KMRC

KENYA MORTGAGE REFINANCE COMPANY

2020 ANNUAL REPORT

Unlocking Liquidity for Affordable Housing

KMRC
KENYA MORTGAGE REFINANCE COMPANY

Unlocking Liquidity for Affordable Housing

It's time to say goodbye to your landlord!

Visit **www.kmrc.co.ke** to find the participating financial institutions.

AFFORDABLE
Home
– LOANS –
powered by KMRC

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

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KMRC
KENYA MORTGAGE REFINANCE COMPANY

(PLC-LXSM9G)
NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2nd Annual General Meeting of **KENYA MORTGAGE REFINANCE COMPANY PLC** ("the Company") will be held on **29th June 2021** at the Company's offices at 27th Floor UAP/Old Mutual Tower, Nairobi, Kenya and through videoconferencing from **10:00am** to transact the following business:

1. To table the proxies and note the presence of quorum;
2. The Chairperson to read the Notice convening the Meeting;
3. To table the Chairperson's Statement;
4. To receive, consider and, if thought fit, adopt the audited financial statements for the year ended 31st December 2020, together with the Directors' and Auditors' reports thereon;
5. To approve the re-appointment of Mazars Kenya, having expressed their willingness, to continue in office as auditors of the Company in accordance with the provisions of section 721 of the Companies Act, No. 17 of 2015 and to authorise the Directors to fix their remuneration.
6. To transact any other business which may legally be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

GODWIN WANGONG'U
Company Secretary
31st May 2021

NOTE:

1. *A member entitled to attend and vote at a meeting is entitled to appoint any other person to vote instead of him. The instrument appointing the proxy must be delivered to the Secretary not less than forty-eight (48) hours before the meeting.*

2. *In view of the Covid-19 Pandemic and the related Public Health Regulations and directives passed by the Government of Kenya precluding inter alia public gatherings, its impracticable for KMRC PLC to hold a fully physical Annual General Meeting (AGM). KMRC has therefore convened and will conduct its 2nd AGM via a hybrid of physical and virtual/electronic means. A member may attend the meeting at such location as he/she chooses through the video-conferencing facilities to be provided by the Company for this purpose. Access details for the video-conferencing facilities shall be provided to each member prior to the date of the meeting. The video-conference may be recorded.*

Overview

The Kenya Mortgage Refinance Company (KMRC) is a non-deposit taking financial institution established in 2018 under the Companies Act 2015. Its mandate is to provide long-term funds to primary mortgage lenders (PMLs) for purposes of increasing affordability and availability of mortgage loans to Kenyans. At its initial operations, KMRC is providing concessional, fixed rate, long term finance to the PMLs so that they can transfer the same benefits to wananchi, making home loans more accessible and affordable for Kenyans.

A key lever in the push to increase homeownership in Kenya, KMRC is supporting the Affordable Housing Pillar of the Government's Big 4 Agenda primarily on the demand side by increasing availability of affordable housing finance. This is based on recognition that Kenya's mortgage market remains underpenetrated, relative to the potential demand for home ownership.

A wholesale financial institution, KMRC plays a development role which includes contributing to the growth of Kenya's capital markets through the issuance of bonds as a source of sustainable long-term finance; supporting standardization of mortgage practices in Kenya on the origination of mortgages and contributing to the growth of the mortgage market through support to PMLs.

KMRC was established in the form of a Public Private Partnership (PPP) and therefore has a strong and diverse shareholding which includes Government of Kenya with 25% ownership and a mix of private sector players owning 75% of KMRC shares on aggregate. The distribution of private sector shareholders includes eight commercial banks, one microfinance bank, eleven saccos and two DFIs.

The current shareholders are:

1. Government of Kenya through The National Treasury
2. KCB Bank
3. IFC
4. Shelter Afrique
5. The Co-operative Bank
6. Stanbic Bank
7. NCBA
8. DTB
9. Credit Bank
10. Absa Bank Kenya
11. HF Group
12. Kenya Women Microfinance Bank
13. Kenya Police Sacco
14. Bingwa Sacco
15. Mwalimu Sacco
16. Safaricom Sacco
17. Harambee Sacco
18. Stima Sacco
19. Imarika Sacco
20. Tower Sacco
21. Imarisha Sacco
22. Unaitas Sacco
23. Ukulima Sacco

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

Corporate Information

Principal place of business
27th Floor, UAP Old Mutual Tower,
Upperhill Road, Upperhill,
P.O. Box 15494 - 00100, Nairobi

Registered office
National Treasury Building,
Harambee Avenue,
P.O. Box 30007 - 00100, Nairobi

Company Secretary
Mboya Wangong'u & Waiyaki Advocates
Lex chambers
Maji Mazuri Rd, North
P.O. Box 74041 - 00200, Nairobi

Principal bankers

- KCB Bank Kenya Limited, Moi Avenue, P.O Box 48400 – 00100, Nairobi
- Cooperative Bank of Kenya, Moi Avenue, P.O Box 48231 – 00100, Nairobi
- NCBA Bank Kenya PLC NCBA Centre, P.O. Box 44599 - 00100, Nairobi

Independent Auditors
MAZARS
Certified Public Accountants (K)
3 Floor, The Green House, Ngong Road
P.O. Box 61120 - 00200, Nairobi

VISION

To be the premier housing refinance company driving development and growth of housing finance in Kenya

MISSION

To increase accessibility and affordability of housing loans in Kenya by providing long term financing to primary mortgage lenders

CORE VALUES

Collaboration - We are committed to working with primary mortgage lenders, the Government of Kenya, development finance institutions and other stakeholders to develop and grow the housing market.

Integrity - We are committed to adhering to high ethical and moral principles ensuring transparency and trustworthiness in our operations.

Innovation - We are committed to continuous improvement in our product offerings, the way we work and the professional development of our staff.

Efficiency - We are committed to striving for maximum impact by effectively minimising waste through developing dynamic and relevant policies and procedures.

STRATEGIC OBJECTIVES

- To provide liquidity financing to PMLs
- To promote the development of improved mortgage lending practices within PMLs
- To support developments in the housing market
- To raise long term finance efficiently and sustainably
- To develop and optimize the institutional capacity of KMRC

Board of Directors

DR. HARON SIRIMA, OGW
Chairman, Appointed October 2020

MS. SUSAN MAIRA
Independent Director

MR. SAMUEL MAKOME
Member, Representing Banks

MR. ROBERT KIBAARA
Member, Representing Banks

MR. ASMAN KHATOLWA
Member, Representing Saccos

MS. SARAH BONAYA
Independent Director,
Appointed February 2020

MR. JOHNSTONE OLTETIA
CEO and MD

Statement from the Chairman

Dear Shareholders,

We are holding this second Annual General Meeting of the Kenya Mortgage Refinance Company PLC (the Company) at a time when the Covid-19 pandemic and the containment measures have adversely disrupted businesses, livelihoods and lives. It has been a very challenging year for all corporates not only in Kenya but globally. Most corporates have reported major losses that have materially eroded their balance sheets.

During the year, we laid strong underpinnings for the Company to carry out its core business of mortgage re-financing. We were issued a license to conduct business by the regulator, the Central Bank of Kenya, after successful fulfillment of all the conditions precedent.

While the pandemic significantly slowed down the pace of business operations, the Company leveraged on the skills and experienced Board, management and staff to put in place a robust systems anchored on modern practices to conduct business operations.

Execution of our Strategic Plan 2020-2024

Our strategic plan outlines the Company's priorities in the medium-term; focusing on the core mandate of providing long term funds to the participating Primary Mortgage Lenders for onward lending to the ultimate borrowers. In the past year, effort was directed towards implementing strategic actions to fully operationalize the Company. Some of the key strategic initiatives included loan portfolio reviews eligible for refinancing and sensitization of our customers – the Primary Mortgage Lenders on features and procedures for accessing our loans. The start has been slow, but we remain committed to our goal of supporting the development of the housing finance market by providing practical solutions that meet the housing needs of Kenyans while creating value to the shareholder. We re-affirm commitment to conduct business responsibly through strict alignment to our core values and adherence to policies, regulations and standards.

Corporate Governance

High standards of corporate governance are the cornerstone of a good sustainable business. It encompasses the processes, practices and policies that a Company relies on to make formal decisions to manage its operations. Effective corporate governance yields trust and functional engagements between internal and external stakeholders and strengthens risk management. We pride ourselves in having a solid foundation in good corporate governance anchored on transparency, accountability and security in the conduct of the business of the Company.

In the past year, we constituted three (3) Board Committees to support the Board of Directors in the execution of their oversight responsibilities. The Credit & Risk Committee has the oversight responsibility on the company's credit facilities. In addition, this committee has oversight responsibility over the identification, measurement, control and monitoring of all risks exposures to the Company.

In line with regulatory requirement, the Audit Committee oversees the company's reporting processes and internal

controls. The Finance Planning and Human Resources Committee robustly provides strategic, financial and human capital oversight for the organization. Some of the specific oversight roles for this Committee include assets & liabilities management, budgeting and financial planning, financial reporting, human capital management and ensuring achievement of the set goals and objectives through strategy monitoring and reporting.

Going Forward

We anticipate a re-bound in growth in the housing sector in line with Kenya's economic recovery trajectory.

The Company will seek to leverage current financial resources to scale-up availability of affordable long-term financing to enable Kenyans access decent and affordable housing. The Company will enhance its visibility in the marketplace to show-case its products to customers. I look forward to our shareholders actively increasing uptake of the Company's product.

On behalf of the Board of Directors, I would like to appreciate the shareholders and other key business partners for their support during the year. I would also like to thank my colleagues at the Board for their commitment and dedication. My gratitude to our senior management team and staff for their devotion to the vision and mission of the Company.

Dr. Haron Sirima, OGW
Chairman

Our strategic plan outlines the Company's priorities in the medium-term focusing on the core mandate of providing long term funds to the participating Primary Mortgage Lenders for onward lending to the ultimate borrowers.

Management Team

Front Row (L-R): *Irene Koki - Internal Audit Manager, Deborah Masara- ICT Manager, Irene Kadima - Communications Officer, Florah Muthaura - Head of Risk and Compliance.*

Back Row (L-R): *Geofrey Mwaura - Head of Credit, Erick Wambua- Finance Manager, Johnstone Oltetia - Chief Executive Officer, Elisha Nyikuli - Head of Legal Services, Daniel Saruni - Head of Human Resources and Administration, Gideon Rutto - Procurement and Logistics Manager.*

Statement from the CEO and MD

Introduction

I am delighted to present to you a review of the performance and operations of KMRC for the year ended 31st December 2020. Despite an obviously tough year that had majority of organizations across the world redefine their culture and day to day operations, KMRC managed to continue to support its stakeholders and as a result kept its operations on track. We implemented the business strategy and made some impressive strides with regards to sustained relations with all our stakeholders.

Our mission to increase accessibility and affordability of housing loans in Kenya remains steadfast, and our overall strategy and business model broadly remains on course. We provide fixed rate, long term finance to primary lenders so that they can transfer the same benefits to individual borrowers. We also contribute to the growth of the Kenyan capital markets through the issuance of bonds as a source of sustainable long-term funding.

KMRC in collaboration with a number of stakeholders is putting in place foundations for eventual standardization of mortgage underwriting practices in Kenya in order to create efficiencies in participating financial institutions and, ultimately, a seamless experience for the borrower.

KMRC will in part achieve this by carrying out enhanced capacity building to member institutions on the mortgage origination processes and partly through consultancies, both aimed at standardizing these practices across the sector.

Operating environment and Performance

As with other countries globally, Kenya experienced a significant reduction in economic activity in 2020 as a result of the Covid-19 pandemic. The pandemic caused substantial decrease in key foreign exchange earnings and high GDP contributing sectors in Kenya namely: agriculture, manufacturing, tourism, hospitality, transportation and storage. KMRC's partner financial institutions saw a decline in customer transactions amidst other effects as a result of the slowdown of economic activities and declining disposable incomes.

The COVID-19 pandemic sickened the work environment, decimated revenues in our legacy businesses and crippled peoples' and businesses' ability to maintain social relationships and day to day activities that were previously the norm.

The financial sector in which KMRC operates was heavily burdened by the pandemic's spillover effects of stringent loan loss provisioning, demands of the international financial reporting standard (IFRS 9) and challenging economic conditions that also forced the government to significantly downgrade growth prospects for the year.

As a result of the adverse effects of the pandemic, banks in Kenya, per a Central Bank of Kenya report, restructured loans amounting to KSh1.63 trillion, equivalent to 54.2% of the total banking sector loan book by the end of December 2020. The effect of non-performing loans rendered them ineligible for KMRC refinancing as the mortgages are taken in as collateral.

Nonetheless, KMRC exhibited great resilience having redefined its approaches to adopt the 'new normal' in order to better deal with the effects of the pandemic.

We adopted tech-driven practices under severe time pressure including remote working and holding all meetings in tech platforms. The Company facilitated the Primary Mortgage Lenders' capacity building exercises online and managed to conduct trainings seamlessly. KMRC also carried out portfolio review exercises virtually, an initiative that was necessary to determine availability of eligible mortgages for refinancing.

Business Review

The revenue for the year was Kes. 221Mn compared to Kes. 326Mn recorded in 2019. The reduced income

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was mainly attributed to a one-off grant of Kes. 200Mn that was received in 2019 from the National Treasury. Total expenses for the year stood at Kes. 119Mn compared to the last year's Kes.32Mn, reflecting the effects of increased operating expenses following full operationalization of the Company. This resulted in a profit before tax of Kes. 102 million compared to last year's Kes. 293 million. The net profit for the year stood at Kes. 76 million compared to last year's Kes. 264 million.

CBK License

KMRC received its license from the Central Bank of Kenya (CBK) on September 18, 2020 which provided the greenlight to commence the Company's core business. The license issuance paved the way for disbursement of funds to Primary Mortgage Lenders to on-lend to potential homeowners and make mortgages affordable and accessible to all Kenyans. The receipt of the License which was eagerly awaited marked a historic new dawn in affordable housing finance in Kenya. Indeed, it illustrated the legal, structural and strategic foundations that KMRC had been putting in place since inception for a fit for-purpose mortgage refinance company.

Landmark Transaction

KMRC approved a disbursement of KES. 2.75 billion to participating mortgage lenders on December 17 2020, a transaction that marked our debut lending since inception. This transaction marked an enormous and historic beginning in affordable housing finance in Kenya which also assured the industry of a promising future.

In this transaction, KCB Bank, HF Bank, Stima Sacco and Tower Sacco will each receive KES. 2.13 billion, KES.514million, KES.69 million and KES.29 million respectively once the ongoing security perfection is concluded. KMRC anticipates that this initiative will trigger an acceleration of applications from the rest of the institutions.

Our Strategy 2020-2024

KMRC continues to implement its strategic plan 2020-2024 which sets the purpose and business direction of the Company. The strategy also guides decisions on allocating resources needed to accomplish the objectives. The objectives guiding company operations include:

1). To provide liquidity financing to Primary Mortgage Lenders – this entails supporting development of the housing sector by bringing about a greater supply of housing finance and playing a significant role in increasing affordable housing finance. Initiatives under this objective enable primary mortgage lenders to address their asset-liability maturity mismatch.

2). To promote the development of improved mortgage lending practices within the primary mortgage lenders – in order to grow the housing finance market, KMRC's role will entail engaging with relevant stakeholders to standardize the mortgage lending procedures so as to develop efficiencies and ensure a consistent experience for consumers.

3). To raise long term finance efficiently and sustainably – KMRC is currently drawing down funds for lending from the credit lines facilitated by National Treasury. However, KMRC will need to ensure that it is able to continually raise long term funding at attractive rates, and issuance of corporate bonds will be one of the initiatives to meet this objective.

4). To support developments in the housing market - Historically, the developments in the housing market have favoured the upper middle and high-end markets, neglecting the middle and lower income. This is a consequence of market failures which impeded the viability of affordable housing developments. This being the case, KMRC, through interactions with different stakeholders, will help to address the challenges facing the broader

housing market by acting as a convener of different stakeholders including property developers, PMLs, donors and the GoK and promoting reforms in the sector.

KMRC in the Community

KMRC recognizes that it is important to do business in a sustainable way that promotes social responsibility. We believe the long-term success of KMRC is tied in part to the health and well-being of the community in which we do business.

KMRC held its first Corporate Social Responsibility (CSR) initiative on Friday August 14th 2020 at the Imani Rehabilitation Centre in Kayole, donating KES. 770,000.00 worth of baby formula, foodstuff, personal hygiene products, Personal Protective Equipment among others. The initiative was in response to the major disruptions in the communities as a result of the COVID-19 Pandemic.

We do our best to emphasize responsible and sustainable business operations in order to optimize positive impact of the organization in the society. Looking after the interests of those children, vulnerable as they were, was a sacrifice; doing so in the midst of a pandemic such as the COVID-19 that we are currently facing was even more remarkable.

Our People

Our staff are our greatest asset. We recognize that what people bring to work is the single most important component of our business success thus employee engagement forms an integral part of KMRC. As a regulated entity, all members of the senior management team were successfully vetted by CBK and passed the fit and proper tests. Our team continues to live out the KMRC core values and remain committed to adhering to high ethical and moral principles ensuring transparency and trustworthiness in our operations.

Through continuous capacity building and career development plans, KMRC encourages staff to learn new skills, innovate and improve their productivity, build their confidence in the organization and create a better working environment. Development initiatives include on-the-job training, formal classroom teaching, projects' coordination as well as peer reviews. We believe that these development and exposure opportunities will not only improve the technical capacity of our people, but it will also make KMRC a great place to work.

Looking Ahead

2020 was without a doubt a challenging year and 2021 is equally expected to present new challenges.

We are, however, confident that notwithstanding any challenges on our way, we have built a firm business foundation capable of withstanding the shocks. We will continue to work with our partners to develop new, more collaborative business relationships and opportunities which will allow KMRC and the financial sector to thrive and provide affordable and viable housing solutions to Kenyans. We will leverage our partnerships to continue building more collaborative networks, in addition to providing effective linkages between our stakeholders.

We are committed to fast-tracking the delivery of our key business targets for 2021 while being cognizant of potential disruptions occasioned by the unending Covid-19 pandemic. Our plan is to accelerate lending to participating financial institutions so that they can continuously lend to Kenyans and keep the supply chain functional. We will uphold responsible finance by contributing and giving back to our communities.

As you may already know, KMRC is keen on going to the Capital Markets to issue bonds so that the organization' funding is sustainable. The process has already kicked off and stakeholders involved are currently being engaged. Our expectation is to have concluded all preparatory requirements and roll out by Quarter 3 2021.

The key to moving forward is to deliver a transformational mortgage refinance facility that will ultimately improve and transform people's lives. We have an important opportunity to build a better future for wananchi and we look forward to breaking new ground in our transformation journey and making a positive impact together.

I am grateful to the KMRC Board of Directors, management and staff for the support they have relentlessly provided in growing the business and look forward to our collective effort to create a lasting impact across our communities.

Johnstone Oltetia
CEO and MD

Corporate Governance

Corporate Governance

Introduction

KMRC recognizes the critical role that good Corporate Governance plays in the success of the business and emphasizes on best practice by all stakeholders. It is important to also note that Corporate Governance has an even bigger role to play and is essential to well-functioning and vibrant organization. In order to ensure that corporate power is exercised in the best interest of the Company and its stakeholders, KMRC has incorporated the below committees to drive its Corporate Governance:

Board Audit Committee

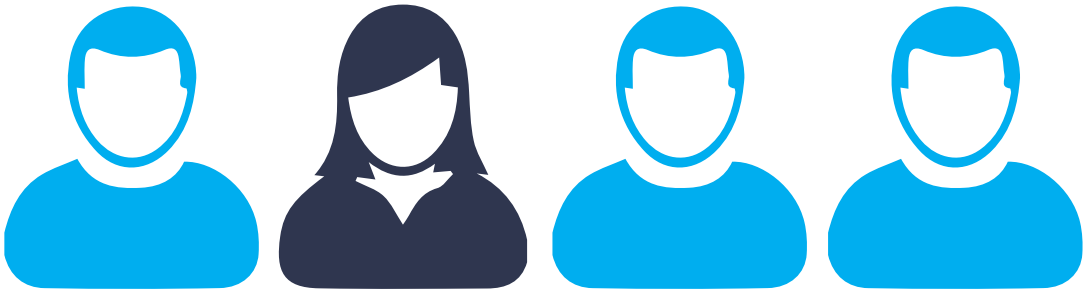
The mandate of the Board Audit Committee (herein refereed to as "the BAC") is to help the KMRC Board fulfill its oversight responsibility by providing assurance on the efficiency and effectiveness of the systems of Governance, Risk Management, and Internal Control as well as the integrity of Financial Reporting. The BAC achieves this by providing oversight over the work of the Internal and External Audit Functions.

The Internal Audit function provides independent, objective assurance and consulting, designed to help the organization accomplish its objectives, improve its operations, protect its assets, reputation, and sustainability. The BAC ensures that the independence and objectivity of the Internal Audit function is maintained through a functional reporting.

The integrity of financial reporting to Shareholders is protected through Board oversight and responsibility oversight from the BAC.The BAC oversees the independence and performance of the External Audit function by reviewing and approving the external audit plan and engagement and reviewing the statutory financial reports for recommendation to the Board.

The BAC was constituted in the fourth quarter of 2020 and held its first meeting in January 2021.

Members



Asman Khatolwa
Chairperson

Susan Maira

Robert Kibaara

Samuel Makome

Credit and Risk Committee

The Board Credit and Risk Committee (hereinafter referred to as "the BCRC") is tasked with the responsibility of setting and reviewing KMRC's risk policies and all credit facilities granted by KMRC. 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 KMRC.

The BCRC was constituted in the fourth (4th) Quarter of 2020 and held two meetings in the year. KMRC has developed a risk framework that encompasses the scope of risks to be managed, the process/systems and procedures to manage the risks and the roles and responsibilities of individuals involved in risk management.

As part of the overall management of risk, management has implemented a system of internal control. The internal control system provides the board with reasonable assurance that the business is operated consistently within: -

The system aims to prevent and detect any significant risk from materialising and to mitigate any adverse consequences thereof. The BCRC is supported by control functions within KMRC, which include the internal audit, risk management and compliance functions.

The BCRC is also mandated to review and oversee the overall lending process of the Company. In the year under review, the BCRC approved the first lending limits to Primary Mortgage Lenders following a credit review.

Members

Susan Maira
Chairperson

Sarah Bonaya

Johnstone Oltetia

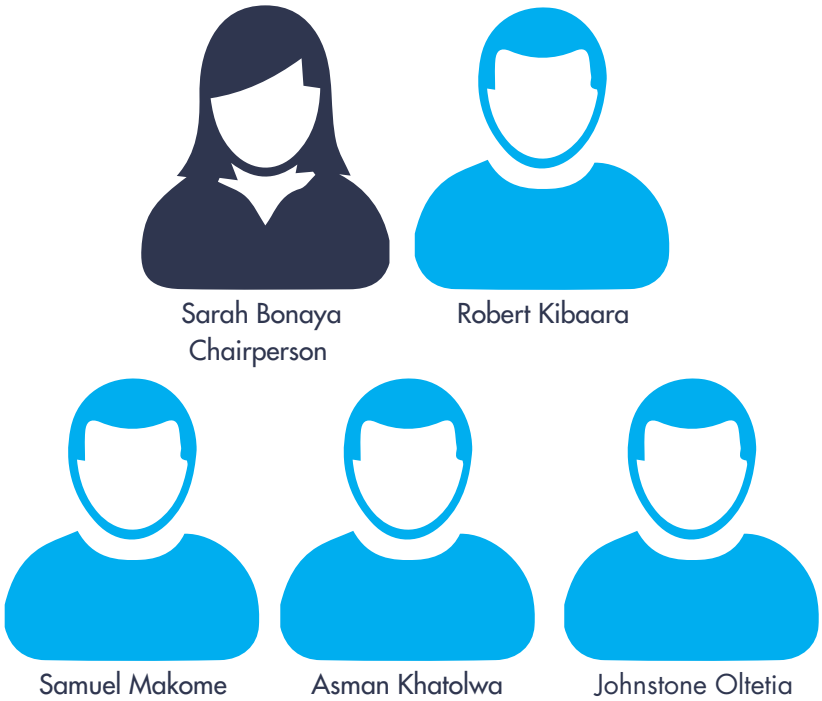
Finance Planning & Human Resources Committee

The Board Finance, Planning and Human Resource Committee (herein referred to as "BFPHRC") is responsible for matters relating to strategy, finance and accounting, planning, employment, equality and diversity and corporate responsibility of the members of KMRC.

The BFPHRC was constituted in the 4th quarter of 2020 and held two meetings in the year under review. During the year, the BFPHRC reviewed several policies relating to Finance and Accounting, Human Resources and ICT, reviewed and made recommendations to the company's annual budget and approved KMRCs annual procurement plan in accordance with the internal procurement policy.

The BFPHRC also oversees KMRC's system of accounting, reporting and internal control to ensure compliance with legal as well as agreed ethical requirements, in addition to providing guidance and support during strategy planning and implementation.

Members



Risk Management

Effective risk management is fundamental to the success of KMRC. The Company has implemented a risk management framework which identifies the types of risks that KMRC must control and assigns duties within a systematic approach. The Company also has a strong, disciplined risk management culture where risk management is a responsibility shared by all Company staff. KMRC applies the Three Lines of Defence model which provides a simple and effective way to enhance communication on risk management and control by clarifying essential roles and duties. It provides a fresh look at operations, helping to assure the ongoing success of risk management initiatives.

Accordingly, the duties are distributed across multiple functions as explained below:

First Line of Defence	Functions that own and manage risks	Business functions are where risks are created. Risk management activities are performed at this level by individuals who take risk on the Company's behalf such as Treasury function and Credit function. Legal function is also responsible for reviewing and ensuring that legal aspects are adequately secured in favour of the Company's objectives and its operations. Information Technology function is responsible for ensuring effective controls against technology risk, system risk, security risk and implementation risk.
Second Line of Defence	Functions that oversee risks	Generally, the risk management activities performed by middle management or functions devoted to risk reviews fall in this category. The second line of defence includes Operations function, and Risk and Compliance function that monitors the overall risk profile of the Company and ensure compliance with policies and regulations.
Third Line of Defence	Functions that provide independent assurance	The third line of defence is that of internal and external auditors. The Internal Audit reports independently to the Board Audit Committee. Internal Audit also independently evaluates the adequacy of overall risk management framework.

Sustainability Report

Environmental and social sustainability is a core part of KMRC's commitment to responsible finance. The KMRC Environmental and Social Risk Management Policy stipulates guiding principles and underlying processes for effective implementation of the Company's commitment to environmental and social sustainability. It covers the integration of Environmental and Social Risk Management (ESRM) practices in the lending activities of KMRC. Primary Mortgage Lenders are expected to conduct adequate screening against KMRC Environmental &Social Screening Criteria, which is part of the core lending requirements.

Environmental and Social risks arise when refinancing is supported by mortgage collateral originated in an environmentally and socially unsustainable way. This may create credit or reputational risks to primary mortgage lenders and/or KMRC. For example, properties that are built without a proper environmental assessment, can become lost collateral if they are located in flood-prone areas.

KMRC recognizes that the primary responsibility for management of E&S risks and impacts rests with the primary mortgage lenders (PMLs). In this regard, KMRC has been supporting PMLs to institutionalize, and implement adequate policies, procedures, and practical tools for environmental and social risk screening. The KMRC E&S policy is benchmarked against:

In 2020 KMRC undertook several E&S activities including appointing the Head of Risk as the Environmental and Social Risk Management (ESRM) Coordinator, training responsible staff of the primary lenders on the E&S requirements and engaging a Consultant who assisted the PMLs to develop E&S policy & procedures as well as templates to support the environment and social risk management system.

Report of the Directors

Report of the Directors

For the year ended 31 December 2020

The Directors submit their report and the audited financial statements for the year ended 31 December 2020, 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 6.

2. Directors

The Directors who held office during the year and to the date are listed on page 8.

3. Principal activity

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

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.

4. Business review

During the year 2020, the total revenue of the company decreased from Kshs. 325,664,018 to Kshs. 221,094,696. This was mainly attributed to a one-off grant of Kshs 200 million that was received in 2019 from the National Treasury. The profit before tax decreased from Kshs. 293,260,225 to Kshs. 101,615,001 reflecting the effects of increased operating expenses following full operationalization of the company.

Established in April 2018 as a Public-Private Partnership (PPP), under the supervision of the Central Bank of Kenya (CBK), Kenya Mortgage Refinance Company's role is to provide long-term funds to primary mortgage lenders (Banks, Microfinance Banks and Saccos) in order to increase the availability and affordability of home loans to Kenyans by providing low interest, fixed rate, long term finance to mortgage financiers so that they can transfer the same benefits to individual borrowers, making home loans more accessible and affordable for Kenyans. A wholesale institution, KMRC's objectives include contributing to the growth of Kenyan capital markets through the issuance of KMRC bonds as a source of sustainable long-term fund, assisting in the standardization of mortgage practices in Kenya through enhanced capacity building to member institutions on the origination of mortgages and contributing to the growth of the mortgage market in Kenya through support to Primary Mortgage Lenders.

KMRC has since its inception consistently engaged with stakeholders on different levels and made progress with regards to increasing affordability and accessibility to affordable home loans to Kenyans. Through tailored trainings, KMRC has been working very closely with all the participating institutions, guiding them on the process and requirements for accessing refinancing in order to build an effective pipeline that will enable continuous disbursement of funds.

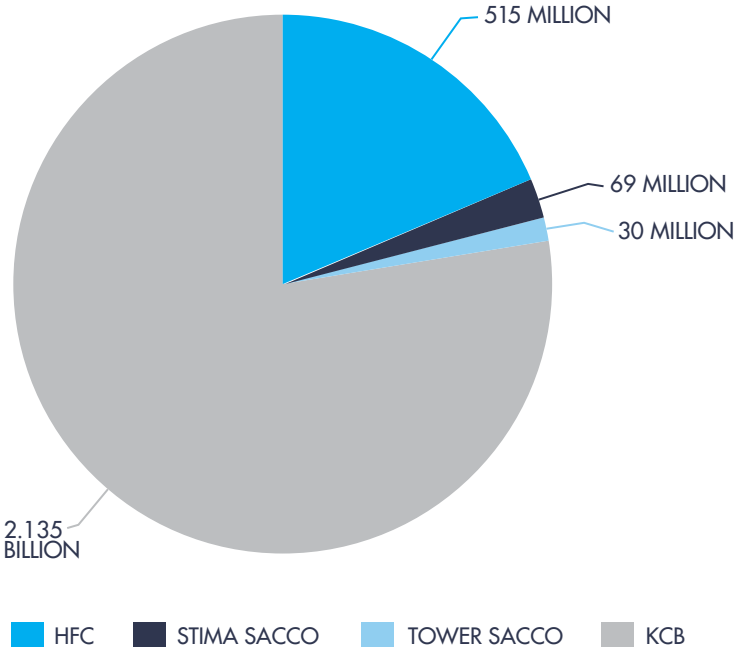
During the year, the Company achieved key milestones including receiving a license from the Central Bank of Kenya on September 18 2020. The license provided a greenlight for the commencement of core business of providing fixed long-term financing to participating banks, microfinance banks and Saccos for onward lending to borrowers

seeking long-term home loans at affordable rates. This paved way for disbursement of funds by the World Bank and continental DFI (Development Finance Institution) African Development Bank (AfDB).

The license was preceded by other pertinent processes that were a pre-requisite for the issuance including setting up internal policies and procedures, onboarding a highly competent management team, implementing a robust ICT system and securing physical premises from where to run day to day operations. The entire management team also successfully underwent a CBK fit and proper assessment. KMRC also concluded the establishment of Governance structures by operationalizing three board Committees: Credit and Risk Committee, Finance, Planning and Human Resource Committee and the Audit Committee. The implementation of the ERP, the Mortgage Refinance System, is now in place and fully operational.

While the COVID-19 global pandemic continues to dominate global economic sentiment, KMRC has managed to work collaboratively with its partners and enabled them support affordable housing development in Kenya.

On December 17 2020, KMRC approved loans amounting to Kshs 2.75 billion to four participating financial institutions after successfully demonstrating a refinanceable mortgage portfolio of 1400 mortgages, which will act as the collateral for the funding.



In the medium term, it is envisioned that the Company will contribute to lowering of overall transaction costs by pooling issuance of bonds as compared to financial institutions accessing the market individually and spur development of the mortgage market. The Company will be a regular issuer of long-term, high quality investments needed by institutions with long term liabilities thus crowding in pension funds, social security funds and insurance companies.

5. Company's operations during COVID-19 global pandemic season

Just like other financial institutions across the world, KMRC has had to contend with the effects of the COVID-19 pandemic on its business. It was expected that demand for financial services would be negatively impacted as a result of the slowdown of economic activities and declining disposable income of individuals. Most potential home buyers put their purchase plans on hold due to uncertainties in the market. However, the crisis can be seen as a blessing in disguise for lower income households as limited access to mortgages has had an unforeseen positive benefit to them; that they were unable to access mortgages means they do not need to pay them back. Property

developers also compressed their construction activities in order to preserve their money at a time when liquidity in the market was shrinking. Actual construction work was also disrupted by the social distancing requirements, hence slowing down the development of houses, and as a result limiting affordable housing supply to borrowers. Banks also constricted their lending and were offering fewer new home loans, further increasing the drop in mortgage uptake by consumers. A lot of individuals, due to loss of income and businesses or reduction in salaries, ended up defaulting on their mortgages. This decline in mortgage uptake by consumers significantly affected the extensiveness of refinancing by KMRC.

The pandemic also affected the performance of the existing mortgage loans as financial institutions had to make provisions for the Non-Performing loans in their portfolio. According to data from the CBK, Kenyan banks restructured loans amounting to Kshs. 1.63 trillion, equivalent to 54.2% of the total banking sector loan book by the end of December 2020. This was in line with the emergency measures announced by CBK in March 2020, to provide relief to borrowers affected by the pandemic. Arising from the provisioning, the available portfolio for refinancing reduced significantly as the restructured loans are ineligible for refinancing by KMRC.

Loan restructuring resulted to change in the terms of the credit facilities, including one or a combination of suspending interest, principal, change of collateral or extension of the tenor. These measures have continued to provide the intended relief to borrowers but with a negative effect on the quality of the portfolio eligible for KMRC refinancing.

Further, KMRC's portfolio review exercise at the PML's sites was slowed since most institutions were reluctant to allow physical visits to their offices in a bid to contain spread of the virus. In- person capacity building for PMLs could also not be done.

KMRC mitigated the effects of COVID 19 by embracing technology through the online examination of portfolios for those institutions that completely discouraged site visits. Capacity training for PMLs by KMRC was also conducted virtually as physical gatherings had been disallowed by the government. KMRC also enhanced its media campaigns by embracing social media to inform the stakeholders on the available services.

KMRC's support to the financial institutions is expected to help them manage liquidity crunch and enable their continuity in lending to their customers. KMRC's lending model (long term and fixed rate) will make it possible for borrowers to take up home loans and still manage to provide for their families with their available income.

Looking forward post the COVID-19 crisis, KMRC remains optimistic that the housing market will rebound. However, it is critical that we explore longer term measures to support mortgage lending going forward. The crisis presented a perfect opportunity for shifting mortgage lending attention to lower income segments of our population since lower value properties mean a decrease in the potential loss given default, while spreading the credit risk across a wider base of consumers. This means the greater focus for KMRC is targeting new home loans at low-income earners who have been largely overlooked by mortgage lenders. KMRC will also focus its support on Small and Medium Enterprises interested in buying homes but who have historically been frustrated by the lenders who consider them high risk. The SME sector has been a great contributor of Kenya's GDP through its robust activities and extensive job creation and supporting their home ownership desire is critical. Besides, one of KMRC's objectives is pushing for inclusivity in the housing finance.

The Covid-19 pandemic demonstrates just how important decent and affordable housing is. To support broader recovery in mortgage lending post Covid-19 crisis, KMRC and indeed all housing stakeholders will need to put in place critical interventions to support mortgage market development in Kenya. The pandemic has also proved to the world that concerted efforts to better the housing sector is critical. KMRC intends to forge effective working relationships between stakeholders in the housing sector both on the demand and supply sides to see to it that end

customers' pain points are significantly and efficiently addressed so that their journey to home ownership is a great experience.

6. Dividend

The directors do not recommend a dividend for the year.

7. Financial Statements

At the date of this report, the Directors were not aware of any circumstances which would have rendered the values attributed to the assets in the financial statements misleading.

8. Directors' Benefits

The Company was incorporated on 19 April 2018. There were directors' sitting allowances paid as shown in Note 24.

9. 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:

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

10. Auditor

The directors approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration has been charged to profit or loss in the year.

The Company's auditor Mazars, Certified Public Accountants (K) has indicated its willingness to continue in office in accordance with Section 717 of the Kenyan Companies Act No. 17 of 2015.

By order of the Board

Company Secretary
Nairobi 18th March, 2021

Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare 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 keeps proper accounting records that: (a) show and explain the transactions of the Company; (b) disclose, with reasonable accuracy, the financial position of the Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

They also accept responsibility for:

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

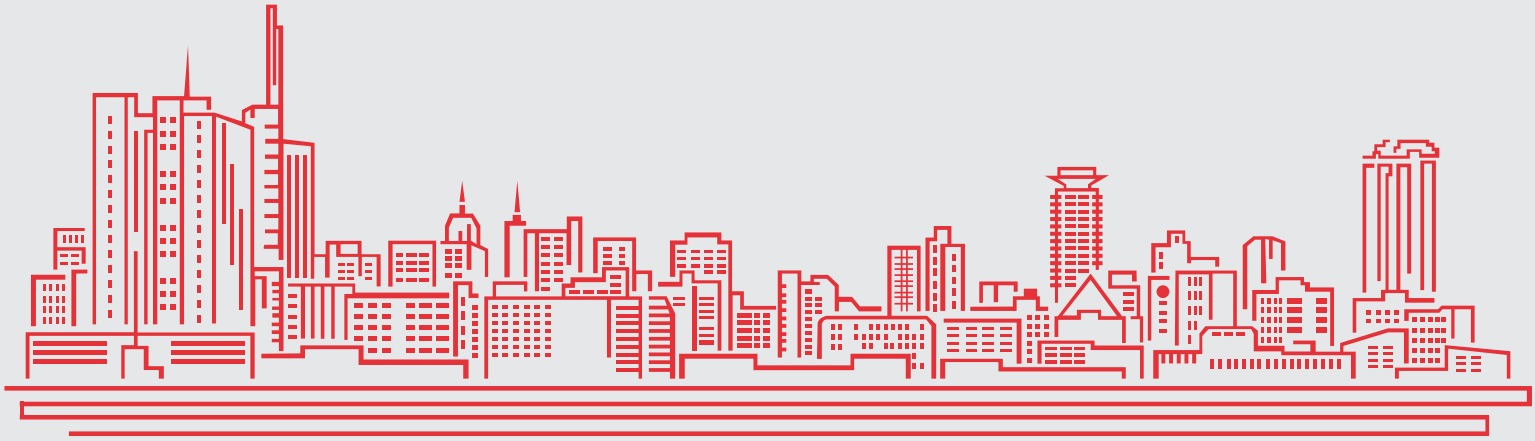
Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern. The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the board of directors on 18th March, 2021 and signed on its behalf by:

Director
Dr. Haron Sirima, OGW

Director
Johnstone Oltetia

Report of the Independent Auditor



Report of the Independent Auditor

Opinion

We have audited the accompanying financial statements of Kenya Mortgage Refinance Company PLC (the Company), set out on pages 33 to 62, which comprise the statement of financial position as at 31 December 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act, 2015.

Basis of our opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(i) Shareholders' Funds

The company is required to annually ensure that the shareholders shall not, whether directly or indirectly, hold more than twenty-five per centum of the shares of the Company unless it is a public entity or a multilateral development bank, as per note 20 and 21. These shareholders funds were significant to our audit because the balance of Kshs. 1,291,000,100 as of 31 December 2020 is material to the financial statements. In addition, management's assessment process is based on their due diligence processes and a successful capital mobilisation drive.

Our audit procedures included, among others, obtaining company search report (CR12) and annual return filed with registrar of companies to assist us in evaluating the shareholders funds capitalised and their ownership fractions. We also focused on the adequacy of the company's disclosures about those shareholders funds.

The Company's disclosures about shareholders funds are included in Note 20 and 21, which specifically explains that the capitalised amounts and the capital mobilisation drive may lead to rise in share capital and dilution of shareholding for some financial institutions and government balance in the future.

(ii) Investment on fixed deposit

We focused on this area because the Company invested amounts received from shareholders in short term bank deposits and interest income earned from the same could be misstated.

We obtained balance confirmations and fixed deposit receipt from respective banks, checked placement period and interest earned periodically. In addition, we obtained withholding certificates on interest income deducted.

The direct tests that we carried out gave us sufficient evidence on correct statement of interest earned and investment amount on short term deposit.

Other information

The directors are responsible for the other information. Other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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 financial statements or our knowledge obtained in 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 Management and Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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's or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 thatare appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

  Conclude on the appropriateness of management's 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's 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 concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period 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 matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 22 - 25 is consistent with the financial statements.

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i. we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of the audit;

ii. in our opinion proper books of accounts have been kept by the Company, so far as appears from our examination of those books; and

iii. the Company's statement of financial position and statement of comprehensive income are in agreement with the books of accounts.

The signing partner responsible for the independent audit was FCPA Charles Gathuto, Practising Certificate No. 1231.

MAZARS
Certified Public Accountant (K)

19th March, 2021

MAZARS
AUDIT • TAX • ADVISORY

Financial Statements

Statement of Comprehensive Income

	Note	2020 Kshs	2019 Kshs
Revenue			
Interest income	5	221,094,696	125,664,018
Other operating income	6	-	200,000,000
		221,094,696	325,664,018
Interest expense	7	(25,389,655)	-
Gross income		195,705,041	325,664,018
Expenses			
Administration and operating expenses	8	(78,141,996)	(32,200,892)
Depreciation and amortisation expenses	9	(15,948,044)	(202,901)
		(94,090,040)	(32,403,793)
Net profit before income tax		101,615,001	293,260,225
Income tax expense	10	(24,397,662)	(28,789,041)
Total comprehensive income for the year		77,217,339	264,471,184

Statement of Financial Position

Assets	Note	2020 Kshs	2019 Kshs
Property and equipment	11	55,756,316	5,129,843
Intangible assets	12	6,403,265	-
Right-of-use assets	13	40,518,568	-
Other receivables	14	142,113,344	497,926
Cash and cash equivalents	15	6,062,907,771	2,269,227,540
Deferred tax asset	18	2,102,827	-
Total Assets		6,309,802,091	2,274,855,309
Liabilities and Equity			
Liabilities			
Borrowings	16	3,725,173,478	-
Lease liabilities	17	46,172,905	-
Deferred tax liability	18	-	956,758
Trade and other payables	19	14,110,827	25,444,686
Current tax	10	7,656,358	8,982,681
		3,793,113,568	35,384,125
Capital resources			
Share capital	20	1,291,000,100	1,291,000,100
Contribution pending allotment	21	883,999,900	683,999,900
Revenue reserves		341,688,523	264,471,184
		2,516,688,523	2,239,471,184
Total liability and Equity		6,309,802,091	2,274,855,309

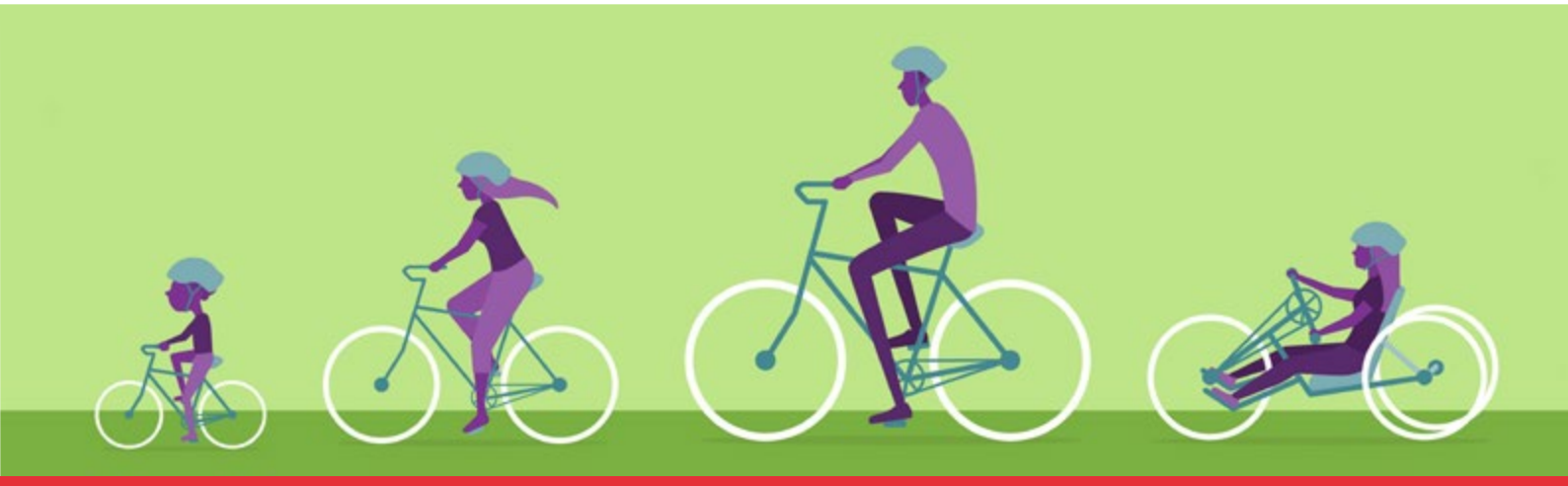
The financial statements on pages 33 to 62 were approved for issue by the board of directors on 18th March 2021 and were signed on its behalf by:

Director
Dr. Haron Sirima, OGW

Director
Johnstone Oltetia

Statement of Changes in Equity

	Note	Share Capital Kshs	Revenue reserves Kshs	Contribution pending allotment Kshs	Total Kshs
Year ended 31 December 2020					
As at 1 January 2019		-	-	-	-
Profit for the year		-	264,471,184		264,471,184
Transactions with owners:					
Issue of ordinary share capital	20	1,291,000,100	-	-	1,291,000,100
Contributions pending allotment	21	-	-	683,999,900	683,999,900
At 31 December 2019		1,291,000,100	264,471,184	683,999,900	2,239,471,184
Year ended 31 December 2020					
As at 1 January 2020		1,291,000,100	264,471,184	683,999,900	2,239,471,184
Profit for the year		-	77,217,339	-	77,217,339
Transactions with owners:					
Contributions pending allotment	21	-	-	200,000,000	200,000,000
At 31 December 2020		1,291,000,100	341,688,523	883,999,900	2,516,688,523



Statement of Cash Flows

Cash flows from operating activities	Note	2020 Kshs	2019 Kshs
Total comprehensive income for the year		101,615,001	293,260,225
Adjustments for:			
Depreciation of property and equipment	11	7,043,922	202,901
Depreciation on right-of-use assets	13	8,103,714	-
Amortisation of intangible assets	12	800,408	-
Interest on lease liabilities	10	3,020,657	-
Income tax paid		(28,783,570)	(18,849,602)
Operating profit before working capital changes		91,800,132	274,613,524
Increase in other receivables	14	(141,615,418)	(497,926)
(Decease)/increase in other payables	19	(11,333,859)	25,444,686
Net cash (used in)/from operating activities		(61,149,145)	299,560,284
Cash flows used investing activities			
Purchase of property and equipment	11	(57,670,395)	(5,332,744)
Purchase of intangible asset	12	(7,203,673)	-
Net cash used in investing activities		(64,874,068)	(5,332,744)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	20	-	1,291,000,100
Proceeds of contribution pending allotment	21	200,000,000	683,999,900
Proceeds from borrowings	16	3,725,173,478	-
Payments of principal portion of the lease liability	17	(5,470,034)	-
Net cash from financing activities		3,919,703,444	1,975,000,000
Increase in cash and cash equivalents		3,793,680,231	2,269,227,540
Cash and cash equivalents at start of year		2,269,227,540	-
Cash and cash equivalents at end of year	15	6,062,907,771	2,269,227,540

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.

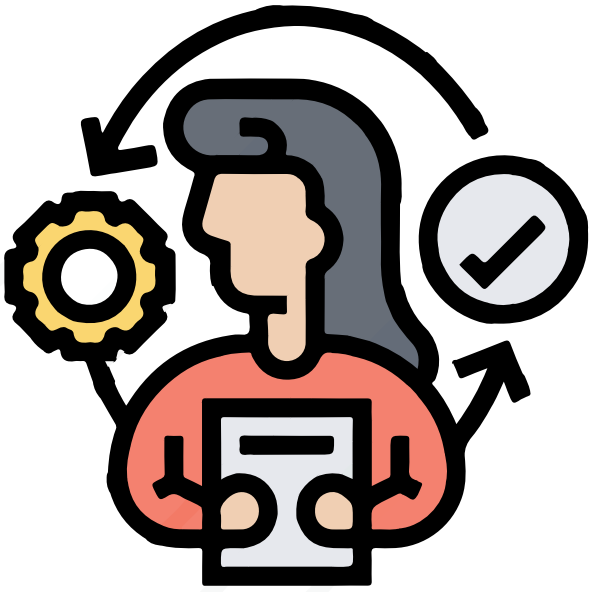
These financial statements comply with the requirements of the Kenyan Companies Act, 2015. The statement of comprehensive income represents the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

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.

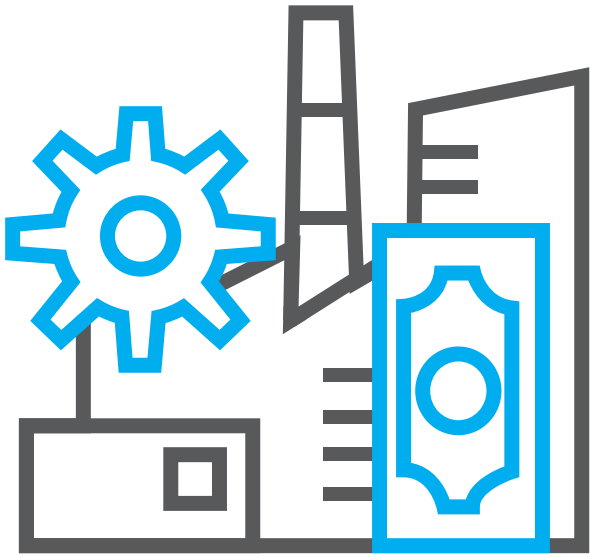
In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 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 recognised 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.

b) New and revised standards

i) Adoption of new and revised standards

Three Amendments to standards became effective for the first time in the financial year beginning 1st January 2020 and have been adopted by the Company. None of the Amendments has had an effect on the Company's financial statements.

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

The Company has not applied any of the new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1st January 2020, and the Directors do not plan to apply any of them until they become effective. Below is the list of all such new or revised standards and interpretations, with their effective dates, none of which is expected to have a significant impact on the Company's financial statements in the period of initial application.

Amendments to IFRS 16 titled Covid-19 Related Rent Concessions (issued in May 2020)

The amendments, applicable to annual periods beginning on or after 1 June 2020, permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.

Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)

The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendment to IFRS 9 titled Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the

terms of the original financial liability.

Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)

The amendments, applicable to annual periods beginning on or after 1 January 2023, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

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, 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 and expenses

Interest income and expense 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.

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.

ii) Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of,

a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

e) Financial instruments

Financial assets and liabilities

Measurement methods

Amortised cost and effective interest rate

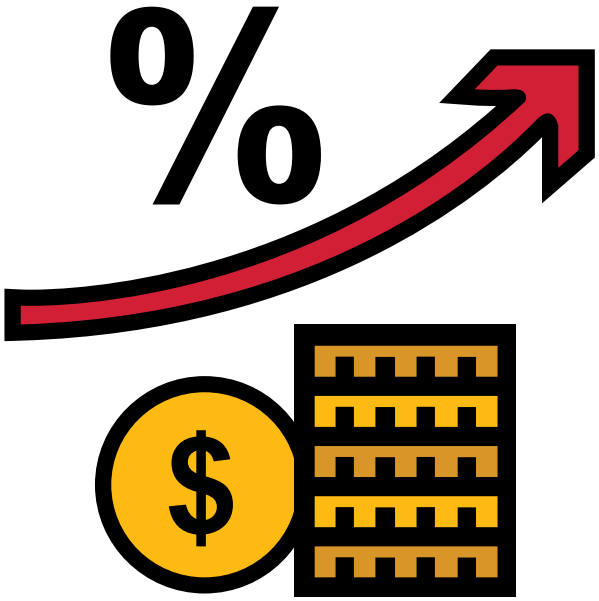
The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and, for financial assets, 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 in estimated future cash flows.

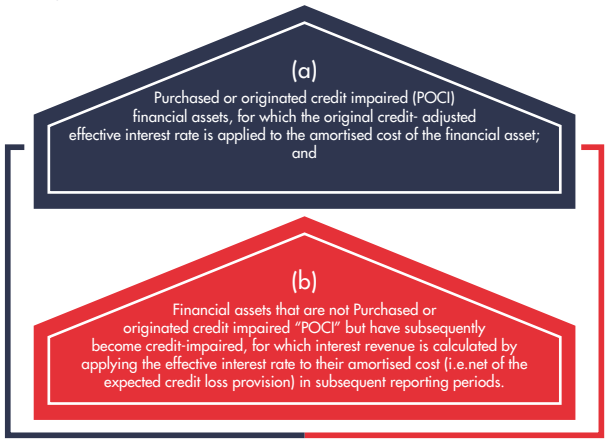
When the Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the statement of comprehensive income.

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:



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 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.

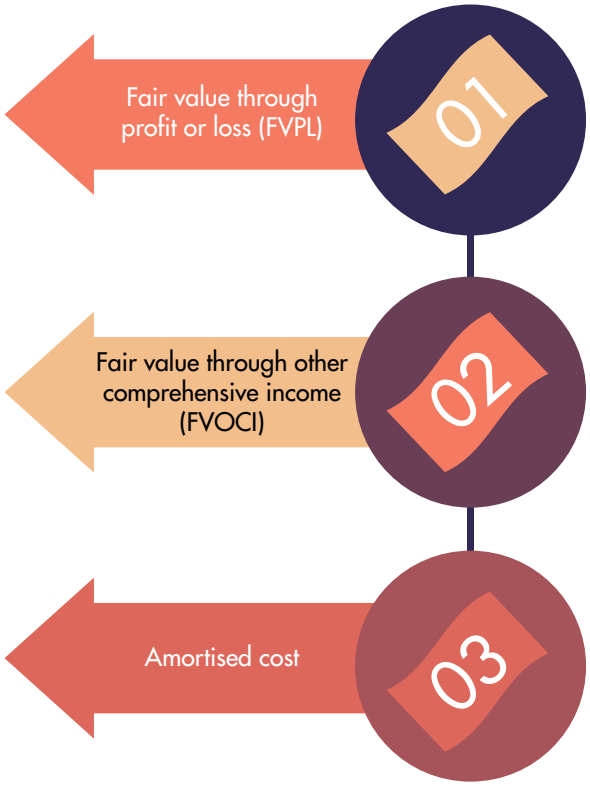
When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

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:



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:

(i) the Company's business model for managing the asset; and
(ii) 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.

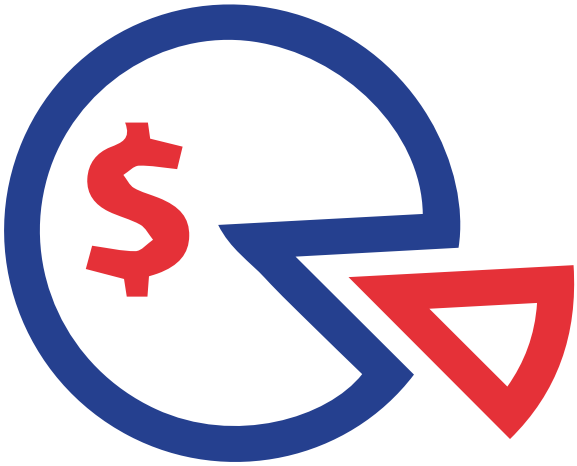
Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale of 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 represent 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) 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:

- 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.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change is interest rate
- Change in the currency of the loan
- 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:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets

(ii) Is prohibited from selling or pledging the assets; and

(iii) 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.

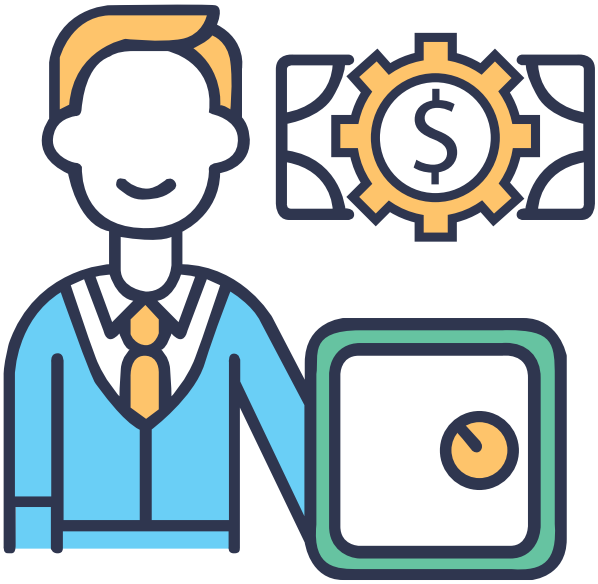
Offsetting financial assets and financial liabilities

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.

f) 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.

g) 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 incurred.

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.

Depreciation on property and equipment is calculated on the reducing balance at the following annual rates:

	Rate - %
Software	33.3%
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.

h) 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.

i) 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.

j) 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.

k) 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 used.

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.

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of 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.

l) 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.

m) 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.

n) 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.

o) 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.

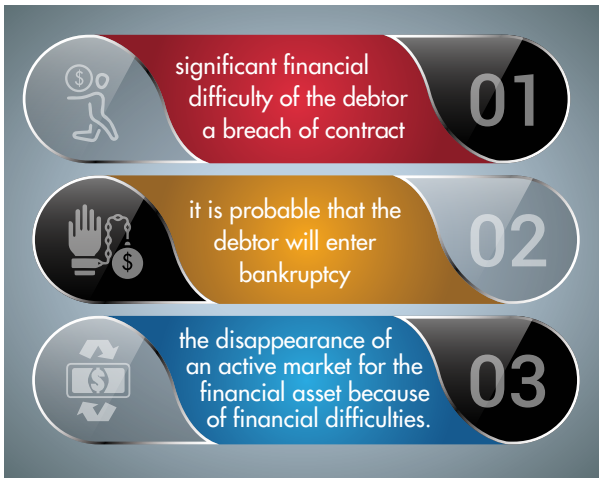
Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution. The Company carries out its own assessment of credit risk before investing, and updates such assessments at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



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)			
	Kshs	(a) Kshs	(b) Kshs	(c) Kshs	Total Kshs
At 31st December 2020					
Other receivables	2,840,353	-	-	-	2,840,353
Cash at bank	6,062,907,771	-	-	-	6,062,907,771
Exposure to credit risk	6,065,748,124	-	-	-	6,065,748,124
At 31st December 2019					
Other receivables	497,926	-	-	-	497,926
Cash at bank	2,269,227,540	-	-	-	2,269,227,540
Exposure to credit risk	2,269,725,466	-	-	-	2,269,725,466

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 Risk 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, and eleven (11) SACCOs injecting equity funds. In addition, two development finance institutions, Shelter Afrique & IFC are in the final stages of investing equity in the Company, with Shelter Afrique having disbursed their equity contribution, pending allotment after successful vetting by the regulator CBK and with KMRC having fulfilled all conditions precedent for the disbursement of the equity contribution by IFC.

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 has plans to raise 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 Risk 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. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one month Kshs	Between 1-3 months Kshs	Between 3-12 months Kshs	Over 1 year Kshs
31st December 2020				
Trade and other payables	-	7,583,319	-	-
Borrowings	-	-	-	3,725,173,478
	-	7,583,319	-	3,725,173,478
31st December 2019				
Trade and other payables	-	25,444,686	-	-
Borrowings	-	25,444,686	-	-

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

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.

Interest rate risk

The Company is exposed to cash flow interest rate risk resulting from changes in interest rates on its simple rate borrowings which shall not be lower than the interest rate charged by the World Bank to the Government. The Company manages this exposure by maintaining a high interest cover ratio, which is the extent to which profits are available to service borrowing costs. Management consider that a change in interest rates of 1 percentage points in the year ending 31st December 2021 is reasonably possible. If the interest rates on the Company's borrowings at the year-end were to increase/decrease by this number of percentage points, with all other factors remaining constant, the post tax profit and equity would be lower/higher by Kshs. 25,919,631 (2019: Kshs. nil) respectively.

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 Company from time to time.

The Company has complied with all regulatory imposed capital requirements.

The table below summarises the composition of regulatory capital and the ratios of the Company for the year ended 31 December 2020. During the year, the Company complied with all of the regulatory imposed capital requirements to which they are subject.

Capital	**2020 Kshs**	**2019 Kshs**
Share capital	1,291,000,100	1,291,000,100
Retained profit	341,688,523	264,471,184
Contribution pending allotment	883,999,900	683,999,900
	2,516,688,523	2,239,471,184
Core capital	2,513,836,768	2,240,427,942
Total risk - weighted assets	1,164,318,865	450,667,259
Borrowings	3,725,173,478	-
Gearing	148%	0%
Capital ratios		
• Total regulatory capital expressed as a percentage of total risk	216.2%	496.9%
• Minimum total Capital to Risk Weighted Assets Requirement	14.5%	14.5%
Excess	201.7%	482.4%

5. Interest income

	2020 Kshs	2019 Kshs
Interest on investments	221,094,696	125,664,018

6. Other operating income

	2020 Kshs	2019 Kshs
Grant		
- The National Treasury	-	200,000,000

7. Interest expense

	2020 Kshs	2019 Kshs
Interest expense:		
- The National Treasury	22,368,998	-
- Lease liabilities	3,020,657	-
	25,389,655	-

Total interest expense for financial liabilities measured at amortised cost.

8. Administration and operating expenses

	2020 Kshs	2019 Kshs
Staff costs	34,148,069	10,485,771
Directors' remuneration	15,251,000	3,608,000
Provision for post-employment benefits	2,578,235	-
Office rent and service charge	3,075,403	220,873
Conferences, Seminars and workshops	2,538,873	2,595,628
Licenses and permits	334,104	407,127
Appraisal fees	-	1,567,500
ICT expenses	131,049	191,400
Telephone, postage and internet	868,524	35,360
Marketing and advertisement	2,544,791	525,502
Office running expenses	1,590,520	720,116
Consultancy fees	9,305,104	10,874,140
Insurance costs	2,580,393	14,620
Audit fees	700,000	700,000
Bank charges	182,970	27,459
Subscriptions	333,074	227,396
Corporate Social Responsibility	783,545	-
Motor vehicle running expenses	176,761	-
Electricity	300,967	-
Fines and penalties	718,614	-
	78,141,996	32,200,892

9. Depreciation and amortisation expenses

	2020 Kshs	2019 Kshs
Depreciation of property and equipment	7,043,922	202,901
Depreciation on right-of-use assets	8,103,714	-
Amortisation of intangible assets	800,408	-
	15,948,044	202,901

10. Income tax

(a) Income tax expense

	2020 Kshs	2019 Kshs
Current income tax	27,457,247	27,832,283
Deferred tax (income)/expense relating to the origination and reversal of temporary differences (Note 18)	(3,434,354)	956,758
Deferred tax expense relating to change in tax rate (Note 18)	374,769	-
Income tax expense	24,397,662	28,789,041

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 25% (2019: 30%) as follows:

Net profit before income tax	101,615,001	293,260,225
Tax calculated at the statutory tax rate of 25% (2019: 30%)	25,403,750	87,978,068
Tax effect of:		
Expenses not deductible for tax purposes	179,654	810,973
Income not subject to tax	-	(60,000,000)
Effect of change in statutory tax rate on deferred tax (see below)	(374,769)	-
Over-provision in prior year	(810,973)	-
Income tax expense	24,397,662	28,789,041

The statutory tax rate was reduced from 30% to 25% for the year of income 2020 by the Tax Laws (Amendment) Act, 2020. The Tax Laws (Amendment) (No.2) Act, 2020 increased the rate back to 30% with effect from 1st January 2021.

(b) Statement of financial position

	2020 Kshs	2019 Kshs
At 1 January	8,982,681	-
Current tax charge	27,457,247	27,832,283
Tax paid during the year		
- Balance of tax	(8,982,681)	-
- Withholding tax	(19,800,889)	(18,849,602)
At 31 December	7,656,358	8,982,681

11 Property and equipment

	Motor vehicles Kshs	Computers Kshs	Office equipment Kshs	Furniture and fittings Kshs	Leasehold improvements Kshs	Total Kshs
Cost						
At 1 January 2019	-	-	-	-	-	-
Additions	4,703,244	629,500	-	-	-	5,332,744
At 31 December 2019	4,703,244	629,500	-	-	-	5,332,744
At 1 January 2020	4,703,244	629,500	-	-	-	5,332,744
Additions	13,872,600	3,765,018	744,740	11,970,000	27,318,037	57,670,395
At 31 December 2020	18,575,844	4,394,518	744,740	11,970,000	27,318,037	63,003,139
Depreciation						
At 1 January 2019	-	-	-	-	-	-
Charge for the year	97,984	104,917	-	-		202,901
At 31 December 2019	97,984	104,917	-	-	-	202,901
At 1 January 2020	97,984	104,917	-	-	-	202,901
Charge for the year	1,464,824	481,537	12,412	532,143	4,553,006	7,043,922
At 31 December 2020	1,562,808	586,454	12,412	532,143	4,553,006	7,246,823
Net book value						
At 31 December 2020	17,013,036	3,808,064	732,328	11,437,857	22,765,031	55,756,316
At 31 December 2019	4,605,260	524,583	-	-	-	5,129,843

12. Intangible assets

	2020 Kshs	2019 Kshs
Income tax expense		
Cost		
At 1st January	-	-
Additions	7,203,673	-
At 31st December	7,203,673	-
Amortisation		
At 1st January	-	-
Charge for the year	800,408	-
At 31st December	800,408	-
Net book amount		
At 31st December	6,403,265	-

The company obtained an Enterprise Resource Planning (ERP) Software during the year which went live in September 2020.

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.

13. Right-of-use-asset

	2020 Kshs	2019 Kshs
Year ended 31 December 2019		
At start of year	48,622,282	-
Depreciation charge for the year	(8,103,714)	-
At end of year	40,518,568	-

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 17.

14. Other receivables

	2020 Kshs	2019 Kshs
Prepayments	2,840,353	497,926
Accrued income	89,088,771	-
HFC mortgage scheme deposit	50,184,220	-
	142,113,344	497,926

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 classified as cash and cash equivalents.

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

15. Cash and cash equivalents

	2020 Kshs	2019 Kshs
Short-term bank deposits	3,360,854,025	2,067,075,360
- KCB Bank Kenya Limited	100,000,000	-
- HFC Limited	1,371,392,000	158,122,088
- Co-operative Bank of Kenya Limited	1,230,661,746	44,030,092
Cash at bank and in hand	6,062,907,771	2,269,227,540

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

16. Borrowings

	2020 Kshs	2019 Kshs
The National Treasury	3,702,804,480	-
Accrued interest	22,368,998	-
	3,725,173,478	-

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 (herein after called "the World Bank") on 5th December 2019 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 Government agreed under the Loan Agreement dated 5th December 2019 to on-lend to the Company an amount of Euros 166,400,000 (equivalent to Kshs. 18,819,640,320) from the proceeds of the Loan for the implementation of the Project as explained above.

The Government charges interest on the principal amount of the Subsidiary Loan Facility at a simple interest rate of 4.5% per annum.

Borrowings from the government amounted to Kshs. 3,702,804,480 (2019: Kshs. nil) as at the reporting date. Interest payable of Kshs. 22,368,998 (2019: Kshs. nil) remained unpaid as at 31 December 2020. These amounts

shall be accrued over the grace period/disbursement period will be capitalised on the first principal repayment date and the management expects to meet all contractual obligations in the future.

The company shall repay to the Government the principal amount of the loan in 40 equal semi-annual installments each year commencing on 30 March 2024 and ending 30 September 2043.

At the year-end, the Company had Kshs. 15,116,835,840 (2019: Kshs. nil) of undrawn facilities which it may utilise to fund its obligations.

The fair values of current borrowings equal to their carrying amount, as the impact of discounting is not significant.

17. Lease liabilities

	2020 Kshs	2019 Kshs
At 31 December	46,172,905	-
The total cash outflow for leases in the year was:		
Payments of principal portion of the lease liability	5,470,034	-

For more information on the nature of the leases entered into and the related right-of-use assets, see Note 13.

18. 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 (2019: 30% and 5%). However, the statutory tax rate for the year ended 31st December 2020 was 25% (see Note 10), except for capital gains, which remained as 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 Kshs	Effect of Change of tax rate Kshs	Credited/ (Charged) to profit or loss Kshs	At 31st December Kshs
Year ended 31st December 2020				
Property, plant and equipment	(956,758)	4,844	777,067	(174,847)
- on historical cost basis Software	-	32,016	(224,114)	(192,098)
Right-of-use assets				
- accelerated tax depreciation	-	(405,186)	2,836,300	2,431,114
Lease liabilities	-	122,469	(857,282)	734,813)
Post-employment benefit obligation	-	(128,912)	902,383	773,471
Net deferred tax (liability)/ asset	(956,758)	(374,769)	3,434,354	2,102,827
Year ended 31st December 2019				
Property, plant and equipment on historical cost basis	-	-	(956,758)	(956,758)
Net deferred tax (liability)	-	-	(956,758)	956,758)

19. Trade and other payables

	2020 Kshs	2019 Kshs
Trade payables	365,484	-
Accruals	7,583,319	25,444,686
Payroll liabilities	2,684,405	-
Other payables	899,384	-
Post-employment benefit obligation (Note 22)	2,578,235	-
	14,110,827	25,444,686

20. Share capital

	Number of ordinary shares	Issued and fully paid up capital Kshs
At 1 January	1,291,000,100	-
Issue for cash	-	1,291,000,100
At 31 December	1,291,000,100	1,291,000,100

The total number of authorised ordinary shares is 50,000,000 with a par value of Kshs. 100 each.

21. Contribution pending allotment

	2020 Kshs	2019 Kshs
At 1 January	683,999,900	-
Addition during the year	200,000,000	683,999,900
At 31 December 2020	883,999,900	683,999,900

22. 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 as follows:

	2020 Kshs	2019 Kshs
At start of year	-	-
Additional provision made during the year, charged to profit or loss	2,578,235	-
Benefits paid during the year	-	-
At end of year	2,578,235	

23. 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 fall due as follows:

	2020 Kshs	2019 Kshs
Within one year	9,621,227	-
Later than one year but within five years	43,208,058	-
	52,829,285	-

24. Related party transactions

The following transactions were carried out with related parties.

	2020 Kshs	2019 Kshs
i) Key management compensation		
Salaries and other employment benefits	31,469,466	10,069,715
ii) Directors' benefits and other remuneration		
- fees	9,743,000	2,150,000
- allowances	5,508,000	1,458,000
	15,251,000	3,608,000

Events and Outreach

(L-R): CEO Johnstone Oltetia with Board Members- Sarah Bonaya, Dr. Haron Sirima (Chairman), Susan Maira, Asman Khatolwa and interim Company Secretary CG Mbugua soon after the company Annual General Meeting on June 30th, 2020 at the KMRC offices.

(R-L): KMRC CEO Johnstone Oltetia, KMRC Board members Susan Maira, Sarah Bonaya and Asman Khatolwa present a dummy cheque to Gillian Njeru- Manager at Imani Rehabilitation Agency on August 14th, 2020 during KMRC's CSR initiative. KMRC donated KES. 770,000.00 worth of baby formula, foodstuff, personal hygiene products and COVID-19 Personal Protective Equipment.

CEO Johnstone Oltetia (left) with Board Chair Dr. Haron Sirima examine the 2019 Annual Report on June 30th 2020 at the KMRC offices. The company's first AGM was held (virtually) on the same day.

CEO Johnstone Oltetia addresses attendees during the Sacco CEO breakfast forum at the Crowne Plaza Hotel in Upperhill, Nairobi on February 4th, 2021. The breakfast was hosted to reinforce the PMLs' understanding of KMRC's operationalization and address their concerns.

Notes

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