

KENYA MORTGAGE REFINANCE COMPANY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024

Kenya Mortgage Refinance Company PLC
Annual report and financial statements
For the year ended 31 December 2024

Contents	Page
Company information	1
Directors Report	2
Corporate Governance	4
Statement of director's responsibilities	7
Report of the independent auditor	8
Financial statements:	
Statement of Comprehensive Income	11
Statement of Financial Position	12
Statement of Changes in Equity	13
Statement of Cash Flows	14
Notes to the Financial Statements	15 - 47

Kenya Mortgage Refinance Company PLC
Company Information
For the year ended 31 December 2024

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
Mr. Imtiaz Khan	- Non-Executive Director (Retired on 30th June 2024)
Mrs. Jane Mwangi	- Non-Executive Director, Independent Director
Mr. Alain Michel Nounke	- Non- executive Director (appointed on 5th Dec 2024- Pending CBK approval)
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

Principal bankers

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

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

KCB Bank Kenya Limited,
Moi Avenue,
P.O. Box 48400 – 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 financial statements for the year ended 31 December 2024, 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 of the Company increased to KES. 3,214,901,565 from KES. 2,400,727,179 in 2023, attributable mainly to interest income on loans and advances to Primary Mortgage Lenders (PMLs) and interest income from investments in financial assets. The profit before tax increased to KES. 1,817,977,772 from KES. 1,075,463,252. The increase in profitability was due to the increase in the company's refinancing business to PMLs and income from investments.

KMRC continues to drive availability and affordability of home loans to Kenyans by providing low interest, fixed rate, and long-term finance to participating banks and Saccos. The PMLs pass this benefit to their clients/members by providing fixed rate home loans at single digit interest rates. By the close of the year, the Company had cumulatively processed loan applications from twelve (12) PMLs and disbursed a total of KES.13.99 billion to the twelve (12) PMLs, namely, HFC Ltd, Credit Bank Ltd, Co-operative Bank of Kenya, KCB Bank Kenya Ltd, Absa Bank Kenya Plc, Stanbic Bank, NCBA, Apstar Sacco, Tower Sacco, Stima Sacco, Unaitas Sacco & Qona Sacco. The number of mortgages refinanced created 9,638 direct jobs to the Kenyan economy at an average of two and a half jobs created for every mortgage generated and refinanced by KMRC. Total refinanced mortgages were 3,855.

5 Principal Risk and Uncertainties.

Kenya Mortgage Refinance Company (KMRC) PLC faces significant risks and uncertainties that could impact its operations and profitability.

a) Credit Risk

In 2024, Primary Mortgage Lenders (PMLs) experienced elevated non-performing loan (NPL) ratios moving from 14.8% in January 2024 to 16.4% in December 2024. This led to a contraction in the private sector credit having a significant adverse effect on affordable housing projects across the country. Many potential buyers are likely to have postponed their purchasing decisions due to concerns over job security, reduced purchasing power as a result of reduced business turnover, and unstable incomes. However, as we closed the year, there were focused efforts by the Central Bank of Kenya (CBK) to unlock credit through reduction of the Central Bank Rate (CBR) from 13% to 11.25%. This was mainly attributed to reduced inflation, stable shilling and a reduction in private sector lending. KMRC will continue to support PMLs in establishing robust credit assessment mechanisms to monitor and manage NPLs, including early warning systems and proactive restructuring for distressed loans. Additionally, the company continues to incentivize PMLs through issuance of affordable long-term finance and continuous capacity building to enable them to pass on the benefits to the end borrowers

b) Legal and Regulatory Risk

KMRC operates in a highly regulated environment where compliance with legal and regulatory requirements is paramount. The dynamic nature of the financial and housing sectors in Kenya poses significant challenges, through frequent changes in laws, policies, and regulations such as taxation reforms, and environmental compliance policies impacting the company's operations and strategic objectives. Events such as the rejection of key legislative frameworks, like the 2024 Finance Bill, introduced uncertainties that disrupted funding mechanisms and affected alignment with national housing policies. These risks necessitate proactive monitoring of regulatory developments and engagement with policymakers to ensure KMRC remains compliant and adaptive to emerging requirements.

In 2024, KMRC faced significant economic risks that impacted its operations and the broader mortgage market. Non-performing loan (NPL) ratios reached a peak of 16.7% in September but closed the year at 16.4% in December 2024, undermining the financial stability of PMLs and increasing KMRC's credit risk exposure. Although the Central Bank Rate (CBR) was reduced to 11.25%, market interest rates remained high. This created a significant opportunity for KMRC's mortgage product, which is priced below 10% with a fixed rate for the loan's duration, offering a competitive advantage.

Economic uncertainties were further intensified by social unrest over the 2024/2025 Finance Bill, eroding consumer confidence and delaying home-buying decisions. High unemployment and reduced household income, exacerbated by new tax measures, made it more difficult for individuals to qualify for mortgages, slowing growth of the mortgage market. Kenya's public debt, with a debt-to-GDP ratio of 72.4%, further strained fiscal capacity and limited government funding. External risks, including geopolitical tensions and climate change, added to economic instability.

The contraction in private sector credit further hindered developers' ability to finance projects, delaying housing completions. Global geopolitical conflicts and economic uncertainties also disrupted supply chains, increasing project costs. While sustained economic reforms and risk-based pricing may help stabilize conditions in 2025, the financial environment remains fragile. In response, KMRC is addressing these challenges by implementing credit guarantees, diversifying funding sources, and closely monitoring both global and local economic trends.

d) Sustainability/ESG Risk

Sustainability and ESG risks remain heightened due to increasing climate-related vulnerabilities, such as extreme weather events, which threaten the value of the collateral underlying the mortgage. Additionally, stricter ESG requirements globally and locally could hinder access to concessional funding for green mortgages. Inadequate environmental and social (E&S) risk assessments conducted by PMLs exacerbate these risks, exposing KMRC to potential compliance issues and reputational damage. To address these challenges, KMRC is intensifying the implementation of its E&S policies, equipping PMLs with ongoing training to strengthen their risk assessment capabilities and aligning its operations with both local and international sustainability frameworks. Moving forward, KMRC's success in navigating these complex and interconnected risks will depend on its ability to foster resilience, diversify funding sources, and actively engage with regulatory bodies and market stakeholders to stay ahead of evolving ESG expectations.

6 Interest Rate Environment

In 2024, Kenya's financial markets reflected a gradual easing of pressures as inflation dropped from 6.9% in January to 3% by December, supported by an accommodative monetary policy. The Central Bank Rate (CBR), which influences other lending rates, began 2024 at 12%, rose to 13% in February, and remained steady until August. It was then gradually reduced to 12.75% in August, 12% in October, and 11.25% in December, as inflationary pressures were contained. Lending rates held steady beginning the year at 15.2% and stood at 16.9% in December, while deposit rates edged up slightly from 10.2% in January, ending at 10.45% in December. Treasury bill rates, which peaked in March at 16.68% for 91-day, 16.86% for 182-day, and 16.98% for 364-day tenures, fell sharply to 10.32%, 10.39%, and 11.83% respectively by year-end, reflecting improved liquidity and reduced borrowing costs. These high market interest rates continue to present an opportunity for the KMRC home loan product which offers fixed rate, long term, and single digit interest rates through the participating PMLs mitigating the affordability challenges for borrowers.

7 Key Initiatives

In 2024, KMRC undertook a series of transformative initiatives aimed at strengthening the housing finance ecosystem, enhancing stakeholder collaboration, and driving sustainable growth to fulfill its vision of sustainably promoting homeownership. They include;

- a) Stakeholder engagement and capacity building initiatives: The company continued to undertake engagements with stakeholders through capacity building initiatives held in Nairobi, Nakuru, Kisumu, Kwale and Mombasa in addition to virtual engagements. This enhanced the capacity of Primary Mortgage Lenders (PMLs).
- b) Housing Finance in Sub-Saharan Africa (SSA) Course: In partnership with the University of Cape Town and Wharton Business School of the University of Pennsylvania, we delivered a comprehensive capacity-building program to equip senior policymakers, and professionals in the housing ecosystem with the tools for understanding and addressing the bottlenecks in the housing value chain.
- c) Risk Sharing Facility (RSF): Facilitated strategic discussions with stakeholders on the operationalization and implementation of the Risk Sharing Facility. This initiative seeks to further support the deepening of the mortgage market by supporting primary mortgage lenders to lend further down market through a partial guarantee mechanism.
- d) Strategic Plan 2024–2029: Board approval of the Company's Strategic Plan (2024–29), outlining the priorities for the next five years: (i) financial growth and sustainability, (ii) research and development, (iii) governance, (iv) technology and innovation, (v) strategic partnerships, and (vi) marketing and communication.
- e) Onboarding of Non-Shareholders: Reviewed the business strategy and began onboarding non-shareholders into the refinancing program, broadening access to affordable housing finance and fostering inclusivity within the housing finance ecosystem.

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 are 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. During the year, the non-executive director representing the DFI shareholders retired. The Board further received the appointment of a non-executive director whose appointment is subject to the approval of the Central Bank of Kenya in compliance with the law. The Board members and meetings held in the year under review were as follows:

No.	Name	Position	Meetings attended
1	Dr. Haron Sirima, OGW	Chairperson	5
2	Mr. Asman Khatolwa	Member	5
3	Mrs. Susan Maira	Member	5
4	Mrs. Annastacia Kimtai	Member	3
5	Mr. Robert Kibaara	Member	5
6	Mrs. Jane Mwangi	Member	4
7	Mr. Imtiaz Khan (Retired on 30th June 2024)	Member	3
8	Mr. Alain Nounke (Awaiting CBK approval)	Member	1
9	Mr. Johnstone Oltetia	Member	5

Board Committees

The Board has constituted three (3) committees 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 three (3) committees are:

i. Audit Committee

The mandate of the Board Audit Committee (BAC) is to support KMRC Board fulfill its oversight role for the integrity of the Company's financial statements, internal control, the performance and independence of the internal audit function, the performance and independence of the external auditors and reporting responsibilities.

During the year, the BAC supported the Board to strengthen the standards of corporate governance, overseeing appointment of the external auditor and recommended all audit engagements including the fees and terms thereof. The external auditors performed the audit of the financial statements in addition to providing assurance on the controls and procedures regarding the Company's IT systems and annual tax compliance services. Recognizing the continued adoption and reliance in technology and use of information systems in the Company, the BAC oversaw the external auditor's IT controls assessment of the Company which covered IT governance, risk and compliance management; IT general controls; IT infrastructure review; application controls review; and reporting to ensure accuracy and completeness of system generated balances.

The BAC reviewed the statutory financial statements and recommended them to the Board for approval. The Committee also maintained oversight of the internal audit function, ensuring its independence and objectivity by approving the annual risk-based internal audit plan which covered key strategic business processes with contribution from management. Additionally, the Committee approved the adoption of the global internal audit standards while assessing the adequacy of internal controls across the Company's strategic business functions and processes. These included the refinancing post-disbursement monitoring process, environmental and social risk management process, procure to pay process, bond interest payment process and the enterprise risk management process.

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

No.	Name	Position	Meetings attended
1	Mr. Asman Khatolwa	Chairperson	4
2	Mrs. Susan Maira	Member	4
3	Mr. Robert Kibaara	Member	4
4	Mrs. Annastacia Kimtai	Member	3
5	Mr. Imtiaz Khan	Member	2

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

ii. Credit and Risk Committee

The Board Credit & Risk Committee (BCRC) is tasked with supporting the Board in fulfilling its oversight responsibilities as outlined in the Company's Credit Policy and refinancing guidelines. The Committee plays a critical role in setting risk appetite, promoting prudent lending standards and practices while ensuring full compliance with applicable regulations. Additionally, the BCRC oversees the implementation of a robust risk management framework to effectively identify, measure, control, and monitor the diverse risks impacting the Company.

During the year, the BCRC continued to play an instrumental role in strengthening the Company's risk management and credit oversight functions. The Committee prioritized the evaluation, monitoring, and mitigation of strategic, credit, environmental and operational risks to safeguard the stability and sustainability of lending operations. A significant focus was placed on enhancing the Company's cybersecurity infrastructure and integrating Environmental, Social, and Governance (ESG) considerations into risk management practices.

The Committee also approved several revised key policies, including the Risk Management Policy, Legal Services Policy, Business Continuity Policy, Environmental and Social Risk Management Policy, and Credit Policy. These updates were designed to ensure alignment with evolving regulatory requirements and industry best practices.

Through its proactive approach, the BCRC reinforced the Company's commitment to sound governance, effective risk management, and adherence to prudent lending practices, ensuring resilience in a dynamic and complex operating environment.

The Committee comprises three (3) independent and non-executive directors, and one (1) executive director, bringing together diverse expertise in finance, legal and compliance, risk management, and corporate governance. In 2024, the Committee held four (4) quarterly meetings to fulfill its mandate with the attendance and membership as follows:

No.	Name	Position	Meetings attended
1	Mrs. Susan Maira	Chairperson	4
2	Mr. Imtiaz Khan	Member	2
3	Mrs. Jane Mwangi	Member	3
4	Mr. Johnstone Oltetia	Member	4

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 guided 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 thorough review of key policies governing human resources, finance, information technology, and procurement. It actively participated in the formulation of the 2024-2029 Strategic Plan. Which will shape the operations of the company for the next five years, 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:

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

9 Dividend

The directors do not recommend the declaration of dividend for the year ended December 31 2024. (2023: 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 have been appointed and are willing to continue in office in accordance with the Company's Articles of Association and Section 723 of the Kenyan Companies Act, 2015 and the provisions of Central Bank of Kenya (Mortgage Refinance Companies) Regulations, 2019. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor appointment and the related fees.

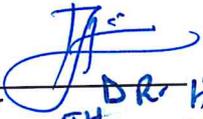
14 Approval of the Financial Statements

The annual financial statements set out on pages 11 to 47, which have been prepared on the going concern basis, were approved by the Board of Directors on 13TH MARCH, 2025, and were signed on its behalf by:

By order of the Board

Director

Nairobi


DR. HARON SIRIMA, OGW
13TH MARCH 2025

Kenya Mortgage Refinance Company PLC
Statement of Directors' Responsibilities
For the year ended 31 December 2024

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 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 13TH MARCH 2025 and were signed on its behalf by:



Director
Name: JOHNSTONE OLTETIA



Director
Name: DR. AARON SIRIMA, OGW

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 11-47, which comprise the statement of financial position as at 31 December 2024, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual report and financial statements, including a summary of significant accounting 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 2024, 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

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	How the matter was Addressed
<p>Allowance for expected credit losses on financial assets</p> <p>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).</p> <p>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.</p> <p>Key areas of judgement included:</p> <ul style="list-style-type: none"> • 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. <p>The relevant disclosure in the financial statements have been done in note 7 through profit or loss.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • We assessed and tested the design and operating effectiveness of the controls over the: <ol style="list-style-type: none"> 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: <ol style="list-style-type: none"> 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.

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 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.

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.

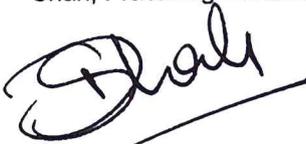
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

13 MARCH 2025

K/1703/1224/AUD

Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2024
Statement of Comprehensive Income

	Note	2024 KES	2023 KES
Revenue			
Revenue from interest determined using effective interest rate			
Interest on loans and advances	5 a)	493,397,532	390,074,989
Other interest income	5 b)	<u>2,721,504,033</u>	<u>2,010,652,190</u>
Total interest income		3,214,901,565	2,400,727,179
Finance cost	6	<u>(1,055,683,491)</u>	<u>(1,016,111,838)</u>
Net interest income		2,159,218,074	1,384,615,341
Net movement in expected credit losses	7	1,052,749	(1,579,227)
Governance expenses	8	(17,172,080)	(18,406,752)
Marketing expenses	9	(26,697,596)	(23,817,007)
Staff costs	10	(158,836,569)	(134,622,939)
Administration expenses	11	(108,828,511)	(97,397,115)
Other operating expenses	12	(5,996,461)	(5,629,409)
Depreciation and amortisation expenses	13	<u>(24,761,884)</u>	<u>(27,699,640)</u>
Profit before tax		1,817,977,722	1,075,463,252
Income tax expense	14	<u>(495,915,723)</u>	<u>(227,676,456)</u>
Profit for the year		<u><u>1,322,061,999</u></u>	<u><u>847,786,796</u></u>

Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2024
Statement of Financial Position as at 31 December 2024

	Note	2024 KES	2023 KES
Assets			
Property and equipment	15	15,470,737	31,845,355
Intangible assets	16	1,159,471	3,577,221
Right-of-use assets	17	8,103,712	16,207,426
Other assets	18	209,907,121	98,445,102
Current tax receivable	14	-	122,136,511
Financial assets at amortized cost	19	5,315,884,241	5,311,481,388
Loans and advances	20	11,888,572,822	8,405,522,891
Cash and cash equivalents	21	14,860,464,671	11,953,238,463
Deferred tax	22	22,069,974	14,630,648
Total Assets		32,321,632,749	25,957,085,005
Equity and Liabilities			
Liabilities			
Borrowings	23	25,731,201,060	20,662,582,125
Debt securities in issue	24	1,144,171,817	1,331,063,298
Lease liabilities	25	14,662,432	23,511,777
Other liabilities	26	439,641,779	417,007,220
Current tax payable	14	153,781,546	-
		27,483,458,634	22,434,164,420
Capital resources			
Share capital	27	1,808,375,125	1,808,375,125
Revenue reserves		2,911,800,468	1,624,216,144
Other reserves	31	289,880	7,098,349
Statutory reserve	20	117,708,642	83,230,967
Equity		4,838,174,115	3,522,920,585
Total Liabilities and Equity		32,321,632,749	25,957,085,005

The financial statements on pages 11 to 47 were approved for issue by the Board of Directors on 13TH MARCH 2025 and were signed on its behalf by:


 Director
 Name: JOHNSTONE OJETHIA


 Director
 Name: DR. HARON SIRIMA, DG

Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2024
Statement of Changes in Equity

	Notes	Share capital KES	Revenue reserves KES	Statutory reserve KES	Other reserve KES	Total KES
Year ended 31 December 2023						
As at 1 January 2023		1,808,375,125	792,787,685	66,872,630	13,934,635	2,681,970,075
Profit for the year		-	847,786,796	-	-	847,786,796
Amortisation		-	-	-	(6,836,286)	(6,836,286)
Transfer to statutory reserve		-	(16,358,337)	16,358,337	-	-
At 31 December 2023		1,808,375,125	1,624,216,144	83,230,967	7,098,349	3,522,920,585
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	20	-	(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

Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2024
Statement of Cash Flows

	Note	2024 KES	2023 KES
Cash flows from operating activities			
Profit before tax		1,817,977,722	1,075,463,252
Adjustments for:			
Depreciation of property and equipment	13	13,023,571	14,497,377
Depreciation on right-of-use assets	17	8,103,714	8,103,714
Amortisation of intangible assets	13	1,292,405	2,762,755
Amortisation of treasury bonds	19	2,342,194	2,335,794
Writeoff/Disposal of assets	15	28,744	411,220
Interest receivable on treasury bonds	19	(6,745,047)	(110,296,095)
Interest on debt securities in issue	24	34,540,967	67,707,604
Interest on lease liabilities	6	692,369	1,402,385
Income tax paid	14	<u>(227,436,992)</u>	<u>(279,211,936)</u>
Operating profit before working capital changes		1,643,819,647	783,176,070
(Decrease)Increase in other assets	18	(111,462,019)	158,141,495 *
(Decrease)/increase in other liabilities	26	22,634,559	26,752,820
Increase in loans and advances	20	<u>(3,483,049,931)</u>	<u>(1,655,175,183)</u>
Net cash used in operating activities		<u>(1,928,057,744)</u>	<u>(687,104,798)</u>
Cash flows used in investing activities			
Purchase of property and equipment	15	(1,060,821)	(3,574,068)
Purchase of intangible asset	16	<u>(1,300,000)</u>	-
Net cash used in investing activities		<u>(2,360,821)</u>	<u>(3,574,068)</u>
Cash flows from financing activities			
Proceeds from borrowings	23	5,068,618,935	3,842,438,701
Net Movement issue of debt securities	24	(221,432,448)	(195,811,638)
Payments of principal portion of the lease liability	25	<u>(9,541,714)</u>	<u>(9,798,726)</u>
Net cash from financing activities		<u>4,837,644,773</u>	<u>3,636,828,337</u>
Increase in cash and cash equivalents		2,907,226,208	2,946,149,471
Cash and cash equivalents at start of year		<u>11,953,238,463</u>	<u>9,007,088,992</u>
Cash and cash equivalents at end of year	21	<u><u>14,860,464,671</u></u>	<u><u>11,953,238,463</u></u>

* In 2024, the Company reclassified the Free Funds Account under the HFC Mortgage Scheme deposit from Other Assets (Note 18) to Cash and cash equivalents (Note 21). As a result, the 2023 comparative balances have been restated by Kes 61,836,885 to ensure consistency and comparability.

Kenya Mortgage Refinance Company PLC
Annual Financial Statements for the year ended 31 December 2024
Notes to the Financial Statements

1 Summary of significant accounting policies

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

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

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with IFRS Accounting Standards. 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 1,929,302,941 (2023: KES 687,104,798) which maybe an indicator of risk of going concern. However, The core mandate of the business is to provide long term liquidity to the Primary Mortgage Lenders and as such in the earlier years of operation, more cashflows need to be disbursed out to Primary Mortgage Lenders. The principle and repayments of these funds to the Company are spread over the length of the loans. Based on the financial performance and position of the Company and its risk management policies, the directors are of the opinion that the Company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

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:

Supplier finance arrangements - amendments to IAS 7 and IFRS 7

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

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

The Company has adopted the amendment for the first time in the 2024 annual report and financial statements. The impact of the amendment is not material

Non-current liabilities with covenants - amendments to IAS 1

The amendment applies to the classification of liabilities with loan covenants as current or non-current. If an entity has the right to defer settlement of a liability for at least twelve (12) months after the reporting period, but subject to conditions, then the timing of the required conditions impacts whether the entity has a right to defer settlement. If the conditions must be complied with at or before the reporting date, then they affect whether the rights to defer settlement exists at reporting date. However, if the entity is only required to comply with the conditions after the reporting period, then the conditions do not affect whether the right to defer settlement exists at reporting date. If an entity classifies a liability as non-current when the conditions are only required to be met after the reporting period, then additional disclosures are required to enable the users of financial statements to understand the risk that the liabilities could become repayable within twelve (12) months after the reporting period.

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

The Company has adopted the amendment for the first time in the 2024 annual report and financial statements. The impact of the amendment is not material

Lease liability in a sale and leaseback

The amendment requires that a seller-lessee in a sale and leaseback transaction, shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

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

The Company has adopted the amendment for the first time in the 2024 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, 2025 or later periods:

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

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 Instruments

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.

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 expects to adopt the amendment for the first time in the 2025 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

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)

Interest income

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

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

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

Initial recognition and measurement

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

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

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

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

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

Financial assets

(i) Classification and subsequent measurement

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

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

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 depend on:

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

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

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

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.

(ii) Modification of loans

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

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

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

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

Notes to the Financial Statements (Continued)

1 Summary of significant accounting policies (Continued)

f) Financial instruments (Continued)

Financial assets (Continued)

(ii) 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.

(iii) 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:

	<u>Rate - %</u>
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.

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

Leases under which the Company is the lessor

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

m) Provisions for liabilities

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

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

o) Borrowing costs

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

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

p) Comparatives

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

2 Significant judgements and key sources of estimation uncertainty

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

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

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

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

b) Key sources of estimation uncertainty

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

- i) Impairment losses

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

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

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

- iii) Accounting for leases under IFRS 16

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

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

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

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				Total KES
	12-month expected credit losses KES	Lifetime expected credit losses (see note below)			
		(a) KES	(b) KES	(c) KES	
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
Cash at bank	102,456,385	-	-	-	102,456,385
Exposure to credit risk	<u>26,492,822,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,492,822,010</u>
At 31st December 2023					
Loans and advances	8,407,168,385	-	-	-	8,407,168,385
Short-term bank deposits	7,013,073,987	-	-	-	7,013,073,987
Cash at bank	2,572,924,102	-	-	-	2,572,924,102
Exposure to credit risk	<u>17,993,166,474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,993,166,474</u>

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
At 31st December 2024				
Other liabilities	6,816,990	65,723,678	9,856,968	391,785,110
Borrowings	-	-	-	25,731,201,060
Debt securities in issue	-	-	172,940,450	971,231,367
Lease liabilities	-	-	10,583,350	10,583,350
	<u>6,816,990</u>	<u>65,723,678</u>	<u>193,380,768</u>	<u>27,104,800,887</u>
At 31st December 2023				
Other liabilities	9,508,022	94,518,672	4,225,469	376,462,661
Borrowings	-	-	-	20,662,582,125
Debt securities in issue	-	-	153,724,844	1,109,630,850
Lease liabilities	-	-	11,545,473	11,966,304
	<u>9,508,022</u>	<u>94,518,672</u>	<u>169,495,786</u>	<u>22,160,641,940</u>

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.

	2024 KES	2023 KES
Effect on profit (decrease)/increase	145,006,038	70,130,740
Effect on equity (decrease)/increase	101,504,227	49,091,518

Other price risk

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

4 Capital Risk Management

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

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

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

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

- A core capital of not less than one billion shillings;
- A core capital of not less than 10.5 per centum of total risk weighted assets plus risk weighted assets and off-balance sheet items;
- A total capital of not less than 14.5 per centum of its total risk weighted assets plus risk weighted assets and off-balance sheet items; 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.

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)
For the year ended 31 December 2024

4 Capital Risk Management (Continued)

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 2024. During the year, the Company complied with all of the externally imposed capital requirements to which they are subject.

Capital	2024 KES	2023 KES
Share capital	1,808,375,125	1,808,375,125
Retained profit	2,911,800,468	1,624,216,144
	<u>4,720,175,593</u>	<u>3,432,591,269</u>
Core capital (Tier 1)	<u>4,703,504,868</u>	<u>3,421,687,751</u>
Supplementary capital (Tier 2)	<u>7,639,507,252</u>	<u>6,708,599,297</u>
Total Capital	<u>12,343,012,120</u>	<u>10,130,287,048</u>
Total risk - weighted assets	<u>7,369,804,061</u>	<u>6,395,169,866</u>
Capital ratios		
• Total regulatory capital expressed as a percentage of total risk	167.5%	158.4%
• Minimum total capital to risk weighted assets requirement	14.5%	14.5%
Excess	<u>153.0%</u>	<u>143.9%</u>
• Total regulatory core capital to total risk weighted assets ratio	63.8%	53.5%
• Minimum core capital to total risk weighted assets ratio	10.5%	10.5%
Excess	<u>53.3%</u>	<u>43.0%</u>

5 Revenue from interest determined using effective interest rate

a) Interest income on loans and advances:

Primary Mortgage Lenders:

- Mortgage lending	493,397,532	390,074,989
--------------------	-------------	-------------

b) Other income

Interest income:

- financial assets at amortised cost	2,720,785,419	2,010,652,190
Other income	718,614	-

2,721,504,033 2,010,652,190

6 Finance cost

Interest expense:

- Subordinated debt and credit lines		
GOK/IBRD 8958-KE (Note Number 23)	510,700,564	478,253,715
GOK/AfDB 2000200004101 (Note Number 23)	429,055,536	361,455,735
- Debt securities in issue (Note Number 24)	115,235,022	175,000,003
- Lease liabilities	692,369	1,402,385
	<u>1,055,683,491</u>	<u>1,016,111,838</u>

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

7 Net movement in expected credit losses

	2024 KES	2023 KES
Loans and advances (Note Number 20)	(456,518)	840,717
Short-term bank deposits ((Note Number 21)	(239,024)	392,192
Cash at bank (Note Number 21)	(366,463)	121,647
Financial assets at ammortized costs (Note Number 19)	9,256	224,671
	<u>(1,052,749)</u>	<u>1,579,227</u>

The net movement in credit losses has been adjusted to account for credit losses previously written off leading to a net positive adjustment in 2024

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)
For the year ended 31 December 2024

8 Governance expenses	2024 KES	2023 KES
Directors remuneration	9,928,600	9,576,000
Sitting allowance	6,156,000	7,695,000
Annual General Meeting expenses	739,480	787,752
Board evaluation	348,000	348,000
	<u>17,172,080</u>	<u>18,406,752</u>

9 Marketing expenses	2024 KES	2023 KES
Public relations and advertisements	26,697,596	23,817,007
	<u>26,697,596</u>	<u>23,817,007</u>

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

10 Staff costs	2024 KES	2023 KES
Salaries and wages	120,459,235	105,078,925
Pension costs:		
- Defined contribution scheme	6,797,910	5,880,801
- National Social Security Fund Company contribution	505,553	234,761
- Other post-employment benefits	15,558,729	12,734,422
Medical insurance	8,328,470	8,128,090
Other staff costs	7,186,672	2,565,940
	<u>158,836,569</u>	<u>134,622,939</u>

11 Administration expenses	2024 KES	2023 KES
Conferences, seminars and workshops	61,309,073	42,634,840
Licenses and permits	2,327,680	2,385,443
ICT expenses	13,159,641	22,436,026
Telephone, postage and internet	2,328,484	2,369,442
Office running expenses	3,729,075	6,931,879
Consultancy fees	10,253,934	8,761,505
Insurance costs	7,105,520	6,093,338
Audit fees	2,099,600	1,429,700
Bank charges	550,798	545,542
Subscriptions	4,073,199	2,082,240
Corporate Social Responsibility	-	396,900
Motor vehicle running expenses	1,891,507	1,330,260
	<u>108,828,511</u>	<u>97,397,115</u>

Conferences, seminars and workshops expense includes Board capacity building expenses of Kes 22,635,737

12 Other operating expenses	2024 KES	2023 KES
Short term lease rentals	3,991,146	3,777,996
Electricity expense	941,515	962,613
Bond issuance costs	1,063,800	888,800
	<u>5,996,461</u>	<u>5,629,409</u>

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

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)
For the year ended 31 December 2024

	2024 KES	2023 KES
13 Depreciation and amortisation expenses		
Depreciation of property and equipment (Note Number 15)	13,023,571	14,497,377
Depreciation on right-of-use assets (Note Number 17)	8,103,714	8,103,714
Amortisation of intangible assets (Note Number 16)	1,292,405	2,762,755
Amortisation of financial asset at amortised cost (Note Number 19)	2,342,194	2,335,794
	<u>24,761,884</u>	<u>27,699,640</u>
14 Income tax		
	2024 KES	2023 KES
(a) Income tax expense		
Current income tax	503,355,049	234,899,902
Deferred tax (income)/expense relating to the origination and reversal of temporary differences (Note 22)	(7,439,326)	(7,223,446)
Under provision in prior years on:		
- current tax	-	-
Income tax expense	<u>495,915,723</u>	<u>227,676,456</u>
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% (2023: 30%) as follows:		
Profit before tax	<u>1,817,977,722</u>	<u>1,075,463,252</u>
Tax calculated at the statutory tax rate of 30% (2023: 30%)	545,393,317	322,638,976
Tax effect of:		
Expenses not deductible for tax purposes	928,215	14,681,604
Income not subject to tax	(49,471,200)	(49,471,199)
Under/(Over)-provision in prior years	-	(60,172,925)
Income tax expense	<u>496,850,332</u>	<u>227,676,456</u>
(b) Statement of financial position		
At 1 January	(122,136,511)	(77,824,477)
Current tax charge	503,355,049	234,899,902
Tax paid during the year		
- Balance of tax	-	-
- Installment tax	(180,042,079)	-
- Withholding tax	(47,394,913)	(279,211,936)
At 31 December	<u>153,781,546</u>	<u>(122,136,511)</u>

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)
For the year ended 31 December 2024

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 2023	18,575,844	27,770,383	5,222,879	11,970,000	27,880,141	91,419,247
Additions	-	3,314,179	-	259,889	-	3,574,068
Impairment	-	(411,220)	-	-	-	(411,220)
At 31 December 2023	18,575,844	30,673,342	5,222,879	12,229,889	27,880,141	94,582,095
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
Disposals	-	(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
Depreciation						
At 1 January 2023	10,850,730	13,770,856	2,464,433	2,911,908	14,087,507	44,085,434
Charge for the year	4,545,977	7,271,160	1,044,576	1,192,048	4,597,545	18,651,306
At 31 December 2023	15,396,707	21,042,016	3,509,009	4,103,956	18,685,052	62,736,740
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
Net book value						
At 31 December 2024	-	3,293,837	669,294	6,910,062	4,597,544	15,470,737
At 31 December 2023	3,179,137	9,631,326	1,713,870	8,125,933	9,195,089	31,845,355

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

	-	56,617	203,791	-	-	260,408
--	---	--------	---------	---	---	---------

The company has two motor vehicles that have been fully depreciated but are still in use

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)

	2024 KES	2023 KES
16 Intangible assets		
Software costs		
Cost		
At 1st January	16,365,435	16,365,435
Additions	1,300,000	-
At 31st December	<u>17,665,435</u>	<u>16,365,435</u>
Amortisation		
At 1st January	12,788,214	7,600,115
Charge for the year	3,717,750	5,188,099
At 31st December	<u>16,505,964</u>	<u>12,788,214</u>
Net book amount		
At 31st December	<u>1,159,471</u>	<u>3,577,221</u>

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

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

The net book value of the software relating to the grant from the National Treasury was KES 727.70

	2024 KES	2023 KES
17 Right-of-use-asset		
Cost at Jan 1	48,622,282	48,622,282
Accumulated depreciation	(32,414,856)	(24,311,142)
Depreciation charge for the year	(8,103,714)	(8,103,714)
At Dec 31	<u>8,103,712</u>	<u>16,207,426</u>

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.

	2024 KES	2023 KES
18 Other assets		
Prepayments	4,445,264	4,796,805
Other receivables	872,361	1,128,763
Other assets	38,036	
HFC mortgage scheme deposit (see below)		
- Back up account	151,657,068	84,698,748
- Car Loan Scheme Account	7,742,187	7,820,786
- Unsecured Loan Scheme Account	45,152,205	-
	<u>209,907,121</u>	<u>98,445,102</u>

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.

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

In 2024, the Company reclassified the Free Funds Account under the HFC Mortgage Scheme deposit from Other Assets to Cash and cash equivalents (Note 21). As a result, the 2023 comparative balances have been restated by Kes 61,836,885 to ensure consistency and comparability.

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)

	2024 KES	2023 KES
19 Financial assets at amortised cost (government securities)		
At Jan 1	5,311,481,388	5,203,521,087
Amortisation	(2,342,194)	(2,335,794)
Interest paid (received)	(96,805,943)	6,735,849
Accrued interest	103,784,917	103,784,917
Expected credit losses on government securities	(233,927)	(224,671)
At Dec 31	<u>5,315,884,241</u>	<u>5,311,481,388</u>
	2024 KES	2023 KES
Expected credit losses on government securities	224,671	-
	233,927	224,671
	<u>458,598</u>	<u>224,671</u>

Financial assets at amortised cost can be analysed as follows:

Maturing within 5 years	990,841,294	1,000,000,000
Maturing after 10 years	1,486,803,218	1,500,000,000
Maturing after 15 years	2,838,239,729	2,811,481,388
	<u>5,315,884,241</u>	<u>5,311,481,388</u>

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 2024 was 13.04% (2023: 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.

		2024 KES	2023 KES
20 Loans and advances			
Gross loans and advances to PMLs at amortised cost	(i)	11,889,761,798	8,407,168,385
Less: expected credit loss	(ii)	(1,188,976)	(1,645,494)
Net total loans and advances to customers		<u>11,888,572,822</u>	<u>8,405,522,891</u>

(i) Loans and advances to customers at amortised cost

	2024			2023		
	Gross amount KES	ECL provision KES	Carrying amount KES	Gross amount KES	ECL provision KES	Carrying amount KES
Primary Mortgage Lenders						
Mortgage lending	11,889,761,798	(1,188,976)	11,888,572,822	8,407,168,385	(1,645,494)	8,405,522,891

The impairment provision includes the following:-

		Provisions as per statutory regulations	ECL provisions as per IFRS 9	Transfer to/(from) statutory loan reserves
Loans and advances to Primary Mortgage Lenders:				
Mortgages	2024	118,897,618	(456,518)	119,354,136
	2023	84,071,684	840,717	83,230,967

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)

20 Loans and advances (continued)

Statutory provisions are analysed as follows:	2024	2023
	KES	KES
Stage 1	118,897,618	84,071,684
Stage 2	-	-
Stage 3	-	-
	<u>118,897,618</u>	<u>84,071,684</u>

All loans are at stage 1
The weighted average effective interest rate on loans and advances at 31 December 2024 was 5.6% (2023: 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 2024 is shown below; comparative amounts for 2023 represent total allowance account for credit losses under stages 1, 2 and 3.

	2024				2023
	Stage 1 12-month ECL KES	Stage 2 Lifetime ECL KES	Stage 3 Lifetime ECL KES	Total KES	KES
At start of the year	1,645,494	-	-	1,645,494	804,777
- Changes in the gross carrying amount:					
- Transfer to stage 1	-	-	-	-	-
- Net remeasurement of impairment provisions	(456,518)	-	-	(456,518)	840,717
- New financial assets originated or purchased	-	-	-	-	-
At end of year	<u>1,188,976</u>	<u>-</u>	<u>-</u>	<u>1,188,976</u>	<u>1,645,494</u>

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

21 Cash and cash equivalents

	2024	2023
	KES	KES
Short-term bank deposits held with the following institutions;		
- KCB Bank Kenya Limited	3,660,650,000	4,389,022,010
- HFC Limited	774,163,905	471,352,668
- Absa Bank Kenya PLC	2,304,000,000	2,152,699,309
- NCBA Bank Kenya PLC	5,631,789,922	1,081,772,410
- Cooperative Bank of Kenya Limited	2,130,000,000	1,000,000,000
Cash at bank and in hand	102,456,385	2,737,046,608
Accrued Interest	258,044,169	122,590,655
Expected credit losses on bank balances and short term deposits	(639,710)	(1,245,197)
	<u>14,860,464,671</u>	<u>11,953,238,463</u>

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

The Company is required to deposit funds with HFC Limited for purposes of staff mortgage scheme. In 2024, the cash in the free funds account of the scheme has been integrated (2023: 61,836,885) as part of the cash in hand and cash at bank.

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)

21 Cash and cash equivalents (continued)	2024 KES	2023 KES
Impairment provision		
At start of the year	1,245,197	731,358
Changes short-term bank deposits	(239,024)	392,192
Changes relating to bank balances	(366,463)	121,647
At end of the year	<u>639,710</u>	<u>1,245,197</u>

The weighted average effective interest rate on short-term bank deposits at year-end was 14.16% (2023: 15.09%)

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 (2023: 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 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 asset	<u>14,630,648</u>	<u>7,439,326</u>	<u>22,069,974</u>
Year ended 31st December 2023			
Property and equipment			
- on historical cost basis	1,774,836	7,459,562	9,234,398
Software	(806,845)	1,556,430	749,585
Right-of-use assets			
- accelerated tax depreciation	7,293,343	(4,278,177)	3,015,166
Lease liabilities	(5,115,207)	(2,441,799)	(7,557,006)
Financial asset at amortised cost	-	700,738	700,738
Provision for liabilities	4,261,075	4,226,692	8,487,767
Net deferred tax (liability)	<u>7,407,202</u>	<u>7,223,446</u>	<u>14,630,648</u>

23 Borrowings	Interest rate	Repayment		2024 KES	2023 KES
		Start date	End date		
GOK/IBRD 8958-KE	4.5%	30/03/2024	30/03/2044		
- Subordinated debt				4,374,165,520	4,374,165,520
- Credit line				7,283,253,066	6,407,925,431
GOK/AfDB 2000200004101	4.5%	30/03/2027	30/03/2044		
- Subordinated debt				2,440,910,250	1,803,754,800
- Subsidiary loan				9,101,112,192	6,484,732,442
Accrued interest on both				2,531,760,032	1,592,003,932
				<u>25,731,201,060</u>	<u>20,662,582,125</u>

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.

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)

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.

The borrowings from the Government to KMRC are done in KES. Borrowings from the Government as at 31 December 2024 amounted to KES. 23,199,441,028 (2023: KES. 19,070,578,193). Interest payable of KES. 2,531,760,032 (2023: Kshs. 1,592,003,932) remained unpaid as at 31 December 2024. These amounts shall be accrued over the grace period/disbursement period and will be capitalised on the first principal repayment date and the management expects to meet all contractual obligations in the future.

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

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

Loan	AfDB EUR	World Bank EUR	TOTAL EUR
Sub-debt drawn down	90,000,000	210,200,000	300,200,000
Credit line drawn down	18,000,000	35,000,000	53,000,000
Total Drawn Down	72,000,000	70,313,825	142,313,825
Cancelled Facility	90,000,000	105,313,825	195,313,825
Undrawn Facilities	-	45,000,000	45,000,000
	-	59,886,175	59,886,175

24 Debt securities in issue

	2024 KES	2023 KES
At Jan 1 2024		
Interest on bond	1,331,063,298	1,459,167,332
Prior period adjustments	108,876,791	107,292,396
Repayments(Interest+ Principal)	(28,272,736)	-
Accrued interest payable	(302,036,503)	(303,104,034)
At Dec 31 2024	<u>1,144,171,817</u>	<u>1,331,063,298</u>

Debt securities in issue comprise of the below principal amounts;

- KES 1,109,630,850 (2023: KES 1,263,355,694) 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	172,940,450	153,724,844
Later than one year but within three years	523,254,637	586,376,213
Later than three years but within five years	413,435,763	523,254,637
	<u>1,109,630,850</u>	<u>1,263,355,694</u>

25 Lease liabilities

	2024 KES	2023 KES
At 31 December	<u>14,662,432</u>	<u>23,511,777</u>
The total cash outflow for leases in the year was:		
Payments of principal portion of the lease liability	<u>11,545,473</u>	<u>10,583,350</u>
Maturity analysis		
Within one year	10,583,350	11,545,473
Later than one year but within three years	-	10,583,350

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

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)

26 Other Liabilities	2024	2023
	KES	KES
Trade payables	9,856,968	3,506,883
Accrued liabilities	31,182,711	26,811,068
Payroll liabilities	6,816,990	9,508,022
Other liabilities	-	718,586
Post-employment benefit obligation (Note 28)	45,967,010	30,644,561
Due to shareholders (Note 30)	345,818,100	345,818,100
	<u>439,641,779</u>	<u>417,007,220</u>

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	<u>1,808,375,125</u>	<u>1,808,375,125</u>

The total number of authorised ordinary shares is 50,000,000 (2023:50,000,000) 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:

	2024	2023
	KES	KES
At 1 January	30,644,561	17,910,139
Additional provision made during the year, charged to profit or loss	15,322,449	12,734,422
At 31 December	<u>45,967,010</u>	<u>30,644,561</u>

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:

	2024	2023
	KES	KES
Within one year	10,583,350	11,545,473
Later than one year but within five years	-	10,583,350
	<u>10,583,350</u>	<u>22,128,823</u>

Kenya Mortgage Refinance Company PLC
Notes to the Financial Statements (Continued)

30 Related party transactions

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

The following transactions were carried out with related parties.

i) Loans and advances	2024	2023
	KES	KES
Mortgages to Primary Mortgage Lenders		
ABSA Bank	2,590,796,217	2,811,565,001
Cooperative Bank	308,151,020	389,781,503
Credit Bank	44,082,124	46,733,810
HFC Bank	774,332,730	928,923,523
KCB Bank	1,927,572,473	1,515,465,073
NCBA Bank	807,855,321	860,096,965
Qona Sacco (Formely Safaricom Sacco)	215,038,083	55,854,342
Stanbic Bank	3,518,977,235	936,630,689
Stima Sacco	758,617,870	474,552,066
Tower Sacco	207,872,681	21,137,703
Apstar Sacco (Formely Ukulima Sacco)	199,971,560	138,475,312
Unaitas Sacco	536,494,483	227,952,398
Less: expected credit loss	(1,188,976)	(1,645,494)
TOTAL	<u>11,888,572,822</u>	<u>8,405,522,891</u>

ii) Due to related parties (Note 26)

At 1st January		
Amounts capitalised during the year	345,818,100	346,012,910
At 31st December	-	(194,810)
	<u>345,818,100</u>	<u>345,818,100</u>

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

iii) Key management compensation

Salaries and other employment benefits	112,337,097	95,095,428
Post-employment benefits	21,733,492	18,136,086
	<u>134,070,589</u>	<u>113,231,514</u>

iv) Directors' benefits and other remuneration

- Fees	9,928,600	9,576,000
- Allowances	6,156,000	7,695,000
	<u>16,084,600</u>	<u>17,271,000</u>

31 Other reserve

At Jan 1	7,098,349	13,934,635
Amortisation	(6,808,469)	(6,836,286)
At Dec 31	<u>289,880</u>	<u>7,098,349</u>

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