KENYA MORTGAGE REFINANCE COMPANY PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2025

Kenya Mortgage Refinance Company PLC
Annual report and financial statements
For the year ended 31 December 2025

Contents	**Page**
Company information	1
Directors Report	2 - 4
Corporate Governance	5 - 7
Statement of director's responsibilities	8
Report of the independent auditor	9 - 11
Financial statements:	
Statement of Comprehensive Income	12
Statement of Financial Position	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
Notes to the Financial Statements	16 - 48

Kenya Mortgage Refinance Company PLC
Company Information
For the year ended 31 December 2025

Country of Incorporation

Kenya

Board of directors

Dr. Haron Sirima, OGW	- Chairman
Mrs. Susan Maira	- Non-Executive Director, Independent Director
Mrs. Annastacia Kimtai	- Non-Executive Director
Mr. Robert Kibaara	- Non-Executive Director
Mr. Asman Khatolwa	- Non-Executive Director
Mrs.Jane Mwangi	- Non-Executive Director, Independent Director
Mr. Alain Michel Nounke	- Non- executive Director
Mr. Johnstone Oltetia	- Executive Director (CEO and MD)

Principal place of business

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

Registered office

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

Company Secretary

Josephine Wangari
27th Floor, Old Mutual Tower
Upperhill Road, Upperhill
P.O. Box 15494 – 00100
Nairobi

Principal bankers

Cooperative Bank of Kenya Limited,
Moi Avenue,
P.O Box 48231 – 00100
Nairobi

KCB Bank Kenya Limited,
Moi Avenue,
P.O Box 48400 – 00100
Nairobi

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

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

Independent Auditor

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

The Directors submit their report and the audited annual financial statements for the year ended 31 December 2025, which show the state of the Company's affairs.

1 Incorporation

The Kenya Mortgage Refinance Company (KMRC) 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 1.

2 Directors

The directors who held office during the year and to the date of this report are set out on page 1.

3 Principal Activity

The principal activity of the Company is providing secure long-term funding to Primary Mortgage Lenders (PMLs) which includes Banks, Microfinance Banks and Saccos.

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

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

4 Business Review

During the year under review, the total interest income reduced marginally by 0.7% from KES. 3.21 Bn reported in 2024 to KES 3.19 Bn reported in 2025. Interest income from loans to Primary Mortgage Lenders (PMLs) increased by 82% from KES 493 Mn in 2024 to KES 897 Mn in 2025 due to increased lending. Interest income from investments declined by 16% due to the low interest environment that prevailed in 2025. The profit before tax declined to KES 1.36 Bn in 2025 from KES 1.82 Bn in 2024, majorly due to the decrease in income from investments due to low interest rates.

Net loans and advances to PMLs increased by 65% from KES. 11.9 Bn to KES 19.6 Bn during the year. This refinancing has benefited eighteen PMLs, six of which were onboarded during the year. The total loans refinanced were 5,148 at the end of the year. The loan repayment tenor has been lengthening from 8.3 years (2021) to 12.3 years (2025) signaling enhanced affordability. Notably, nearly 48% of KMRC-refinanced mortgages were issued to women, highlighting significant progress in gender inclusion. The Company's mortgage portfolio now accounts for about 5% of the banking sector's mortgage book by value and 12.8% by number of loans. Additionally, the share of refinancing through SACCOs within KMRC's portfolio grew from 7% in 2022 to 15.2% by December 2025, indicating a strengthened role for non-bank lenders in the affordable housing finance sector. These statistics point to great opportunity for KMRC to accelerate its product offering to further deepen the mortgage industry in the Country.

5 Principal Risk and Uncertainties.

The following are the risks and uncertainties that could impact the Company's operations:

a) Credit Risk

In 2025, PMLs continued to operate under elevated credit risk conditions, following the deterioration in asset quality experienced in 2024. Non-performing loan (NPL) ratios rose further in early 2025, peaking above 17%, before showing signs of gradual stabilization toward the end of the year. The sustained high level of NPLs reflected ongoing borrower stress, particularly within the personal, real estate, and construction segments, and continued to constrain PMLs' balance sheet capacity and risk appetite
The persistent pressure on asset quality contributed to a prolonged contraction in private sector credit, which in turn slowed the rollout of affordable housing projects across the country. Developers faced constrained access to project finance, while potential homebuyers deferred purchasing decisions amid continued concerns over income stability, employment security, and reduced household purchasing power. Although inflation moderated during the year, affordability challenges remained pronounced, particularly for middle- and lower-income segments.

The KMRC-supported mortgage loans, characterized by fixed rates below prevailing market levels, became increasingly attractive, reinforcing KMRC's counter-cyclical role in supporting mortgage affordability.
To address this risk, the Company continued to deepen its engagement with PMLs to strengthen credit risk management frameworks, with particular focus on:

a) Enhancing credit assessment and underwriting standards;
b) Supporting the implementation of early warning systems to detect emerging borrower stress;
c) Promoting timely loan restructuring, replacement and resolution strategies for distressed accounts; and
d) Strengthening portfolio monitoring and reporting practices

Additionally, the Company sustained its role as a provider of affordable, long-term funding and incentivizing PMLs to originate mortgages while passing the benefits of lower interest mortgages to end borrowers. Ongoing capacity-building initiatives aimed at risk management, governance, and portfolio quality were reinforced to ensure that growth in affordable housing finance remains resilient and sustainable.

b) Legal and Regulatory Risk

The Company continued to operate within a highly regulated and evolving legal and supervisory environment, where strict compliance with statutory, regulatory, and policy requirements remained critical to safeguarding the institution's mandate and strategic objectives. The dynamic nature of Kenya's financial services and housing sectors resulted in continued regulatory change, including amendments arising from the Finance Act 2025, evolving prudential expectations within the financial sector, and strengthening environmental and social compliance obligations linked to housing finance and climate considerations.

These developments required heightened vigilance, particularly in areas related to taxation compliance, reporting obligations, contractual enforceability, consumer protection, and environmental and social risk management. In addition, heightened scrutiny by regulators and development partners underscored the importance of demonstrable compliance, strong governance, and timely adaptation to emerging regulatory expectations. Failure to respond effectively could expose the Company to compliance risk, financial penalties, and reputational damage.
In response, KMRC strengthened its regulatory risk management approach throughout 2025, placing emphasis on:

a) Proactive monitoring of legislative, regulatory, and policy developments that could impact its operations and funding arrangements;
b) Regular review and updating internal policies, procedures, and contractual frameworks to ensure continued alignment with applicable laws and regulatory guidance;
c) Proactive engagement with regulators, policymakers, and sector stakeholders to anticipate regulatory shifts and contribute constructively to policy discourse affecting mortgage finance and affordable housing; and
d) Enhanced internal compliance oversight and assurance, supporting early identification and remediation of potential regulatory gaps.

c) Economic Environment Risks

The operating economic environment was fragile but gradually stabilized shaped by persistent credit risk, easing monetary conditions, and elevated fiscal and social pressures. While some macroeconomic indicators improved during the year, vulnerabilities within the financial system and mortgage market remained pronounced. Monetary conditions eased significantly in 2025, with the Central Bank Rate (CBR) reduced progressively from 11.25% at end-2024 to 9.0% by December 2025, reflecting declining inflation and exchange-rate stability. However, commercial lending rates adjusted more slowly, remaining largely above 13–15% for conventional loans and mortgages. This widening spread reinforced the attractiveness of KMRC's fixed-rate mortgage product priced below 10%, strengthening its value proposition amid high market rates and supporting continued relevance of the KMRC refinancing model.

Socio-economic pressures remained elevated. Although the Finance Act 2025 was structured to avoid the severe tax hikes that triggered unrest in 2024, lingering public distrust, subdued consumer confidence, and high living costs continued to weigh on household affordability. Unemployment levels and reduced disposable income, coupled with tighter credit assessments by lenders, constrained mortgage uptake and slowed expansion of the housing finance market, particularly for first-time buyers.

Kenya's fiscal position remained a structural risk in 2025, with public debt rising to approximately 68% of GDP, driven by increased domestic borrowing and high debt-servicing costs. This constrained fiscal space limited the government's ability to provide broad-based housing or credit stimulus and raised concerns about crowding-out of private sector lending. Although debt management reforms and concessional refinancing eased near-term pressures, sovereign risk remained elevated.

External risks also persisted throughout the year. Geopolitical conflicts, volatile global financial conditions, and climate-related shocks continued to disrupt supply chains, increase construction input costs, and delay housing project completions. At the same time, cautious private-sector credit expansion constrained developers' access to project finance, slowing delivery of new housing stock and impacting mortgage origination volumes.

To mitigate this risk, the Company strengthened its risk response by enhancing credit underwriting standards, and deepening monitoring of macroeconomic, climate, and geopolitical risks. These measures, together with the sustained competitiveness of KMRC- supported mortgage products, position the institution to support market stability while remaining resilient in an environment that, despite signs of recovery, remains economically and fiscally constrained.

d) **Sustainability/ESG Risk**

Sustainability and ESG risks remained material and increasingly embedded within KMRC's overall risk profile, driven by heightened climate-related vulnerabilities, evolving regulatory expectations, and growing scrutiny from development partners and financiers. The increasing frequency and severity of climate-related events, including flooding and prolonged weather variability, continued to pose risks to the value and resilience of mortgage collateral, particularly in climate-exposed urban and peri-urban areas. These risks have reinforced the importance of integrating climate considerations into credit and collateral assessments.

At the same time, global and local ESG expectations continued to tighten in 2025, with concessional lenders placing greater emphasis on demonstrable environmental and social risk management, climate alignment, and impact reporting. While these developments create opportunities to scale green and climate-resilient mortgages, they also raise the bar for access to concessional and sustainability funding. Inadequate or inconsistent environmental and social (E&S) risk assessments by some PMLs remained a key residual risk during the year. Gaps in screening, documentation, and monitoring increased KMRC's exposure to compliance risk, reputational risk, and potential exclusion from climate-aligned funding windows, particularly where financed projects intersect with sensitive environmental or social

In response, KMRC intensified the implementation of its E&S Management System in 2025, moving beyond policy formulation to deeper monitoring and oversight. Key measures included:

a) Strengthening E&S screening and monitoring requirements within refinancing eligibility criteria;
b) Providing targeted training and technical support to PMLs to enhance their capacity to identify, assess, and manage E&S risks at origination and throughout the loan lifecycle; and
c) Enhancing internal assurance and reporting mechanisms to track compliance with E&S requirements.

These efforts supported improved consistency in E&S risk management across participating PMLs and reinforced KMRC's credibility with development partners and climate-focused financiers.

Additionally, the Company aims to navigate sustainability and ESG risks with continued focus on building climate resilience within the mortgage ecosystem, diversifying funding sources, and proactively engaging regulators, lenders, and market stakeholders. By embedding ESG considerations into its core business model and maintaining alignment with evolving sustainability expectations, the Company will be better positioned to mitigate ESG-related risks while supporting the long-term stability and growth of Kenya's affordable housing finance market.

6 Interest Rate Environment

The Central Bank of Kenya (CBK) implemented successive cuts to the Central Bank Rate (CBR), reducing it from 11.25% at end-2024 to 9.0% by December 2025. Yields on 91-day, 182-day, and 364-day T-bills fell from 9.6%, 10%, and 11.3% in January to about 7.77%, 7.8%, and 9.62% respectively by December 2025. This policy stance was supported by lower inflation, improved exchange-rate stability, and an effort to stimulate credit growth following prolonged weakness in private sector lending. However, the transmission of monetary easing to market lending rates remained gradual, with commercial lending and mortgage rates declining at a slower pace due to elevated credit risk and balance sheet considerations within the banking sector. The lower interest rates present an opportunity for the company to raise additional funds from the capital markets to fund its refinancing business.

7 Key Initiatives

The following are some of the key initiatives that were undertaken during the year.

a) **Risk Sharing Facility (RSF)**: Finalized engagement with key stakeholders and had the Kenya Mortgage Guarantee Trust (KMGT) capitalized. The RSF aims to provide partial credit default loss protection to primary lenders to encourage them to provide mortgages to the lower income earners, particularly those in the informal sector, and who are ordinarily considered risky and therefore financially excluded. The facility will be operated under KMGT which is a separate legal entity established as a Trust with KMRC being the Corporate Trustee. The operations of the RSF will be rolled out within quarter one of 2026.

b) **Stakeholder Engagements**: The Company organized the fourth KAHC during the month of August in Kisumu. The conference attracted key local participants, regional as well as international partners. The conference provided an opportunity for sharing best practices in housing from the markets. We also cohosted the African Union for Housing Finance (AUHF) conference which was held in Nairobi from October 13th-16th, 2025. This brought together stakeholders in housing finance across Africa to share experiences, discuss best practices, and streamline engagement in Africa's housing finance sector.

c) **PML Capacity Building Initiatives:** The company continued to undertake capacity building initiatives in various parts of the country aimed at enhancing the capacity of PMLs on mortgage refinancing.

d) **Kenya Housing Finance, Land Administration & Sustainable Investments:** Engagements with the National Treasury and the World Bank were initiated to structure additional funding for refinancing purposes.

e) **Market Studies:** The Company commissioned a mortgage brokers market study to assess demand and feasibility for a regulated mortgage brokers framework in Kenya. Second, in partnership with FSD Kenya and SASRA, the Company commissioned a study on leveraging SACCO data and research to strengthen financing across the affordable housing value chain, with an emphasis on evidence-based product design and policy development. The Company also undertook a Mid-Term Impact Survey to assess the impact of its business since its establishment, focusing on relevance, efficiency, and effectiveness, to inform operational and strategic alignment.

8 Corporate Governance Statement

As part of its operations, KMRC is committed to maintaining high standards of corporate governance. The Board applies strict rules of conduct, guided by best corporate governance practices, and in full compliance with all applicable laws and regulations. This commitment is demonstrated by its adherence to the highest ethical and moral standards, and to the principles of integrity, transparency, accountability, and fairness in all aspects of its business which promote sustainable growth and enhances stakeholder confidence. The Board plays a critical role in fostering a strong corporate culture that reflects and promotes the Company's core values and is foundational to the Company's operations, employee behavior, and decision making. The Board further encourages all employees to maintain personal integrity, act in the best interests of the Company and its stakeholders and ensure that the Company operates as a responsible corporate citizen within the framework of Kenyan Law.

Board Composition

The KMRC Board of Directors is responsible for providing strategic leadership, oversight, and guidance to the Company. The Board comprises a diverse mix of the requisite skills, experience, and competencies. At its full complement, the Board comprises five non-executive directors representing the cross-section of shareholders, two independent and non-executive directors, and the Chief Executive Officer & Managing Director.

No.	Name	Position	Meetings attended	Percentage
1	Dr. Haron Sirima, OGW	Chairperson	5	100%
2	Mr. Asman Khatolwa	Member	5	100%
3	Mrs. Susan Maira	Member	5	100%
4	Mrs. Annastacia Kimtai	Member	3	60%
5	Mr. Robert Kibaara	Member	4	80%
6	Mrs. Jane Mwangi	Member	5	100%
8	Mr. Alain Nounke	Member	5	100%
9	Mr. Johnstone Oltetia	Member	5	100%

Board Committees

The Board has constituted three committees and one ad-hoc committee to support the discharging of its responsibilities. The membership and operation of these committees is guided by Terms of Reference (TORs) dictated by the Board. The committees are:

i. Audit Committee

The Board through the Audit Committee ensures that the Company has a defined framework for internal controls to ensure the integrity of the assets of the Company and the reporting of complete and accurate financial information. The framework includes the segregation of duties, authority levels for approval transactions, physical controls for assets, decision-making protocols and an Enterprise Resource Planning (ERP) system. The ERP covers core business of mortgage refinancing and support functions from an accounting system with indicators for financial and operational performance measurement to human resource and procurement functionalities.

The Board, through the Audit Committee assesses the effectiveness of the systems of internal controls based on internal and external auditor reports. In 2025, it helped the Board enhance corporate governance standards and oversaw external auditors' work on financial statements, IT system controls, and annual tax compliance. The committee held sessions with Grant Thornton, the external auditor, to receive the auditor's independent report and assurance on the financial statements.

The Audit Committee maintained oversight of the internal audit function, ensuring its independence and objectivity by approving the annual risk-based internal audit plan which covered key strategic business processes with input from management. The Committee conducted reviews of its own Charter and the Internal Audit Charter to ensure ongoing relevance, effectiveness, and alignment with their respective mandates, to reflect operational changes, regulatory updates and industry best practices. The Board approved the revised Charters within the year.

The Committee evaluated the internal control system and control environment across strategic business functions and processes using internal audit reports. Reviews covered the Kenya Affordable Housing Finance Project (KAHFP), operationalization of KMRC project, corporate bond annual principal repayment and semi-annual interest payment process, mortgage refinancing portfolio process, human resource management process and the communication, branding and marketing management process.

During the year, the Committee held four (4) quarterly meetings with the members and meetings attended were as follows:

No.	Name	Position	Meetings attended	Percentage
1	Mr. Asman Khatolwa	Chairperson	4	100%
2	Mrs. Susan Maira	Member	4	100%
3	Mr. Robert Kibaara	Member	4	100%
4	Mrs. Annastacia Kimtai	Member	3	75%
5	Mr. Alain Nounke	Member	4	100%

All the members of the Audit Committee are Non-Executive Directors.

ii. Credit and Risk Committee

During the year, the Board Credit & Risk Committee (BCRC) supported the Board in discharging its oversight responsibilities in line with the Company's Refinancing Policy & Guidelines, and the Enterprise Risk Management (ERM) Framework. The addressed strategic, credit, operational, environmental, and emerging risks affecting KMRC's mandate and operations

Key areas of focus included the review and approval of annual credit limits for PMLs. The Committee also reviewed PML performance against approved credit scoring models and monitored utilization of approved limits to ensure alignment with the Company's risk appetite. The BCRC reviewed quarterly ERM reports, with particular attention to emerging risks affecting the business. The Committee also oversaw enhancements to cybersecurity controls, business continuity arrangements, and data governance frameworks.

Through its guidance, the BCRC reinforced prudent lending standards, sound risk governance, and effective oversight, contributing to the Company's resilience and sustainability in a dynamic operating environment.

The Committee comprises three (3) independent and non-executive directors, and one (1) executive director, In 2025, the Committee held four (4) quarterly meetings to fulfill its mandate with the attendance and membership as follows:

No.	Name	Position	Meetings attended	Percentage
1	Mrs. Susan Maira	Chairperson	4	100%
2	Mr. Alain Nounke	Member	4	100%
3	Mrs. Jane Mwangi	Member	4	100%
4	Mr. Johnstone Oltetia	Member	4	100%

iii. Finance, Planning and Human Resource Committee

The Board Finance, Planning and Human Resource Committee (BFPHRC) supports the Board by providing strategic direction and oversight in the areas of strategy development and execution, finance and accounting, human resources management, information technology and procurement. The committee provided oversight on financial performance, risk management frameworks, and ensured sound financial controls, resource planning and allocation by guiding resource allocation across the company. It also provided guidance on effective adoption and use of information technology within the organization and human resource management by providing guidance on human resource policies, talent management, and employee development.

During the year, the Committee conducted a review of key policies governing human resources, finance, and information technology. The Committee also maintained oversight of budget development and execution process, corporate performance, and ensured strict adherence to all relevant legal and regulatory frameworks. During the year, the Committee held four (4) quarterly meetings with the BFPHRC members and meetings attended as follows:

During the year, the Committee held four (4) quarterly meetings with the BFPHRC members and meetings attended as follows:

No.	Name	Position	Meetings attended	Percentage
1	Mr. Robert Kibaara	Chairperson	4	100%
2	Mr. Asman Khatolwa	Member	3	75%
3	Mrs. Annastacia Kimtai	Member	4	100%
4	Mrs. Jane Mwangi	Member	4	100%
5	Mr. Johnstone Oltetia	Member	4	100%

iv. Nominations Committee

The Board Nominations Committee (BNC) is an ad hoc committee that supports the Board in matters relating to the nomination, appointment, evaluation and succession planning processes for executive and non-executive directors in line with applicable laws, regulations and the Company's governance policies. The Committee is responsible for identifying and assessing candidates for Board appointments, reviewing Board composition and committee structures, overseeing director performance evaluations and succession planning to support effective governance. During the year, the Committee considered the renewal of the CEO's contract and the TORs for the recruitment of an Independent Director.

During the year, the Committee held two (2) meetings with the BNC members and meetings attended as follows:

No.	Name	Position	Meetings attended	Percentage
1	Mr. Robert Kibaara	Chairperson	2	100%
2	Mr. Asman Khatolwa	Member	2	100%
3	Mrs. Susan Maira	Member	2	100%
4	Mr. Johnstone Oltetia	Member	1	50%

9 Dividend

The directors do not recommend the declaration of dividend for the year ended December 31 2025. (2024: Nil)

10 Financial statements

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

11 Directors' benefits

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

12 Statement as to disclosure to the Company auditor

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

13 Terms of appointment of independent auditor

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

14 Approval of the Financial Statements

The annual financial statements set out on pages 11 to 47, which have been prepared on the going concern basis, were approved by the Board of Directors on 5 March 2026, and were signed on its behalf by:

By order of the Board

Director

Nairobi 5 March **2026**

Kenya Mortgage Refinance Company PLC
Statement of Directors' Responsibilities
For the year ended 31 December 2025

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

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

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

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

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

The annual financial statements set out on pages 11 to 47, which have been prepared on the going concern basis, were approved by the Board of Directors on 5th March 2026 and were signed on its behalf by:

Name:
Director

Name:
Director

Grant Thornton

Independent Auditor's Report

To the Shareholders of Kenya Mortgage Refinance Company PLC

Report on the Audit of the Annual Report And Financial Statements

Opinion

We have audited the accompanying annual report and financial statements of Kenya Mortgage Refinance Company PLC (the company) set out on pages 11-48, which comprise the statement of financial position as at 31 December 2025, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual report and financial statements, including a summary of material accounting policies.

In our opinion, the annual report and financial statements present fairly, in all material respects, the financial position of Kenya Mortgage Refinance Company PLC as at 31 December 2025, and its financial performance and cash flows for the year then ended in accordance with IFRS accounting standards as issued by the international accounting standards board and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

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

Key audit matters

During the year under review, the total interest income reduced marginally by 0.7% from KES. 3.21 Bn reported in 2024 to KES 3.19 Bn reported in 2025 Interest income from loans to Primary Mortgage Lenders (PMLs) increased by 82% from KES 493 Mn in 2024 to KES 897 Mn in 2025 due to increased lending. Interest income from investments declined by 16% due to the low interest environment that prevailed in 2025. The profit before tax declined to KES 1.36 Bn in 2025 from KES 1.82 Bn in 2024, majorly due to the decrease in income from investments due to low interest rates.

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

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

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

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Independent Auditor`s Report (Continued)

Other information

The other information comprises the information included in the Annual Report other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the Annual Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 annual financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors are responsible for the preparation and fair presentation of the annual report and financial statements in accordance with IFRS accounting standards as issued by the international accounting standards board and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determines is necessary to enable the preparation of annual report and financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the company's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional 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 that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's and company internal control.

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Independent Auditor`s Report (Continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual report and financial statements, including the disclosures, and whether the annual report and financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

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

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

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

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

As required by the Kenyan Companies Act, 2015, we report to you based on our audit, that in our opinion the information given in the report of the directors on page 2 - 6 is consistent with the annual financial statements.

The signing partner responsible for the audit resulting in this independent auditor's report is CPA Dipesh Shah, Practicing Certificate No.1729.

Grant Thornton LLP
Certified Public Accountants

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

10 MARCH 2026

K/1703/1225/AUD

UNIQUE CODE: 14543260310

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Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2025
Statement of Comprehensive Income

	Note		2025 KES	2024 KES
Revenue				
Revenue from interest determined using effective interest rate				
Interest on loans and advances	5	(a)	897,350,437	493,397,532
Other interest income	5	(b)	2,293,823,155	2,721,504,033
Total interest income			3,191,173,592	3,214,901,565
Finance cost	6		(1,455,384,888)	(1,055,683,491)
Net interest income			1,735,788,704	2,159,218,074
Net movement in expected credit losses	7		(841,296)	1,052,749
Governance expenses	8		(19,065,560)	(17,172,080)
Marketing expenses	9		(30,368,951)	(26,697,596)
Staff costs	10		(187,817,769)	(158,836,569)
Administration expenses	11		(104,391,785)	(108,828,511)
Other operating expenses	12		(6,457,398)	(5,996,461)
Depreciation and amortisation expenses	13		(21,994,260)	(24,761,884)
Profit before tax			1,364,851,685	1,817,977,722
Income tax expense	14		(362,409,323)	(495,915,723)
Profit for the year			1,002,442,362	1,322,061,999

Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2025
Statement of Financial Position as at 31 December 2025

	Note	2025 KES	2024 KES
Assets			
Property and equipment	15	12,275,030	15,470,737
Intangible assets	16	710,197	1,159,471
Right-of-use assets	17	51,323,684	8,103,712
Other assets	18	191,651,693	209,907,121
Current tax receivable	14	260,732,540	-
Financial assets at amortized cost	19	5,386,176,320	5,315,884,241
Loans and advances	20	19,579,239,923	11,888,572,822
Cash and cash equivalents	21	17,674,798,450	14,860,464,671
Deferred tax asset	22	29,354,758	22,069,974
Total Assets		43,186,262,594	32,321,632,749
Equity and Liabilities			
Liabilities			
Borrowings	23	35,865,403,521	25,731,201,060
Debt securities in issue	24	975,494,167	1,144,171,817
Lease liabilities	25	59,604,903	14,662,432
Other liabilities	26	445,401,871	439,641,779
Current tax payable	14	-	153,781,546
		37,345,904,462	27,483,458,634
Capital resources			
Share capital	27	1,808,375,125	1,808,375,125
Revenue reserves		3,836,944,905	2,911,800,468
Other reserves	31	31,535	289,880
Statutory reserve	20	195,006,567	117,708,642
Equity		5,840,358,132	4,838,174,115
Total Liabilities and Equity		43,186,262,594	32,321,632,749

The financial statements on pages 11 to 48 were approved for issue by the Board of Directors on 5th March 2026 and were signed on its behalf by:

Name:
Director

Name:
Director

Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2025
Statement of Changes in Equity

	Notes	Share capital KES	Revenue reserves KES	Statutory reserve KES	Other reserve KES	Total KES
Year ended 31 December 2024						
As at 1 January 2024		1,808,375,125	1,624,216,144	83,230,967	7,098,349	3,522,920,585
Profit for the year		-	1,322,061,999	-	-	1,322,061,999
Amortisation		-	-	-	(6,808,469)	(6,808,469)
Transfer to statutory reserve		-	(34,477,675)	34,477,675	-	-
At 31 December 2024		1,808,375,125	2,911,800,468	117,708,642	289,880	4,838,174,115
Year ended 31 December 2025						
As at 1 January 2025		1,808,375,125	2,911,800,468	117,708,642	289,880	4,838,174,115
Profit for the year		-	1,002,442,362	-	-	1,002,442,362
Amortisation		-	-	-	(258,345)	(258,345)
Transfer to statutory reserve	20	-	(77,297,925)	77,297,925	-	-
At 31 December 2025		1,808,375,125	3,836,944,905	195,006,567	31,535	5,840,358,132

During the year under review, the total interest income reduced marginally by 0.7% from KES. 3.21 Bn reported in 2024 to KES 3.19 Bn reported in 2025. Interest income from loans to Primary Mortgage Lenders (PMLs) increased by 82% from KES 493 Mn in 2024 to KES 897 Mn in 2025 due to increased lending. Interest income from investments declined by 16% due to the low interest environment that prevailed in 2025. The profit before tax declined to KES 1.36 Bn in 2025 from KES 1.82 Bn in 2024, majorly due to the decrease in income from investments due to low interest rates.

Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2025
Statement of Cash Flows

	Note	2025 KES	2024 KES
Cash flows from operating activities			
Profit before tax		1,364,851,685	1,817,977,722
Adjustments for:			
Depreciation of property and equipment	13	8,874,744	13,023,571
Depreciation on right-of-use assets	17	10,335,176	8,103,714
Amortisation of intangible assets	13	448,546	1,292,405
Amortisation of treasury bonds	19	2,335,794	2,342,194
Writeoff/Disposal of assets	15	-	28,744
Interest on lease liabilities	6	2,696,904	692,369
Income on Lease Modification		(1,502,820)	-
Income tax paid	14	(784,208,193)	(227,436,992)
Operating profit before working capital changes		603,831,836	1,616,023,727
Increase/(Decrease) in other assets	18	18,255,428	(111,462,019)
Increase/(Decrease) in other liabilities	26	5,760,092	22,634,559
Increase in loans and advances	20	(7,690,667,101)	(3,483,049,931)
Net cash used in operating activities		(7,062,819,745)	(1,955,853,664)
Cash flows used in investing activities			
Purchase of property and equipment	15	(5,936,655)	(1,060,821)
Purchase of intangible asset	16	-	(1,300,000)
Purchase of treasury bonds	19	(72,627,872)	(6,745,047)
Net cash used in investing activities		(78,564,527)	(9,105,868)
Cash flows from financing activities			
Net movement in borrowings	23	10,134,202,461	5,068,618,935
Net Movement in debt securities	24	(168,677,650)	(186,891,481)
Payments of the lease liability	25	(9,806,760)	(9,541,714)
Net cash from financing activities		9,955,718,051	4,872,185,740
Increase in cash and cash equivalents		2,814,333,779	2,907,226,208
Cash and cash equivalents at start of year		14,860,464,671	11,953,238,463
Cash and cash equivalents at end of year	21	17,674,798,450	14,860,464,671

1 Summary of material accounting policies

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

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

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with IFRS Accounting Standards as Issued by the International Accounting Standards Board. 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 financial risk management and capital risk management are set out in notes 3 and 4 respectively.

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

As highlighted in the statement of cash flows, the Company generated negative operating cash flows of KES 7,062,819,745 (2024: KES 1,955,853,664), which may ordinarily be considered an indicator of potential going concern risk. However, the Company's core mandate is to provide long-term liquidity to Primary Mortgage Lenders (PMLs). Consequently, in the earlier years of operation and during periods of active portfolio growth, significant cash outflows are required to fund loans and advances to PMLs.
These disbursements are expected to be recovered over the life of the underlying mortgage loans, whose principal and interest repayments are contractually spread across long tenors consistent with the Company's business model. The negative operating cash flows therefore reflect strategic deployment of funds to support market liquidity.
Based on the Company's financial performance, capital structure, and risk management policies, including prudent liquidity management and access to diversified funding sources, the directors believe that the Company is well placed to continue operating for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

b) New Standards and Interpretations

(i) Standards and interpretations effective and adopted in the current year

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

Lack of exchangeability - amendments to IAS 21

The amendments apply to currencies which are not exchangeable. The definition of exchangeable is provided as being when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. The amendments require an entity to estimate the spot exchange rate at measurement date when a currency is not exchangeable into another currency. Additional disclosures are also required to enable users of financial statements to understand the impact of the non-exchangeability on financial performance, financial position and cash flow.

The effective date of the amendment is for years beginning on or after 1 January, 2025.

The company has adopted the amendment for the first time in the 2025 annual report and financial statements. The impact of the amendment is not material.

(ii) Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 1 January, 2026 or later periods:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parents' profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parents' profit or loss.

The effective date of the amendment is to be determined by the IASB.

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

IFRS 19 Subsidiaries without Public Accountability: Disclosures

This is a new standard which may be applied by subsidiaries which do not have public accountability. It is a disclosure only standard and provides for reduced disclosures for qualifying subsidiaries to apply, while still remaining compliant with the recognition, measurement and presentation requirements of IFRS accounting standards. The reduced disclosures provided in IFRS 19 may be applied by the subsidiary in their consolidated, separate or individual financial statements, provided that the ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS accounting standards. A subsidiary has public accountability, and may not apply IFRS 19, if its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market, or if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

The effective date of the amendment is for years beginning on or after 1 January, 2027.

The company expects to adopt the amendment for the first time in the 2027 annual report and financial statements.

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

IFRS 18 Presentation and Disclosure in Financial Statements

This is a new standard which replaces IAS 1 Presentation of Financial Statements and introduces several new presentation requirements. The first relates to categories and subtotals in the statement of financial performance. Income and expenses will be categorised into operating, investing, financing, income taxes and discontinued operations categories, with two new subtotals, namely "operating profit" and "profit before financing and income taxes" also being required. These categories and sub totals are defined in IFRS 18 for comparability and consistency across entities. The next set of changes requires disclosures about management-defined performance measures in a single note to the financial statements. These include reconciliations of the performance measures to the IFRS defined subtotals, as well as a description of how they are calculated, their purpose and any changes. The third set of requirements enhance the guidance on grouping of information (aggregation and disaggregation) to prevent the obscuring of information.

The effective date of the amendment is for years beginning on or after 1 January, 2027.

The company expects to adopt the amendment for the first time in the 2027 annual report and financial statements.

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

Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial

The amendments clarify the classification of financial assets with environmental, social and corporate governance (ESG) and similar features, as such features could affect whether the assets are measured at amortised cost or fair value. The amendment also clarifies the date on which a financial asset or financial liability is derecognised in cases where liabilities are settled through electronic payment systems.

The effective date of the amendment is for years beginning on or after 1 January, 2026.

The company expects to adopt the amendment for the first time in the 2026 annual report and financial statements.

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

c) Foreign currency translation

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

d) Revenue recognition

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

(i) Interest income

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

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

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

(ii) Interest expenses

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

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

e) Reserves

- **Loan loss reserve**

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

- **Other reserve**

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

f) Financial instruments

Financial assets and liabilities

Measurement methods

(i) 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.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

f) Financial instruments (Continued)

Financial assets and liabilities (Continued)

Measurement methods (Continued)

(ii) Interest income

Interest income and interest expense on interest bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount, except for:
(a) Purchased or Originated Credit Impaired (POCI) financial assets, for which the original credit- adjusted effective interest rate is applied to the amortised cost of the financial asset; and

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

(iii) Initial recognition and measurement

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

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

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

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

(i) Classification and subsequent measurement

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

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

f) Financial instruments (Continued)

Financial assets (Continued)

(i) Classification and subsequent measurement (continued)

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

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

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through profit or loss (FVPL), are measured at amortised cost. The carrying amount of these assets are adjusted by any expected credit loss allowance. Interest income from financial assets is included in "interest and similar income" using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss (FVPL), are measured through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income (OCI) is reclassified from equity to profit or loss and recognised in "net investment income" using the effective interest rate method.
- Fair value through the profit or loss: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income (FVOCI) are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within "net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "net investment income". Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

f) Financial instruments (Continued)

Financial assets (Continued)

(i) Classification and subsequent measurement (continued)

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

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

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

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

Equity Instruments

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

f) Financial instruments (Continued)

Financial assets (Continued)

(i) Classification and subsequent measurement (continued)

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

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

(ii) Impairment

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

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

(iii) Modification of loans

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

- 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; and
- 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.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

f) Financial instruments (Continued)

Financial assets (Continued)

(iii) Modification of loans (continued)

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

(iv) Derecognition other than on a modification

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

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

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

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

Financial liabilities

(i) Classification and subsequent measurement

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

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

f) Financial instruments (Continued)

Financial liabilities (Continued)

(i) Classification and subsequent measurement (continued)

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

(ii) Derecognition

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

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

Offsetting financial assets and financial liabilities

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

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

g) Cash and cash equivalents

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

h) Property and equipment

All categories of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment.

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

The annual depreciation rates used are as follows:

	Rate - %
Motor vehicles	25%
Computers	25%
Office equipments	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.

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

i) Intangible assets

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the
- software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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

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

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

j) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

k) Income tax

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

k) Income tax (Continued)

Current income tax

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

Deferred income tax

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

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

l) Leases

Leases under which the Company is the lessee

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

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

l) Leases (Continued)

Leases under which the Company is the lessee (Continued)

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.

Leases under which the Company is the lessor

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

m) Provisions for liabilities

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

n) Post-employment benefit obligations

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

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

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

The Company and its employees contribute to statutory social security and housing schemes in accordance with Kenyan law. These include contributions to the National Social Security Fund (NSSF), a national defined contribution scheme, and the Affordable Housing Levy (AHL) as provided under the Affordable Housing Act, 2024. The NSSF contributions are made at the prescribed tiered rates, while the Affordable Housing Levy requires both the employer and employees to contribute 1.5% of the employee's gross monthly salary, each. All contributions are determined by statute and are remitted to the respective authorities by the stipulated due dates. The Company's contributions are recognized as an expense in the profit and loss account in the period to which they relate.

o) Borrowing costs

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

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

p) Comparatives

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

2 Significant judgements and key sources of estimation uncertainty

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

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

The judgements made by the directors in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

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

b) Key sources of estimation uncertainty

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

i) Impairment losses

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

ii) Useful lives and residual values of property and equipment and intangible assets

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

iii) Accounting for leases under IFRS 16

Management has made various judgements and estimates under IFRS 16 as detailed below:

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

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

2 Significant judgements and key sources of estimation uncertainty (Continued)

b) Key sources of estimation uncertainty (Continued)

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.

3 Financial risk management (Continued)

3.1 Credit risk and expected credit losses (Continued)

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

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

In assessing whether the credit risk on a financial asset has increased significantly, the Company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the Company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

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

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:

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

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

	Basis for measurement of loss allowance				
	12-month expected credit losses	Lifetime expected credit losses (see note below)			
		(a)	(b)	(c)	Total
	KES	KES	KES	KES	KES
At 31st December 2025					
Loans and advances	19,581,092,864	-	-	-	19,581,092,864
Short-term bank deposits	17,434,034,009	-	-	-	17,434,034,009
Financial Assets at Amortised Cost	5,386,418,174				5,386,418,174
Cash at bank	241,573,554	-	-	-	241,573,554
Exposure to credit risk	42,643,118,601	-	-	-	42,643,118,601
At 31st December 2024					
Loans and advances	11,889,761,798	-	-	-	11,889,761,798
Short-term bank deposits	14,500,603,827	-	-	-	14,500,603,827
Financial Assets at Amortised Cost	5,316,118,168				5,316,118,168
Cash at bank	102,456,385	-	-	-	102,456,385
Exposure to credit risk	31,808,940,178	-	-	-	31,808,940,178

3 Financial risk management (Continued)

3.1 Credit risk and expected credit losses (Continued)

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

3.2 Liquidity risk

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

(i) Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Finance Committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered.

A portfolio of short-term liquid assets largely made up of short-term liquid investment securities and bank facilities ensure that sufficient liquidity is maintained within the Company as a whole.

(ii) Source of funding

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

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

The Company also raised additional funding from the capital market through issuance of bonds.

3 Financial risk management (Continued)

3.2 Liquidity risk (Continued)

(iii) Exposure to liquidity risk

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

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

	Less than one month KES	Between 1-3 months KES	Between 3-12 months KES	Over 1 year KES	TOTAL KES
At 31st December 2025					
Other liabilities	8,485,514	44,912,805	12,435,083	418,372,236	484,205,638
Borrowings	-	1,738,080,020	592,130,661	33,535,192,840	35,865,403,521
Debt securities in issue	-	-	194,558,006	780,936,161	975,494,167
Lease liabilities	-	-	10,601,904	34,482,691	45,084,595
	8,485,514	1,782,992,825	809,725,654	34,768,983,928	37,370,187,921
At 31st December 2024					
Other liabilities	6,816,990	65,723,678	9,856,968	391,785,110	474,182,746
Borrowings	-	-	826,307,414	24,904,893,646	25,731,201,060
Debt securities in issue	-	-	172,940,450	936,690,400	1,109,630,850
Lease liabilities	-	-	10,583,350	10,583,350	21,166,700
	6,816,990	65,723,678	1,019,688,182	26,243,952,506	27,336,181,357

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

3.3 Market risk

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

Currency risk

The Company operates wholly within Kenya and its assets and liabilities are reported in the local currency. As at the end of trading period it had no currency risk pertaining to its operations.

The Company does not engage in activities that may lead it to incur foreign exchange, commodity or equity, or use financial derivatives except as hedging instruments.

3 Financial risk management (Continued)

3.3 Market risk (Continued)

Interest rate risk

The Company's exposure to interest rate risk arises from short-term bank deposits. Borrowings, loans and advances and other financial assets are fixed interest securities and therefore not susceptible to market interest rate changes.

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

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

	2025 KES	2024 KES
Effect on profit (decrease)/increase	172,376,969	145,006,038
Effect on equity (decrease)/increase	120,663,878	101,504,227

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 objective 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; and
- The computation of risk weighted assets and off-balance sheet items shall be computed as may be determined by the Regulator from time to time.

The Company has complied with all externally imposed capital requirements.

The table below summarises the composition of regulatory capital and the ratios of the Company for the year ended 31 December 2025. During the year, the Company complied with all of the externally imposed capital requirements to which they are subject.

Capital	**2025 KES**	**2024 KES**
Share capital	1,808,375,125	1,808,375,125
Retained profit	3,836,944,905	2,911,800,468
	5,645,320,030	4,720,175,593
Core capital (Tier 1)	5,615,286,610	4,703,504,868
Supplementary capital (Tier 2)	7,952,250,038	7,639,507,252
Total Capital	13,567,536,648	12,343,012,120
Total risk - weighted assets	10,885,917,756	7,369,804,061
Capital ratios		
• Total regulatory capital expressed as a percentage of total risk	124.6%	167.5%
• Minimum total capital to risk weighted assets requirement	14.5%	14.5%
Excess	110.1%	153.0%
• Total regulatory core capital to total risk weighted assets ratio	51.6%	63.8%
• Minimum core capital to total risk weighted assets ratio	10.5%	10.5%
Excess	41.1%	53.3%

5 Revenue from interest determined using effective interest rate

(a) **Interest income on loans and advances:**		
Primary Mortgage Lenders:		
- Mortgage lending	897,350,437	493,397,532
(b) **Other income**		
Interest income:		
- financial assets at amortised cost	2,292,320,335	2,720,785,419
Other income	1,502,820	718,614
	2,293,823,155	2,721,504,033

6 Finance cost

Interest expense:		
- Subordinated debt and credit lines		
GOK/IBRD 8958-KE (Note 23)	788,603,351	510,700,564
GOK/AfDB 2000200004101 (Note 23)	531,836,755	429,055,536
- Debt securities in issue (Note 24)	132,247,878	115,235,022
- Lease liabilities	2,696,904	692,369
	1,455,384,888	1,055,683,491

Total interest expense for financial liabilities are measured at amortised cost.

7 Net movement in expected credit losses	2025 KES	2024 KES
Loans and advances (Note 20)	663,965	(456,518)
Short-term bank deposits ((Note 21)	162,957	(239,024)
Cash at bank (Note 21)	6,447	(366,463)
Financial assets at ammortized costs (Note 19)	7,928	9,256
	841,296	(1,052,749)

8 Governance expenses	2025 KES	2024 KES
Directors remuneration	10,092,000	9,928,600
Meeting allowance	8,172,000	6,156,000
Annual General Meeting expenses	453,560	739,480
Board evaluation	348,000	348,000
	19,065,560	17,172,080

9 Marketing expenses	2025 KES	2024 KES
Public relations and advertisements	30,368,951	26,697,596

This balance relates to publicity and marketing initiatives including branding and stakeholder engagements.

10 Staff costs	2025 KES	2024 KES
Salaries and wages	143,679,262	120,459,235
Pension costs:		
- Defined contribution scheme	6,942,616	6,797,910
- National Social Security Fund Company contribution	1,092,088	505,553
- Other post-employment benefits	22,050,796	15,558,729
Medical insurance	8,839,425	8,328,470
Other staff costs	5,213,582	7,186,672
	187,817,769	158,836,569

11 Administration expenses	2025 KES	2024 KES
Conferences, seminars and workshops	53,318,481	61,309,073
Licenses and permits	2,936,298	2,327,680
ICT expenses	18,563,404	13,159,641
Telephone, postage and internet	2,595,924	2,328,484
Office running expenses	4,268,409	3,729,075
Consultancy fees	8,053,528	10,253,934
Insurance costs	7,003,349	7,105,520
Audit fees	1,928,500	2,099,600
Bank charges	678,646	550,798
Subscriptions	3,689,406	4,073,199
Motor vehicle running expenses	1,355,840	1,891,507
	104,391,785	108,828,511

Conferences, seminars and workshops expense includes Board capacity building expenses of Kes 22,970,575

12 Other operating expenses	2025 KES	2024 KES
Short term lease rentals	4,631,344	3,991,146
Electricity expense	898,550	941,515
Bond issuance costs	927,504	1,063,800
	6,457,398	5,996,461

Bond issuance costs relate to the annual expenses incurred on the KMRC Medium Term Note issued in 2022 and maturing on 23rd February 2029.

13 Depreciation and amortisation expenses	2025 KES	2024 KES
Depreciation of property and equipment (Note 15)	8,874,744	13,023,571
Depreciation on right-of-use assets (Note 17)	10,335,176	8,103,714
Amortisation of intangible assets (Note16)	448,546	1,292,405
Amortisation of financial asset at amortised cost (Note 19)	2,335,794	2,342,194
	21,994,260	24,761,884

14 Income tax	2025 KES	2024 KES
(a) Income tax expense		
Current income tax	369,694,107	503,355,049
Deferred tax (income)/expense relating to the origination and reversal of temporary differences (Note 22)	(7,284,784)	(7,439,326)
Income tax expense	362,409,323	495,915,723
The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate of 30% (2024: 30%) as follows:		
Profit before tax	1,364,851,685	1,817,977,722
Tax calculated at the statutory tax rate of 30% (2024: 30%)	409,455,506	545,393,317
Tax effect of:		
Expenses not deductible for tax purposes	10,178,800	-
Income not subject to tax	(49,471,199)	(49,477,594)
Under/(Over)-provision in prior years	(7,753,784)	-
Income tax expense	362,409,323	495,915,723
(b) Statement of financial position		
At 1 January	153,781,546	(122,136,511)
Current tax charge	369,694,107	503,355,049
Tax paid during the year		
- Balance of tax	-	-
- Installment tax	(505,083,476)	(180,042,079)
- Withholding tax	(279,124,717)	(47,394,913)
At 31 December	(260,732,540)	153,781,546

15 Property and equipment

	Motor vehicles KES	Computers KES	Office equipment KES	Furniture and fittings KES	Leasehold improvements KES	Total KES
Cost						
At 1 January 2024	18,575,844	30,673,342	5,222,879	12,229,889	27,880,141	94,582,095
Additions	-	1,060,821	-	-	-	1,060,821
Impairment		(267,042)				(267,042)
At 31 December 2024	18,575,844	31,467,121	5,222,879	12,229,889	27,880,141	95,375,874
At 1 January 2025	18,575,844	31,467,121	5,222,879	12,229,889	27,880,141	95,375,874
Additions	-	3,433,410	-	519,876	1,983,369	5,936,655
At 31 December 2025	18,575,844	34,900,531	5,222,879	12,749,765	29,863,510	101,312,529
Depreciation						
At 1 January 2024	15,396,707	21,042,016	3,509,009	4,103,956	18,685,052	62,736,740
Charge for the year	3,179,137	7,369,566	1,044,576	1,215,871	4,597,545	17,406,695
Depreciation charge on disposal		(238,298)				(238,298)
At 31 December 2024	18,575,844	28,173,284	4,553,585	5,319,827	23,282,597	79,905,137
At 1 January 2025	18,575,844	28,173,284	4,553,585	5,319,827	23,282,597	79,905,137
Charge for the year	-	2,624,166	666,503	1,244,149	4,597,544	9,132,362
At 31 December 2025	18,575,844	30,797,450	5,220,088	6,563,976	27,880,141	89,037,499
Net book value						
At 31 December 2025	-	4,103,081	2,791	6,185,789	1,983,369	12,275,030
At 31 December 2024	-	3,293,837	669,294	6,910,062	4,597,544	15,470,737

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

	-	-	2,791	-	-	2,791

The Company has two motor vehicles amounting to a cost of KES 18,575,844 that have been fully depreciated but are still in use

16 Intangible assets	2025 KES	2024 KES
Software costs		
Cost		
At 1st January	17,665,435	16,365,435
Additions	-	1,300,000
At 31st December	17,665,435	17,665,435
Amortisation		
At 1st January	16,505,964	12,788,214
Charge for the year	449,274	3,717,750
At 31st December	16,955,238	16,505,964
Net book amount		
At 31st December	710,197	1,159,471

The above software cost relates to an Enterprise Resource Planning (ERP) currently in use by the Company as well as a KMRC Mobile app.

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.

17 Right-of-use-asset	2025 KES	2024 KES
Cost at Jan 1	8,103,712	48,622,282
Accummulated depreciation	53,555,148	(32,414,856)
Depreciation charge for the year	(10,335,176)	(8,103,714)
At Dec 31	51,323,684	8,103,712

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

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

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

18 Other assets	2025 KES	2024 KES
Prepayments	4,502,377	4,445,264
Other receivables	611,717	872,361
Other assets	-	38,036
HFC mortgage scheme deposit (see below)		
- Back up account	135,449,300	151,657,068
- Car Loan Scheme Account	8,223,109	7,742,187
- Unsecured Loan Scheme Account	42,865,190	45,152,205
	191,651,693	209,907,121

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.

The credit risk associated with the HFC Staff Mortgage Scheme is borne by HFC Bank. KMRC has provided a cash cover to secure the facility; however, the credit risk does not transfer to KMRC

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.

19 Financial assets at amortised cost (government securities)	2025 KES	2024 KES
At Jan 1	5,315,884,241	5,212,333,251
Additions	65,900,000	-
Accrued interest	4,633,933	103,784,917
Expected credit losses on government securities	(241,855)	(233,927)
At Dec 31	5,386,176,320	5,315,884,241

Expected credit losses on government securities	2025 KES	2024 KES
At Jan 1	233,927	-
Movement	7,928	233,927
At Dec 31	241,855	233,927

Financial assets at amortised cost can be analysed as follows:

Maturing within 5 years	995,779,149	990,841,294
Maturing after 10 years	1,488,601,212	1,486,803,218
Maturing after 15 years	2,901,795,959	2,838,239,729
	5,386,176,320	5,315,884,241

Treasury bonds are debt securities issued by the Government of the Republic of Kenya. The bonds are categorized as financial assets at amortized cost. The weighted average effective interest rates on government securities as at 31 December 2025 was 13.04% (2024: 13.04%).

The fair values of the financial assets are categorised under Level 1 based on the information set out in accounting policy 1(a).

Credit risk primarily arises from the changes in the market value and the financial stability of issuers of commercial bonds and investment funds.

Management monitors the credit quality of financial assets by:
- discussion at the management and board meetings; and
- reference to external historical information available;

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

20 Loans and advances		2025 KES	2024 KES
Gross loans and advances to PMLs at amortised cost	(i)	19,581,092,864	11,889,761,798
Less: expected credit loss	(ii)	(1,852,941)	(1,188,976)
Net total loans and advances to customers		19,579,239,923	11,888,572,822

(i) **Loans and advances to customers at amortised cost**

	2025			2024		
	Gross amount KES	ECL provision KES	Carrying amount KES	Gross amount KES	ECL provision KES	Carrying amount KES
Primary Mortgage Lenders						
Mortgage lending	19,581,092,864	(1,852,941)	19,579,239,923	11,889,761,798	(1,188,976)	11,888,572,822

The impairment provision includes the following:-

		Provisions as per statutory regulations	ECL provisions as per IFRS 9	Transfer to/(from) statutory loan
Loans and advances to Primary Mortgage Lenders:				
Mortgages	2025	195,670,532	663,965	195,006,567
	2024	118,897,618	1,188,976	117,708,642

20 Loans and advances (continued)

Statutory provisions are analysed as follows:	2025 KES	2024 KES
Stage 1	195,810,929	118,897,618
Stage 2	-	-
Stage 3	-	-
	195,810,929	118,897,618

All loans are at stage 1
The weighted average effective interest rate on loans and advances at 31 December 2025 was 5.6% (2024: 5.6%).

(ii) IFRS 9 provisions

Reconciliation from opening to closing balance of loss allowance for loans and advances to customers at amortised cost for 2025 is shown below; comparative amounts for 2024 represent total allowance account for credit losses under stages 1, 2 and 3.

	2025				2024
	Stage 1 12-month ECL KES	Stage 2 Lifetime ECL KES	Stage 3 Lifetime ECL KES	Total KES	KES
At start of the year	1,188,976	-	-	1,188,976	1,645,494
- Changes in the gross carrying amount:					
- Transfer to stage 1	-	-	-	-	-
- Net remeasurement of impairment provisions	663,965	-	-	663,965	(456,518)
- New financial assets originated or purchased	-	-	-	-	
At end of year	1,852,941	-	-	1,852,941	1,188,976

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

21 Cash and cash equivalents

	2025 KES	2024 KES
Short-term bank deposits held with the following institutions;		
- KCB Bank Kenya Limited	4,557,196,076	3,660,650,000
- HFC Limited	2,230,410,361	774,163,905
- Absa Bank Kenya PLC	2,500,000,000	2,304,000,000
- NCBA Bank Kenya PLC	5,754,090,469	5,631,789,922
- Cooperative Bank of Kenya Limited	2,196,000,000	2,130,000,000
Cash at bank and in hand	241,573,554	102,456,385
Accrued Interest	196,337,103	258,044,169
Expected credit losses on bank balances and short term deposits	(809,113)	(639,710)
	17,674,798,450	14,860,464,671

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

21 Cash and cash equivalents (continued)	2025 KES	2024 KES
Impairment provision		
At start of the year	639,710	1,245,197
Changes short-term bank deposits	162,957	(239,024)
Changes relating to bank balances	6,447	(366,463)
At end of the year	809,113	639,710

The weighted average effective interest rate on short-term bank deposits at year-end was 8.96% (2024: 14.16%)

22 Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30%, which is the enacted rate applying from 1st January 2021, except for capital gains, for which the enacted tax rate of 5% is used (2024: 30% and 5%).

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

	At 1st January KES	Credited/ (charged) to profit or loss KES	At 31st December KES
Year ended 31st December 2025			
Property and equipment			
- on historical cost basis	15,330,218	(3,748,738)	11,581,480
Software	2,214,516	(1,528,343)	686,173
Right-of-use assets			
- accelerated tax depreciation	617,278	49,085,564	49,702,842
Lease liabilities	(11,435,534)	(48,169,370)	(59,604,904)
Provision for liabilities	15,343,496	11,645,671	26,989,167
Net deferred tax asset	22,069,974	7,284,784	29,354,758
Year ended 31st December 2024			
Property and equipment			
- on historical cost basis	9,234,398	6,095,820	15,330,218
Software	749,585	1,464,931	2,214,516
Right-of-use assets			
- accelerated tax depreciation	3,015,166	(2,397,888)	617,278
Lease liabilities	(7,557,006)	(3,878,528)	(11,435,534)
Financial asset at amortised cost	700,738	(700,738)	-
Provision for liabilities	8,487,767	6,855,729	15,343,496
Net deferred tax (liability)	14,630,648	7,439,326	22,069,974

23 Borrowings	Interest rate	Repayment Start date	Repayment End date	2025 KES	2024 KES
GOK/IBRD 8958-KE	4.5%	30/03/2024	30/03/2044		
- Subordinated debt				4,879,184,886	4,374,165,520
- Credit line				17,177,487,025	7,283,253,066
GOK/AfDB 2000200004101	4.5%	30/03/2027	30/03/2044		
- Subordinated debt				2,440,910,250	2,440,910,250
- Subsidiary loan				9,511,473,247	9,101,112,192
Accrued interest on both				1,856,348,113	2,531,760,032
				35,865,403,521	25,731,201,060

The Government of Kenya entered into a Loan Agreement for a line of credit for an amount of Euros 219,000,000 with the International Bank for Reconstruction and Development (IBRD) herein after called "the World Bank" on 5th December 2019. The Government of Kenya also entered into another Loan Agreement for a line of credit for an amount of Euros 90,000,000 with the African Development Bank (AfDB) on 2nd April 2020. Both loans were to undertake a project consisting of the support for establishment, capitalization and operationalization of the Kenya Mortgage Refinance Company; provision of financing by Government to the Company to be utilized as a line credit for providing the mortgage refinancing to the eligible participating financial institutions; and Technical Assistance. The exchange rate risk is born by the Government of Kenya.

The Government agreed under the Loan Agreements dated 26th February 2020 and 5th October 2020 to on-lend to the Company an amount of Euros 201,400,000 and Euros 90,000,000 from the proceeds of the two loans for the implementation of the Project as explained above.

Borrowings from the Government to KMRC are denominated in Kenya Shillings. As at 31 December 2025, total Government borrowings amounted to KES 34,099,055,408 (2024: KES 23,199,441,028). Interest payable relating to these borrowings stood at KES 1,856,348,113 (2024: KES 2,531,760,032). For the World Bank–funded facility, interest accrued during the grace and disbursement period has already been capitalised in accordance with the financing agreement. For the AfDB-funded facility, interest accrued during the grace period will be capitalised on the first principal repayment date, as provided for under the loan terms. Management expects to meet all contractual obligations as they fall due

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

At the year-end, the Company had undrawn facilities which it may utilise to fund its obligations as shown below.

	AfDB EUR	World Bank EUR	TOTAL EUR
Loan	90,000,000	210,200,000	300,200,000
Sub-debt drawn down	18,000,000	35,000,000	53,000,000
Credit line drawn down	72,000,000	130,200,000	202,200,000
Total Drawn Down	90,000,000	165,200,000	255,200,000
Cancelled Facility	-	45,000,000	45,000,000
Undrawn Facilities	-	-	-

24 Debt securities in issue

	2025 KES	2024 KES
At Jan 1	1,144,171,817	1,331,063,298
Interest on bond	93,354,111	108,876,791
Prior period adjustments	-	(28,272,736)
Repayments(Interest+ Principal)	(300,835,528)	(302,036,503)
Accrued interest payable	38,803,767	34,540,967
At Dec 31	975,494,167	1,144,171,817

Debt securities in issue comprise of the below principal amounts;
- KES 936,690,400 (2024: KES 1,109,630,850) Medium Term Note issued in the year 2022 and has a maturity date of 23rd February 2029.

- Maturity analysis of principal amount

Within one year	194,558,006	172,940,450
Later than one year but within three years	465,115,233	523,254,637
Later than three years but within five years	277,017,161	413,435,763
	936,690,400	1,109,630,850

25 Lease liabilities

	2025 KES	2024 KES
At 31 December	59,604,903	14,662,432

The total cash outflow for leases in the year was:

Payments of principal portion of the lease liability	9,806,760	11,545,473

Maturity analysis

Within one year	10,601,904	10,583,350
Later than one year but within three years	34,482,691	-

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

26 Other Liabilities

	2025 KES	2024 KES
Trade payables	12,435,083	9,856,968
Accrued liabilities	6,109,038	31,182,711
Payroll liabilities	8,485,514	6,816,990
Post-employment benefit obligation (Note 28)	72,554,136	45,967,010
Due to shareholders (Note 30)	345,818,100	345,818,100
	445,401,871	439,641,779

27 Share capital

Issued and fully paid up capital:

At 1 January	1,808,375,125	1,808,375,125
Issue for cash	-	-
At 31 December	1,808,375,125	1,808,375,125

The total number of authorised ordinary shares is 50,000,000 (2024:50,000,000) with a par value of KES. 100 each.

28 Post-employment benefit obligation

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

	2025 KES	2024 KES
At 1 January	45,967,010	30,644,561
Additional provision made during the year, charged to profit or loss	26,587,126	15,322,449
At 31 December	72,554,136	45,967,010

29 Commitments under operating leases

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

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

	2025 KES	2024 KES
Within one year	13,233,826	10,583,350
Later than one year but within five years	45,084,595	-
	58,318,421	10,583,350

The Company has no other commitments beyond those disclosed above

30 Related party transactions

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

The following transactions were carried out with related parties.

i) Loans and advances	2025 KES	2024 KES
Mortgages to Primary Mortgage Lenders		
ABSA Bank Kenya PLC	2,436,762,699	2,590,796,217
Co-operative Bank of Kenya Limited	806,276,497	308,151,020
Credit Bank PLC	41,294,773	44,082,124
HFC Limited	2,159,030,143	774,332,730
KCB Bank Kenya Limited	4,552,819,842	1,927,572,473
NCBA Bank Kenya PLC	752,611,876	807,855,321
Qona DT SACCO Society Limited	807,407,791	215,038,083
Stanbic Bank Kenya Limited	5,055,497,694	3,518,977,235
Stima DT SACCO Society Limited	1,049,123,540	758,617,870
Tower SACCO Society Limited	183,918,349	207,872,681
APSTAR DT SACCO Society Limited	265,759,912	199,971,560
Unaitas SACCO Society Limited	976,567,464	536,494,483
Diamond Trust Bank Kenya Limited	165,559,271	-
Less: expected credit loss	(1,821,858)	(1,188,976)
TOTAL	19,250,807,991	11,888,572,822

ii) Due to the National Treasury (Note 26)		
At 1st January	345,818,100	345,818,100
Amounts capitalised during the year	-	-
At 31st December	345,818,100	345,818,100

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

iii) Key management compensation		
Salaries and other employment benefits	119,910,518	112,337,097
Post-employment benefits	25,225,949	21,733,492
	145,136,467	134,070,589

iv) Directors' benefits and other remuneration		
- Fees	10,092,000	9,928,600
- Allowances	8,172,000	6,156,000
	18,264,000	16,084,600

31 Other reserve

	2025 KES	2024 KES
At Jan 1	289,880	7,098,349
Amortisation	(258,345)	(6,808,469)
At Dec 31	31,535	289,880

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