KENYA MORTGAGE REFINANCE COMPANY

ANNUAL INTEGRATED REPORT AND FINANCIAL STATEMENTS 2022

Unlocking Liquidity for Affordable Housing

www.kmrc.co.ke

Own a Home Today... with a KMRC-backed Home loan

- **Fixed** Interest Rate
- **Single Digit** Interest Rate (below 10%)
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- Financing up to 105%

AFFORDABLE Home LOANS
powered by KMRC

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Kenya Mortgage Refinance Company

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

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LIST OF ABBREVIATIONS

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

KMRC AT A GLANCE

VISION

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

MISSION

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

CORE VALUES

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

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

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

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

STRATEGIC OBJECTIVES

1. To develop and optimize the institutional capacity of KMRC.
2. To provide liquidity financing to primary mortgage lenders (PMLs).
3. To promote the development of improved mortgage lending practices within PMLs
4. To raise long term finance efficiently and sustainably.
5. To support developments in the housing market.

ABOUT US

The Kenya Mortgage Refinance Company (KMRC) PLC is a non-deposit taking financial institution established in 2018 under the Companies Act 2015. Its mandate is to provide long-term funds to Primary Mortgage Lenders (PMLs) for purposes of increasing availability of affordable home loans to Kenyans. KMRC provides concessional, fixed, long-term finance to the PMLs who include Banks and Saccos so that they can transfer the same benefits to 'wananchi', making home loans more accessible especially to the moderate to low-income earners in the country.

By increasing the supply of affordable housing finance, KMRC acts as a key lever in the push to increase homeownership in Kenya. Noting that Kenya's mortgage market remains underpenetrated, relative to the potential demand for home ownership, KMRC recognizes the upside potential and the downside risks of facilitating home ownership to the moderate to low-income earners.

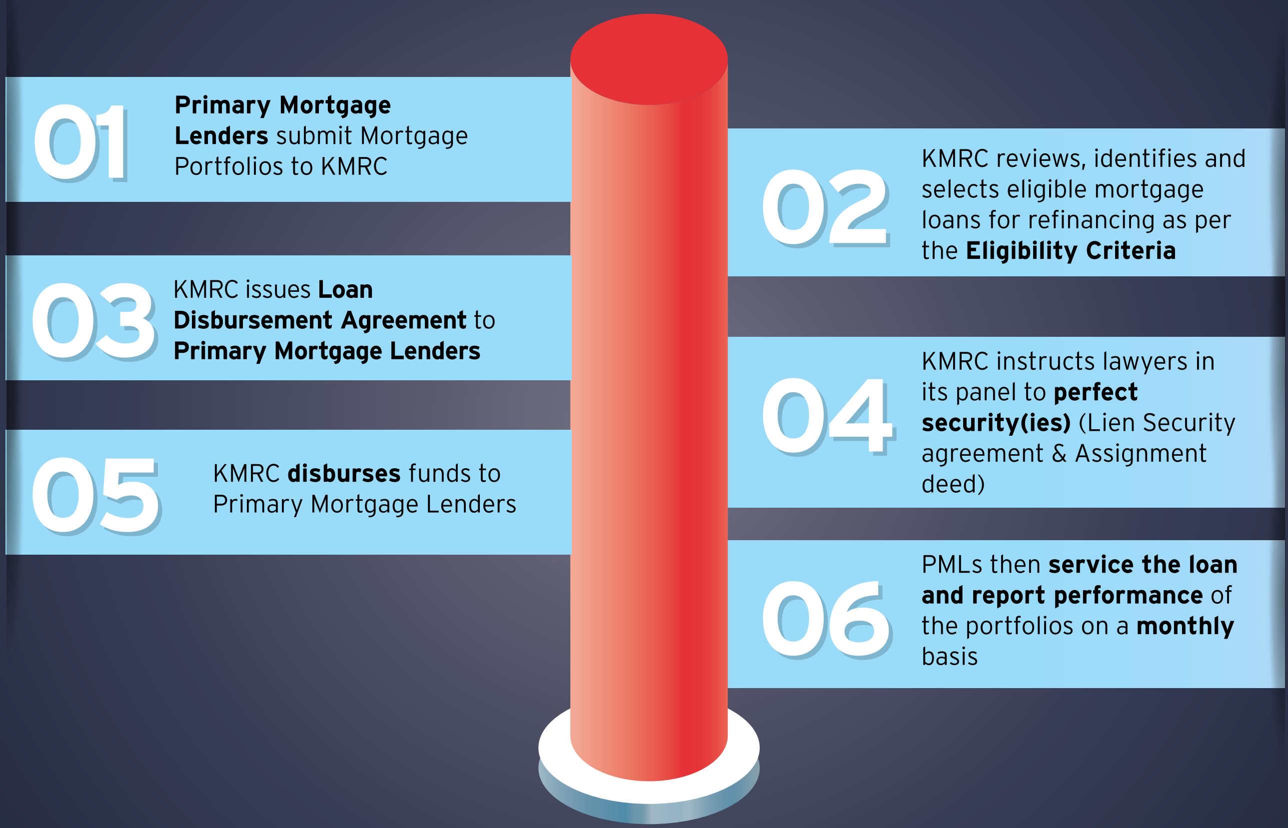
KMRC is regulated by the Central Bank of Kenya (CBK), with the Capital Markets Authority (CMA) providing oversight over its bond issuance operations.

OUR BUSINESS MODEL

KMRC extends credit to its participating PMLs, secured by mortgage loan portfolios that meet the KMRC eligibility criteria. The Company does not acquire or hold mortgage loans in its books neither does it assume any direct credit risk on mortgage loans offered as collateral.

The PMLs assign their interests in the mortgage portfolio in favour of KMRC. The pledged loans remain on the PMLs' balance sheet. If a loan pledged to KMRC becomes non-performing, the PML is required to replace it with a performing loan.

Mortgage Refinancing Steps



OUR PRODUCTS

Affordable Home Loans

Loans up to **KES 8 million** offered by participating PMLs to finance home loans for borrowers with a monthly income of **KES 150,000** and below.

Market Home Loans

These loans are offered to participating PMLs for purposes of financing home loans above the affordable home loans threshold; these have no income limit.

CORPORATE INFORMATION

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

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

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

Principal Bankers

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

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

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

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

Independent Auditor

Mazars LLP, Certified Public Accountants (K)
3rd Floor, The Green House, Ngong Road
P.O. Box 61120 - 00200, City Square
Nairobi, Kenya

ABOUT THE REPORT
AND FINANCIAL STATEMENTS 2022

The Kenya Mortgage Refinance Company PLC (KMRC) is pleased to present its Annual Integrated Report, which covers the period from 1st January 2022 to 31st December 2022. This report contains comprehensive information about our financial performance and non-financial performance; stakeholders, governance, our sustainability agenda, and other material issues relating to the execution of our strategy, 2020-2024.

Scope and Purpose

The KMRC Integrated Report and Financial Statements is our principal statutory and regulatory reporting disclosure for the financial year ending on 31st December 2022. It covers the primary activities of the company across all our business operations and gives a comprehensive review of our financial and non-financial metrics. The report highlights how we execute our strategy, strive to operate sustainably, create shared value and govern our business. It covers the period from January 1, 2022 to December 31, 2022. The goal of this report is to provide our stakeholders with a complete and integrated view of how our company operates. It also provides vital information to our present and future investors to enable them to make informed decisions. It demonstrates our commitment to accountability and aims to strengthen the trust our stakeholders have bestowed upon us. Forward looking statements are not a guarantee of future financial or operating results, as they Involve assumptions of future conditions in the operating environment some of which are not within the Company's control.

Framework

This report was developed in accordance with international best practices, reporting guidelines and prudent accounting standards. It complies with the Kenya Companies Act of 2015, the Capital Markets Authority's (CMA) rules, and the Central Bank of Kenya's (CBK) Mortgage Refinance Regulations. The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS and the Companies Act of 2015. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and have been prepared on the historical cost basis except where it is indicated otherwise. The Company continuously strives to incorporate additional frameworks and metrics in our reporting to improve our transparency and meet the diverse information needs of our stakeholders. Please provide any feedback or direct your questions to communications@kmrc.co.ke for any additional information on matters contained within this report.

Process and Assurance

Our Integrated Report process started with a wide scale review of all key developments in executing our strategy across our businesses in 2022 to inform the scope of reporting. Content development involved interviews and submissions from departmental heads. Thereafter, we adopted an integrated approach to messaging to present a unified and all-rounded view of the Company's inputs, processes, outputs, and outcomes. A series of rigorous internal reviews support the accuracy of the disclosures contained herein. This is further corroborated by the external assurance provided by our independent Auditors through their opinion on our financial statements as expressed within this report. The Directors accept responsibility for the preparation and presentation of this report. Mazars LLP audited the Company's annual financial statements.

OVERVIEW OF KMRC

KEY MILESTONES

Net loans disbursed to PMLs stood at **Kes. 6.8 Bn,** up from **Kes. 1.3 Bn** disbursed in 2021, representing a **425%** jump. These loans are long term, fixed and offered at single digits interest rates.

Convened the **2nd Kenya** Affordable Housing Conference providing, a unique platform for stakeholders to share information, learn about new innovations and address challenges inhibiting growth of affordable housing in Kenya.

Influenced policy change on amendment of the Stamp Duty Act to exempt duty on security documents in favour of KMRC.

Successfully issued the first corporate bond raising **Kes 1.4B** as the first tranche of the **Kes 10.5B** Medium Term Note programme mobilizing **Kes 8.8 billion** against a target of **Kes. 1.4 billion,** about **480%** above the target.

Carried out a midterm review of the **2020-2024** Strategic Plan to integrate Sustainability agenda as part of KMRC strategic activities.

Raised the Loan to Value Ratio (LTV) to **105.0%** from **90.0%,** consequently eliminating the need for homebuyers to pay a **10.0%** deposit prior to obtaining the mortgage plus another 5% needed for incidental costs.

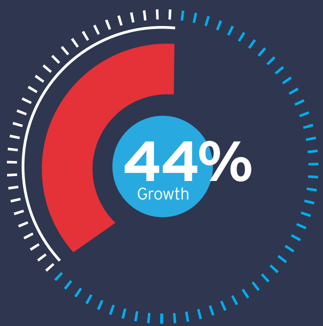
Approximately **10,000** families have directly been impacted by our affordable home loan solutions during the reporting period

Over **2500** mortgages refinanced as at **31st December 2022**

45% of our refinanced mortgage loans were extended to women

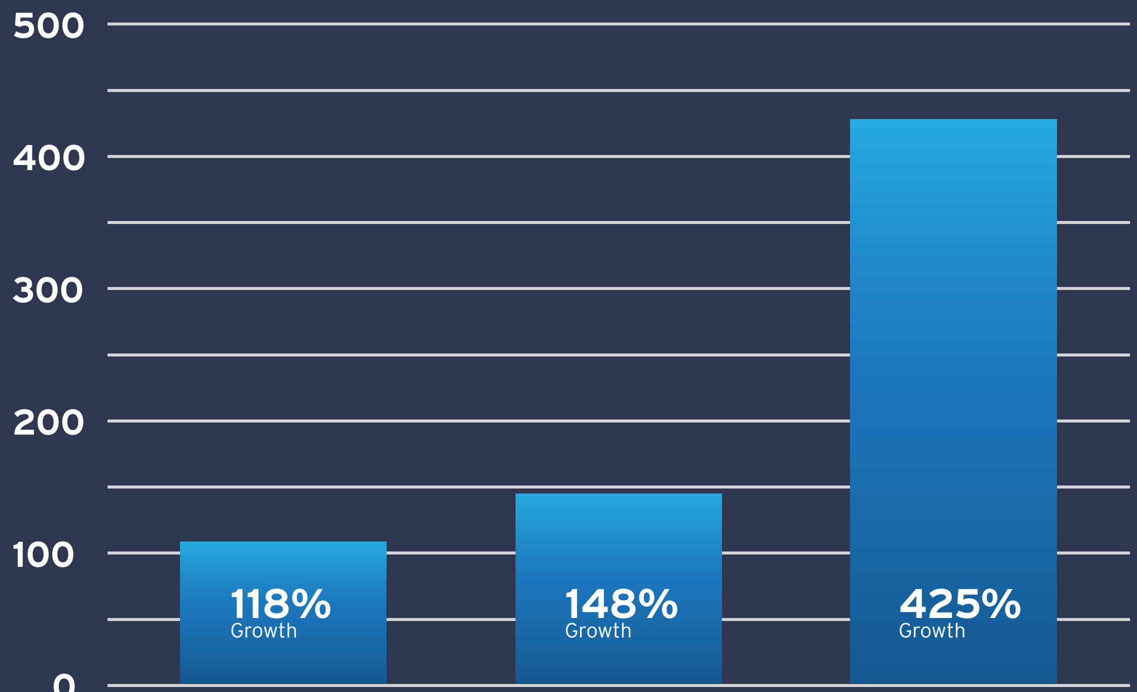
6300 direct jobs created during the reporting period, out of which **1892** were for women ***(Calculation based on the State Department of Housing and Urban Development formula)***

FINANCIAL PERFORMANCE HIGHLIGHTS



Net Interest Income
Increased by 44% from Kes 464Mn in 2021 to Kes 666Mn in 2022

Profit After Tax
Increased by 63% from Kes 197Mn in 2021 to Kes 321Mn in 2022



Total Assets
Increased by 118% from Kes 9.8Bn in 2021 to Kes 21.4Bn in 2022

Borrowings
Increased by 148% from Kes 6.8Bn in 2021 to Kes 16.8Bn in 2022

Lending To PMLS
Increased by 425% from Kes 1.3Bn in 2021 to Kes 6.8Bn in 2022

Investor Information

Description	Name	Percentage
Government of Kenya	National Treasury	25%
Commercial Banks	• KCB Group • Cooperative Bank • DTB • HF Group • NCBA • Absa Kenya • Stanbic • Credit Bank	44%
Saccos	• Kenya Police • Mwalimu National • Safaricom • Ukulima • Bingwa • Imarisha • Unaitas • Imarika • Tower • Stima • Harambee	7.9%
Micro Finance Institution	Kenya Women Finance Trust (KWFT) Bank	0.6%
Multilateral Development Partner	International Finance Corporation (IFC)	11.8%
Pan African Finance Institution	Shelter Afrique	11%

Memberships and Affiliations

Affiliation	Organisation
Member	African Union for Housing Finance
Member	International Secondary Mortgage Market Association (ISMMA)
Member	The Blue Company

BOARD OF DIRECTORS

L-R: Dr. Haron Sirima, EBS - Chairman, Mr. Robert Kibaara, Mrs. Susan Maira, Mr. Johnstone Oltetia and Mr. Asman Khatolwa.

STATEMENT FROM THE LEADERSHIP

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am delighted to present the Annual Report of the Company for the year ended 31st December 2022. The report highlights our Company's financial performance and activities during the year. This performance comes amidst weak global growth outlook, unrelenting inflationary pressures, geopolitical tensions among other global economic challenges. The Kenyan economy grew at 4.8% in 2022 and is expected to remain resilient in 2023, supported by continued strong performance of the services sector and expected recovery in agriculture, despite the global uncertainties. Overall inflation closed the year at 9.1 percent in December 2022. The Kenya Shilling continued to depreciate against the US Dollar in 2022 attributable to the increased inflationary pressures and increased prices of fuel and other commodities. The Kenya Shilling traded at an average of Kes. 123 against the US dollar in December 2022.

The ongoing drought in most parts of the country affected households' ability to access food and, as a result, increased food insecurity in the country particularly in the rural areas where a majority of households depend on rain fed agriculture for their livelihoods. These factors negatively affect the uptake of home loans by Kenyans despite the increasing urban population. However, as the demand for housing continues to rise particularly in urban areas and based on lessons learnt from the COVID 19 pandemic, the need for development of decent and affordable housing is critical. KMRC is well positioned to leverage on these needs and provide housing finance solutions that will improve the dignity of Kenyans through provisions of affordable home loans.

Despite the current macro-economic challenges, our objective of providing funding to Primary Mortgage Lenders (PMLs) for purposes of increasing the affordability and accessibility of home loans to Kenyans remains steadfast. The Government's commitment to turn the housing challenge into an economic opportunity serves to strengthen KMRC's value proposition to our stakeholders. Consequently, we expect increased investment in the housing sector both on the demand and supply side.

Corporate Governance

As a key player in Kenya's housing finance sector, KMRC continues to put strong emphasis on the need to uphold the highest standards of corporate governance practices. We continuously strive for excellence in our business operations and professional conduct. We value accountability, and transparency, and we anchor our business activities and decision-making processes on our core values which are: Integrity, Collaboration, Innovation and Efficiency. Our corporate governance practices is premised on ensuring that the Company complies with all the legal and regulatory requirements including conditions set by our investors as well as global international financial players.

Board evaluation is an imperative facet in enhancing the efficiency and effectiveness of our board operations. In 2022, board evaluation was undertaken, and the results confirmed presence of a high degree of directors' engagements, and that the Board's performance was effectively enhanced by continuous directors' development programmes. We will continue to undertake annual evaluation exercises and strive to improve on our stewardship.

We believe that continuous capacity building for the Board is an ideal pathway to strengthen the Board's expertise and augment their skills and competencies, thus leading to a more effective and proactive team. During the year, we implemented individual and group capacity building initiatives, covering diverse areas including board effectiveness, leadership, strategic decision making, corporate governance and sustainability. We expect that these opportunities to continuously upskill the Board will result in more effective decision making, agile leadership, stronger adaptability and resulting in a resilient and fit for purpose company.

Board Composition and Transition

We strongly believe that the Board's structure should be diverse, equitable and inclusive, by harnessing different skills set, experiences, expertise and gender. The Board is committed to ensuring gender diversity and to persistently take action to implement positive and impactful change. The Company's Board continues to institutionalize equity in terms of professional background, age, gender, and skills. The Board is committed to entrench a culture of inclusion while undertaking our governance responsibilities.

During the year, Mrs. Sarah Bonaya resigned from her role as an Independent Director. We commend Mrs. Bonaya for the valuable contribution she made in that role, providing guidance to the Company in her capacity as the Chairperson of the Board's Finance, Planning and Human Resources Committee.

Medium-Term Review of the Strategic Plan

The Company's Strategic Plan 2020-24 continues to guide the operations of the company. The strategy sets out the Company's vision, mission, and values, and outlines the Company's priorities. Our strategy is anchored on five pillars and is being implemented to ensure that we responsibly resource and engage important partnerships that enable us to effectively deliver our value proposition to our stakeholders.

Following a successful execution of the first half of the strategic plan, we undertook a mid-term review to gauge the Company's progress against the key performance indicators, which were a mix of financial and non-financial targets. The comprehensive exercise was undertaken collaboratively with the Management team and resulted in an impressive outcome. The outcome of the review included embedding issues of climate change and sustainability in the strategy. This ensures that we uphold responsible finance and engage in activities that support sustainability, mitigation and adaptation to climate change.

Looking Ahead

The Government's support for the development of affordable housing, coupled with efforts from the private sector and the development partners will be instrumental in the growth of affordable housing in our country. We anticipate that the steps being taken by all the stakeholders will yield the desired results of increasing both the supply of affordable housing and the uptake. We urge the Primary Lenders who have not yet accessed KMRC refinancing to accelerate their mortgage lending processes in order to afford more Kenyans an opportunity to own homes. We also urge those who have already accessed refinancing to generate more mortgage portfolios and submit to KMRC for refinancing.

As you can note in the financial outlook the Company delivered impressive results in 2022. This could not have been possible without the support of all our stakeholders including the Government, the Board of Directors and management. We remain particularly intentional in ensuring affordable housing is a reality to a majority of Kenyans. As a Company, we value hard work, dexterity, ingenuity, and devotion which has resulted in the overall resilience of the organization. We would like to appreciate our shareholders who are also our key business partners: the development partners, Government, and regulators for supporting the business.

Dr. Haron Sirima, EBS
Chairman

"As a key player in Kenya's housing finance sector, we continue to put strong emphasis on the need to uphold the highest standards of ethical corporate governance practices."


Kenya Mortgage Refinance Company PLC Annual Integrated Report 2022

CEO's REPORT

Overview

2022 was undoubtedly a turbulent year the world over. Rising inflation, persistent drought, the uncertainties surrounding the country's general elections and continued geopolitical unrest defined activities during the year. Under these circumstances, making near accurate predictions on the mortgage industry was challenging.

The Company, however, remained resilient and fulfilled its mandate. We leveraged on our strategic partnerships and were able to meet our strategic targets for the year. We continued to implement publicity initiatives in the market on an array of platforms and reinforced the public's awareness of KMRC's products and how citizens can benefit. We also availed diverse platforms on which we shared insights on Kenya's housing finance sector and how various stakeholders could contribute to its growth.

During the year, we convened a stakeholders' workshop to discuss prospects of integrating sustainability in affordable housing. The workshop was themed Greening Affordable Housing with the objective of unpacking the expanding opportunity in green affordable housing and establishing linkages that would help drive green residential housing development in Kenya. We also successfully hosted the second annual Kenya Affordable Housing Conference in November 2022, which brought together policy makers and stakeholders in the housing sector to highlight challenges and propose practical solutions to promote sustainable affordable housing as a driver of economic growth. We are proactively and collaboratively working with policy makers to implement the resolutions documented as we continue to enhance financial literacy initiatives.

2022 Company Performance

The company delivered impressive results in the year. Total interest income increased by 83% to Kes. 1.3 Bn from Kes. 711 Mn in 2021. The company earned Kes 195Mn as interest from loans to PMLs and Kes 1.1 Bn as interest income from investments. Total Expenses increased from Kes 426Mn in 2021 to Kes 870Mn in the year under review. The company incurred interest expense of Kes 634Mn following increased draw down of the World Bank and AfDB funding from the National Treasury and the issued corporate bond. This formed 73% of the total expenses. Other expenses increased from Kes 179Mn in 2021 to Kes 236Mn in 2022 due to increased business operations. The profit before tax increased to Kes 429Mn from Kes 285Mn in 2021. Consequently, the profit after tax increased to Kes. 321 Mn from Kes. 196 Mn in 2021.

Total assets increased from Kes 9.8Bn in 2021 to Kes 21.4 Bn in the year under review, majorly contributed by an increase in cash and cash equivalents, increased disbursements to PMLs and an increase in investment in Government securities. Borrowings increased by 148% from Kes 6. 8 Bn in 2021 to Kes 16.8 Bn in 2022. This is explained by the access of additional funding from the National Treasury from both the World Bank and AfDB lines of credit. The company further accessed Kes 1.4Bn through its corporate bond issuance during the year.

Other significant achievements during the year included processing loan applications from twelve (12) primary lenders and subsequent net disbursement of Kes 6.8Billion to nine (9) PMLs. The disbursement of these concessional funds means many Kenyans are now able to access single digits fixed interest rates.

We acknowledge and welcome the Government's enhanced efforts geared towards supporting affordable housing, including digitizing land titling processes, availing land for development of affordable housing and extending incentives. This will catalyse demand as well as supply of affordable housing and as a result help bridge the housing supply gap. We witnessed ground-breaking initiatives for several affordable housing projects in 2022 by both Government and private sector actors and we are confident this will continue into 2023. These initiatives are a demonstration of the important role that affordable housing plays in the growth of our country's economy and KMRC will continue building strategic collaborations on both supply and demand side to catalyze offtake.

Promoting Developments in Affordable Housing

During the year, the Company in conjunction with the National Treasury and the World Bank initiated the process of developing a Risk Sharing Facility (RSF as part of the Development Policy Operations (DPO5). The RSF is meant at de-risking end user borrowers by offering a partial mortgage guarantee on the mortgage portfolios generated by primary lenders mainly from potential borrowers with non-formal income. This is expected to encourage banks and Saccos to shift financing down market and widen the scope of housing finance. This will also close the housing financing gap, especially for non-formal income borrowers in the informal sector, who are ordinarily considered "high risk" by the primary lenders. We shall be engaging all stakeholders to ensure this initiative creates impact in the mortgage market.

We will continue to proactively drive other activities aimed at promoting developments in affordable housing, including taking the lead in pursuing standardization of mortgage lending practices for primary lenders as well as making policy proposals that will enhance the growth of affordable housing.

Aligning our business with the Dynamic Operating Environment

During the year, we undertook a medium-term review of our strategic plan 2020-2024, to ensure that we continue to robustly deliver our mandate and that we are well positioned to seize available opportunities. At the same time, we are proactively managing risks of an ever changing business environment. The medium-term review gauged our performance against the identified performance indicators, examined the first two years of the strategy implementation and reviewed the Company's plan vis-à-vis global and industry practices to ensure we have greater alignments.

Sustainability is an important element at KMRC. We are committed to conduct business and adhere to practices that are economically viable, socially responsible, customer centric and environmentally friendly. One of the key strategy enhancements resulting from the medium term review was embedding sustainability in our strategic plan that will guide our operations for the remaining period of strategy implementation. Going forward, we will endeavour to dynamically sensitize our internal and external stakeholders on the importance of running sustainable businesses and continually enhance our Environmental, Social and Governance metrics.

Partnerships

Collaborations is crucial to our business growth, viability, and delivery of our value proposition to our stakeholders. We have achieved much of our objectives because of strategic partnerships with industry players both on the demand and supply sides of affordable housing. Partnerships have been imperative in our operations as we have been able to optimize our resources; learning and sharing best practices from our interactions and benchmarking in order to enhance service delivery more effectively to our internal and external stakeholders.

During the year, we continued to collaborate with key stakeholders including the National Treasury, our customers, the DFI's in scaling up our business. We also continue to participate in membership associations like the African Union for Housing Finance and International Secondary Mortgage Market Association. These memberships provide an opportunity for capacity building, exchange of ideas and identify issues that require policy interventions in the affordable housing space.

Our people

Performing optimally in an evolving ecosystem requires positive, committed, and empowered people driven by purpose. Our biggest strength remains the commitment and professionalism of our staff. They are undoubtedly the embodiment of the success attained by KMRC so far. We pride ourselves of strong employee engagement and a culture that encourages our team to make the best use of their time while exploiting their full potential and building strong relationships along the way. We believe that continuous effort, not strength or intelligence, is the key to unlocking the team's potential. We are deliberately making greater investment on upskilling our team, improving their welfare and providing a genuinely conducive environment matching the very best.

We have put in place policies and procedures that provide a strong foundation for establishing and maintaining an environment where our employees' physical and mental health is prioritized.

We have upheld a favourable culture and tradition that inspire our employees including methodical engagements between management and employees.

We pride ourselves of being a truly diverse and inclusive company, where all our internal stakeholders feel valued, heard, included, respected, and fully accepted. We strongly believe that by adhering to actions that support these tenets, KMRC will contribute to a better a and more equitable world. We also embrace a diverse workforce, which comes with an invaluable richness of experience, backgrounds, views, and expertise.

We commit to live by our core values which are Integrity, Innovation, Efficiency and Collaboration. These values are anchored in our day-to-day operations. Through our core values, we envision a workplace where all our internal stakeholders have a strong sense of belonging, while leveraging on our diversity. We encourage our employees to embrace our core values in carrying out their daily work assignments.

Going forward

The financial landscape in Kenya is expected to be challenging in 2023 mainly due to the prolonged drought, inflationary effects on the domestic and global economy, geopolitical uncertainties and high interest rates environment. However, with the continued collaboration with our stakeholders and our push to accelerate public awareness and financial literacy, we are optimistic about the future of KMRC growth in the fiscal year 2023. We will intensify refinancing to the primary lenders, support supply side actors and generally collaborate with our stakeholders through various initiatives that will create opportunities to leverage on our shared value.

We are keen on running a sustainable business and thus, we will support enhanced capacity building of the participating primary lenders on mortgage refinancing and continue to expand investments in sustainable activities with our stakeholders. In line with our revised strategy, we will continue to enhance our environmental, social and governance (ESG) plans, initiatives, and stakeholders' involvement. We expect our ESG initiatives to create a lasting impact and therefore, promote greater developments in the housing sector.

I wish to thank our shareholders for their continued support of the business, the Board of directors for their invaluable guidance and my team for their positivity and dedication to the ideals of the Company. The future is bright!

Mr. Johnstone Oltetia
Chief Executive Officer and Managing Director

> *"Sustainability is an important element at KMRC. We are committed to conduct business and adhere to practices that are economically viable, socially responsible, customer centric and environmentally friendly."*

MANAGEMENT TEAM

L-R: Johnstone Oltetia - Chief Executive Officer, Florah Muthaura - Head of Risk and Compliance, Nyale Yanga- Chief Finance Officer, Geofrey Mwaura - Head of Credit, Deborah Masara - ICT Manager, Daniel Saruni - Head of Human Resources and Administration, Olive Gitau - Head of Internal Audit, Erick Wambua - Finance Manager, Irene Kadima - Communication Officer, Elisha Nyikuli- Head of Legal Services and Company Secretary and Gideon Rutto - Procurement and Logistics Manager.

KMRC 2020 - 2024 Strategy at a glance

KMRC's strategic plan covers the period 2020 – 2024. As part of the strategic monitoring and evaluation, a mid - term review was carried out in 2022 to assess the progress in achieving the set results and align the Company with relevant changes in the environment and emerging trends.

Objective (1): To develop and optimize the institutional capacity of KMRC.

Achieving this objective involved key initiatives which entailed operationalisation of the institution through human resource acquisition, deploying information technology systems and infrastructure, internal policies and procedure implementation and obtaining license to operate.

As part of a critical effort to recruit, upskill and resolve skill gaps, seventy percent (70%) of recruitment needs was completed. The mortgage refinance system (MRS) was fully implemented with continuous maintenance of existing ICT infrastructure included in the ICT strategy.

Subsequent to obtaining the CBK license, the Company began drawing down financing from the World Bank and African Development Bank (AfDB) through the National Treasury (NT) commencing its lending operations.

Objective (2): To provide liquidity financing PMLs

Achieving this objective involved the implementation of the communication and public awareness strategy. Lending operations commenced through the review of mortgage loan portfolio of PMLs, undertaking of credit assessment and determination of annual credit limits for borrowers, extending refinancing to PMLs, monitoring and evaluation of loan performance and review of credit model periodically. Additionally, an annual review of the product offering was carried out taking into consideration market needs.

Objective (3): To support the development of improved mortgage lending practices within PMLs.

This objective is currently in progress to be fully achieved through the initiative to periodically reviewing PMLs mortgage lending capabilities including the review of the current mortgage product features, procedures and underwriting procedure for banks, MFBs and DT SACCOs, and also identify key gaps and shortcomings.

Objective (4): To raise long term finance efficiently and sustainably.

This objective involved raising long-term funds from the capital markets through the issuance of bonds and exploring additional funding options. The Company issued its inaugural bond through an MTN program where the 1st tranche was capped at Kes 1.4 Billion.

Objective (5): To support developments in the housing market.

This objective was achieved through the initiative of periodic assessment of key challenges in the housing market where KMRC acts as a convener of all stakeholders in the housing market through the annual Kenya Affordable Housing Conference (KAHC). Additionally, KMRC promotes developments in the housing market through continual research market enhancement where it published five (5) research reports on the Company website in the year under review.

Initiatives such as continual research on key mortgage enhancements are currently in progress for it involves monitoring developments in the mortgage market of both developed and developing economies. Developing best practice recommendations is in progress by developing best practice around mortgages and sharing it with PMLs. The initiative to carry out training for PMLs is currently in progress through the facilitation of training per each type of PML.

Strategic Plan Medium Term Review (MTR)

During the reporting period we conducted a MTR of our current strategic plan. The exercise was vital to showcase where we have come from, how we are fairing and developing the next steps to accelerate affordable housing through deployment of innovative financing solutions.

We conducted an all-encompassing assessment by first engaging a high-level review of the operating environment, benchmarking with other MRCs globally, and stakeholder analysis. This was followed by reviewing the current organizational status of the strategy on implementation including undertaking a materiality assessment to establish the sustainability agenda.

In addition, we identified enablers and critical success factors that underpin our organizational success that were used to review not only the strategic framework but also the policy documents, shareholders, partner agreements, market reports and annual reports. The outputs of the consultative process was able to be leveraged to revise the strategy implementation plan in line with the revised current and projected operating environment with an agenda of succeeding in our mandate.

Business Segments

As a company, we are aware of the significant changes taking place in the mortgage industry. For KMRC to stay ahead of the curve and fulfil its mandate to hasten the availability of affordable financial solutions for home ownership, we believe that innovation and resilience is essential. We'll keep working to make it easier for first-time buyers to find a place to call their own and for people with low income to move into properties that better suit their requirements.

As the age at which people buy their first home increases, and the price of affordable home continues to rise, people may need longer period to pay back their mortgages. By stretching the mortgage term, we enable people to lower their monthly payments, making buying a property more affordable.

Emerging Growth Engine

A range of interventions have been identified through internal and external analysis of the KMRC environment that must be put into action to fulfil its mandate. These interventions consist of:

- Financing environmentally friendly projects; the company will in future consider raising sustainable finance through the issuance of green bonds and/or social bonds.
- A larger pool of funds could be raised for mortgage refinancing by looking into the possibility of obtaining funding from international debt markets by issuing bonds on the world market.
- Implementing the credit risk sharing facility to de-risk end-user borrowers and make mortgages more affordable and accessible to ordinary Kenyans, especially for the informal sector borrowers
- Working closely with the Kenyan Government to support the housing industry by recommending policy proposals that will help solve problems and boost housing supply and demand. Providing technical assistance to enhance the capacity of Primary Mortgage Lenders (PMLs) in loan standardization and underwriting.
- Driving innovations in the housing value chain, such as credit risk sharing facilities, remove barriers for lower-income groups, and bring unsalaried workers in the informal sector, SMEs, MSMEs, etc. into the fold, thereby unlocking mortgage opportunities for otherwise ineligible populations.
- Advocating for support to professional developers through incentives, training, referrals etc to enhance the supply of quality affordable housing in Kenya.
- Advocacy and policy influence with the government to favour the affordable housing market.
- Developing new products and alternative credit scoring mechanisms/capabilities for the informal sector.

Housing Agenda

During the reporting period, we convened the 2nd Annual Kenya Affordable Housing Conference, which is a platform established to enhance linkages amongst the Supply side, Demand side and the Enabling environment. The Conference is also an opportunity for housing sector stakeholders and thought leaders to network, share insights and learn the best practices for adoption. The conference engaged different stakeholders including but not limited to the National Treasury, banks, saccos and other housing players.

The Affordable housing agenda, being a key pillar of the Government's development plan, is increasingly being realized through concerted efforts by stakeholders. The constitution of Kenya also recognizes that affordable housing is a basic human right. Despite the country experiencing an annual deficit of about 200,000 affordable housing units, remarkable strides in addressing this gap have been made through leveraging partnerships with Saccos and commercial banks as primary mortgage lenders.

Since KMRC 's commencement of the lending business in 2020, the Company has disbursed Kes 7.1 billion to the participating banks and saccos. Going forward KMRC will strive to influence policy to accelerate the development of robust and responsive housing markets targeting the middle to the low-income segment of society which is disproportionately affected by housing shortage.

The Ministry of Lands, Housing and Urban Development is actively supporting the affordable housing agenda.

Further, the National Treasury has begun aligning tax policies with the affordable housing agenda to deliver long term investment and will partner with the private sector and county government in developing affordable houses. KMRC, as an affordable housing catalyst on the demand side, has established key drivers to ensure the housing agenda stimulates economic recovery at local levels and creates job opportunities.

ESG Roadmap Highlights

During the reporting period as a forward-looking Company, we conducted a mid-term review of our Strategic Plan 2020-24 and integrated sustainability imperatives in the plan for our business. This exercise was concluded by an independent consultant in line with the best practices in strategy evaluation, leveraging on benchmarking, literature review, research, interviews, and deep dives.

The sustainability agenda was critical to ensure that KMRC is fit for purpose, considering both risks and opportunities that abound in the critical space of affordable housing.

A materiality assessment was carried out engaging both internal and external stakeholders to deduce key issues that matter the most to the business, as well as impact our stakeholders. Anecdotal evidence was collected, and validation was done to align the results with regards to the material topics as well as established Key Performance Indicators (KPIs). Going forward, as a company we will be reporting periodically on both the negative and positive impacts of the company activities with regards to six material topics and the seven adopted Sustainable Development Goals (SDGs).

Material Topic	Sub themes	Adopted SDGs
Sustainable finance and Climate action	• Resource efficiency • E&S Risk Management Policy • Corporate Social Responsibility • Issuance of green bonds • Compliance with regulatory requirements	6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION
Employee Welfare	• Training & Development • Diversity & Inclusion • Staff management & Wellbeing • Performance Management	8 DECENT WORK AND ECONOMIC GROWTH
Housing Impact	• Establishment of a risk sharing facility • Standardization of mortgage practices	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES

Material Topic	Sub themes	Adopted SDGs
Leadership & Governance	• Board Charter • Risk Framework • Risk Appetite • Board Diversity • Capacity Building for Management and Board • Corporate Governance	8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES
Customer experience	• Loan thresholds • Borrowing for SACCOs • Policy proposals to catalyze accessibility of finance to PMLs • Customer data protection • Affordable and accessible long term funding • Customer awareness & sensitization • Product & Service catalogues • Range of products & service suite • Training of customers	8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES
Partnership	Collaboration opportunities	11 SUSTAINABLE CITIES AND COMMUNITIES 17 PARTNERSHIPS FOR THE GOALS

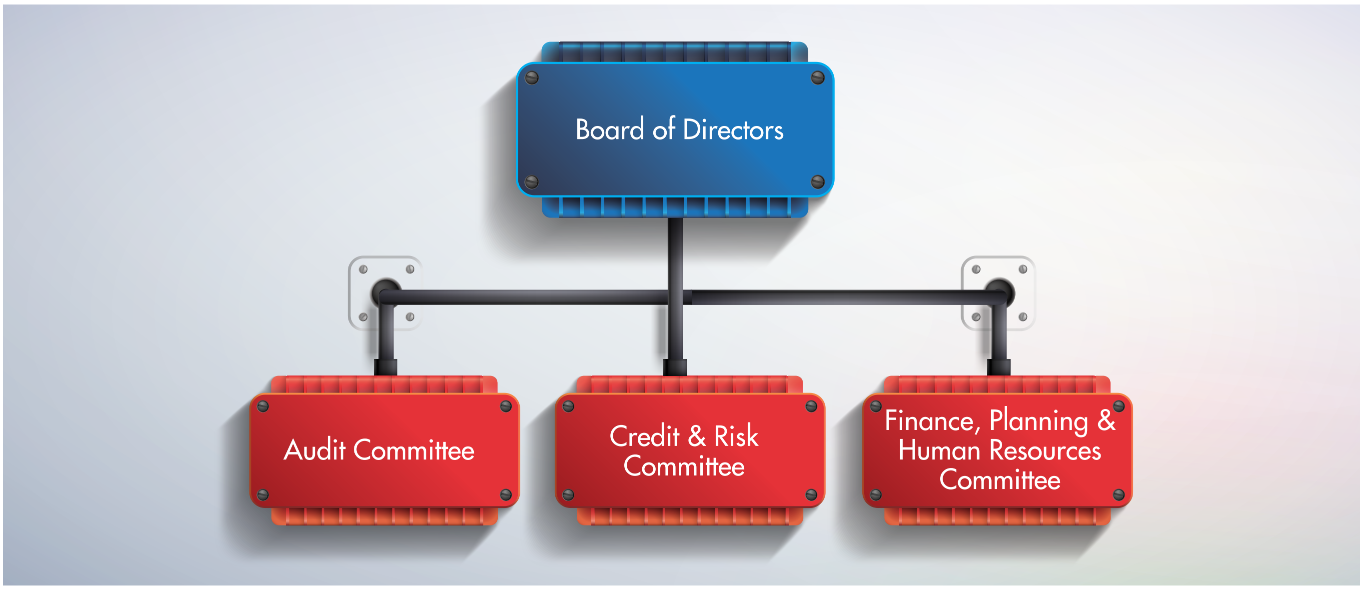
SDGs

LEADERSHIP AND CORPORATE GOVERNANCE

Corporate Governance Statement

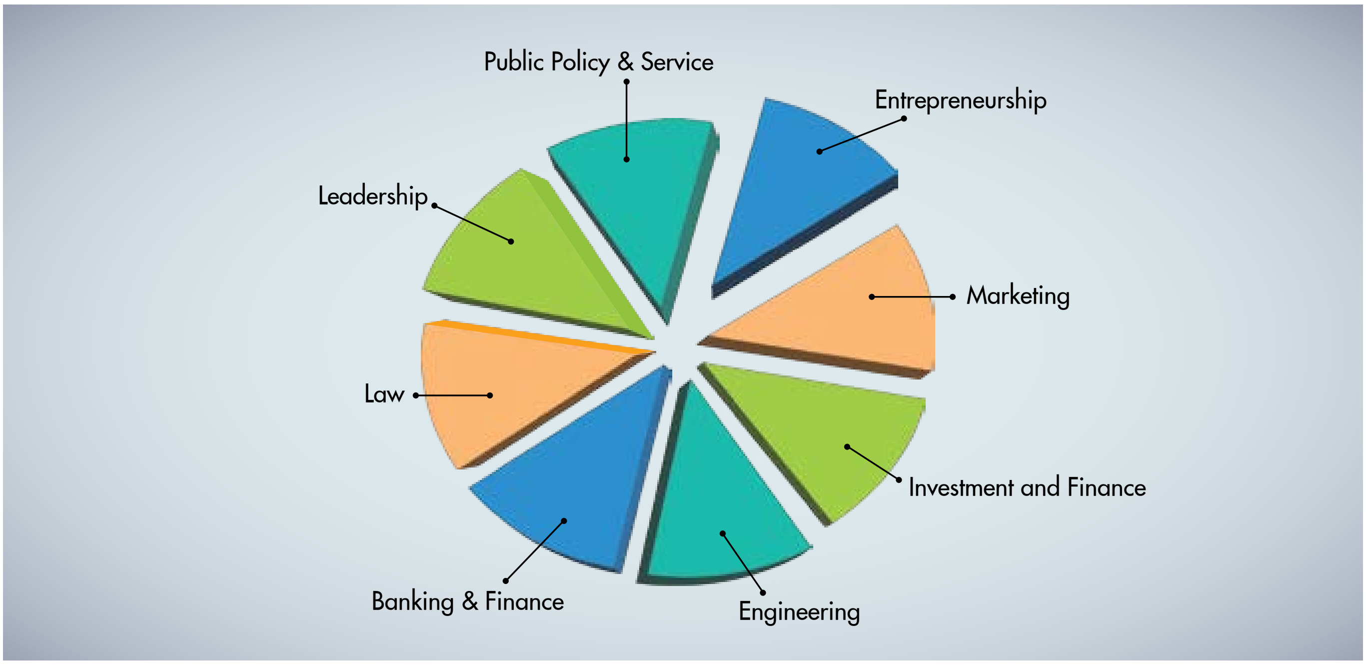
KMRC adopts high standards and applies strict rules of business conduct based on the best international corporate governance practices. Pursuant to this commitment, the Board adheres to high standards of ethics and moral behaviour and encourages employees to maintain personal integrity, act in the best interests of the Company, recognize the legitimate interests of all stakeholders and ensure that the Company acts as a good corporate citizen.

Board Organogram

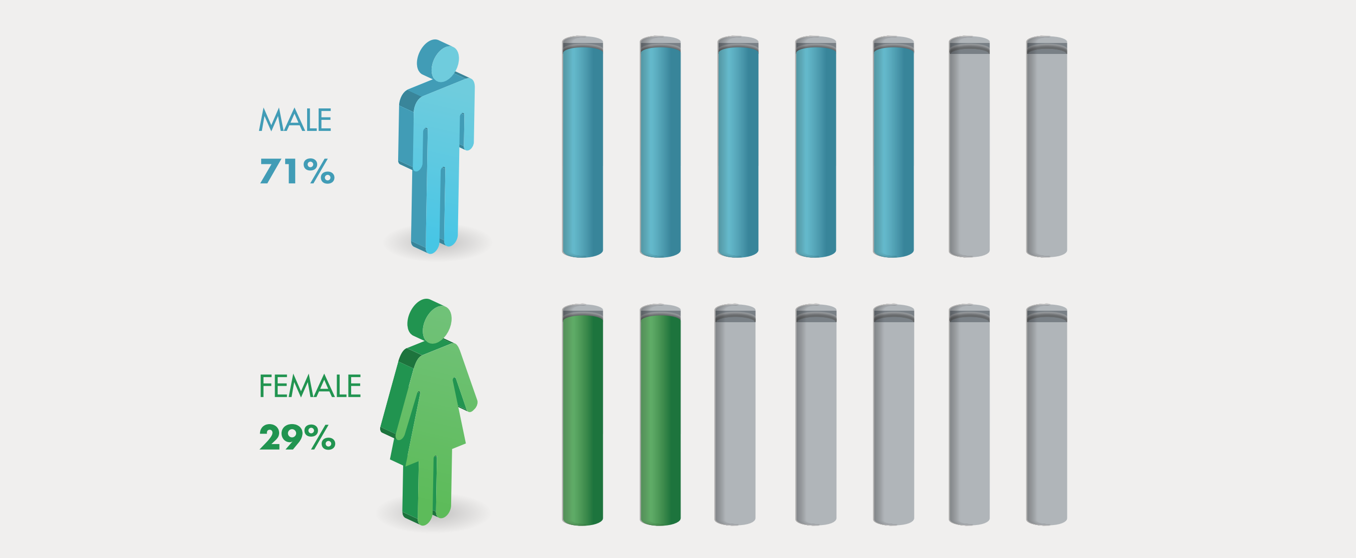


Board Diversity

KMRC values diversity equality, equality and inclusion and is committed to cultivating these tenets within our board of directors. We believe that having a board that is diverse in terms of gender, set of skills, experience, perspectives and expertise is vital for making sound decisions and improving business outcomes. We acknowledge that gender, ethnic group, age, education, and career experience all contribute to sustainable development. We continuously strive to ensure that our board reflects this equity and inclusion. Below showcases the various skill set and expertise of the board.



During the reporting period, the board was composed of five male members and two female members.



Board Composition

The Board at full complement comprises five non-executive directors representing the cross-section of shareholders, two independent directors, and the Chief Executive Officer & Managing Director. One independent director retired in March 2022 and the process of appointing a replacement is underway. The Board members and attendance of the Board meetings held in the year under review were as follows:

No.	Name	Position	Meetings attended
1.	Dr. Haron Sirima	Chairman	4
2.	Mr. Asman Khatolwa	Non-Executive, Representing Saccos	4
3.	Mrs. Sarah Bonaya	Non-Executive, Independent Director *(Retired on 3rd March, 2022)*	1
4.	Mrs. Susan Maira	Non-Executive, Independent Director	4
5.	Mr. Samuel Makome	Non-Executive, Representing Banks *(Retired on 31st December, 2022)*	4
6.	Mr. Robert Kibaara	Non-Executive, Representing Banks	4
7.	Mr. Johnstone Oltetia	CEO & MD	4

Board Committees

The Board discharges its responsibilities through Board Committees constituted from amongst its members. The established Board Committees are:

i. Audit Committee

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

The internal audit function provides independent, objective assurance and consulting services, designed to help the Company accomplish its objectives, improve its operations, protect its assets, reputation, and sustainability. The independence and objectivity of the internal audit function is maintained by functionally reporting to the BAC. The control environment and risk management measures of the processes reviewed during the year were found to be strong and supportive of the business objectives.

The integrity of financial reporting to shareholders is protected by the Board through direct oversight by the BAC.

The BAC members and meetings held in the year under review were as follows:

No.	Name	Position	Meetings attended
1.	Mr. Asman Khatolwa	Chairperson	5
2.	Ms. Susan Maira	Member	5
3.	Mr. Samuel Makome	Member *(retired)*	3
4.	Mr. Robert Kibaara	Member	5

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

ii. Credit and Risk Committee

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

The BCRC approves credit limits, reviews progress made in lending and recommends credit proposals to ensure consistent business growth. These tasks are carried out within the approved Credit Policy and Risk appetite of the company.

The principal risks, which are those risks that can prevent the Company from achieving its strategic objectives in the short and long term are reviewed and discussed by BCRC during its quarterly meetings and reported to the Board for consideration. All risks are managed under the company's risk management framework.

The BCRC members and meetings held in the year under review were as follows:

No.	Name	Position	Meetings attended
1.	Ms. Susan Maira	Chairperson	4
2.	Mrs. Sarah Bonaya	Member *(retired)*	1
3.	Mr. Asman Khatolwa	Member	3
4.	Mr. Johnstone Oltetia	Member	4

ii. Finance, Planning and Human Resource Committee

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

During the year under review, the Committee reviewed several policies relating to human resources management, finance, information technology and procurement. It also provided guidance on the mid-term review of the Company's Strategic Plan to incorporate environmental and social issues in the operations of the Company. The Committee provides oversight on budget development and monitoring, corporate performance, and compliance with legal and regulatory requirements.

The BFPHRC members and meetings held in the year under review were as follows:

No.	Name	Position	Meetings attended
1.	Mrs. Sarah Bonaya	Chairperson *(retired)*	1
2.	Mr. Robert Kibaara	Ag. Chairperson	4
3.	Mr. Asman Khatolwa	Member	4
4.	Mr. Samuel Makome	Member *(retired)*	2
5.	Mr. Johnstone Oltetia	Member	4

Board performance management and capacity building

KMRC is committed to the highest standards of performance for its board members. To this end, an annual board evaluation exercise was conducted during the year with an impressive overall score, which is an attestation to the right mix of directors and desired competencies.

Further, the Company continues to implement a robust annual board capacity building plan for purposes of upskilling the Directors and at the same time ensure compliance with regulatory requirements on governance. All the Directors went through a diverse range of governance training during the year. In addition, a group training on sustainability and board effectiveness was conducted in September 2022 which not only served as an important team-building opportunity for Directors, but also provided an opportunity for a mid-term review of the Company's 2020-2024 strategic plan.

Board succession planning

In adherence to the requirements of its articles of association, KMRC is committed to the highest standards of governance practice by ensuring that shareholders continually have a say in who represents them on the Board. To this end, a board rotation matrix was implemented in the year under review and put into effect at the 2022 Annual General Meeting where two directors retired and were re-elected. A schedule of director rotation is in place and continues to be reviewed on a need basis, always ensuring the highest level of transparency.

RISK MANAGEMENT

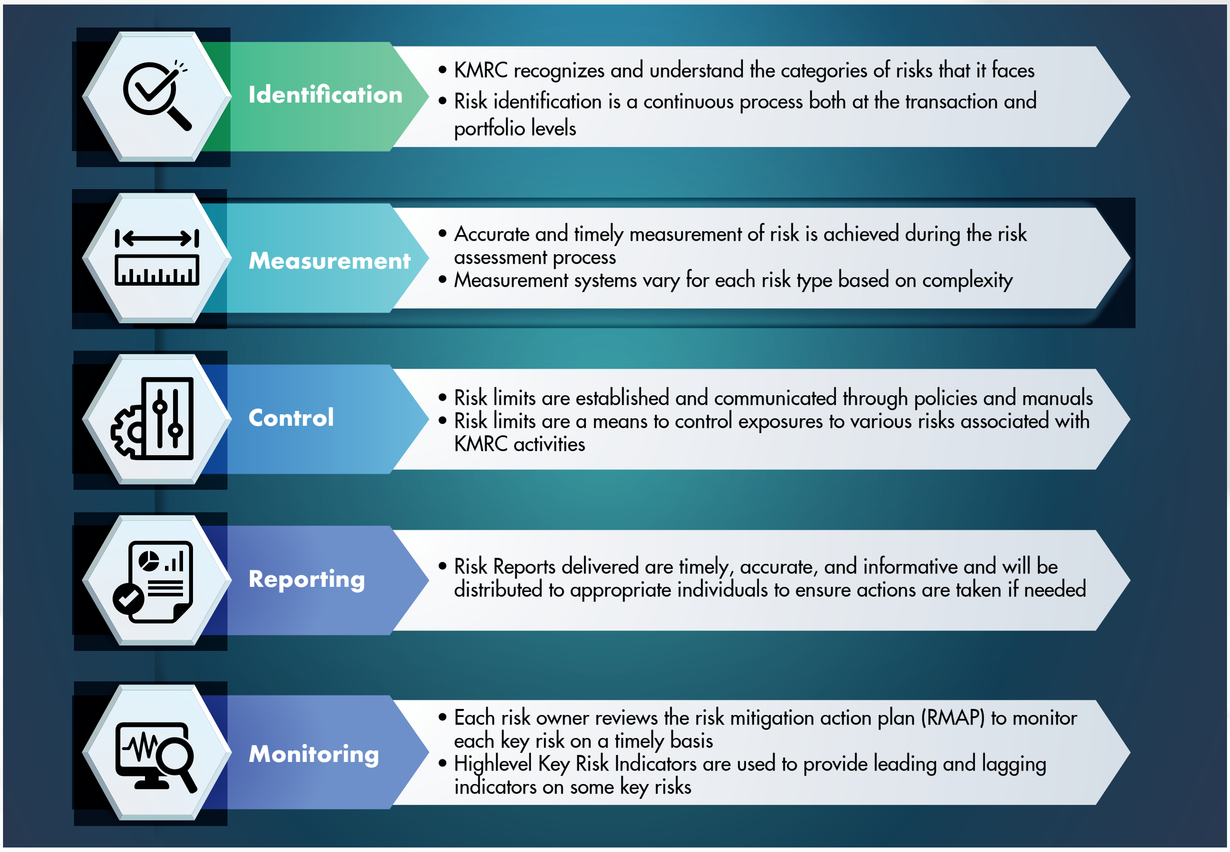
Risk Management Framework

KMRC understands that risk management does not imply the elimination of risks. It is instead the understanding and management of the institution's risk environment and taking measures, where necessary, to ensure risks are contained within acceptable levels.

The Company's risk management framework is aligned with the Regulator's Risk Management Guidelines which highlights the minimum requirements for risk management systems and frameworks in regulated financial institutions. CBK requires that each financial institution prepare a comprehensive Risk Management Framework (RMF) that is tailored to the needs and circumstances under which it operates and establishes a Risk Management Function that coordinates risk management.

Our fundamental risk philosophy is to keep the Company's risk profile as low as possible, a critical condition of success to ensure the best funding conditions available in the market; minimize the needed capital base; and enable KMRC to charge a small intermediation margin to participating banks.

Risk Management Process



Credit Risk Management Overview

Credit risk arises from the potential that an obligor is either unwilling to perform an obligation or its ability to perform such an obligation is impaired resulting in economic loss to the Company. KMRC's structure allows it to operate with a low credit risk level. Its refinance with recourse activities are secured by the credit of the Primary Mortgage Lenders (PMLs) as well as the quality of the underlying mortgage portfolios.

Some of the factors that affect KMRC's credit risk include:

01 PML eligibility criteria

02 Mortgage and housing loan eligibility criteria

03 Collateral replacement quality

04 Overcollateralization

KMRC manages this risk by carrying out pre-disbursement reviews (i.e., ensuring adequate collateral and checking compliance with policies and regulations) on mortgage and housing loan portfolios submitted for refinance. After the loans have been disbursed, KMRC monitors adherence to the terms and conditions of approval on an ongoing basis. This includes periodic audits of the collateral and onsite reviews of a random sample of collateral files to ascertain compliance with its guidelines.

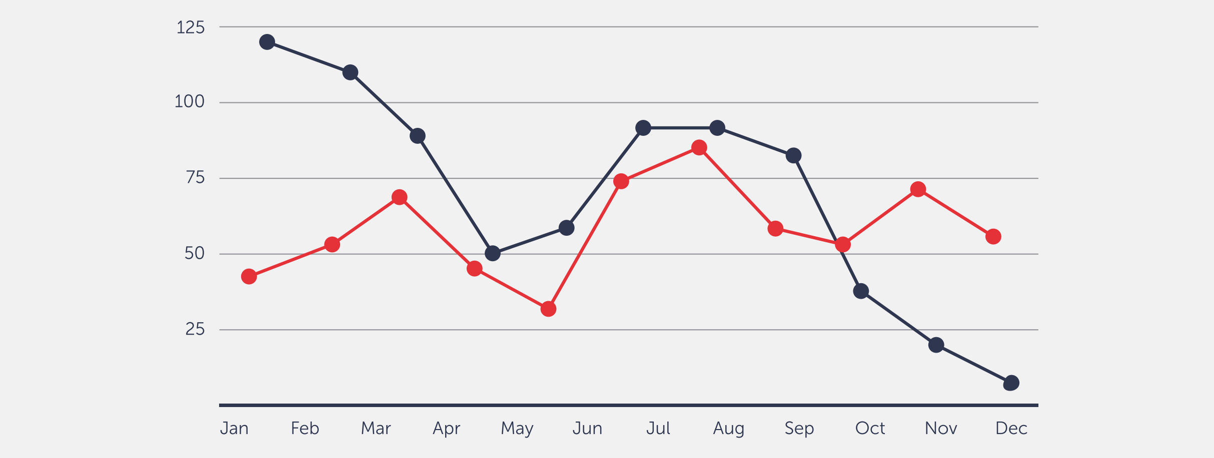
Climate Change Risk

The risks around us are constantly changing due to climate change and its effects on the environment. KMRC is cognizant of the climate risks that pose potential negative consequences to the business that results from its mortgage lending activities. The climate change risks associated with KMRC's lending activities depend on factors such as the specific environmental and social circumstances associated with the PMLs' operations. Climate Change issues can have adverse risks and impacts associated with the:

- Quality of the collateral (properties in the mortgage/housing loan portfolios presented for refinancing to KMRC by PMLs) and
- Ability of the mortgage borrowers to repay these loans.

KMRC has implemented an environmental and social risk management policy that assists PMLs to maintain the relevant environmental and social standards. As a condition of eligibility to receive financing from KMRC, PMLs are required to put in place the minimum institutional systems and capacity to enable environmental and social screening against the set requirements. This includes written E&S Policies and procedures reflecting the KMRC requirements; designated staff with clearly defined responsibilities for E&S risk management; and the internal capacity to conduct E&S screening. Properties refinanced by KMRC should pass the eligibility test on environmental & social risk exposures in their mortgage lending process.

Market Risk Management



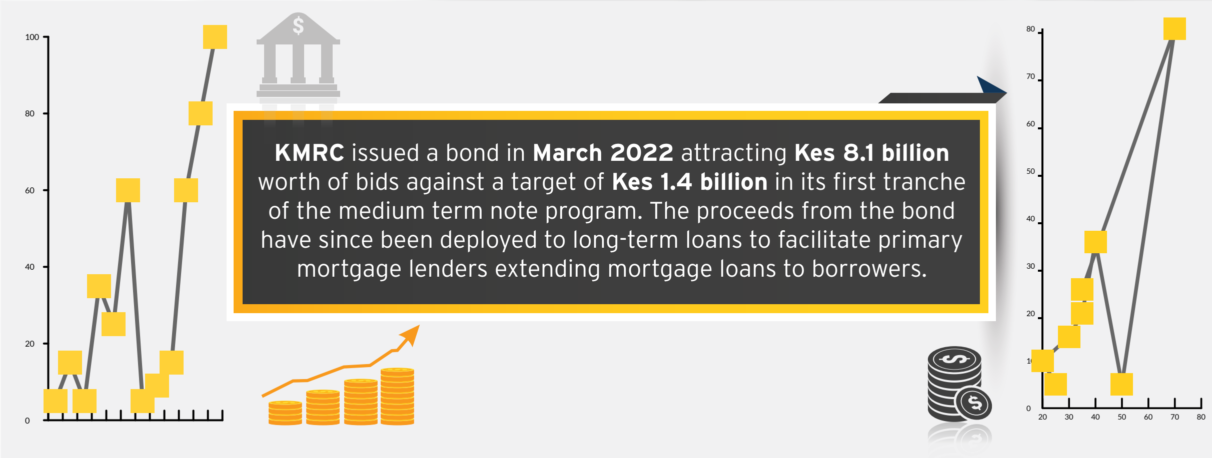
Market risk, the risk of loss due to the adverse movement of market interest rates, is generated by interest rate risk embedded in KMRC's balance sheet and off-balance sheet reflecting the refinance activity and theoretically by the fluctuations in the value of instruments of the investment portfolio. Regarding the latter, however, the company has implemented the Asset Liability Management Policy which restricts investment of available funds in excess of the refinance portfolio to short-term and liquid assets, and long-term classified assets to be held to maturity. Therefore, the procedures to manage market risk focus on the refinance assets and their source of funding.

To manage market risk, the Company undertakes to accurately match the duration of its loans with the duration of its bonds and liabilities to the largest extent possible. KMRC also leverages funding provided by Development Financial Institutions (DFIs), to cushion against liquidity and interest rate risks, it plays the role of a near loss-absorbing capital cushion.

Liquidity and Funding Risk Management

Liquidity risk is the risk that there is a lack of resources to support KMRC's activity and assets. The company ensures that the resources needed are always available. In the short term, the risk mitigant is the maintenance of short-term investments made up of easily monetizable assets including call and fixed deposits.

Liquidity funding risk refers to the inability to raise the resources needed for the lending activity (new lending or refinancing of existing assets) or the loss due to the inability to meet obligations and commitments as they fall due. The primary source of long-term liquidity for KMRC shall be the issuance of bonds and raising of concessional funding, while the primary usage of long-term liquidity shall be lending to primary mortgage lenders (PMLs). The Company strives to match the maturity of its loans to PMLs with the maturity of the corresponding bond and concessional funding. The long-term investments shall only be made of equity and any surplus funds. The Company is hence exposed to very low liquidity risk.



KMRC issued a bond in **March 2022** attracting **Kes 8.1 billion** worth of bids against a target of **Kes 1.4 billion** in its first tranche of the medium term note program. The proceeds from the bond have since been deployed to long-term loans to facilitate primary mortgage lenders extending mortgage loans to borrowers.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. These risks may arise when KMRC's internal practices, policies, and systems are not adequate to prevent a loss from being incurred, either because of market conditions or operational difficulties. Such deficiencies could arise from failure to measure or report risk correctly, or from a lack of controls over internal processes.

KMRC has a monoline business characterized by limited size of fixed/immobile assets, with limited scale of physical operation, one office location, and a lean structure due to the nature of its operations. The company has also implemented internal procedures with in-built controls to minimize any impact from operational risks.

Management has implemented risk management policies and procedures aligned to the types of risks that arise from the organization's activities. The institution's policies and procedures provide detailed guidance for the day-to-day implementation of broad business strategies and include limits designed to shield the organization from excessive and imprudent risks.

Disaster Management

Disaster management is the process involved in creating a system of prevention and recovery from potential hazards and threats to the business. This has been achieved through the implementation of Business Continuity and Disaster Recovery Policies. Disaster management involves defining all risks that can deeply affect the Company's operations to the point that they result in their suspension, making it an important part of the organization's risk management strategy.

Contingency plans have been developed for the risk areas that are susceptible to prevent the regular conduct of KMRC activity. In each of these areas, contingency and recovery plans are designed through the implementation of a Business Continuity Plan. It includes area specific recovery plans and their assessment of the correlation for instance through the impact of a major default on KMRC access to external resources and where necessary, establishes a prioritization of measures and processes under

the specific plans. Management conducts disaster recovery tests of the feasibility and adequacy of the recovery procedures defined in the business continuity plan. The risk department continuously monitors the warning signs included in the plan and reports the outcome to the risk committee.

Risk Management Governance

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

The Board is responsible for setting the risk appetite of the Company and delegating responsibilities down the line to the Board Credit and Risk Committee (BCRC) and Management. The Risk and Compliance Function takes up the primary responsibility of managing risks and maintaining its independence from the risk-taking functions of the Company.

The Company's risk appetite defines the level of risk acceptable for the Company to pursue its mission and strategic goals. KMRC's fundamental risk philosophy is to keep the Company's risk profile as low as possible.

Internal Control Framework

KMRC's internal control structure is critical to the safe and sound functioning of the organization, in general, and to its risk management. Establishing and maintaining an effective system of controls, including the enforcement of official lines of authority and the appropriate separation of duties is one of management's important responsibilities. Internal controls are tested by a suitably qualified internal auditor who reports functionally to the Board Audit Committee. Given the importance of appropriate internal controls to the company, the results of audits or reviews are adequately documented, together with management's responses to them.

Internal controls help KMRC to achieve its objectives, sustain and improve performance. The internal control framework in place at KMRC enables easy adoption to change in the business and operating environment, mitigating risks to acceptable levels and supporting sound decision-making and governance.

The internal control framework incorporates:

1. The control environment

The KMRC Board has set the tone at the top regarding importance of internal controls. This has been reinforced at various levels of the organization through developed and approved policies and procedures, standards of performance, and defined operating structures. It comprises, overarching values, namely, integrity, collaboration, innovation, and efficiency. In addition, governance oversight responsibilities, structure and assignment of authority and responsibility, process of attracting, developing and retaining competent staff, process of performance measures, incentives and rewards to drive accountability for performance.

2. Risk assessment

KMRC has developed the risk and control self-assessment tool (risk registers) for identifying and assessing risks to the achievement of objectives. This is updated quarterly with key organization risks identified and respective controls evaluated for adequacy and reporting is done to the Board. Management further considers the impact of possible changes in the external environment and within its own business model to evaluate efficiency and effectiveness of the internal controls.

3. Control activities

Internal control activities are established at KMRC through policies and procedures that help mitigate risks towards achievement of objectives. These control activities are performed at all levels, within business processes and over the technology environment. They encompass both automated and manual activities such as, segregation of duties, authorizations and approval limits and levels, verifications, reconciliations, and business performance reviews.

4. Information and communication

KMRC has put focus on the relevance and quality of information shared by management both internally and externally through reporting.

5. Monitoring

KMRC is regulated and adheres to high compliance levels, and therefore, continuous monitoring and ongoing evaluations are built as part of its business processes at different levels to provide timely, relevant, and accurate information.

As part of its internal control framework, KMRC applies the three lines model to the day-to-day risk management activities. The business functions are the first line, who own and manage the risks. Risk and compliance function is second line getting to monitor the overall risk profile of the Company and ensure compliance with policies and regulations. Internal audit function then falls under the third line and provides independent assurance and advisory services while evaluating the adequacy of overall risk management framework.

Internal audit reviews and evaluates the effectiveness and efficiency of the internal controls, risk management and governance processes to assist the Board and Management in protecting the assets, reputation, and sustainability of KMRC. This is designed to add value and improve the operations of the Company towards achieving its objectives.

OVERVIEW OF OPERATING ENVIRONMENT

Regulatory Landscape

KMRC operates in the regulatory landscape of the financial services sector. The Company is regulated by the Central Bank of Kenya (CBK), with the Capital Markets Authority (CMA) providing oversight over its bond issuance operations.

Affordable Housing Landscape

The right to housing is enshrined in Kenya's Constitution under article 43 (1) (b), which stipulates that all citizens have the right to accessible and adequate housing, and to reasonable standard of sanitation. However, Kenya still grapples with a huge housing demand and supply gap.

There have been developments coming from the Capital Markets with the Kenya pension stakeholders backing real estate investment trusts to pool funds for long-term projects such as affordable housing. The Kes1.6 trillion asset-rich sector has been reinvigorated with calls to diversify conservative portfolios from investments such as bonds and fixed deposits to long-term projects and other alternative asset classes.

Key Challenges

1. **Inadequate supply of Affordable Housing**
   Kenya's annual housing demand stands at 250,000 units with an estimated supply of 50,000 units, and a housing deficit of 2 million units. It is estimated that only 2% of the formally constructed houses target lower-income families, with about 65% of urban families having to cope with the informal settlements.

2. **High incidental costs**
   Due to high incidental costs, an additional 6% is added to the cost of the property to cover stamp duty, legal fees, valuation fees, and facilitation fees. Most developers are compelled to build their own infrastructure to draw customers, but they pass down the cost to the end user by offering homes at exorbitant prices. Most Kenyans are unable to afford this, complicating their house purchase ambitions.

3. **Slow property registration and titling process**
   Property registration is a bottleneck that is establishing hurdles for home ownership. The different departments and government agencies involved are proving red tape encouraging corruption resulting in unnecessary cost implication for homeowners.

4. **Unrealized incentives (Stamp duty exemption for 1st time home buyers and mortgage relief for borrowers from Saccos)**
   Enabling policy is vital to accelerate home ownership in Kenya. Revenue generation by the government is a hurdle rather it can be harnessed to become an incentive and accelerate home ownership especially for first time home buyers.

5. **High cost of land for construction**
   The cost of land in Kenya makes up between 40 and 60 per cent of the total cost of a housing unit. This makes delivery of affordable housing costly and thus unaffordable.

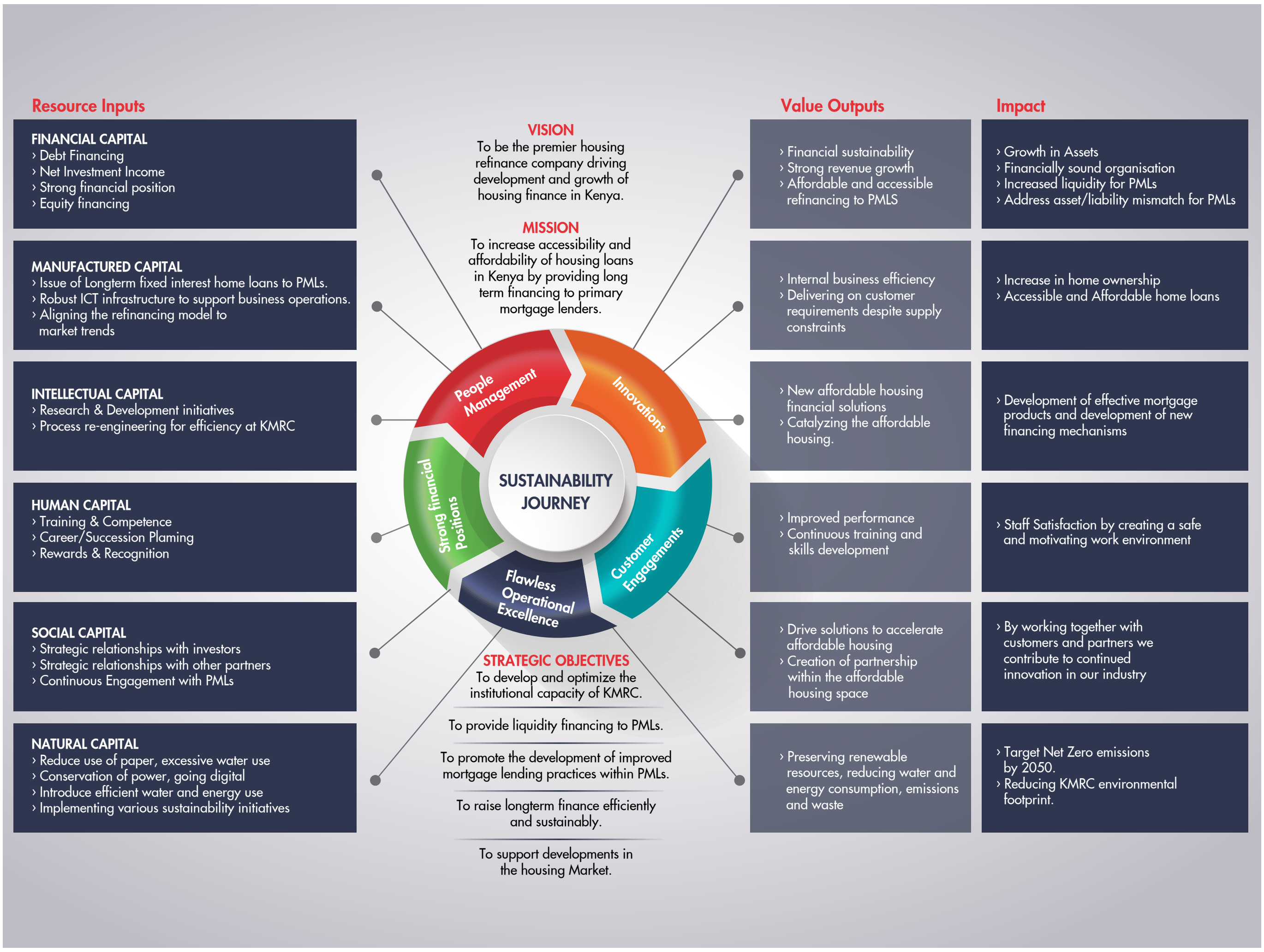
6. Inadequate awareness of KMRC's role

We observed a general lack of understanding of KMRC's product offering among the PMLs' customers and staff. We recognize the need to engage with customer-facing staff in targeted capacity building exercises which will reinforce their knowledge of their partnership with KMRC and obtain thorough information to share with borrowers. There is insufficient financial literacy in the market, particularly among borrowers, necessitating increased public awareness campaigns.

Our Value Creation Model

At KMRC, we believe that sustainable and responsible business practices are essential to creating long-term value for our stakeholders: customers, employees, suppliers, investors and the community at large. To guide our efforts towards creating sustainable value, we have developed a value creation model that encompasses three key pillars: environmental, social and governance.

By integrating these pillars into our value creation model, we believe that we are better equipped to create long-term value for our stakeholders, and to make a positive contribution to society and the planet, consequently positively impacting our bottom line. We will continue to impact these pillars as we work towards a vision of a more sustainable and responsible future by accelerating sustainable affordable housing solutions.



Stakeholder Engagement Matrix

At KMRC, we recognize the importance of stakeholder engagement as a key component of our business strategy. We are committed to understanding and addressing the needs and expectations of our stakeholders, including customers, employees, suppliers, investors, regulators and the communities in which we operate. To support this ambition, we continuously engage with our stakeholders to ensure value is developed, retained and shared.

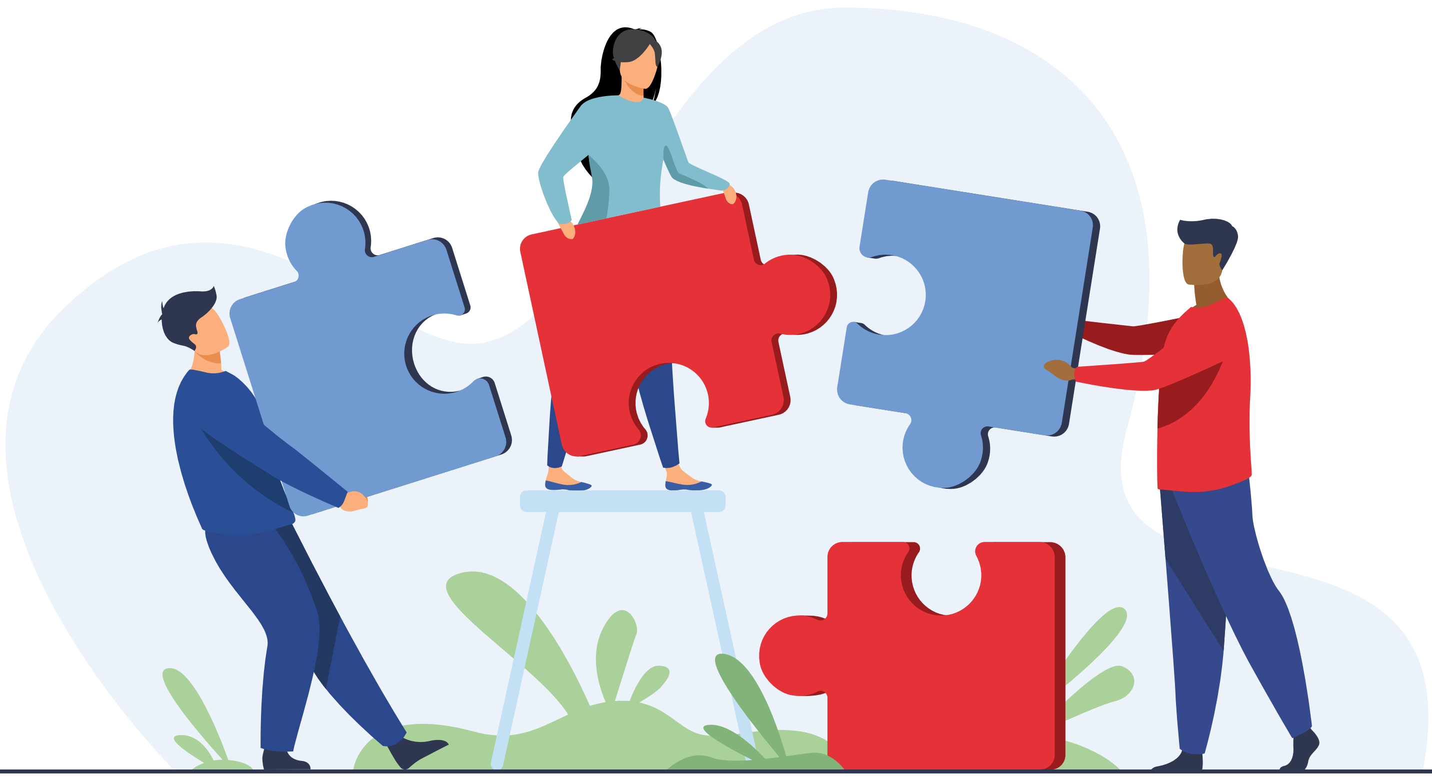
Our stakeholder engagement matrix enables us to be deliberate in how and why we engage with our stakeholders. This is based on their level of interest and influence, and to develop targeted engagement strategies that align with their specific needs and expectations. We engage with stakeholders on an ongoing basis, seeking their feedback and input, and using this information to inform our decision-making processes and improve our operations.

We believe that effective stakeholder engagement is critical to our success as a business, and we are committed to maintaining open and transparent communication with our stakeholders. KMRC has identified its key stakeholders, who compose the enablers of successful business performance and achievement of our objectives. This is based on these stakeholders' high interest, stake and resources towards the affordable housing agenda. We have put in place continuous engagement mechanisms to support and leverage on the various stakeholders' contributions.

Stakeholder Groups	Engagement Platforms	Issues and Concerns	Outcomes
Employees	• Regular dialogue sessions, town halls, and forums with all staff • Training activities (e.g., workshops and team-building sessions) • Employee engagement surveys • Employee grievance handling procedures	• Job security • Remuneration and benefits • Training and Development. • Career development opportunities • Occupational safety, health, and wellbeing • Labour and human rights • Work-life balance • Workplace environment and conditions	• Improved employee satisfaction. • Better alignment of employee and company goals. • Increased productivity. • Lower attrition rate. • Enhanced safety and health for employee. • Improved employee relations and trust in management. • Enhanced skills and knowledge transfer.

Stakeholder Groups	Engagement Platforms	Issues and Concerns	Outcomes
Government	• Direct engagement through specialist teams (Face-to-face, phone calls, letters, emails). • Thought leadership platforms (Kenya Affordable Housing Conference). • Technical Working Groups	• Social Impact (affordable houses developed) • Employment creation • Foreign investment. • Sustainable equitable development. • Diversity and Inclusion • Ethics and accountability. • Climate action, including GHG reduction and Net Zero emissions. • Protection and enjoyment of human rights	• Enabling environment for all stake holders in the affordable housing value chain • Supportive regulatory environment • Enhanced capital and liquidity.
Regulators	• Direct engagement through specialist teams (Face-to-face meetings, phone calls, letters, emails)	• Compliance to regulatory framework. • Business continuity and performance • Climate action, including GHG reduction and Net Zero emissions • Data privacy and security • Corporate governance • ESG integration with financial reporting • Occupational health and safety	• Compliance with regulatory requirements • Financial and operational resilience • Regular financial and non-financial reporting

Stakeholder Groups	Engagement Platforms	Issues and Concerns	Outcomes
Shareholders and Investors .	• AGM, meetings and site visits • Media releases and interviews • Investor briefings • Annual reports and financial statements • Publishing of results • Corporate website and social media platforms	• Corporate governance • ESG disclosures aligned with leading global standards and frameworks. • Sustainability performance tracking and reporting • Ethical workplace and marketing practices • Workplace environment and conditions • Corporate strategy and growth plans • Cultivate responsible workplace practices • Climate action, including GHG reduction and Net Zero emissions • Shareholder return on investment	• Increased transparency • Increased shareholder's value. • Improved financial performance. • Improved stakeholder management. • Increased brand awareness. • Better risk management. • Improved stakeholder relations. • Better alignment of investors and company's goals.



Stakeholder Groups	Engagement Platforms	Issues and Concerns	Outcomes
Community	• Company website and social media platforms • Corporate advertisements • Collaborations for community development • Corporate Social Responsibility (CSR.)	• Financial literacy on benefits of long-term finance towards decent housing • Promoting environmental awareness and human rights. • Advocating best practices in sustainability • Advocacy and thought leadership in sustainability for the Housing industry • Ethical business practices • Financing towards affordable housing	• Financial literacy geared towards decent home ownership • Enhanced brand position • Community led development • Improved business goodwill • Access to finance for affordable housing • Enhanced understanding of company's products
Development Partners	• Face-to-face meetings • Webinars • Organised conferences • Regular Engagements • Surveys	• To exchange knowledge on emerging issues. • To develop a common position to tackle key issues affecting the housing sector in the region through developing a common approach • To foster joint projects that enhance housing development • To align with global commitments that seek to accelerate global ambition and action i.e. climate change • Housing Impact	• Enhanced relationships • Increased brand recognition • Enhanced knowledge management by leveraging peer-to-peer learning and capacity building opportunities • Alignment with international frameworks • Increased home ownership

Stakeholder Groups	Engagement Platforms	Issues and Concerns	Outcomes
Media	• Mainstream media platforms • Digital platforms • Corporate events •	• Partnership • Cooperation on disclosing information about the Company • Relationships to foster enhanced brand and image on sustainable housing	• Improved media ratings • Increased public awareness and sensitization on KMRC value proposition. • Seamless native advertising • Accurate reporting • Objective reporting about our brand • Enhanced competitiveness
Customers (Primary Mortgage Lenders)	• Regular dialogue sessions • Customer satisfaction surveys • Customer feedback mechanisms Complaints handling mechanisms	• Value Creation • Liquidity to offer long term housing solutions • Increase market share • Development of new and improved financial products	• Customer satisfaction • Increased understanding of customer needs. • Access to new customer segments. • Better alignment of business opportunities with customer needs. • Improved customer retention and value. • Enhanced customer service and support. • Increased customer engagement and feedback. • Enhanced shared value

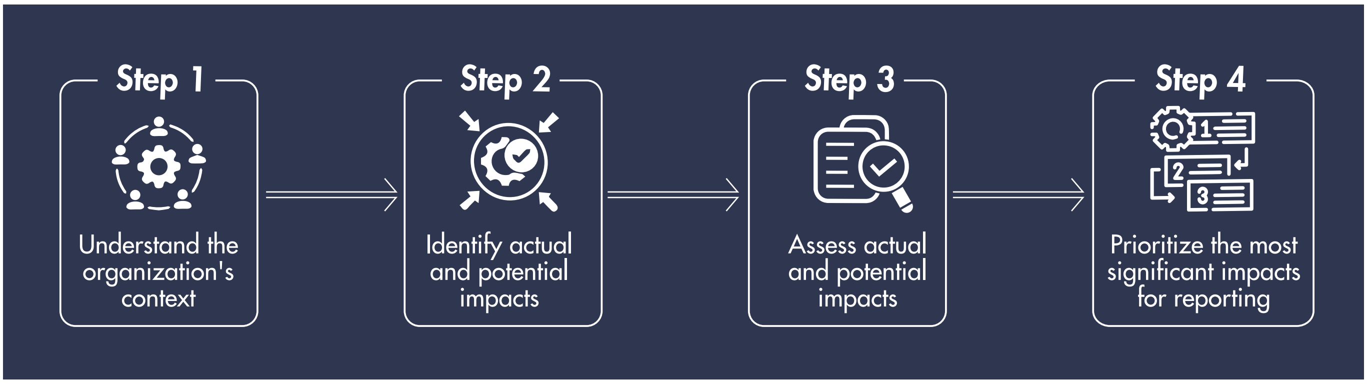
Determining Material Topics

At KMRC, it is imperative for us to understand and address the issues that matter most to our stakeholders. To determine our material topics, we use a rigorous process that involves extensive research, consultation with internal and external experts, and engagement with our stakeholders.

Our process begins with a comprehensive review of industry trends, emerging issues and global best practices to identify potential topics that may be relevant to our business. We then consult with internal subject matter experts to assess the impact of these topics on our operations, as well as our ability to manage and mitigate associated risks.

We engage with our stakeholders through surveys, focus groups and one-on-one interviews to understand their perspectives on the issues that are important to them. This feedback is then analysed and synthesized to identify the topics that are most material to our stakeholders and our business.

Our material topics will be reviewed regularly to ensure that they remain relevant and aligned with our business strategy; we will use this information to guide our sustainability reporting and engagement activities. By using a transparent and collaborative process to determine our material topics, we believe that we can better understand our stakeholders, anticipate and address their needs and make a positive impact on our business and the communities in which we operate. The diagram below highlights the steps taken to determine our material topics.



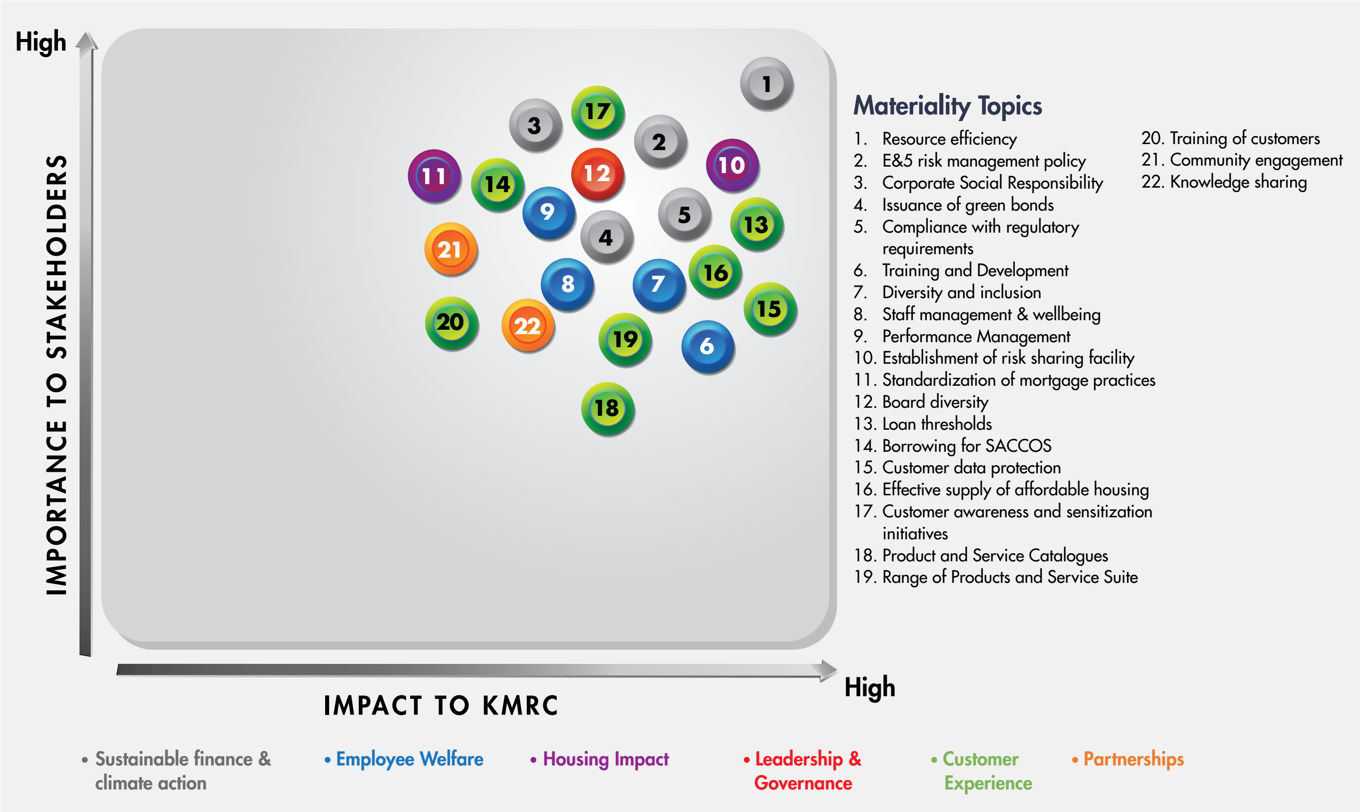
KMRC Materiality Matrix

Our materiality matrix is based on a comprehensive assessment of the economic, social, and environmental issues that impact our business, as well as the perspectives and feedback of our stakeholders. We use our materiality matrix to guide our sustainability reporting and disclosure, and to inform our stakeholder engagement and sustainability strategy. By prioritizing our sustainability topics based on their materiality, we believe that we are able to better understand and address the issues that matter most to our stakeholders and our business, and to create long-term value for our stakeholders and society as a whole.

OUR MATERIAL TOPICS

These are the most important issues that influence KMRC's value creation. They include the environmental, social, economic and governance priorities, as well as opportunities that the Company will leverage on in the future as it grows the mortgage market in Kenya. This section also describes our various contributions to SDGs, their influence on the core mandate of the Company and how we respond to them. In coming up with the material topics, the Board and Management undertook a review and assessment of the Company's strategy in 2022 and subjected it to external stakeholder review. We also conducted a desktop review of internal documents, including our policies and procedures, as well as external publications from our stakeholders where applicable.

As part of our ongoing commitment to balance social, economic and environmental sustainability, we have aligned our strategy with the Sustainable Development Goals (SDGs), and our contribution to the relevant goals have been specified in each of our material topics.



1. Sustainable Finance and Climate Action

By providing long-term liquidity to PMLs, KMRC encourages sustainable homeownership. PMLs then share this benefit with Kenyans by offering them long-term, single-digit fixed-rate home loans. KMRC is addressing the funding gap in the banks and Saccos and ensuring that SDG 11, *on access for all to adequate, safe, and affordable housing and basic services, is achieved.*

KMRC is committed to raising funds in a sustainable way to increase the availability of affordable housing loans. This includes continued collaboration with existing funding partners as well as searching for additional funding partners and accelerating sustainable fundraising through issuance of corporate bonds when the market conditions are conducive.

KMRC, as the only Mortgage Refinance Company in Kenya, is dedicated to positively impact the affordable housing market in the Country. While the Company faces many environmental and social risks in the mortgage lending sector, we believe that aligning the Company's Strategy with sustainable finance and climate change is a sure path to attaining this goal. Our expansion will be driven by the sustainability of our lending model, which will benefit Kenyans while advancing the country's national goal of becoming Net Zero by 2050.
KMRC promotes the development of green affordable housing that focuses on energy efficiency, water efficiency

and waste management, supporting achievement of SDG 7 in ***ensuring universal access to affordable, reliable, and modern energy services.*** As such, KMRC, in collaboration with the World Bank and the Kenya Green Building Society (KGBS), convened the Green Affordable Housing workshop in September 2022. The workshop brought together stakeholders and entities in the affordable housing space to discuss the prospect of greening affordable housing. Through collaboration with our partners in the housing sector, we contribute collectively towards addressing climate change SDG 13 by ***integrating climate change measures into national policies, strategies and planning, including building knowledge and capacity around climate change matters.***

KMRC will continue to promote a culture of care and the supply of innovative and cutting-edge products that reduce the negative impact on the environment and society.

As a financier, KMRC is increasing efforts in being a responsible lender by factoring environmental and social (E&S) risks in its lending process. We believe that by building knowledge and capacity of our PMLs to tackle climate change, we are helping the institutions to be more conscious in their lending, promoting institutional controls to mitigate against climate and environmental risk exposures. KMRC has further been deliberate at sourcing for funding that is geared more towards affordability such as concessional funding. The Company is therefore strengthening resilience and adaptive capacity to climate related matters through financing.

Policies aligned to sustainable finance

At KMRC, the policies aligned to sustainable finance aim to integrate environmental and social considerations into financial decision-making processes to promote long-term sustainable development. The following policies in sustainable finance seek to drive positive environmental and social outcomes while also promoting financial stability.

Green / Sustainable Housing

KMRC looks to issue green bonds in future to encourage development of green homes. During the year, the company convened a stakeholders' workshop to discuss prospects of integrating sustainability in affordable housing. The workshop was themed Greening Affordable Housing with the objective of unpacking the expanding opportunity in green affordable housing and establishing linkages that would help drive green residential housing development in Kenya.

Participants listen to a presentation during the KMRC Green Affordable Housing Workshop held in September, 2022

Training on ESG and climate finance

At KMRC we believe equiping our staff with the relevant knowledge is crucial towards achieving a sustainable organisation. All staff (24) were trained on sustainability and climate change matters in July 2022. The training's objective was to inform staff about sustainability and how it is related to KMRC. Introduction to sustainability, the Sustainability Imperative, the Materiality Concept, CBK climate related Guidelines, SEMS and E&S categorization, and NSE/CMA requirements were among the topics covered in the training. The trainer ensured that knowledge was not only shared but also clearly perceived and understood by the participants through the use of an interactive training methodology.

Development and Implementation of ESMS

KMRC developed a comprehensive Environment and Social Risk Management (ESRM) Policy which was approved by the Board in July 2019. The policy stipulates guiding principles and underlying processes for effective implementation of KMRC's commitment to E&S sustainability. KMRC is committed to support primary mortgage lenders (PMLs) to institutionalize, and implement adequate policies, procedures, and practical tools for environmental and social risk screening of primary mortgages originated by them that could be subsequently presented to KMRC for refinancing. KMRC has also implemented a continuous capacity building program for the PMLs to promote sound underwriting practices, boost their capacity in mortgage lending as well as provide direct support to the PMLs to address any emerging challenges in E&S management and assistance in enhancing the PMLs' E&S screening procedures.

The Company has taken the following measures to promote sustainability:

i. Resource Efficiency

To ensure that we use the earth's limited resources in a sustainable manner while minimizing negative impact on the environment, the Company adopted the following measures:

- Using lighting that is energy efficient. Our offices are designed to maximize natural light during the day and lights are switched off when not being used or needed. Meeting rooms are also fitted with light sensors to ensure lights automatically go off when not occupied.
- Adopting a paperless culture- Most work is done online through the Mortgage Refinance System(MRS) , in addition to use of emails for communication. This not only reduces the cost of printing, but it also reduces CO2 emissions.
- To ensure resource efficiency, the Company promotes use of water bottles by staff to reduce costs of disposable drinking water cups. The Company also has reusable glasses and plates in place.
- We are taking steps to replace water bottles with faucet filters, cognizant that water is essential, but plastic is not. Replacing bottled water with filtered water has many benefits, ranging from reducing plastic waste to saving cots and an unlimited supply of water. As a result, the Company will reduce its carbon footprint and waste generation.

ii. Implementation of the Environmental & Social Risk (E&S) Management policy:

The Company developed an E&S Policy benchmarked to the Environmental Management and Coordination Act (EMCA), the World Bank E&S standards and the AFDB operational safeguards. The policy guides on management of environmental and social risks in the mortgage lending process. The policy stipulates guiding principles and underlying processes for the effective implementation of KMRC's commitment to environmental and social sustainability contributing towards SDG 13, *"target 13.2: integrating climate change measures into national policies, strategies and planning."* It covers the integration of Environmental and Social Risk Management (ESRM) practices in our lending activities. The Policy also introduces a systematic approach to the management of relevant environmental and social issues, and the risks inherent therein, in the business processes and operations.

KMRC has cascaded the policy to all PMLs and conducts capacity building on E&S risk exposures taking into consideration any environmental incidents that have occurred within the year. This effectively focuses on achievement of "target 13.3: *building knowledge and capacity to meet climate change."* Through this the company is able to mitigate lost collateral/credit risk that would arise from a PML financing a property that is part of the exclusion list discussed below. By adopting sustainability as part of its lending model, the company is able to improve water quality and use by reducing pollution, (SDG6), eliminating dumping during construction, and minimizing the release of hazardous chemicals and materials.

Through its lending process KMRC conducts E&S due diligence of each PML at the institutional level and depending on the risk profile, the due diligence may extend to the level of the mortgage loans portfolios to be refinanced. As a condition of eligibility to receive financing from KMRC, PMLs are required to implement certain minimum institutional systems and capacity to enable E&S screening against the requirements set by KMRC. This is an assurance that environmental considerations are strongly linked to our core business.

A prerequisite to refinancing is E&S risk assessment to ensure that the portfolio is not on this exclusion list.

- Real estate construction deemed illegal or non-compliant according to Applicable Laws.
- Properties or land associated with illegal forced evictions of previous owners or occupants.
- Properties built on land from which government agencies or builders have removed / involuntarily resettled local communities, including squatters or encroachers, without proper compensation.
- Properties involving outstanding land disputes.
- Properties built in locations and/or in a manner that involves significant degradation or conversion of critical habitats and/or legally protected areas.
- Properties built in locations and/or in a manner that involves significant adverse impacts on critical cultural heritage.

iii. Corporate Social Responsibility:

KMRC participates actively in corporate social responsibility. In the year under review, the Company was engaged in climate change mitigation activities in two schools in Narok County as part of re-afforestation to offset CO_2 emissions. Growing trees is not only meant to improve the environment and combat climate change but also educate the students on the environmental and aesthetic benefits that trees offer for decades.

Gideon Rutto-KMRC's Procurement and Logistics Manager during the 2022 CSR activity in Narok County

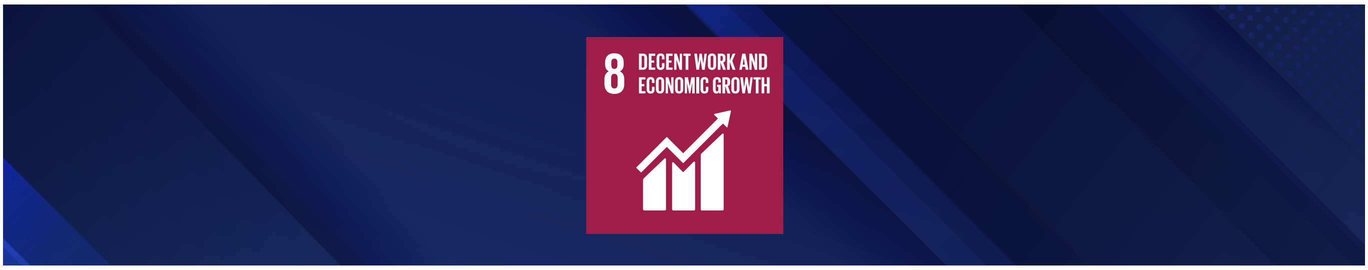
iv. Issuance of Green Bonds

KMRC actively engages stakeholders in the housing value chain to promote the greening of affordable housing. This has the duality effect of greening finance and financing green. We are therefore working with the participating banks, Saccos, housing developers, real estate investors, architects, and other key sector players to establish synergies that would play a key role in actualizing green affordable housing development. As part of sustainable finance actions (SDG13), the Company plans to issue a green bond to finance green residential properties and sensitize the public on the benefits of greening affordable housing.

v. Compliance with Regulatory Requirements

Compliance with regulatory requirements and indeed the other legislation is key to ensure sustainable business operations. The company ensures full compliance with the Central Bank of Kenya (Mortgage Refinancing Companies regulations, 2019) and the Capital Markets (Securities) (Public Offerings, Listing and Disclosure) regulations, 2002. The Company continuously monitors changes in regulations and policies that may affect its operations and ensures compliance with these regulations, including participation in shaping the outcome of policies or regulations. These initiatives actively support SDG 8 through target 8.10 on *strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.*

2. Employee Welfare



Our employees are our single most important resource, the very core of our Company and we are passionate about their holistic well-being. Provision of a good working environment and availing all the tools necessary for the best possible performance is imperative for us to deliver on our mandate. *This is in support of SDG 8, target 8.5 to achieve full and productive employment and decent work for all women and men, including young people and persons with disabilities by 2030.* In 2022, KMRC recruited the Chief finance officer to head the finance section of the company; there were no staff exits in 2022. The Company is continually investing in human resource development, focusing on but not limited to the below.

a) Training and Development

Employee development has a direct impact on our business hence having the right programs focused on the right needs to get the most returns on our investment is paramount. The programs focus on leadership development, skill-based trainings and career development programs. In 2022, we substantially invested in training of the employees across the business to ensure they are well equipped with both soft and technical skills to enable them carry out their duties effectively.

To ensure that climate change and sustainable finance are aligned with our core business, the company trained all employees on sustainability and climate change to raise awareness and ensure that everyone in the organization understands the interconnectedness of climate-related risks and sustainable finance as part of the company's strategy implementation.

We are in the process of rolling out a talent management framework, which will enable identification and customization of specific individual development interventions to enhance employee productivity.

During the period under review, the Company facilitated training for employees in different fields including leadership, strategic planning and implementation, customer service, communication, audit, risk management, finance, marketing and technology. These trainings were conducted by accredited institutions and trainers and were delivered both virtually and in-person.

KMRC Staff during a Self Awareness Training in May 2023

b) Diversity and Inclusion

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

We have a team of 22 employees across the business.; for which the ratio of women to men stands at 60% to 40% respectively. Additionally, the Company has made deliberate efforts in creating a conducive environment through the provision of different amenities including a lactation room to enable a comfortable transition back to work for nursing mothers. The Company has been deliberate in creating and availing opportunities for employees with disabilities as well as the minority and/or marginalized groups.

c) Staff Engagement and Well-being

We believe that the key tenets of building a healthier organization is to actively cultivate a culture of continuous staff engagement that is anchored on continuous communication, transparency, accountability, and inclusivity. As part of this, KMRC carried out a staff satisfaction survey at the end of the year under review.

The survey recorded an employee satisfaction index of 78.25%, a high score with room for improvement as the organization grows.

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

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

KMRC staff during a team building activity

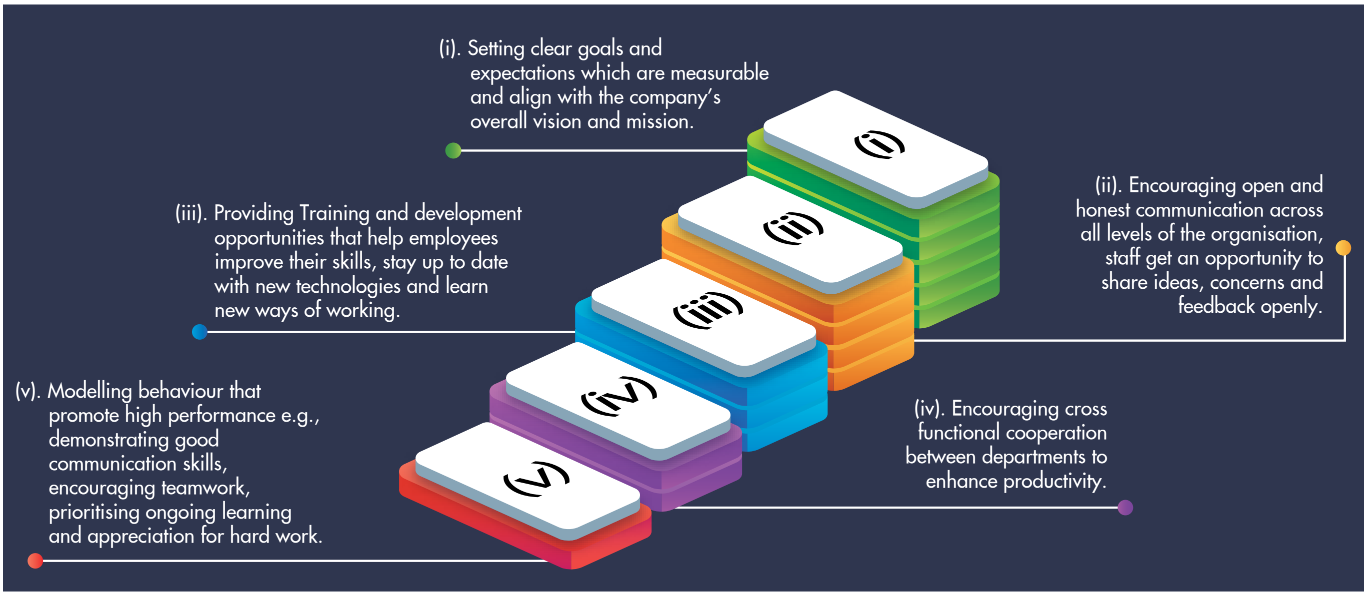
d) Performance Management

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

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

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

It achieves this through: -



I was not looking for a job, I was looking for a mission; and I found this at KMRC

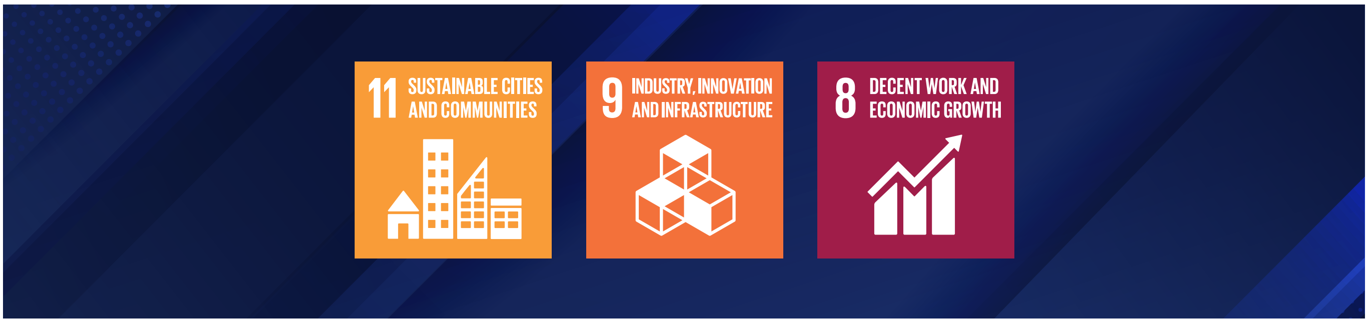
I have been at Kenya Mortgage Refinance Company (KMRC) for two and a half years and I have experienced enormous growth, both personally and professionally. At KMRC, I have found an employer that inspires me, a unique product and service offering that I feel I passionate about, a position that challenges me and stretches me into different areas, a culture that encourages and empowers me to do my best and great work environment and team spirit.

KMRC is one of the greatest experiences so far. It is a Company that inspires me. It is forward thinking. I really appreciate my teammates' mindset and culture and being part a of a team that gives its best to make home ownership a reality for most Kenyans, who would otherwise have been excluded from the equation. We are making lives better through what we do and get to enjoy the educational ride along. For me, this IS more than a job. I am investing my time, my knowledge and experience in a Company that is investing in me.

No regrets at all!

- Rebecca Mlawasi

3. Housing Impact



KMRC continues to create an impact through extending long-term funds at single digit fixed interest rates to banks and saccos to increase access to affordable home loans.

Housing Impact Metrics

- Number of mortgages re-financed as at December 31st 2022 was 2,522.
- People impacted by financing/refinancing i.e., homeowners, their families, population 10,088.
- Affordability: Based on the 2022 Central Bank of Kenya Annual Report, the average interest rate on commercial mortgages was 12.1% compared to an average mortgage interest rate of 9.5% on KMRC funded mortgages advanced by participating banks and saccos with average maturity tenor of 9.9 years.
- Accessibility: KMRC has promoted financial inclusion by on-boarding SACCOs thus, enabling them to offer mortgages to their members. As at December 31st, 2022, four (4) out of eleven (11) SACCOs had accessed funding from KMRC.
- Gender inclusivity: As at December 31st, 2022, 45% of mortgage loans refinanced by KMRC were extended to women.
- Number of primary mortgage lenders refinanced: As at December 31st, 2022, KMRC had refinanced nine (9) out of twenty (20) primary mortgage lenders.

Additionally, KMRC will leverage on product innovation to continue to promote access to affordable mortgages to more Kenyans through;

A. Establishment of a risk sharing facility

One of the challenges encountered in our lending business is that most banks and Saccos shy away from financing the low-income category of the population due to their lack of consistent formal or documented income. To address this problem, KMRC is spearheading the establishment of a risk sharing facility (RSF) to de-risk the primary mortgage lenders by offering a partial mortgage guarantee on the mortgage portfolios originated from this category of the population. This will increase financial inclusion, diversify financial service delivery channels, and enhance access to finance by this category of the population.

B. Standardization of Mortgage Practices in Kenya

As part of its development objective, KMRC will promote the standardization of mortgage origination processes, enabling easy access for borrowers and in future creating an opportunity to issue mortgage-backed securities.

KMRC will be more proactive in reaching out to the end customer through our PMLs by sensitizing them and changing the narrative about mortgages, especially considering the long-term structure of mortgages. This will include Primary Mortgage Lenders to educate their customers on mortgage and mortgage products.

These initiatives continue to support the achievement of *SDG 8, target 8.10 on strengthening the capacity of domestic financial institutions to encourage and expand access to banking, and financial services for all while also ensuring access for all to adequate, safe, and affordable housing and basic services achieving target 11.1 of SDG 11.*

KMRC gave me an Affordable Pathway to Actualize my Home Ownership Dream

When Phylis Wanjiru embarked on fulfilling her plan to construct a house in 2020, she was concerned about the possibility of accessing the most affordable financing solution. She wanted to immediately get started on the project so she started saving money, while still looking for affordable construction financing, with which she would top up her savings and have manageable monthly repayments.

Despite being employed within Kenya's formal sector, and after a long and grueling search for a solution that fit her needs, Phylis realized that what she would have deemed affordable was out of her reach. She wanted a solution that would somehow match her monthly rent payments, but couldn't find any, primarily due to the mortgage's short repayment periods and exorbitant, variable interest rates at the time.

"It has always been my desire to have my own home and stop paying rent. I realized that home ownership was not easy, because if you don't have the required cash, it is impossible to build a house. In addition, saving religiously is a little tricky, especially with the current tough times where everything is super expensive and meeting my family's basic needs required me to utilize almost every coin that I'd make," she says.

Phylis kept researching and eventually learned of affordable mortgage through her savings and credit cooperative society, courtesy of the Kenya Mortgage Refinance Company (KMRC). This exciting information would have her make enquiries at two different participating institutions, eventually settling on Stima Sacco, which she says checked most of her home loan requirements. She expresses that she was looking for a reliable lender that would guide her through the whole process and help educate her on what building a home really entails.

Phylis took a KMRC backed home loan through Stima Sacco at 9.0% and a repayment period of 15 years. With this facility, she says she considers herself significantly fortunate, especially in view of the prevailing market conditions, where loan rates have continued to ascend and inflation keeps surging, making life very costly. According to the Central Bank of Kenya, the average mortgage size is KES 9.2 million, with an interest rate of between 11.5% and 18.8% and the average tenor of 12 years.

Phylis' monthly home loan repayment is almost the same amount that she used to pay in rent, a slight upward variation which she says is absolutely worth it. She says she is pleased that KMRC has enabled her to own a home, with which she has provided her family a quality life; quality she probably would not have actualized had she relied on her savings only for this endeavor. What made this undertaking a success was primarily KMRC's loan features, which make it stand out from the regular expensive loans in the market.

"Because of KMRC's loan features, which include fixed and low interest rate that is below 10% and a long repayment period, I can service my home loan very affordably, comfortably and without much hassle. I am actually spending almost the same amount of money that I used to pay rent, but at the end of the day, the asset is mine, which feels so nice. I am also able to modify my home whichever way I want, grow vegetables in my compound and run a poultry business without any restrictions. These are some of the benefits that I would not have got in a rented house," she says.

KMRC gets concessional funds on fixed interest rates and that is why harsh prevailing market trends (like inflation) have no impact on KMRC home loans. With the fixed-rate financing, the status remains the same for the financing that KMRC is providing, even if there are variabilities or changes in the economic environment.

"My advice to aspiring home owners, especially young people, is to start now; the time is now, do not dwell on the mentality of mortgage being unaffordable. Previously, it was unaffordable, but now KMRC has changed that narrative. All you need to do is choose a participating lender and have them advise you, start the journey and become a proud home owner, just like me," concludes Phylis.

- Phylis Wanjiru

4. Leadership and Governance

We believe that a strong corporate governance program is the foundation for a sustainable and well-governed company. Accordingly, we continuously evaluate our structures, processes, and controls to ensure they support and promote accountability, transparency, and ethical behaviour. Our Board of Directors provide oversight and guidance to our management team in the development, implementation and review of the corporate strategy, risk management, corporate culture and other important aspects of our business, including sustainability. To this end the Board aspires to balance its composition to ensure a diverse range of skills, backgrounds, and experience. This has been covered in detail under Leadership and Corporate Governance on page 32.

5. Customer Experience

KMRC aims to deliver the best in customer experience as its focal point. KMRC achieves this by providing reliable and quality customer experience through training of its staff in line with accelerating innovation and adaptability, technological upgrades, digitalization, and knowledge on new trends within the mortgage space and the needs of the market. All staff are knowledgeable on the KMRC product offering and internal processes and can address any customer queries that come through to the Company.

KMRC carefully considers client needs and responds to them. A few challenges/ concerns raised by the primary mortgage lenders were addressed as noted below:

a. Review of loan thresholds to address refinance-able pipeline

During the year, the Company reviewed its eligibility criteria to accommodate the market's supply of affordable housing units, which allowed PMLs to offer additional financing to borrowers. The loan thresholds were increased from KES 4 million to KES 6 million for the Nairobi Metropolitan Area (Nairobi, Kiambu, Machakos, and Kajiado) and from KES 3 million to KES 5 million for other regions. Additionally, the loan-to-value ratio was raised from 90% to 105%.

b. Waiver of payment of stamp duty on borrowings from KMRC

The requirement of stamp duty on security documentation for borrowings by PMLs from KMRC increased cost of PMLs accessing KMRC funds. Through engagements with stakeholders, KMRC achieved a major policy intervention from The National Treasury that saw an amendment to the Stamp Duty Act, through the Finance Act 2022, exempting security documentation in favour of mortgage refinance companies from stamp duty, hence significantly reducing the borrowing cost of PMLs.

c. Enhanced linkages (between supply and demand) to provide data on supply of affordable housing

Lack of housing supply data limits the potential for PMLs to extend KMRC financing to borrowers. In addressing this challenge, KMRC developed a portal on the company's website which provides a catalogue of affordable housing units available. The catalogue contains housing projects developed by both public and private developers across Kenya.

d. Customer data protection risk management

In a bid to assure PMLs of the Company's commitment towards safeguarding the confidentiality of customer data, KMRC has instituted extensive security measures to protect customer personal data provided by PMLs. Our privacy statements published on our online platforms, including the website, inform customers of the measures taken by the Company in line with the requirements of the Data Protection Act 2019. The company has implemented internal controls, policies, and procedures to ensure that data confidentiality is maintained. To assure data integrity and availability various information security systems and controls have been implemented by the company.

The Company also continuously trains its staff on data protection and handling of customer data. KMRC employs breach detection and containment procedures to address any suspected personal data breaches that are in line with and complement the statutory requirements.

Customer data is stored in line with the company's data retention policy that is guided by regulatory requirements and employs pseudonymization and anonymization of data.

e. Increased customer awareness initiatives

Lack of awareness on affordable housing finance has inhibited the uptake of mortgages in the country. KMRC carries out public awareness campaigns with the goal of increasing knowledge about the Company's products, services and opportunities in the affordable housing sector. These campaigns aim to improve the public's financial literacy and help potential homeowners understand the key steps involved in the process.

The following campaigns and initiatives were carried out in 2022:

A public awareness and financial literacy campaign that ran from 2021 to 2022 on radio and TV to reinforce the public's understanding of KMRC's role as well as heighten potential homeowners' financial literacy.

- Sustenance initiatives:- Digital Communication initiatives including Influencer Activation which onboarded over 200 influencers to help communicate KMRC product offering to the public. In one of the digital platform initiatives, we generated 1,297 leads through the website's client form and over 2.8 million reach with over 7 million twitter impressions.
- Radio publicity on select Radio stations that resonate with KMRC's business.
- Participation in stakeholder-organized panel discussions centred on Affordable Housing viability, the status of implementation, and stakeholders' as well as KMRC's roles.
- Participation in webinars hosted by stakeholders.
- Twitter space conversations on Affordable Housing.
- Publishing opinion editorials (OPEDS) in national dailies to educate the public on Affordable Housing and KMRC's role in implementing it. KMRC also made contributions to other publications on Affordable Housing.

f. Capacity building of our customers

In line with its strategic objective of supporting the development of improved mortgage lending practices within primary mortgage lenders (PMLs), KMRC conducted customer capacity building initiatives to enhance the PMLs' mortgage lending capabilities, including their product offerings, and underwriting procedures. Additionally, we carried out a training session on environmental and social risk management, held a workshop on greening affordable housing and convened the 2nd annual Kenya affordable housing conference (KAHC).

KMRC collaborated with participating financial institutions and other key stakeholders to enhance financial literacy and raise awareness on affordable housing, with the goal of enabling primary mortgage lenders to offer their customers an exceptional experience and drive uptake.

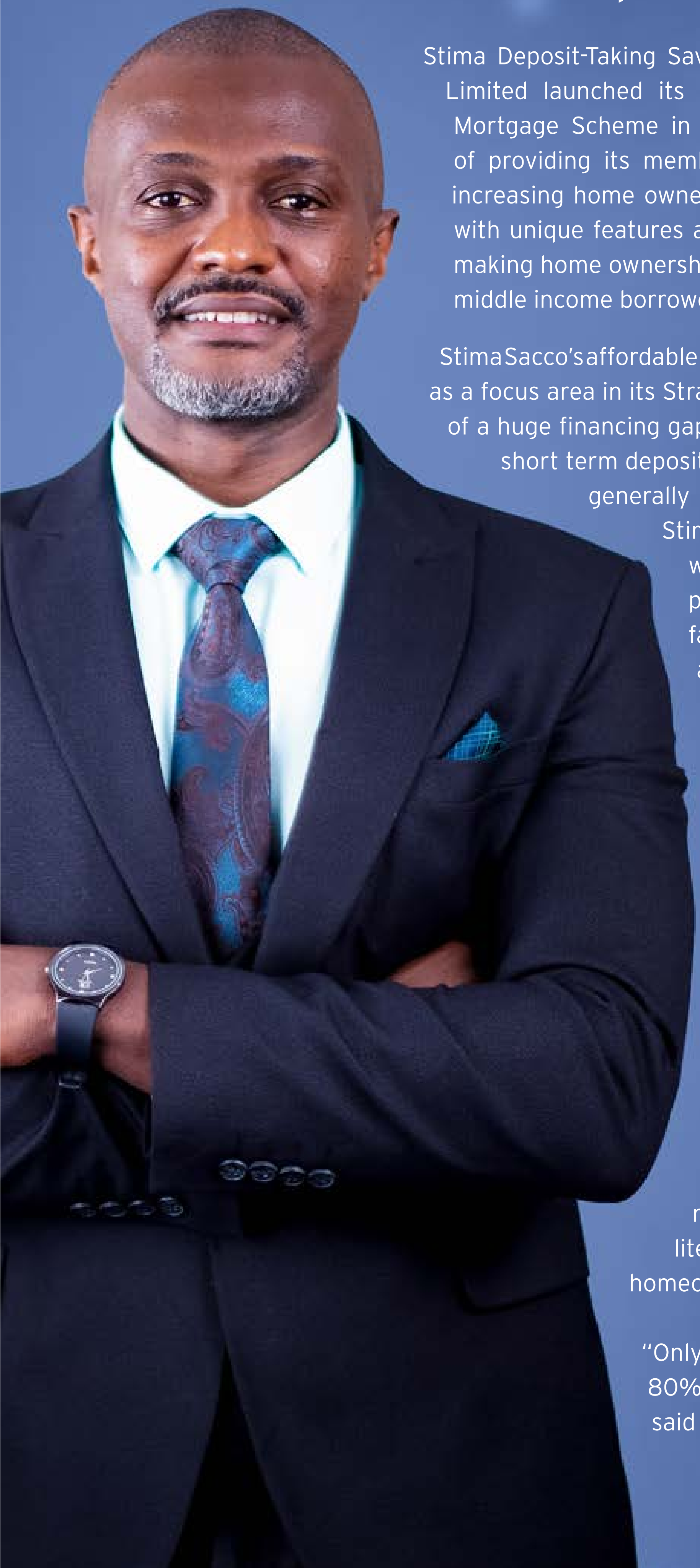
Customer Experience Survey

KMRC achieved an overall Customer Experience satisfaction index of 73.85% with a response rate of 65% (13 out of the 20 participating banks and saccos). 100% participation was observed from all the banks and saccos who have accessed KMRC funding.

The responses were based on the following areas: product and service offering, processing and disbursement, environmental and social risk management, and sustainability.

Some of the proposed recommendations that the company is addressing includes periodic updates on emerging issues, continuous capacity building for the credit teams and support for borrowers in the informal sector.

Stima-KMRC Partnership Sparks Increase in Home Loan Uptake Amongst Members



Stima Deposit-Taking Savings and Credit Cooperative (SACCO) Limited launched its KMRC supported Affordable Housing Mortgage Scheme in August 2021, with the core objective of providing its members with affordable home loans and increasing home ownership. The affordable home loan came with unique features and bespoke terms that were aimed at making home ownership a lot easier and affordable for low to middle income borrowers.

Stima Sacco's affordable mortgage is an initiative that was mapped as a focus area in its Strategic Plan 2019-2024, upon realization of a huge financing gap occasioned by the mismatch between short term deposits and the longer term mortgage loans, generally affecting the financial sector players. Stima would then have conversations with development partners about the possibility of establishing a mortgage facility, eventually settling for KMRC, as a participating Primary Mortgage Lender (PML).

Prior to joining KMRC, Stima Sacco relied mostly on micro mortgage loans to its members to facilitate incremental house construction. Through this facility, christened Makaazi Poa, Stima Sacco was the first Sacco to issue a flagship twelve-year product, at 14%, and borrowers could get up to KES 15 million. Since the launch of its KMRC backed home loan, Stima Sacco has been able to increase the rate of members' home ownership and continues to empower more, especially through financial literacy initiatives, to affordably become homeowners.

"Only 20% of our members had homes, 80% did not. The key thing is, for us, we said the best way we could add value to this discussion was to look back at our membership and increase the percentage of members who are getting access to this mortgage facility; majority of them were unable to do it," said Dr. Hassan.

With KMRC's concessional funding, Stima Sacco has been able to expand the scope of its lending, especially with the inclusion of low- and middle-income borrowers. Ordinarily, these borrowers would not be able to afford a mortgage due to its expensive nature, with features such as high, variable interest rates and short repayment tenors.

"This is where KMRC steps in; by ensuring that the pricing is very affordable- we do give a single digit. Number two is the availability and accessibility of the money, which with KMRC, is always there, and the members can get these funds. We'd never have done this if we never had the financing that is coming through KMRC," says Dr. Hassan.

Established in 1974, Stima is undoubtedly one of the biggest Saccos in the country, boasting a nationwide footprint, with more than 180,000 members. Through innovative products and service offering, Stima continues to experience massive success and members' trust, evidenced by its Kes 42 billion worth of a loan book, out of which Kes 5 billion accounts for home loans. Through its partnership with KMRC, Stima has disbursed Kes 257 million, with about Kes 216 million in the pipeline. Stima's plan is to continue running sustained financial literacy initiatives and therefore, increase the number of qualifying borrowers, and ultimately disburse Kes 1 billion by the end of the year, increasing its loan portfolio to 20% from the current 12%.

According to the Central Bank of Kenya's Banking Supervision Report (2022), Kenya currently has 27,786 mortgages, which represents only about 2% of the entire population. This was one of the main reasons that informed the introduction of KMRC, which then partnered with 20 Banks and Saccos to provide concessional funds so as to increase home ownership (especially amongst the low- and middle-income segment of the population) and turn these statistics around. Since commencement of lending, the momentum has been impressive. KMRC has disbursed Kes 8.1 billion to 10 of the 20 participating institutions (comprising 4 Saccos and 6 Banks).

"We have a social responsibility to our members, we believe there's more impact in giving a loan to that person right at the base of the pyramid who is actually struggling to get affordable housing; our key measure is around that," adds Dr. Hassan.

Dr. Hassan listed a few challenges that the Sacco has experienced over the course of its affordable housing financing journey, pointing out that all these challenges have provided learning opportunities for the institution. They include Stima's capacity to optimally issue affordable home loans, commending KMRC for its assistance in implementing pertinent pre-requisites such as an Environmental and Social Impact Policy.

Other challenges include the high cost of housing (land, construction material, incidental costs, etc.), lengthy securitization processes and lack of a Sharia compliant housing financing solutions. He says, "Stima is the first conventional Sharia compliant Sacco in Kenya, running a Sharia window. Without Sharia compliant housing financing in Kenya, there's a big component of the country's population that has been left out of the conversations around affordable housing. It would be good for players like the Government and KMRC to start thinking about ventures like Sukuk bonds."

Stima currently runs two affordable home loans, priced at 9% and 9.5% for salaried and non-salaried borrowers respectively, with an 85% loan to value (LTV) ratio. Dr. Hassan says that there is an opportunity for the Sacco to increase the LTV to 105% in order to attract more borrowers as this would cover some of the incidental costs and make it easy for loanees to access funding. One of the Sacco's key objectives is to intensify financial literacy, especially for the youthful generation, around home ownership and the innovative financing solutions now available for members to enjoy.

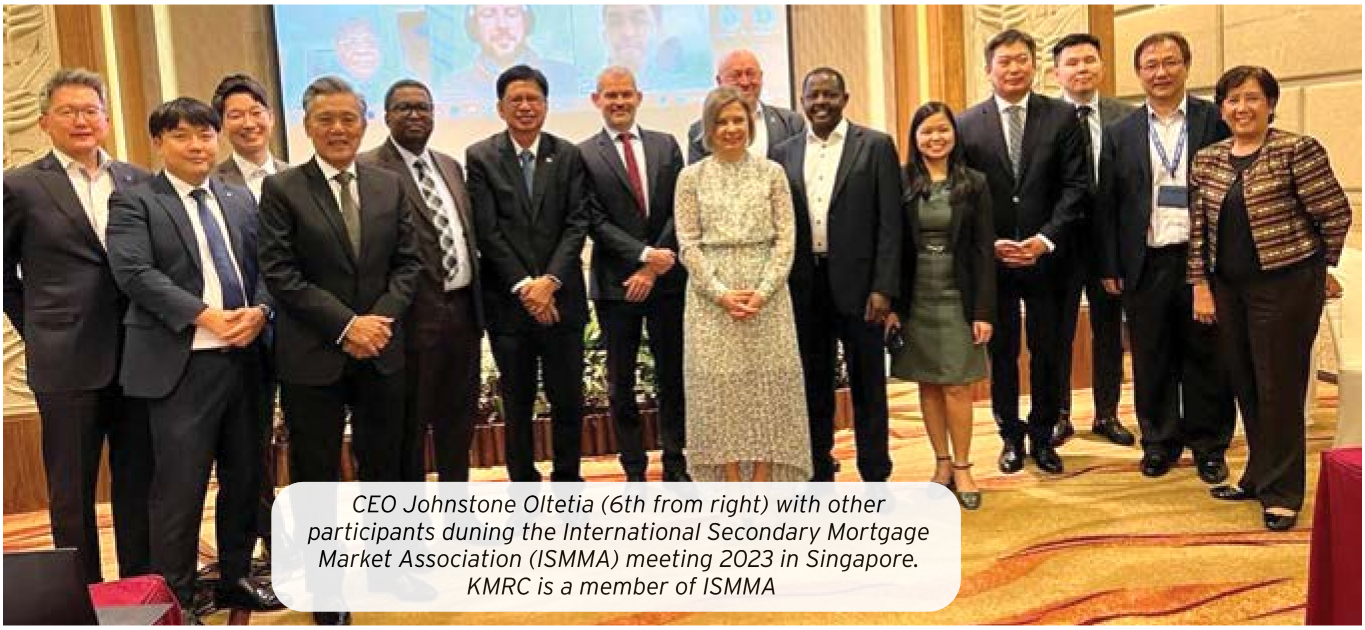
"It is important for our young people to understand that to make a billion shillings, every single cent counts. If you are able to take that little money and collate it in a savings culture, then you can come back with three things; you are able to get a return - in terms of your investment; two, your principal sum is guaranteed, so you are not going to lose it; and number three, you are able to get financing. It is indeed our key role to make sure that financial literacy in this country is as important as it should be," says Dr. Hassan.

- Dr. Gamaliel Hassan
Chief Executive Officer

STIMA SACCO
USHIRIKA
..... *towards a prosperous future together*

6. Partnerships

KMRC partners with the government, private and public housing developers, investors, local communities, nongovernmental organizations (NGOs), and other key stakeholders in order to achieve the affordable housing agenda.



CEO Johnstone Oltetia (6th from right) with other participants duning the International Secondary Mortgage Market Association (ISMMA) meeting 2023 in Singapore. KMRC is a member of ISMMA

This is in realization that to have a sustainable pipeline of refinanceable mortgages, the supply side of housing needs to be efficient and increase development of affordable houses. KMRC engages all stakeholders on a continuous basis, and this is reinforced through the annual affordable housing workshops convened by the company which brings together all value chain actors to discuss challenges and opportunities both for the supply and demand side. It also aims to create an enabling environment for all stakeholders in the housing ecosystem to efficiently play their respective roles towards delivery of affordable housing (SDG11).

Partnerships	Description
Government Agencies	- The National Treasury and Planning - Central Bank of Kenya (CBK) - Ministry of Lands, Public Works, Housing and Urban Development - Ministry of Cooperatives and Micro Small and Medium Enterprises Development - Capital Markets Authority (CMA) - Sacco Societies Regulatory Authority (SASRA)

Partnerships	\Description
Development Partners	- World Bank Group - African Development Bank - Shelter Afrique
Financial Institutions (20 PMLs)	- Microfinance Bank - Commercial banks - Saccos

During the year, KMRC signed a memorandum of understanding (MOU) with Habitat for Humanity to work together on undertaking research to identify market-wide systemic barriers to housing finance utilization and accessibility.

KMRC's CEO Mr. Johnstone Oltetia with Mr. Maurice Makoloo - Area Vice President- Africa, Habitat for Humanity International soon after the two institutions signed a memorandum of understanding to partner in a research that aimed to identify systemic barriers preventing access of housing finance in Kenya. The MoU was signed in September 2022

Community Engagement

KMRC has robust community engagement initiatives, including CSR and internship programs. Some of the CSR activities that the Company has undertaken include charitable donations and tree planting, to promote mitigation of climate change effects.

KMRC staff with members of Enkipai community in Narok County during a tree planting activity to mark the Company's 2022 CSR initiative

Internship programs are incredibly valuable to us, allowing the company to support community outreach by providing students with job shadowing or mentorship opportunities that promote career development among younger generations. Interns gain hands-on experience in their field of interest, allowing them to learn practical skills that cannot be taught in a classroom setting. This experience can also help them decide if they want to pursue a career in their chosen field. These internships also equip them with the relevant job experience that will prepare them for the future ready job market. In 2022, KMRC engaged five (5) interns, who got a hands-on experience in different departments.

Knowledge Sharing

As a thought leader, the company collaborates with other jurisdictions to drive best practices through knowledge sharing opportunities. KMRC shared insights on its refinancing journey and success at the International secondary mortgage market association (ISMMA) annual meeting and African Union of Housing Finance (AUHF) conference. These engagements continue to position the company as an authority in the mortgage refinance landscape. KMRC also hosted a delegation from the Bank of Uganda for a benchmarking exercise as they plan to set up a Mortgage Refinance Company.

KMRC's staff with a delegation from the Bank of Uganda (BOU) during a benchmarking exercise in March 2022 at KMRC offices.

Events and Outreach

1. PMLs check-in meetings are conducted to address inquiries, resolve challenges, document concerns to share with relevant stakeholders for resolution, cultivate relationships, and enhance brand credibility.
2. Kenya Affordable Housing Conference (KAHC) aims to create a forum where stakeholders in the affordable housing sector can come together to engage, collaborate, exchange ideas and best practices, and explore opportunities to capitalise on demand and supply synergies.
3. Green Affordable Housing Workshop is designed to convene key players in the affordable housing industry with the objective of deliberating on the potential for integrating sustainable practices throughout the entire supply chain of affordable housing projects.
4. Participation in customer driven events including product launches and member education initiatives.

A panel discussion during the Kenya Affordable Housing Conference (KAHC) 2022.

SDGs CONNECTION TO KMRC

We are committed to advancing the Sustainable Development Goals (SDGs) and contributing to the global effort to build a more sustainable and equitable world. We recognize that the SDGs provide a framework for addressing the most pressing economic, social and environmental challenges facing our planet, and we are proud to align our business activities with these goals.

Our SDGs connection is based on a comprehensive analysis of our business operations and their impact on the SDGs. We have identified the SDGs that are most relevant to our business and our stakeholders and developed a clear strategy for how we can contribute to these goals through our products, services and operations.

Material Topic	Adopted SDGs	KPIs
Sustainable finance and Climate action	6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION	• Amount used to reduce consumption of light. • Number of initiatives to promote resource efficiency. • Number of training on E&S exposure. • Number of climate change mitigation activities. • Number of green financing solutions.
Employee Welfare	8 DECENT WORK AND ECONOMIC GROWTH	• Staff satisfaction index. • Number of training conducted. • Staff turnover.
Housing Impact	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	• Number of mortgages refinanced • Number of people impacted by refinancing mortgages • Average mortgage interest rate. • Number of SACCOs with access to funding. • Number of mortgage loans financed to women. • Number of primary mortgage lenders refinanced. • Number of jobs created.

Material Topic	Adopted SDGs	KPIs
Leadership & Governance	8 DECENT WORK AND ECONOMIC GROWTH; 11 SUSTAINABLE CITIES AND COMMUNITIES	• Best corporate governance practices. • Number of trainings on risk management. • Number of Board members trained on leadership and corporate governance. • Board evaluation undertaken. • Board committees in place. • Number of independent directors.
Customer experience	8 DECENT WORK AND ECONOMIC GROWTH; 11 SUSTAINABLE CITIES AND COMMUNITIES	• Customer satisfaction index. • Number of queries resolved/unresolved. • Number of customer awareness campaigns.
Partnership	11 SUSTAINABLE CITIES AND COMMUNITIES; 17 PARTNERSHIPS FOR THE GOALS	• Number of development partners. • Number of government agencies.

KMRC
KENYA MORTGAGE REFINANCE COMPANY

AFFORDABLE
Home
LOANS
powered by KMRC

DID YOU KNOW?

Your Rent Can Buy You A Home!

#RentYakoKejaYako

0111 022 400

KMRC is Licensed and Regulated by the Central Bank of Kenya

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements for the year ended 31 December 2022, which show the state of the Company's affairs.

1. Incorporation

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

2. Directors

The directors who held office during the year are set out on page 33.

3. Principal activity

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

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

4. Business review

During the year under review, the total interest income of the company increased to Kes. 1,300,823,059 from Kes. 710,946,388 in 2021. This was mainly attributed to interest income on loans and advances to Primary Mortgage Lenders (PMLs) and interest income from investments in other financial assets. The profit before tax increased to Kes. 429,497,210 from Kes. 285,278,728. The increase in profitability was due to the increase in the company's refinancing business to primary mortgage lenders.

KMRC continues to drive availability and affordability of home loans to Kenyans by providing low interest, fixed rate, and long-term finance to participating banks and Saccos. The Primary Lenders pass this benefit to their clients/members by providing fixed rate home loans at single digit interest rates. By the close of the year, the Company had processed loan applications from twelve (12) PMLs and disbursed a total of Kes. 7.2 billion to nine (9) PMLs, namely, HFC Ltd, Tower Sacco, Stima Sacco, Unaitas Sacco, Credit Bank Ltd, Co-operative Bank of Kenya, Ukulima Sacco, KCB Bank Kenya Ltd, and Absa Bank Kenya Plc.

The Company got regulatory approvals to raise up to Kes. 10.5 billion through a medium-term note programme from the Capital Markets. This financing adds to the World Bank and AfDB credit lines available to the company for its mortgage refinancing business. In March 2022, KMRC raised Kes. 1.4 billion on the first tranche of the bond which was listed at the Nairobi Securities Exchange.

5. Interest Rate Environment

The inflation rates increased from 5.4% in January and closed the year at 9.1% with the highest inflation rate of 9.6% reported in October 2022. The Monetary Policy Committee (MPC) of the Central Bank of Kenya marginally raised the Central Bank Rate during the year closing at 8.75% in November 2022. The MPC noted that this was necessitated by the sustained inflationary pressures, the elevated global risks, and the potential impact on the domestic economy. The 91 days, 182 days, and 364 days Treasury bill rates moved from an average of 8.31% in January 2022 to an average of 9.87% in December 2022.

Due to monetary policy tightening and the elevated risk projection, it's expected that there would be an increase in cost of borrowing due to rising interest rates. This will dampen uptake of loans including home loans. It also has the effect of increasing cost of input for construction and as a result increase property prices and reduce the demand for houses. On the positive side, KMRC provides a cushion to home loan borrowers as its home loans are on fixed rate terms. The long-term fixed rate financing from KMRC can help PMLs to cushion home loan borrowers as the rates that KMRC charges PMLs remain unchanged for the duration of the loan. We therefore expect that the demand for home loans will continue increasing as KMRC home loans remain attractive due to their longer term and fixed rate nature.

6. Leveraging Post COVID-19 Pandemic Opportunities

Despite the initial jitters regarding the economy because of the COVID-19 pandemic, businesses managed to defy earlier predictions of a downtown and continued to be on an upward streak in 2022. Statistics have intimated that the housing construction sector remained very active during the period as the pandemic brought to reality the importance of home ownership. We believe the recognition of the importance of home ownership as demonstrated during the pandemic will keep on driving up the demand for affordable housing.

7. Government's Commitment to the Housing Agenda

The Government's is committed to turn the housing challenge into an economic opportunity. It is envisaged that construction of affordable housing will create jobs for over 100,000 Kenyans and youths graduating from technical and vocational training institutions every year. The Kenya Kwanza manifesto highlighted the need to increase supply of affordable housing to 250,000 units per annum and has committed to putting in place initiatives aimed at reducing the annual housing deficit of 200,000 units and the cumulative deficit which is estimated at two million housing units. The Ministry of Lands, Public Works, Housing and Urban Development listed 59 projects which are set to benefit from the Government affordable housing program. The projects in this pipeline will span across the country and cover most counties. The construction, development and financing of these projects will be undertaken in partnership with the private sector. With support from the National Government, several counties have prioritized affordable housing in their development agenda and have collaborated with private developers for construction of affordable housing units.

To augment Government efforts, KMRC continues to:

a. Engage stakeholders to identify and resolve challenges in the affordable housing value chain and ensure that wananchi can access decent and affordable housing more efficiently and at lower costs.
b. Advocate for greater coordination among the key stakeholders to ensure effective delivery of affordable home loans to Kenyans.
c. Continuously identify and pursue policy reforms that support the affordable housing sector.
d. Be actively involved in the standardization of mortgage origination practices, and generally contribute to the growth of the mortgage market in Kenya.

These efforts are expected to improve the mortgage lending practices and enhance the end borrowers' experience and transform the mortgage landscape in general.

KMRC remains optimistic that the affordable housing sector will continue to grow, largely supported by growing urban population, expanding investments in the sector due to the Government' focus on affordable housing, a growing economy, increase in infrastructural developments, and an entrepreneurial work force.

8. Corporate Governance Statement

KMRC adopts high standards and applies strict rules of conduct, based on the best corporate governance practices as highlighted on page 32 of the report.

9. Dividend

The directors do not recommend the declaration of a dividend for the year.

10. Financial Statements

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

11. Directors' benefits

The directors' fees and sitting allowances were paid as shown in Note 8 and Note 31.

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. Auditor

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

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

By order of the Board

Company Secretary

Nairobi ______________ **2nd March 2023**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Kenya's Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company keeps proper accounting records that: (a) show and explain the transactions of the Company; (b) disclose, with reasonable accuracy, the financial position of the Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

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

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

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

Approved by the **Board of Directors** on **2nd March 2023** and signed on its behalf by:

Director
Dr. Haron Sirima, EBS

Director
Mr. Johnson Oltetia


KMRC

REPORT OF THE INDEPENDENT AUDITOR

To the Members of Kenya Mortgage Refinance Company PLC
for the year ended 31st December 2022

Opinion

We have audited the accompanying financial statements of Kenya Mortgage Refinance Company PLC (the Company), set out on pages 88 to 121, which comprise the statement of financial position as at 31 December, 2022, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 December 2022 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act, 2015.

Basis of our opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of

(i). Credit risk assessment and determination of expected credit losses on loans and advances at amortised cost

As explained in Note 1 and 2 of the financial statements, determining expected credit losses on loans and advances is complex, judgmental and involves significant estimation uncertainty. IFRS 9, Financial Instruments, requires the Directors to measure expected credit losses on a forward-looking basis reflecting range of future economic conditions. The standard adopts a 3-stage model approach where the loans and advances are categorised in stage 1, 2 and 3 depending on whether the facilities are performing, have experienced significant increase in credit risk or are in default.

Changes to the assumptions and estimates used by management could generate significant fluctuations in the Company's financial results and materially impact the valuation of the portfolio of loans and advances. In addition. the evolving economic impact of the COVID-19 pandemic has heightened the general risk of credit default and significant increase in credit risk, increasing the the uncertainty around the management judgements and estimation process.

The calculation of the expected credit losses involves complex mathematical models that are prone to data integrity or configuration errors, or mathematical formulaic errors.

Our audit procedures focused on the following areas that have a significant impact on the calculation of the expected credit losses:

- the judgments made to determine the categorisation (staging) of individual loan and advances accounts in line with IFRS 9. In particular, the identification of Significant Increase in Credit Risk ("SICR") and Default requires consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used;
- the assumptions applied in deriving the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD) for the various segments of loans and advances, including any adjustments in relation to COVID-19 overlays;
- the appropriateness of forward-looking information used in the models; and
- the conceptual logic, soundness and accuracy of the expected credit losses models used by the Company.

Reviewed the Company's methodology for determining expected credit losses, including enhancements in the year, and evaluated this against the requirements of IFRS 9, Financial Instruments.

Tested the company applied the system extracts of 'days past due (DPD)' report in categorising the loan book into the three stages required by IFRS 9. For a sample of loans, we recalculated the DPD applied in the model and agreed these to the DPD reports from the IT systems and the respective customer files.

Reviewing judgments applied in the staging of loans and advances; Tested the completeness of restructured loans listing and, on a sample basis. assessed the rationale for the restructures and the appropriateness of their subsequent measurement in accordance with IFRS 9 requirements.

Obtained an understanding of the basis used to determine the probabilities of default (PDs), loss given default (LGD) and exposures at default (EAD), including the post write-off recovery rates for unsecured facilities and the COVID-19 impact overlays.

We tested the completeness and accuracy of the historical data used in derivation of PDs, LGDs and EADs, and re-calculated the outcomes on a sample basis. For LGD, we tested the assumptions on the timing of the cash flows based on historical empirical evidence. In addition, for secured facilities, we agreed the collateral values used in the ECL model to external valuer reports.

On a sample basis, we tested the reasonableness of EADs for both on and off-balance sheet exposures, including the applied cash conversion factors.

We corroborated the assumptions used for determination of forwardlooking information (FLI) in the models using publicly available information.

We reviewed and assessed adequacy of the disclosures in the financial statements on the key judgements and assumptions in accordance with the requirement of IFRS 9.

(ii). Information Technology systems and controls over financial reporting

The Company's financial accounting and reporting processes are dependent on complex information technology systems and applications. Specifically, the calculation, recording and financial reporting of financial transactions and balances are significantly dependent on automated processes.
Weaknesses in the design and operating effectiveness of the automated accounting procedures and related IT dependent manual controls could result in material errors in the financial information.

Our audit focus on information technology systems and applications and controls over financial reporting included the following areas:

- management of logical access to critical systems including privileged access and developer access to production environment
- controls over changes of programs and systems developments;
- automated application controls relating to processing of transactions, accounting and financial reporting; and

We assessed and tested the design and operating effectiveness of the controls over the integrity of information technology (IT) systems and applications that are relevant for financial accounting and reporting.

We tested controls over programs development and changes, access to programs and data and IT operations including compensating controls where necessary. We also tested certain aspects of the security of the IT systems including logical access management and segregation of duties.

Where, either design or operating effectiveness control deficiencies were identified, we altered our audit approach to test the compensating controls or increased the level of our tests of detail. These additional procedures mitigated the deficiencies or provided the additional audit comfort.
We validated any manual adjustments to information generated by the IT systems and applications and assessed the appropriateness of the adjustments.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business of or activities within the Company to express an opinion on the Company financial statements. We are responsible for the direction, supervision and performance of the Company's audit. We remain solely responsible for our audit opinion.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

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

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 77 - 79 is consistent with the financial statements.
As required by the Kenyan Companies Act we report to you, based on our audit, that:

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

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

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

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

For and on behalf of Mazars LLP
Certified Public Accountant (K) 2023

3rd March 2023

Statement of Comprehensive Income

	Note	2022 Kshs	2021 Kshs
Revenue			
Interest income:			
Interest on loans and advances	5 a)	195,339,115	24,419,799
Other interest income	5 b)	1,105,483,944	686,526,589
Total interest income		**1,300,823,059**	**710,946,388**
Interest expenses	6	(634,326,070)	(246,873,372)
Net interest income		**666,496,989**	**464,073,016**
Impairment losses provision	7	(1,095,321)	(440,814)
Governance expenses	8	(14,861,108)	(15,183,772)
Marketing expenses	9	(14,800,199)	(13,801,382)
Staff costs	10	(105,199,154)	(78,599,446)
Administration expenses	11	(55,247,332)	(37,522,800)
Other operating expenses	12	(19,746,931)	(9,059,680)
Depreciation and amortisation expenses	13	(26,049,734)	(24,186,394)
Profit before tax		**429,497,210**	**285,278,728**
Income tax expense	14	(108,136,491)	(88,667,655)
Profit for the year		**321,360,719**	**196,611,073**

Mortgage
Refinance

Statement of Financial Position as at 31 December 2022

	Note	2022 Kshs	2021 Kshs
Assets			
Property and equipment	15	47,333,813	64,465,730
Intangible assets	16	8,765,320	14,502,120
Right-of-use assets	17	24,311,140	32,414,854
Other receivables	18	256,586,597	161,382,448
Current tax recoverable	14	77,824,477	18,454,791
Treasury bonds	19	5,203,521,087	1,554,799,616
Loans and advances	20	6,750,347,708	1,286,717,998
Cash and cash equivalents	21	9,007,088,992	6,684,792,247
Deferred tax asset	22	7,407,202	6,050,104
Total Assets		**21,383,186,336**	**9,823,579,908**
Liabilities and Equity			
Liabilities			
Borrowings	23	16,820,143,424	6,771,588,698
Debt securities in issue	24	1,459,167,332	-
Lease liabilities	25	31,651,105	39,189,809
Trade and other payables	26	390,254,400	645,355,760
		18,701,216,261	**7,456,134,267**
Capital resources			
Share capital	27	1,808,375,125	1,808,375,125
Revenue reserves		792,787,685	525,499,229
Other reserves	32	13,934,635	20,770,920
Statutory reserve	20	66,872,630	12,800,367
Total liability and Equity		2,681,970,075	2,367,445,641
		21,383,186,336	**9,823,579,908**

The financial statements on pages 88 to 122 were approved for issue by the **board of directors** on

2nd March 2023 and were signed on its behalf by:

_______________________________ _______________________________

Director
Dr. Haron Sirima, EBS

Director
Mr. Johnson Oltetia

Kenya Mortgage Refinance Company PLC

Financial Statements for the year ended 31st December 2022

Statement of Changes in Equity

	Notes	Share capital Kshs	Revenue reserves Kshs	Contributions pending allotment Kshs	Statutory reserve Kshs	Other reserve Kshs	Total Kshs
Year ended 31 December 2021							
As at January 2021		1,291,000,100	341,688,523	883,999,900	-	-	2,516,688,523
Profit for the year		-	196,611,073	-	-	-	196,611,073
Transactions with owners:							
Shares issued for cash		517,375,025	-	-	-	-	517,375,025
Capitalisation during the year		-	-	(303,675,025)	-	-	(303,675,025)
Transfer to other payables		-	-	(580,324,875)	-	-	(580,324,875)
Capital grants		-	-	-	-	25,121,525	25,121,525
Amortisation		-	-	-	-	(4,350,605)	(4,350,605)
Transfer to statutory reserve		-	(12,800,367)	-	12,800,367	-	-
At 31 December 2021		**1,808,375,125**	**525,499,229**	**-**	**12,800,367**	**20,770,920**	**2,367,445,641**
Year ended 31 December 2022							
As at January 2022		1,808,375,125	525,499,229	-	12,800,367	20,770,920	2,367,445,641
Profit for the year		-	321,360,719	-	-		321,360,719
Amortisation		-	-	-	-	(6,836,285)	(6,836,285)
Transfer to statutory reserve		-	(54,072,263)	-	54,072,263	-	-
At 31 December 2022		**1,808,375,125**	**792,787,685**	**-**	**66,872,630**	**13,934,635**	**2,681,970,075**

Statement of Cash Flows

Cash flows from operating activities	Note	2022 Kshs	2021 Kshs
Profit before tax		429,497,210	285,278,728
Adjustments for:			
Depreciation of property and equipment	15	13,782,376	14,294,689
Depreciation on right-of-use assets	17	8,103,714	8,103,714
Amortisation of intangible assets	16	2,762,755	1,611,607
Amortisation of Treasury bonds	19	1,400,889	176,384
Amortisation of capital grants		-	4,350,605
Write off of intangible assets	16	548,700	-
Interest receivable on Treasury bonds	19	(97,833,453)	(10,228,767)
Interest on Debt securities in issue	24	59,167,332	-
Interest on lease liabilities	6	2,003,009	2,558,617
Income tax paid	14	(168,863,275)	(118,726,081)
Operating profit before working capital changes		250,569.257	187,419,496
Increase in other receivables	18	(95,204,149)	(19,269,104)
(Decrease)/increase in other payables	26	(255,101,359)	631,244,933
Increase in loans and advances	20	(5,463,629,710)	(1,286,717,998)
		(5,563,365,961)	**(487,322,673)**
Net cash used in operating activities			
Cash flows used in investing activities			
Purchase of property and equipment	15	(1,061,400)	(27,354,708)
Purchase of intangible asset	16	-	(9,710,462)
Purchase of Treasury bonds	19	(3,552,288,907)	(1,544,747,233)
		(3,553,350,307)	**(1,581,812,403)**
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from issue of ordinary shares	27	-	517,375,025
Proceeds from capital grants		-	20,770,920
(Capitalisation) of contribution pending allotment	28	-	(883,999,900)
Proceeds from borrowings	23	10,048,554,726	3,046,415,220
Proceeds from issue of debt securities	24	1,400,000,000	-
Payments of principal portion of the lease liability	25	(9,541,713)	(9,541,713)
Net cash from financing activities		**11,439,013,013**	**2,691,019,552**
Increase in cash and cash equivalents		2,322,296,745	621,884,476
Cash and cash equivalents at start of year		6,684,792,247	6,062,907,771
Cash and cash equivalents at end of year	21	**9,007,088,992**	**6,684,792,247**

Notes to the Financial Statements

1. Summary of significant accounting policies

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

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

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFS). 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 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 of are recognised by the directors at the end of the reporting period during which the change occurred.

Going concern

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

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

b) New and revised standards

i) Adoption of new and revised standards

Five Amendments to standards became effective for the first time in the financial year beginning 1st January 2022 and have been adopted by the Company. None of the Amendments has had an impact on the Company's financial statements.

Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1st January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS Standards.

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

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

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

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

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

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

Amendment to IFRS 1 titled Subsidiary as a First-time Adopter (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)

The amendment, applicable to annual periods beginning on or after 1 January 2022, provides subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.

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

The Company has not applied any of the new or revised Standards and Interpretations that have been published but are not yet effective for the year beginning 1st January 2022, and the Directors do not plan to apply any of them until they become effective.

IFRS 17 Insurance Contracts (issued in May 2017 and amended in June 2020)

The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.

Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)

The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

Amendments to IAS 8 titled Definition of Accounting Estimates (issued in February 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.

Amendments to IFRS 16 titled Covid-19-Related Rent Concessions Beyond 30th June 2021 (issued in March 2021)

The previous amendment to IFRS 16 permitted the practical expedient to be applied only to reductions in lease payments that did not extend beyond 30th June 2021. This amendment, applicable to annual periods beginning on or after 1st April 2021 allows the practical expedient to be applied to reductions in lease payments that do not extend beyond 30th June 2022.

Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)

The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)

The amendments, applicable from a date yet to de determined, address : current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

Amendments to IFRS 9 and IFRS 17 titled Initial application of IFRS 17 and IFRS 9 Comparative Information (issued in December 2021)

The amendments, applicable on initial application of IFRS 17, add a transition option relating to comparative information about financial assets presented on initial application of IFS 17.

Amendment to IFRS 16 titled Lease Liability in a Sale and a Leaseback (issued in September 2022)

The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains.

Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)

The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.

c) Foreign currency translation

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

d) Revenue recognition

The Company recognises revenue to 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 customer. The amount of revenue recognised is the amount the Company expects to receive in accordance with the terms of the contract, and excludes amounts collected on behalf of third parties, such as Value Added Tax.

i) Interest income and expenses

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

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented n 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 creditadjusted effective interest rate, which IS calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

Interest income

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

(a) Purchased or originated credit impaired (POCI) financial assets, for which the original creditadjusted 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 in following measurement categories:

- Fair value through profit or loss (FVPL)

- Fair value through other comprehensive income (FVOCI)

- Amortised cost

Debt instruments

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

(a) the Company's business model for managing the asset; and

(b) the cash flow characteristics of the asset.

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

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

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

Interest income from these financial assets is included in "interest income" using the effective interest rate method.

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from sale o1 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 profil 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 to 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 of "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. Wherethe contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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

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

Equity Instruments

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

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Company's policy is to designate equity investments as fair value through other comprehensive income (FVOCI) when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in other comprehensive income (OCI) and are subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversals of impairment losses) are nol reported separately from other changes in fair values. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payment is established.

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

(ii) Modification of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.

- Significant change is interest rate.
- Change in the currency of the loan.
- Insertion of collateral, other security or credit enhancement that significantly affect the credit risk associated with the loan.

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

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated a 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 0 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 o certain securitisation transactions in which the Camnany retains a subordinated recidial 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 loss (the remaining amount of change in the fair value of the liability);
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Company recognises any expense incurred on the financial liability, and Financial guarantee contracts and loan commitments.

(ii) Derecognition

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

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

Offsetting financial assets and financial liabilities

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

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

g) Cash and cash equivalents

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

h) Property and equipment

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

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

Increases in the in 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:

Motor vehicles	**25%**
Computers	**25%**
Office equipments	**20%**
Furniture and fittings	**10%**
Leasehold improvements	**Over the period of the lease**

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

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

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

i) Intangible assets

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

- it is technically feasible to complete the software product SO that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the or 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 mortised over their estimated useful lives, which does not exceed three years.

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

j) Impairment of non-financial assets

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

k) Income tax

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

Current income tax

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

Deferred income tax

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and labilities 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.

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 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 a 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 a basis over the lease term.

m) Provisions for liabilities

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

n) Post-employment benefit obligations

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

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

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

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

o) Borrowing costs

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

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

p) Comparatives

Where necessary, comparative figures to 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 of 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 IFS 16 as detailed below:

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

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

Lease term/period: In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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

- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).

Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in offices and vehicles leases have not been included in the lease liability, because the company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant a event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

3. Financial risk management

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

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

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

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

3.1 Credit risk and expected credit losses

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

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

Credit risk is the single largest risk for the company's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management to 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 : 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 rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

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

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

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

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

	Basis for measurement of loss allowance				
	12-month expected credit losses	Lifetime expected credit losses (see note below)			
		(a)	(b)	(c)	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
At 31st December 2022					
Loans and advances	6,751,152,485	-	-	-	6,751,152,485
Short-term bank deposits	4,431,340,158	-	-	-	4,431,340,158
Cash at bank	3,493,560,577	-	-	-	3,493,560,577
Exposure to credit risk	**14,676,053,220**	-	-	-	**14,676,053,220**
At 31st December 2021					
Loans and advances	1,286,847,295	-	-	-	1,286,847,295
Short-term bank deposits	5,071,423,253	-	-	-	5,071,423,253
Cash at bank	1,613,647,817	-	-	-	1,613,647,817
Exposure to credit risk	**7,971,918,365**	-	-	-	**7,971,918,365**

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

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

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

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

3.2 Liquidity risk

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

(i) Management of liquidity risk

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

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

(ii) Source of funding

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

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

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

(iii) Exposure to liquidity risk

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

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

	Less than one month Kshs	Between 1-3 months Kshs	Between 3-12 months Kshs	Over 1 year Kshs
31st December 2022				
Trade and other payables	6,907,926	70,568,270	8,022,487	363,923,049
Borrowings	-	-	-	16,820,143,424
Debt securities in issue	-	-	-	1,459,167,332
Lease liabilities	-	-	-	31,651,105
	6,907,926	**70,568,270**	**8,022,487**	**17,184,066,473**
31st December 2021				
Trade and other payables	5,103,506	21,875,729	29,285,651	589,090,874
Borrowings	-	-	-	6,771,588,698
Lease liabilities	-	-	-	39,189,809
	5,103,506	**21,875,729**	**29,285,651**	**7,399,869,381**

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

3.3 Market risk

Market risk S 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 ts assets and liabilities are reported in the local currency.
As at the end of trading period it had no currency risk pertaining to its operations.

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

Interest rate risk

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

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

The table below summarizes 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 percentage point, the effect would have been the opposite.

	2022 Kshs	2021 Kshs
Effect on profit (decrease)/increase	44,313,402	50,714,233
Effect on equity (decrease)/increase	31,019,381	35,499,963

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 a face of the statement of financial position, are:

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

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

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

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

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

The Company has complied with all externally imposed capital requirements.

The table below summarises the composition of regulatory capital and the ratios of the Company for the year ended 31 December 2022. During the year, the Company complied with all of the externally imposed capital requirements to which they are subject.

Capital	2022 Kshs	2021 Kshs
Share capital	1,808,375,125	1,808,375,125
Retained profit	792,787,685	525,499,229
	2,601,162,810	**2,333,874,354**
Core capital (Tier 1)	2,592,330,253	2,320,097,085
Supplimentary capital (Tier 2)	5,831,726,813	2,433,989,778
Total Capital	8,424,057,066	4,754,086,863
Total risk weighted assets	5,267,199,750	2,484,286,000
Capital ratios		
• Total regulatory capital expressed as a percentage of total risk	159.9%	191.4%
• Minimum total Capital to Risk Weighted Assets Requirement	14.5%	14.5%
Excess	145.4%	176.9%
• Total regulatory core capital to Total Risk Weighted assets ratio	49.2%	93.4%
• Minimum Core capital to Total Risk Weighted assets ratio	10.5%	10.5%
Excess	**38.7%**	**82.9%**

5. Revenue

	2022 Kshs	2021 Kshs
a) Interest income on loans and advances:		
Primary Mortgage Lenders:		
- Mortgage lending	**195,339,115**	**24,419,799**
b) Other interest income		
Interest income:		
- financial assets at mortised cost	1,105,483,944	686,526,589
	1,105,483,944	**686,526,589**

	2022 Kshs	2021 Kshs

6. Interest expenses

Interest expense:		
- Subordinated debt and credit lines		
GOK/IBRD 8958-KE	265,591,257	174,820,172
GOK/AfDB2000200004101	220,019,472	69,494,583
- debt securities in issue	146,712,332	-
- Lease liabilities	2,003,009	2,558,617
	634,326,070	**246,873,372**

Total interest expense for financial liabilities measured at mortised cost.

7. Impairment losses provision

Loans and advances	675,480	129,297
Short-term bank deposits	249,809	232,095
Cash at bank	170,032	79,422
	1,095,321	**440,814**

8. Governance expenses

Directors remuneration	8,286,000	9,060,000
Sitting allowance	6,237,000	5,913,000
AGM expenses	338,108	210,772
	14,861,108	**15,183,772**

9. Marketing expenses

Public relations and advertisements	**14,800,199**	**13,801,382**

10. Staff costs

Salaries and wages	85,103,071	63,153,265
Pension costs:		
defined contribution scheme	4,977,817	3,337,293
National Social Security Fund	44,000	38,000
Other post-employment benefits	9,144,140	6,187,764
Medical insurance	4.851,730	5,243,391
Other staff costs	1,078,396	639,733
	105,199,154	**78,599,446**

	2022 Kshs	2021 Kshs
11. Administration expenses		
Conferences, Seminars and workshops	33,401,238	15,491,077
Licenses and permits	757,142	1,380,681
ICT expenses	4,736,386	4,873,861
Telephone, postage and internet	2,397,663	2,385,223
Office running expenses	3,730,738	3,444.672
Consultancy fees	1,444,454	5,494,557
Insurance costs	2,721,563	2,450,276
Audit fees	700,000	700,000
Bank charges	451,366	335,124
Subscriptions	2,942,931	635,571
Corporate Social Responsibility	1,122,023	20,000
Motor vehicle running expenses	841,828	311,758
	55,247,332	**37,522,800**

	2022 Kshs	2021 Kshs
12. Other operating expenses		
Office rent and service charge	3,760,921	3,484,780
Electricity	855,840	719,534
Fines and penalties	-	11,925
Bond issuance costs	15,130,170	4,843,441
	19,746 931	**9,059,680**

	2022 Kshs	2021 Kshs
13. Depreciation and amortisation expenses		
Depreciation of property and equipment	13,782,376	14,294,689
Depreciation on right-of-use assets	8,103,714	8,103,714
Amortisation of intangible assets	2,762,755	1,611,607
Amortisation of financial asset at amortised cost	1,400,889	176,384
	26,049,734	**24,186,394**

14. Income Tax

	2022 Kshs	2021 Kshs
(a) Income tax expense		
Current income tax	109,493,589	92,387,312
Deferred tax (income)/expense relating to the origination and reversal of temporary differences (Note 22)	(1,357,098)	(3,947,277)
Under provision in prior years on:		
- current tax	-	227,620
Income tax expense	**108,136,491**	**88,667,655**

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% (2021: 30%) as follows:

	2022 Kshs	2021 Kshs
Profit before tax	**429,497,210**	**285,278,728**
Tax calculated at the statutory tax rate of 30% (2021: 30%)	128,849,163	85,583,618
Tax effect of:		
Expenses not deductible for tax purposes	6,608,856	2,748,360
Income not subject to tax	(27,378,582)	-
Under/(Over)-provision in prior years	57,054	335,677
	108,136,491	**88,667,655**
Income tax expense		
(b) Statement of financial position		
At 1 January	(18,454,791)	7,656,358
Current tax charge	109,493,589	92,387,312
Tax paid during the year		
Balance of tax	-	(7,656,358)
Installment tax	-	(300,000)
Withholding tax	(168,863,275)	(110,542,103)
At 31 December	**(77,824,477)**	**(18,454,791)**

15. Property and equipment

	Motor vehicles Kshs	Computers Kshs	Office equipment Kshs	Furniture and fittings Kshs	Leasehold Improvements Kshs	Total Kshs
Cost						
At 1 January 2021	18,575,844	4,394,518	744,740	11,970,000	27,318,037	63,003,139
Additions	-	22,314,465	1,005,000	-	4,035,243	27,354,708
At 31 December 2021	18,575,844	26,708,983	1,749,740	11,970,000	31,353,280	90,357,847
At 1 January 2022	18,575,844	26,708,983	1,749,740	11,970,000	31,353.280	90,357,847
Additions	-	1,061,400	-	-	-	1,061,400
Reclassifications	-	-	3,473,139	-	(3,473,139)	-
At 31 December 2022	18,575,844	27,770,383	5,222,879	11,970,000	27,880,141	91,419,247
Depreciation						
At January 2021	1,562,808	586,454	12,412	532,143	4.553,006	7,246,823
Charge for the year	4,643,961	6,467,048	1,407,445	1,189,883	4,936,957	18,645,294
At 31 December 2021	6,206,769	7,053,502	1,419,857	1,722,026	9,489,963	25,892,117
At 1 January 2022	6,206,769	7,053,502	1,419,857	1,722,026	9,489,963	25,892,117
Charge for the year	4,643,961	6,717,354	1,044,576	1,189,882	4,597,544	18,193,317
At 31 December2022	10,850,730	13,770,856	2,464,433	2,911,908	14,087,507	44,085,434
Net book value						
At 31 December 2022	**7725,114**	**13,999,527**	**2,758,446**	**9,058,092**	**13,792,634**	**47,333,813**
At 31 December 2021	**12,369,075**	**19,655,481**	**329,883**	**10,247,974**	**21,863,317**	**64,465,730**

16. Intangible assets

Software costs

	2022 Kshs	2021 Kshs
Cost		
At 1st January	16,914,135	7,203,673
Additions	-	9,710,462
Write off	(548,700)	-
At 31st December	16,365,435	16,914,135
Amortisation At	2,412,015	800,408
1st January Charge	5,188,100	1,611,607
for the year	7,600,115	2,412,015
Net book amount	**8,765,320**	**14,502,120**

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

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

17. Right-of-use-asset

	2022 Kshs	2021 Kshs
At start of year	32,414,854	40,518,568
Depreciation charge for the year	(8,103,714)	(8,103,714)
At end of year	**24,311,140**	**32,414,854**

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 or periods 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 residual value quarantee.

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

18. Other receivables

	2022 Kshs	2021 Kshs
Prepayments	8,930,712	4,527,261
Accrued income	143,399,891	55,216,225
Staff receivables	1,058,250	-
HFC mortgage scheme deposit (see below)		
- Free funds account	62,110,883	60,596,464
- Back up account	41,086,861	41,042,498
	256,586,597	**161,382,448**

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 of scheme which will be held in the back up account, free funds account and any investment account.

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

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

19. Treasury bonds

	2022 Kshs	2021 Kshs
At start of year	1,554,799,616	-
Additions	3,552,288,907	1,544,747,233
Amortisation	(1,400,889)	(176,384)
Interest	97,833,453	10,228,767
At end of year	**5,203,521,087**	**1,554,799,616**
Financial assets at amortised cost can be analysed as follows:		
Maturing within 5 years	1,000,000,000	-
Maturing after 10 years	1,500,000,000	-
Maturing after 15 years	2,703,521,087	1,544,747,233

Treasury bonds are debt securities issued by the Government of the Republic of Kenya. The bonds are categorized amounts held at amortized cost and carried at amortized cost. The weighted average effective interest rates on Government securities as at 31 December 2022 was 13.04% (2021: 13.2%).

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;
- 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.

None financial assets are impaired.

20. Loans and advances

		2022 Kshs	2021 Kshs
Loans and advances to customers at amortised cost	(i)	6,751,152,485	1,286,847,295
Less: impairment provision	(ii)	(804,777)	(129,297)
Total loans and advances to customers		**6,750,347,708**	**1,286,717,998**

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

	2022 Gross amount Kshs	2022 ECL provision Kshs	2022 Carrying amount Kshs	2021 Gross amount Kshs	2021 ECL provision Kshs	2021 Carrying amount Kshs
Primary Mortgage Lenders						
Mortgage lending	6,751,152,485	(804,777)	6,750,347,708	-	-	-

The impairment provision includes the following:

	Provisions as per statutory regulations	ECL provisions as as per IFRS 9	Transfer to/(from) statutory loan reserves
Loans and advances to Primary Mortgage Lenders:			
Mortgages	67,548,110	675,480	66,872,630

Statutory provisions are analysed as follows:	2022 Kshs	2021 Kshs
0 - 30 Days (Normal - 1%	67,511,525	12,868,473
31 - 90 Days (Watch - 5%)	-	-
91 - 180 Days (Substandard - 25%)	-	-
181 - 360 Days (Doubtful - 75%)	-	-
Over 361 Days or 12 Instalments overdue	-	-
(Loss Account - 100%)	-	-
	67,511,525	**12,868,473**

(ii). IFRS 9 provisions

Reconciliation from opening to closing balance of loss allowance for loans and advances to customers at amortised cost for 2022 is shown below; comparative amounts for 2021 represent total allowance account for credit losses under stages 1, 2 and 3.

The impairment provision includes the following:

	2022 Stage 1 12-month ECL Kshs	2022 Stage 2 Lifetime ECL Kshs	2022 Stage 3 Lifetime ECL Kshs	2022 Total Kshs	2021 Kshs
At start of the year	129,297	-	-	129,297	-
Net remeasurement of impairment provisions	675,480	-	-	675,480	-
New financial assets	-	-	-	-	-
originated or purchased	-	-	-	-	129,297
	804,777	-	-	**804,777**	**129,297**

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

The effective interest rate on loans is 5% (2021: 5%).

21. Cash and cash equivalents

	2022 Kshs	2021 Kshs
Short-term bank deposits		
- KCB Bank Kenya Limited	3,820,657,858	4,946,220,307
- HFC Limited	328,682,300	100,000,000
- Absa Bank Kenya PLC	282,000,000	25,202,946
- Cooperative Bank of Kenya Limited	1,000,000,000	-
Cash at bank and hand	3,576,480,192	1,613,680,511
Expected on credit losses on bank balances and short term deposits	(731,358)	(311,517)
	9,007,088,992	**6,684,792,247**

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

Impairment provision	311,517	-
At start of the year	249,809	232,095
Changes short-term bank deposits	170,032	79,422
Changes relating to bank balances	**731,358**	**311,517**

The weighted average effective interest rate on short-term bank deposits at year-end was 9.9% (2021: 8.7%)

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 (2021: 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 Kshs	Credited/ (charged) to profit or loss Kshs	At 31st or December Kshs
Year ended 31st December 2022			
Property and equipment			
- on historical cost basis	607,046	1,167,790	1,774,836
Software	(950,162)	143,317	(806,845)
Right-of-use assets			
- accelerated tax depreciation	4,862,228	2,431,115	7,293,343
Lease liabilities	(2,853,596)	(2,261,611)	(5,115,207)
Financial asset at amortised cost	52,915	(52,915)	-
Provision for liabilities	4,331,673	(70,598)	4,261,075
Net deferred tax asset	**6,050,104**	**1,357,098**	**7,407,202**
Year ended 31st December 2021			
Property and equipment			
on historical cost basis	(174,847)	781,893	607,046
Software	(192,098)	(758,064)	(950,162)
Right-of-use assets			
accelerated tax depreciation	2,431,114	2,431,114	4,862,228
Lease liabilities	(734,813)	(2,118,783)	(2,853,596)
Financial asset at amortised cost	-	52,915	52,915
Provision for liabilities	773,471	3,558,202	4,331,673
Net deferred tax (liability)	**2,102,827**	**3,947,277**	**6,050,104**

23. Borrowings

	Interest rate	Repayment Start date	End date	2022 Kshs	2021 Kshs
GOK/IBRD 8958-KE	4.5%	30/03/2024	30/03/2044		
- Subordinated debt				4,374,165,520	1,131,412.480
- Credit line				5,931,959,191	2,928,715,525
GOK/AfDB 2000200004101	4.5%	30/03/2027	30/03/2044		
- Subordinated debt				1,202,144,400	1,202,144,400
- Subsidiary loan				4,559,579,831	1,242,632,540
Accrued interest				752,294,482	266,683,753
				16,820,143,424	**6,771,588,698**

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

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

Borrowings from the government as at 31 December 2022 amounted to Kshs. 16,067,848,942 (2021: Kshs. 6,504,904,945) Interest payable of Kshs. 752,294,482 (2021: Kshs. 266,683,753) remained unpaid as at 31 December 2021. These amounts shall be accrued over the grace period/disbursement period and will be capitalised on the first principal repayment date and the management expects to meet all contractual obligations in the future.

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

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

	AfDB EUR	World Bank EUR	TOTAL EUR
Loan	**90,000,000**	**201,400,000**	**291,400,000**
Sub-debt drawndown	9,000,000	35,000,000	44,000,000
Credit line drawndown	36,000,000	46,502,569	82,502,569
Total Drawn Down	**45,000,000**	**81,502,569**	**126,502,569**
Undrawn Facilities	**45,000,000**	**119,897,431**	**164,897,431**

24. Debt securities In issue

	2022 Kshs	2021 Kshs
At start of year	-	-
Additions	1,400,000,000	-
Accrued Interest payable	59,167,332	-
At end of year	**1,459,167,332**	-

Debt securities in issue comprise:

- Kshs. 1,400,000,000 Medium Term Note issued in the year 2022 and has a maturity date of February 2029.

25. Lease liabilities

	2022 Kshs	2021 Kshs
At 31 December	**31,651,105**	**39,189,80**
The total cash outflow or leases in the year was:		
Payments of principal portion of the lease liability	**10,495,884**	**9,621,227**

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

26. Trade and other payable

	2022 Kshs	2021 Kshs
Trade payables	7,284,915	3,188,266
Accruals	11,400,938	21,875,729
Payroll liabilities	6,907,926	5,103,506
Other payables	737,572	26,097,385
Post-employment benefit obligation (Note 29)	17,910,139	8,765,999
Due to shareholders (Note 28)	346,012,910	580,324,875
	390,254,400	**645,355,760**

27. Share capital

Issued and fully paid up capital:	1,808,375,125	1,291,000,100
At 1 January	-	517 375 025
Issue for cash	**1,808,375,125**	**1,808,375,125**

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

On 11th May 2021, the issued and paidup capital was increased from Kshs. 1,291,000,100 to Kshs. 1,808.375,125 by an issue for cash of 5,173,750 ordinary shares at a price of Kshs. 100 per share.

28. Contribution pending allotment

	2022 Kshs	2021 Kshs
At 1 January	-	580,324,875
Transfer to amounts due to shareholders (Note 26	-	(580,324,875)
At 31 December	-	-

The company concluded the funds mobilization drive in 2021 and any excess funds received from the shareholders were transferred to other payables until here will be need for capital increase in future.

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

29. 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:

	2022 Kshs	2021 Kshs
At start of year	8,765,999	-
Additional provision made during the year, charged to profit or loss	9,144,140	8,765,999
At end of year	**17,910,139**	**8,765,999**

30. 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:

	2022 Kshs	2022 Kshs
Within one year	10,583,350	10,495,884
Later than one year but within live years	22,128,823	32,712,173
	32,712,173	**43,208,058**

31. Related party transactions

The National Treasury with the support of the World Bank established the Kenya Mortgage Refinance Company (KMRC), 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.

The following transactions carried out with related parties.

	2022 Kshs	2021 Kshs
(i). Loans and advances		
Mortgages to Primary Mortgage Lenders	**6,750,347,708**	**1,286,717,998**
(ii). Due to related parties (Note 26)		
At 1st January	580,324,875	883,999,900
Amounts (capitalised)/received during the year.	(234,311,965)	(303,675,025)
At 31st December	**346,012,910**	**580,324,875**

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

	2022 Kshs	2021 Kshs
(iii). Key management compensation		
Salaries and other employment benefits	64,351,033	46,167,466
Post-employment benefits	20,927,948	10,788,924
	85,278,981	**56,956,390**
(iv). Directors' benefits and other remuneration		
- fees	8,286,000	9,060,000
- allowances	6,237,000	5,913,000
	14,523,000	**14,973,000**

32. Other reserve

At start of year	20,770,920	-
Additional provision made during the year, capitalized.	-	25,121,525
Amortization	(6,836,285)	(4,350,605)
At end of year	**13,934,635**	**20,770,920**

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 4th Annual General Meeting of **KENYA MORTGAGE REFINANCE COMPANY PLC** ("the Company") will be held on **Friday 9th June 2023** via electronic communication from **10:00 am** to transact the following business:

1. To table the proxies and note the presence of quorum.

2. To read the Notice convening the Meeting.

3. To table the Chairperson's Statement.

4. Retirement, re-appointment and re-election of Directors:

(a) To approve the appointment of Mrs. Annastacia Kimtai who was appointed as a director representing KCB Bank Kenya Limited in accordance with Article 9 of the Company's Articles of Association and who, being eligible, offers herself for re-appointment in accordance with Articles 30 and 32.

(b) To approve the appointment of Mrs. Jane S. Mwangi who was appointed to fill a casual vacancy in accordance with Article 30 of the Company's Articles of Association and who, being eligible, offers herself for re-appointment as an independent director of the Company in accordance with Article 32.

(c) To re-elect the following directors who are retiring by rotation and who, being eligible, offer themselves for re-election in accordance with Articles 31 and 32 of the Company's Articles of Association:

i. Dr. Haron Sirima, EBS
ii. Mr. Robert Kibaara

5. To receive, consider and, if thought fit, adopt the audited financial statements for the year ended 31st December 2022, together with the Directors' and Auditors' reports thereon.

6. To appoint auditors of the Company in accordance with the provisions of Section 721 of the Companies Act No. 17 of 2015 and to authorise the Directors to fix their remuneration.

7. To transact any other business which may legally be transacted at an Annual General Meeting and for which due notice has been received.

BY ORDER OF THE BOARD

Company Secretary

18th May 2023

APPOINTMENT OF PROXY

We________________________________ of P.O. Box ______________________________

being a shareholder of **KENYA MORTGAGE REFINANCE COMPANY PLC,** appoint

______________________________and/or ______________________________of P. O. Box

as our proxy to vote on our behalf upon any matter proposed at the **4TH ANNUAL GENERAL MEETING** of the shareholders to be held on **FRIDAY 9TH JUNE 2023** or at any adjournment of that Meeting, in such manner as our proxy shall think proper, and if expedient to demand a poll.

Dated ____________________ day ____________________ of 2023.

SIGNED BY THE DULY AUTHORIZED REPRESENTATIVE OF

____

Authorized Signatory____

Notes

Notes


KMRC
KENYA MORTGAGE REFINANCE COMPANY
KMRC is licensed and regulated by the Central Bank of Kenya

Kenya Mortgage Refinance Company PLC Annual Integrated Report 2022

KMRC
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