entity has the right to defer settlement of a liability for at least twelve months after the reporting period, but subject to conditions, then the timing of the required conditions impacts whether the entity has a right to defer settlement. If the conditions must be complied with at or before the reporting date, then they affect whether the rights to defer settlement exists at reporting date. However, if the entity is only required to comply with the conditions after the reporting period, then the conditions do not affect whether the right to defer settlement exists at reporting date. If an entity classifies a liability as non-current when the conditions are only required to be met after the reporting period, then additional disclosures are required to enable the users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period.

The effective date of the amendment is for years beginning on or after January 1, 2024.

c) Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya shillings (KES), which is the Company's presentation currency.

d) Revenue recognition

The Company recognises revenue from interest on long-term loans to financial institutions secured against mortgages and financial instruments. The Company recognises revenue as and when it satisfies a performance obligation by transferring control of a product or service to a customer. The amount of revenue recognised is the amount the Company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as Value Added Tax.

i) Interest income

Interest income for all interest bearing financial instruments are recognised within the statement of comprehensive income on accrual basis using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate.

The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis. Previously unrecognised interest revenue of a cured credit impaired financial asset are recognised as a reversal of an impairment loss.

ii) Interest expenses

Interest expense for all interest bearing financial instruments are recognised within the statement

of comprehensive income on accrual basis using the effective interest method.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments carried at fair value in the profit or loss. Once a financial asset or a portfolio of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for purposes of measuring the allowance for impairment.

e) Reserves

- **Loan loss reserve**

Where impairment losses required by legislation or regulation exceed those calculated under International Financial Reporting Standards, the excess is recognised as a regulatory credit risk and accounted for as an appropriation of retained profits. This reserve is not distributable.

- **Other reserve**

Other reserve relates to capital grants received from the National Treasury.

f) Financial instruments

Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and, for financial assets, adjusted for any loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets –assets that are credit-impaired at initial recognition, the Company calculates the credit- adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the statement of comprehensive income.

Interest income

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:

(a) Purchased or originated credit impaired (POCI) financial assets, for which the original credit- adjusted effective interest rate is applied to the amortised cost of the financial asset; and

(b) Financial assets that are not Purchased or originated credit impaired "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e.net of the expected credit loss provision) in subsequent reporting periods.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade- date, the date which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through the profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities are carried at fair value through profit or loss are expensed in profit or loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for the financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in the statement of comprehensive income when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

The Company classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Classification and subsequent measurement of debt instruments depend on:

(a) the Company's business model for managing the asset; and
(b) the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through profit or loss (FVPL), are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss (FVPL), are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income (OCI) is reclassified from equity to profit or loss and recognised in "Net investment income" using the effective interest rate method.

- Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income (FVOCI) are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income". Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at fair value through profit or loss (FVPL). Factors considered by the Company in determining the business model for a class of assets include past experience on how cash flows for these assets were collected, how the asset's performance is evaluated and reported by key management personnel, how risks are assessed and managed and how managers are compensated. For example, the liquidity portfolio of assets is held by the Company as part of liquidity management and is generally classified with the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at fair value through profit or loss (FVPL).

Solely payments of principal and interest (SPPI): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represents solely payments of principal and interest (the "SPPI test"). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. The changes are expected to be very infrequent and none occurred during the year.

Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Company's policy is to designate equity investments as fair value through other comprehensive income (FVOCI) when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income (OCI) and are subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are not reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payment is established.

Gains and losses on equity investments at fair value through profit or loss (FVPL) are included in the "Net trading income" line in the statement of profit or loss.

(ii) Impairment

instrument assets carried at amortised cost and fair value through other comprehensive income (FVOCI) and with the exposure arising from loan commitments and financial guarantee contracts. The Company recognises a loss allowance for such losses at each reporting date. The measurement of expected credit losses (ECL) reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

a) If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
b) Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.
c) Significant extension of the loan term when the borrower is not in financial difficulty.
d) Significant change is interest rate
e) Change in the currency of the loan
f) Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Company also assesses whether the new financial asset recognised is deemed to be credit- impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate of credit-adjusted effective interest rate for purchased or originated credit impaired (POCI) financial assets.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Company:

(a) Has no obligation to make payments unless it collects equivalent amounts from the assets
(b) Is prohibited from selling or pledging the assets; and
(c) Has an obligation to remit any cash it collects from assets without material delays

Collateral (shares and bonds) furnished by the Company under standard repurchase agreements and securities lending and borrowings transactions are not derecognised because the Company retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Company retains a subordinated residual interest.

Financial liabilities

(i) Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to

changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability);

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Company recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Company and its original lenders of debt instruments with substantially different terms, as well as substantial modification of the terms of the existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If the exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange of modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Offsetting financial assets and financial liabilities

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

- their risks and economic characteristics are not closely related to those of the host contract;
- a separate instrument with the same terms would meet the definition of a derivative; and
- the hybrid contract is not measured at fair value through profit or loss.

g). Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with Banks and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. Funds restricted for a period of more than three months on origination and cash reserve deposits with the Central Bank of Kenya are excluded from cash and cash equivalents. In the balance sheet, HFC mortgage scheme deposit are included as other receivables under assets and bank overdrafts if any are included as borrowings under liabilities. Cash and cash equivalents are carried at amortised cost.

h). Property and equipment

All categories of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation

and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that it will increase the future economic benefits associated with the item that will flow to the Company over those originally assessed and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the profit and loss account in the year in which they are.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are charged to the profit and loss account. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost (excess depreciation) is transferred from the revaluation surplus reserve to retained earnings.

Depreciation is calculated using the straight line method to write down the cost or the revalued amount of each asset to its residual value over its estimated useful life.

The annual depreciation rates used are as follows:

	Rate - %
Motor vehicles	25%
Computers	25%
Office equipment	20%
Furniture and fittings	10%
Leasehold improvements	Over the period of the lease

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item, is depreciated separately.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation surplus reserve relating to that asset are transferred to retained earnings.

i) Intangible assets

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software

product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

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

j) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

k) Income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Current income tax

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are

offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

l) Leases

Leases under which the Company is the lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the Company recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the Company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate is.

For leases that contain non-lease components, the Company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the Company at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are recognised in profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset recognised in profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the retained earnings to revaluation surplus reserve.

Low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above accounting policy has been applied from 1 January 2020.

Leases under which the Company is the lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss on a

straight-line basis over the lease term.

m) Provisions for liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

n) Post-employment benefit obligations

The liability for post-employment benefit obligations relates to terminal gratuities. The Company does not fund this obligation in advance.

The Company's obligations, both vested and unvested, to pay terminal gratuities to employees are recognised based on employees' service up to the reporting date and their salaries at that date. The net change in the obligation is recognised in profit or loss.

The Company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance Company. A defined contribution plan is a plan under which the Company pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The Company's contributions are charged to the profit and loss account in the year to which they relate.

The Company and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Company's contributions are charged to the profit and loss account in the year to which they relate.

o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the asset based either on actual cost on specific borrowings or, in the case of general borrowings, based on a weighted average cost.

Capitalisation of borrowing costs ceases when all activities necessary to prepare the asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss.

p) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2. Significant judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the Company, the directors make certain judgements and estimates that may affect the amounts recognised in the financial statements. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. However, actual results may differ from those estimates. The judgements and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgements and estimates are recognised in the year in which the revision is made.

a. Significant judgements made in applying the Company's accounting policies

The judgements made by the directors in the process of applying the Company's accounting

policies that have the most significant effect on the amounts recognised in the financial statements include:

i) Classification of financial assets: whether the business model in which financial assets are held has as its objective the holding of such assets to collect contractual cash flows or to both collect contractual cash flows and sell the assets; and whether the contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest;
ii) whether credit risk on financial assets has increased significantly since initial recognition; and
iii) how to determine the incremental borrowing rate used in the discounting of lease liabilities.

b) Key sources of estimation uncertainty

Key assumptions made about the future and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

i) Impairment losses
Estimates made in determining the expected credit losses on financial assets. Such estimates include the determination of probabilities of default including the use of forward looking information, and of losses given default.

ii) Useful lives and residual values of property and equipment and intangible assets.
Management reviews the useful lives and residual values of the items of property and equipment, intangible assets and right-of-use assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

iii) Accounting for leases under IFRS 16
Management has made various judgements and estimates under IFRS 16 as detailed below:

Incremental borrowing rate: To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease term/period: In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles

leases have not been included in the lease liability, because the Company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it.

The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

3. Financial risk management

The Company's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Company risk management are to identify all key risks for the Company, measure these risks, manage the risk positions and determine capital allocations to each operating entity. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Company's risk management objective is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Financial risk management is carried out by the management under policies approved by the Board of Directors. The management function identifies and evaluates financial risks in close co-operation with the individual Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

3.1 Credit risk and expected credit losses

Credit risk is the risk of suffering financial loss, should any of the Company's customers, clients or market counterparties fail to fulfil their contractual obligations. Credit risk arises mainly from loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Company is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets.

Credit risk is the single largest risk for the Company's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution. The Company carries out its own assessment of credit risk before investing and updates such assessments at each reporting date.

In assessing whether the credit risk on a financial asset has increased significantly, the Company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the

Company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For these purposes default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. However, there is a rebuttable assumption that default does not occur later than when a financial asset is 90 days past due.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired include observable data about the following events:

- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

	Basis for measurement of loss allowance				
	12-month expected credit losses	Lifetime expected credit losses (see note below)			
		(a)	(b)	c)	Total
	KES	KES	KES	KES	KES
At 31st December 2023					
Loans and advances	8,407,168,385	-	-	-	8,407,168,385
Short-term bank deposits	7,013,073,987	-	-	-	7,013,073,987
Cash at bank	2,572,924,102	-	-	-	2,572,924,102
Exposure to credit risk	**17,993,166,474**	**-**	**-**	**-**	**17,993,166,474**
At 31st December 2022					
Loans and advances	6,751,152,485	-	-	-	6,751,152,485
Short-term bank deposits	4,431,340,158	-	-	-	4,431,340,158
Cash at bank	3,493,560,577	-	-	-	3,493,560,577
Exposure to credit risk	**14,676,053,220**	**-**	**-**	**-**	**14,676,053,220**

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

(a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;

(b) financial assets that are credit impaired at the balance sheet date;

(c) trade receivables, contract assets and lease receivables for which the loss allowance is always measured at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

3.2 Liquidity risk

The Company is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

(i) Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Finance Committee is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered. A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and bank facilities ensure that sufficient liquidity is maintained within the Company as a whole.

(ii) Source of funding

The Company successfully concluded a capital mobilization drive which resulted in the Government of Kenya, eight (8) commercial banks, one (1) micro finance bank, eleven (11) SACCOs and two (2) Development Finance Institutions injecting equity funds.

The Company also has a window to borrow funds from the Government of Kenya to be utilised as a line of credit to provide mortgage refinancing to the eligible participating financial institutions and offer technical assistance to support project implementation. The Company also raised additional funding from the capital market through issuance of bonds.

(iii) Exposure to liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Finance Committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered. A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and Company facilities ensure that sufficient liquidity is maintained within the Company as a whole. A mortgage refinance Company shall maintain such leverage ratio as may be specified by the Central Bank of Kenya by notice in the Gazette.

The table below represents the cash flows payable by the Company under non - derivative financial liabilities by remaining contractual maturities at the end of the reporting date.

	Less than one month KES	Between 1-3 months KES	Between 3-12 months KES	Over 1 year KES
At 31st December 2023				
Other liabilities	9,508,022	94,518,672	4,225,469	376,462,661
Borrowings	-	-	-	20,662,582,125
Debt securities in issue	-	-	153,724,844	1,177,338,454
Lease liabilities	-	-	11,545,473	23,511,777
	9,508,022	**94,518,672**	**169,495,786**	**22,239,895,017**
At 31st December 2022				
Other liabilities	6,907,926	70,568,270	8,022,487	363,923,049
Borrowings	-	-	-	16,820,143,424
Debt securities in issue	-	-	136,644,306	1,263,355,694
Lease liabilities	-	-	10,583,350	21,067,755
	6,907,926	**70,568,270**	**155,250,143**	**18,468,489,922**

The Company manages the inherent liquidity risk based on expected undiscounted cash inflows.

3.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and comprises three types of risks: currency risk, interest rate risk and other price risk.

Currency risk

The Company operates wholly within Kenya and its assets and liabilities are reported in the local currency. As at the end of trading period it had no currency risk pertaining to its operations.
The Company does not engage in activities that may lead it to incur foreign exchange, commodity or equity, or use financial derivatives except as hedging instruments.

Interest rate risk

The Company's exposure to interest rate risk arises from Short-term bank deposits.

Borrowings, Loan and advances and other financial assets are fixed interest securities and therefore not susceptible to market interest rate changes.

Financial assets and liabilities advanced and obtained at different rates expose the Company to interest rate risk. Financial assets and liabilities obtained at fixed rates expose the Company to fair value interest rate risk, except where the instruments are carried at amortised cost. The Company maintains adequate ratios of borrowings when compared to total borrowings in fixed interest rates.

The table below summarises the effect on post-tax profit had interest and equity rates been 1 percentage point higher, with all other variables held constant. If the interest rates were lower by 1 percentage point, the effect would have been the opposite.

	2023 KES	2022 KES
Effect on profit (decrease)/increase	70,130,740	44,313,402
Effect on equity (decrease)/increase	49,091,518	31,019,381

Other price risk

Other price risk arises on financial instruments because of changes in the price of a financial instrument. The Company is not exposed to other price risk because it has no investments in instruments like quoted shares as at the end of the year.

4. Capital Risk Management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

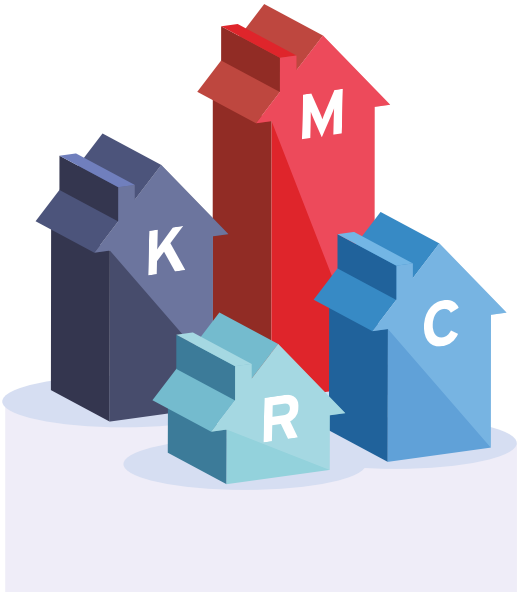
(i) To comply with the capital requirements set by the Central Bank of Kenya;
(ii) To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
(iii) To maintain a strong capital base to support the development of its business.

The institution's aim is to build a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Central Bank of Kenya requires each Mortgage Refinance Company's Institution to maintain;

- A core capital of not less than one billion shillings.
- A core capital of not less than 10.5 per centum of total risk weighted assets plus risk weighted assets and off-balance sheet items.
- A total capital of not less than 14.5 per centum of its total risk weighted assets plus risk weighted assets and off-balance sheet items.
- The computation of risk weighted assets and off-balance sheet items shall be computed as may be determined by the Regulator from time to time.

The Company has complied with all externally imposed capital requirements.



The table below summarises the composition of regulatory capital and the ratios of the Company for the year ended 31 December 2023. During the year, the Company complied with all of the externally imposed capital requirements to which they are subject.

Capital	**2023**	**2022**
Share capital	1,808,375,125	1,808,375,125
Retained profit	1,624,216,144	792,787,685
	3,432,591,269	**2,601,162,810**
Core capital (Tier 1)	3,421,687,751	2,592,330,253
Supplementary capital (Tier 2)	6,708,599,297	5,831,726,813
Total Capital	10,130,287,048	8,424,057,066
Total risk - weighted assets	6,395,169,866	5,267,199,750

Capital ratios		
• Total regulatory capital expressed as a percentage of total risk	158.4%	159.9%
• Minimum total Capital to Risk Weighted Assets Requirement	14.5%	14.5%
Excess	**143.9%**	**145.4%**
• Total regulatory core capital to Total Risk Weighted assets ratio	53.5%	49.2%
• Minimum Core capital to Total Risk Weighted assets ratio	10.5%	10.5%
Excess	**43.0%**	**38.7%**

5. Revenue from interest determined using effective interest rate

a) Interest income on loans and advances:

Primary Mortgage Lenders:		
- Mortgage lending	390,074,989	195,339,115

b) Other interest income

Interest income:		
- financial assets at amortised cost	2,010,652,190	1,105,483,944
	2,010,652,190	1,105,483,944

6. Finance cost

Interest expense:		
- Subordinated debt and credit lines		
GOK/IBRD 8958-KE (Note Number 23)	478,253,715	265,591,257
GOK/AfDB 2000200004101 (Note Number 23)	361,455,735	220,019,472
- debt securities in issue (Note Number 24)	175,000,003	146,712,332
- Lease liabilities	1,402,385	2,003,009
	1,016,111,838	**634,326,070**

Total interest expense for financial liabilities measured at amortised cost.

7. Net movement in expected credit losses	2023 KES	2022 KES
Loans and advances (Note Number 20)	840,717	675,480
Short-term bank deposits	392,192	249,809
Cash at bank	121,647	170,032
Financial Assets at amortized costs	224,671	-
	1,579,227	**1,095,321**

8. Governance expenses	2023 KES	2022 KES
Directors remuneration	9,576,000	8,286,000
Sitting allowance	7,695,000	6,237,000
Annual General Meeting expenses	787,752	338,108
Board evaluation	348,000	-
	18,406,752	**14,861,108**

9. Marketing expenses	2023 KES	2022 KES
Public relations and advertisements	23,817,007	14,800,199

This balance relates to publicity and marketing and includes costs relating to branding, stakeholder engagements, CSR and the affordable housing conference.

10. Staff costs	2023 KES	2022 KES
Salaries and wages	105,078,925	85,103,071
Pension costs:		
- Defined contribution scheme	5,880,801	4,977,817
- National Social Security Fund Company contribution	234,761	44,000
- Other post-employment benefits	12,734,422	9,144,140
Medical insurance	8,128,090	4,851,730
Other staff costs	2,565,940	1,078,396
	134,622,939	**105,199,154**

11. Administration expenses	2023 KES	2022 KES
Conferences, Seminars and workshops	42,634,840	33,401,238
Licenses and permits	2,385,443	757,142
ICT expenses	22,436,026	4,736,386
Telephone, postage and internet	2,369,442	2,397,663
Office running expenses	6,931,879	3,730,738
Consultancy fees	8,761,505	1,444,454
Insurance costs	6,093,338	2,721,563
Audit fees	1,429,700	700,000
Bank charges	545,542	451,366
Subscriptions	2,082,240	2,942,931
Corporate Social Responsibility	396,900	1,122,023
Motor vehicle running expenses	1,330,260	841,828
	97,397,115	**55,247,332**

ICT expenses increased significantly in the year as a result of implementation of several systems including Network Access Control Solution, Microsoft Mobile Device Management and Device Encryption, Multifactor Authentication solution as well as a Performance and availability Management.

12. Other operating expenses	2023 KES	2022 KES
Short term lease rentals	3,777,996	3,760,921
Electricity	962,613	855,840
Bond issuance costs	888,800	15,130,170
	5,629,409	**19,746,931**

13. Depreciation and amortisation expenses	2023 KES	2022 KES
Depreciation of property and equipment (Note Number 15)	14,497,377	13,782,376
Depreciation on right-of-use assets (Note Number 17)	8,103,714	8,103,714
Amortisation of intangible assets (Note Number 16)	2,762,755	2,762,755
Amortisation of financial asset at amortised cost (Note Number 19)	2,335,794	1,400,889
	27,699,640	**26,049,734**

	2023 KES	2022 KES
14. Income tax		
(a) Income tax expense		
Current income tax	234,899,902	109,493,589
Deferred tax (income)/expense relation to the origination and Reversal of temporary difference (note22)	(7,223,446)	(1,357,098)
Under prpovision in prior years on:		
-Current tax		
Income tax expense	**227,676,456**	**108,136,491**
The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate of 30% (2022: 30%) as follows:		
Profit before tax	1,075,463,252	429,497,210
Tax calculated at the statutory tax rate of 30% (2022: 30%)	322,638,976	128,849,163
Tax effect of:		
Expenses not deductible for tax purposes	14,681,604	6,608,856
Income not subject to tax	(49,471,199)	(27,378,582)
Under/(Over)-provision in prior years	(60,172,925)	57,054
Income tax expense	**227,676,456**	**108,136,491**
(b) Statement of financial position		
At 1 January	(77,824,477)	(18,454,791)
Current tax charge	234,899,902	109,493,589
Tax paid during the year		
- Balance of tax	-	-
- Installment tax	-	-
- Withholding tax	(279,211,936)	(168,863,275)
At 31 December	**(122,136,511)**	**(77,824,477)**

15. Property and equipment

	Motor vehicles KES	Computers KES	Office equipment KES	Furniture and fittings KES	Leasehold improvements KES	Total KES
Cost						
At 1 January 2022	18,575,844	26,708,983	1,749,740	11,970,000	31,353,280	90,357,847
Additions	-	1,061,400	-	-	-	1,061,400
Reclassifications	-	-	3,473,139	-	(3,473,139)	-
At 31 December 2022	18,575,844	27,770,383	5,222,879	11,970,000	27,880,141	91,419,247
At 1 January 2023	18,575,844	27,770,383	5,222,879	11,970,000	27,880,141	91,419,247
Additions	-	3,314,179	-	259,889	-	3,574,068
Impairment	-	(411,220)	-	-	-	(411,220)
At 31 December 2023	18,575,844	30,673,342	5,222,879	12,229,889	27,880,141	94,582,095
Depreciation						
At 1 January 2022	6,206,769	7,053,502	1,419,857	1,722,026	9,489,963	25,892,117
Charge for the year	4,643,961	6,717,354	1,044,576	1,189,882	4,597,544	18,193,317
At 31 December 2022	10,850,730	13,770,856	2,464,433	2,911,908	14,087,507	44,085,434
At 1 January 2023	10,850,730	13,770,856	2,464,433	2,911,908	14,087,507	44,085,434
Charge for the year	4,545,977	7,271,160	1,044,576	1,192,048	4,597,545	18,651,306
At 31 December 2023	15,396,707	21,042,016	3,509,009	4,103,956	18,685,052	62,736,740
Net book value						
At 31 December 2023	**3,179,137**	**9,631,326**	**1,713,870**	**8,125,933**	**9,195,089**	**31,845,355**
At 31 December 2022	**7,725,114**	**13,999,527**	**2,758,446**	**9,058,092**	**13,792,634**	**47,333,813**

The Net Book value of the assets related to capital grants from the National Treasury is as broken down below:

-	**4,267,485**	**404,792**	-	-	**4,672,276**

16. Intangible assets	2023 KES	2022 KES
Software costs		
Cost		
At 1st January	16,365,435	16,914,135
Write off	-	(548,700)
At 31st December	16,365,435	16,365,435
Amortisation		
At 1st January	7,600,115	2,412,015
Charge for the year	5,188,099	5,188,100
At 31st December	12,788,214	7,600,115
Net book amount		
At 31st December	**3,577,221**	**8,765,320**

The above software cost relates to an Enterprise Resource Planning (ERP) currently in use by the Company.

The management made a call based on best practice as well as the estimated useful life of the software, to amortize the software over a period of three years beyond which the Company does not anticipate to derive benefits from use of the system. An amortization rate of 33.33% has therefore been applied in regard to the ERP.

The Net book value of the software relating to the grant from the National Treasury was KES 2,426,072

17. Right-of-use-asset	2023 KES	2022 KES
Cost at start of year	48,622,282	48,622,282
Accummulated Depreciation	(24,311,142)	(16,207,428)
Depreciation charge for the year	(8,103,714)	(8,103,714)
At end of year	**16,207,426**	**24,311,140**

Under the previous accounting policy prepaid operating lease rentals were recognised at historical cost and subsequently amortised over the lease period.

The Company leases one office. The leases of the office is typically for periods of between 3 and 6 years, with options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

For information on the related lease liabilities, see Note 25.

18. Other assets	2023 KES	2022 KES
Prepayments	4,796,805	8,930,712
Accrued income	-	143,399,891
Other receivables	1,128,763	1,058,250
HFC mortgage scheme deposit (see below)		
- Free funds account	61,836,885	62,110,883
- Back up account	84,698,748	41,086,861
- Car Loan Scheme Account	7,820,786	-
	160,281,987	**256,586,597**

The Company has entered into an agreement with HFC Limited to operate a staff Housing mortgage scheme.
The Company is required to deposit funds with HFC Limited for purposes of the scheme which will be held in the back up account, free funds account and any investment account.

Backup account is the Company's account that hold funds designated as committed for loans disbursed to eligible applicants from the Company. This has been classified as a receivable in the balance sheet with the exception of other accounts explained above

Upon expiry of the agreement for the staff mortgage scheme, HFC Limited shall retain the funds in the Backup account until the loans are settled in full.

19. Financial assets at amortised cost (Government securities)	2023 KES	2022 KES
At start of year	5,203,521,087	1,554,799,616
Additions	-	3,552,288,907
Amortisation	(2,335,794)	(1,400,889)
Interest	6,735,849	97,833,453
Accrued Interest	103,784,917	-
Expected credit losses on Government securities	(224,671)	-
At end of year	**5,311,481,388**	**5,203,521,087**

Financial assets at amortised cost can be analysed as follows:

Maturing within 5 years	1,000,000,000	1,000,000,000
Maturing after 10 years	1,500,000,000	1,500,000,000
Maturing after 15 years	2,811,481,388	2,703,521,087

Treasury bonds are debt securities issued by the Government of the Republic of Kenya. The bonds are categorized as financial assets at amortized cost. The weighted average effective interest rates on Government securities as at 31 December 2023 was 13.04% (2022: 13.04%).
The fair values of the financial assets are categorized under Level 1 based on the information set out in accounting policy 1(a).

Credit risk primarily arises from the changes in the market value and the financial stability of issuers of commercial bonds and investment funds.
Management monitors the credit quality of financial assets by:

- discussion at the management and board meetings;
- reference to external historical information available;

The maximum exposure to credit risk as at reporting date is the carrying amounts of the financial assets as disclosed above.

20. Loans and advances		**2023 KES**	**2022 KES**
Gross Loans and advances to PMLs at amortised cost	(i)	8,407,168,385	6,751,152,485
Less: Expected credit loss	(ii)	(1,645,494)	(804,777)
Net Total loans and advances to customers		**8,405,522,891**	**6,750,347,708**

(i) Loans and advances to customers at amortised cost

	2023			**2022**		
	Gross amount KES	**ECL provision KES**	**Carrying amount KES**	**Gross amount KES**	**ECL provision KES**	**Carrying amount KES**
Mortgage lending	8,407,168,385	(1,645,494)	8,405,522,891	6,751,152,485	(804,777)	6,750,347,708

The impairment provision includes the following:-

	Provision as per statutory	**ECL provisions as per IFRS 9**	**Transfer to/(from) statutory loan reserves**
Loans and advances to Primary Mortgage Lenders:			
Mortgages	84,071,684	840,717	83,230,967

Statutory provisions are analysed as follows:	**2023 KES**	**2022 KES**
0 - 30 Days (Normal - 1%)	84,071,684	67,511,525
31 - 90 Days (Watch - 5%)	-	-
91 - 180 Days (Substandard - 25%)	-	-
181- 360 Days (Doubtful - 75%)	-	-
Over 361 Days or 12 Instalments over due (Loss Account - 100%)	-	-
	84,071,684	**67,511,525**

All loans are at stage 1

The weighted average effective interest rate on loans and advances at 31 December 2023 was 5.6% (2022: 5.6%).

(ii) IFRS 9 provisions

Reconciliation from opening to closing balance of loss allowance for loans and advances to customers at amortised cost for 2023 is shown below; comparative amounts for 2022 represent total allowance account for credit losses under stages 1, 2 and 3.

	2023				2022
	Stage 1 12-month ECL KES	Stage 2 Lifetime ECL KES	Stage 3 Lifetime ECL KES	Total KES	KES
At start of the year	804,777	-	-	804,777	129,297
- Changes in the gross carrying amount:					
- Transfer to stage 1	-	-	-	-	-
- Net remeasurement of impairment provisions	840,717	-	-	840,717	675,480
- New financial assets originated or purchased	-	-	-	-	-
At end of year	**1,645,494**	**-**	**-**	**1,645,494**	**804,777**

In the opinion of the directors, the carrying amounts of loans and advances to customers approximate their fair value.

21. Cash and cash equivalents	**2023 KES**	**2022 KES**
Short-term bank deposits held with the following institutions;		
- KCB Bank Kenya Limited	4,389,022,010	3,820,657,858
- HFC Limited	471,352,668	328,682,300
- Absa Bank Kenya PLC	2,152,699,309	282,000,000
- NCBA Bank Kenya PLC	1,081,772,410	
- Cooperative Bank of Kenya Limited	1,000,000,000	1,000,000,000
Cash at bank and in hand	2,675,209,723	3,576,480,192
Accrued Interest	122,590,655	
Expected credit losses on bank balances and short term deposits	(1,245,197)	(731,358)
	11,891,401,578	**9,007,088,992**

For the purpose of the statement of cash flows, cash and cash equivalents comprise as above

Impairment provision		
At start of the year	731,358	311,517
Changes short-term bank deposits	392,192	249,809
Changes relating to bank balances	121,647	170,032
At end of the year	**1,245,197**	**731,358**

The weighted average effective interest rate on short-term bank deposits at year-end was 15.09% (2022: 9.9%)

22. Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30%, which is the enacted rate applying from 1st January 2021, except for capital gains, for which the enacted tax rate of 5% is used (2022: 30% and 5%).

Deferred tax assets/(liabilities), and the deferred tax charge/(credit) in the profit and loss account and in other comprehensive income are attributable to the following items:

	At 1st January KES	Credited/ (charged) to profit or loss KES	At 31st December KES
Year ended 31st December 2023			
Property and equipment			
- on historical cost basis	1,774,836	7,459,562	9,234,398
Software	(806,845)	1,556,430	749,585
Right-of-use assets			
- accelerated tax depreciation	7,293,343	(4,278,177)	3,015,166
Lease liabilities	(5,115,207)	(2,441,799)	(7,557,006)
Financial asset at amortised cost	-	700,738	700,738
Provision for liabilities	4,261,075	4,226,692	8,487,767
Net deferred tax asset	**7,407,202**	**7,223,446**	**14,630,648**
Year ended 31st December 2022			
Property and equipment			
- on historical cost basis	607,046	1,167,790	1,774,836
Software	(950,162)	143,317	(806,845)
Right-of-use assets			
- accelerated tax depreciation	4,862,228	2,431,115	7,293,343
Lease liabilities	(2,853,596)	(2,261,611)	(5,115,207)
Financial asset at amortised cost	52,915	(52,915)	-
Provision for liabilities	4,331,673	(70,598)	4,261,075
Net deferred tax (liability)	**6,050,104**	**1,357,098**	**7,407,202**

23. Borrowings	Interest rate	Repayment Start date	Repayment End date	2023 KES	2022 KES
GOK/IBRD 8958-KE	4.5%	30/03/2024	30/03/2044		
Subordinated debt				4,374,165,520	4,374,165,520
Credit line				6,407,925,431	5,931,959,191
GOK/A/DB 2000200004101	4.5%	30/03/2027	30/03/2044		
Subordinated debt				1,803,754,800	1,202,144,400
Subsidiary loan				6,484,732,442	4,559,579,831
Accrued interest				1,592,003,932	752,294,482
				20,662,582,125	**16,820,143,424**

The Government of Kenya entered into a Loan Agreement for a line of credit for an amount of Euros 219,000,000 with the International Bank for Reconstruction and Development (IBRD) herein after called "the World Bank" on 5th December 2020. The Government of Kenya also entered into another Loan Agreement for a line of credit for an amount of Euros 90,000,000 with the African Development Bank (AfDB) on 2nd April 2020. Both loans were to undertake a project consisting of the support for establishment, capitalization and operationalization of the Kenya Mortgage Refinance Company; provision of financing by Government to the Company to be utilized as a line credit for providing the mortgage refinancing to the eligible participating financial institutions; and Technical Assistance. The exchange rate risk is born by the Government of Kenya.

The Government agreed under the Loan Agreement dated 5th December 2020 and 12 October 2020 to on-lend to the Company an amount of Euros 201,400,000 and Euros 90,000,000 from the proceeds of the two loans for the implementation of the Project as explained above.

The borrowings from the Government to KMRC are done in KES. Borrowings from the government as at 31 December 2023 amounted to KES. 19,070,578,193 (2022: KES. 16,067,848,942). Interest payable of KES. 1,592,003,932 (2022: Kehs. 752,294,482) remained unpaid as at 31 December 2023. These amounts shall be accrued over the grace period/disbursement period and will be capitalised on the first principal repayment date and the management expects to meet all contractual obligations in the future.

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant. At the year-end, the Company had undrawn facilities which it may utilise to fund its obligations as shown below.

	AfDB EUR	World Bank EUR	TOTAL EUR
Loan	**90,000,000**	**201,400,000**	**291,400,000**
Sub-debt drawn down	13,500,000	35,000,000	48,500,000
Credit line drawn down	50,400,000	50,086,731	100,486,731
Total Drawn Down	**63,900,000**	**85,086,731**	**148,986,731**
Undrawn Facilities	**26,100,000**	**116,313,269**	**142,413,269**

24. Debt securities in issue	2023 KES	2022 KES
At start of year	1,459,167,332	1,400,000,000
Additions (Repayments)	(195,811,638)	-
Accrued Interest payable	67,707,604	59,167,332
At end of year	**1,331,063,298**	**1,459,167,332**

Debt securities in issue comprise:

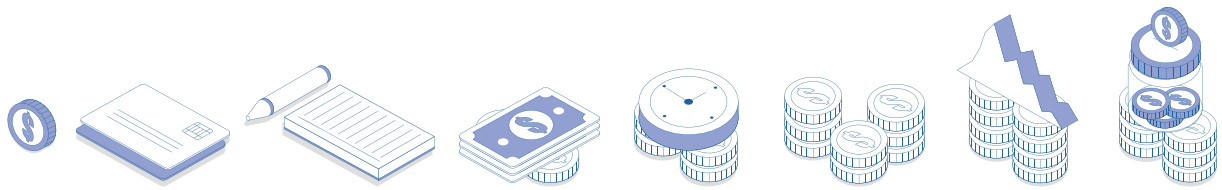
- KES 1,263,355,694 (2022: KES 1,400,000,000) Medium Term Note issued in the year 2022 and has a maturity date of 23rd February 2029.
- Maturity analysis of principal amount.

Within one year	153,724,844	136,644,306
Later than one year but within three years	586,376,213	521,223,300
Later than three years but within five years	523,254,637	742,132,394

25. Lease liabilities	2023 KES	2022 KES
At 31 December	**23,511,777**	**31,651,105**
The total cash outflow for leases in the year was:		
Payments of principal portion of the lease liability	**10,583,350**	**10,495,884**
Maturity analysis:		
• Within one year	11,545,473	10,583,350
• Later than one year but within three years	10,583,350	22,128,823

For more information on the nature of the leases entered into and the related right-of-use assets, see Note 17.

26. Other Liabilities	2023 KES	2022 KES
Trade payables	3,506,883	7,284,915
Accrued Liabilities	26,811,068	11,400,938
Payroll liabilities	9,508,022	6,907,926
Other liabilities	718,586	737,572
Post-employment benefit obligation (Note 28)	30,644,561	17,910,139
Due to shareholders (Note 30)	345,818,100	346,012,910
	417,007,220	**390,254,400**



27. Share capital	2023 KES	2022 KES
Issued and fully paid up capital:		
At 1 January	1,808,375,125	1,808,375,125
Issue for cash	-	-
At 31 December	**1,808,375,125**	**1,808,375,125**

The total number of authorised ordinary shares is 50,000,000 (2022:50,000,000) with a par value of KES. 100 each.

28. Post-employment benefit obligation

The Company's obligation to pay terminal gratuities, based on employees' years of service and salaries at the balance sheet date is:

	2023 KES	2022 KES
At January 01	17,910,139	8,765,999
Additional provision made during the year, charged to profit or loss	12,734,422	9,144,140
Benefits paid during the year	-	-
At December 31	**30,644,561**	**17,910,139**

29. Commitments under operating leases

The Company rents an office under operating lease. The lease is for an average period of six years, with variable rentals over the same period.

At year-end, the Company has outstanding commitments for minimum lease payments under non-cancellable operating leases that:

	2023 KES	2022 KES
Within one year	11,545,473	10,583,350
Later than one year but within five years	10,583,350	22,128,823
	22,128,823	**32,712,173**

30. Related party transactions

The National Treasury with the support of the World Bank established the Kenya Mortgage Refinance Company PLC (KMRC), a private Company that will refinance housing loans issued by eligible financial institutions in Kenya. The Company is related to eligible financial institutions through common shareholding and directorship.

The following transactions were carried out with related parties

i). Loans and advances	**2023 KES**	**2022 KES**
Mortgages to Primary Mortgage Lenders		
ABSA Bank	2,811,565,001	3,021,588,583
Cooperative Bank	389,781,503	467,438,886
Credit Bank	46,733,810	49,256,433
HFC Bank	928,923,523	1,061,565,604
KCB Bank	1,515,465,073	1,708,002,356
NCBA Bank	860,096,965	-
Safaricom SACCO	55,854,342	-
Stanbic Bank	936,630,689	-
Stima SACCO	474,552,066	284,009,204
Tower SACCO	21,137,703	25,061,605
Ukulima SACCO *(Now Apstar)*	138,475,312	54,959,145
Unaitas SACCO	227,952,398	79,270,669
Less: Expected credit loss	(1,645,494)	(804,777)
TOTAL	**8,405,522,891**	**6,750,347,708**

ii). Due to related parties (Note 26)		
At 1st January	346,012,910	580,324,875
Amounts capitalised during the year	(194,810)	(234,311,965)
At 31st December	**345,818,100**	**346,012,910**

The amounts due to shareholders are unsecured, interest free and have no fixed repayment period.

iii). Key management compensation		
Salaries and other employment benefits	93,150,378	64,351,033
Post-employment benefits	35,927,940	20,927,948
	129,078,318	**85,278,981**

	2023 KES	2022 KES
iv). Directors' benefits and other remuneration		
- fees	9,576,000	8,286,000
- allowances	7,695,000	6,237,000
	17,271,000	**14,523,000**

31. Other reserve		
At start of year	13,934,635	20,770,920
Amortisation	(6,836,286)	(6,836,285)
At end of year	**7,098,349**	**13,934,635**

Other reserve relates to capital grants received from the National Treasury.

Notes

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Notes

KMRC
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