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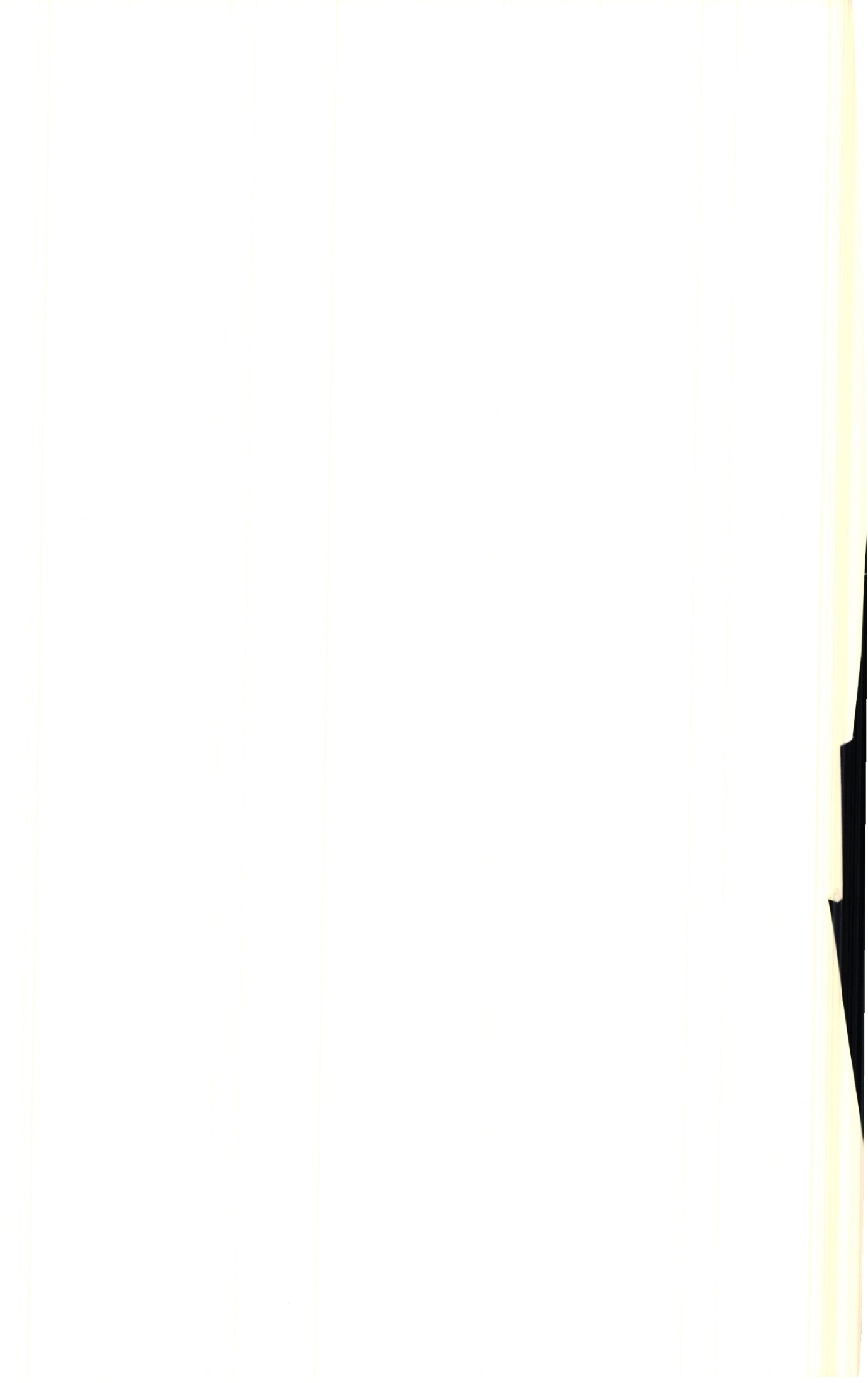
AGRICULTURAL FINANCE CORPORATION

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30th JUNE, 2014

ISO: 9001:2008 CERTIFIED



Prepared in accordance with the Accrual Basis of Accounting Method under
the International Financial Reporting Standards (IFRS)



AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE CORPORATION

FOR THE YEAR ENDED 30 JUNE 2014	23
STATEMENT OF COMPREHENSIVE INCOME	28
STATEMENT OF FINANCIAL POSITION.....	29
STATEMENT OF CASH FLOW	30
STATEMENT OF CHANGES IN EQUITY.....	32
NOTES TO FINANCIAL STATEMENT	33
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:	33
A. Statement of Compliance and Basis of Preparation.....	33
B. Revenue Recognition	33
C. Property and Equipment.....	34
D. Depreciation and Impairment of Property & Equipment	35
E. Intangible Assets	35
F. Amortisation and Impairment of Intangible Assets.....	36
G. Trade and Other Receivables	36
H. Taxation.....	36
I. Provision for Doubtful Debts.....	36
J. Retirement Benefit Obligations.....	37
K. Cash and Cash Equivalents.....	37
L. Trade and Other Payables.....	38
M. Provision for Staff Leave Pay	38
P. WIP and Inter-Branch Suspense.....	38
Q. Farm Properties in Possession.....	38
R. Net Loans to Customers	38
N. Comparative Figures.....	38
O. Subsequent Events.....	39

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

Contents

BACKGROUND INFORMATION	1
PRINCIPAL ACTIVITIES	1
Vision	1
Mission.....	1
Core Values.....	1
BOARD OF DIRECTORS APPOINTMENT DATE.....	3
CORPORATION SECRETARY	3
REGISTERED OFFICE	3
CORPORATE HEADQUARTERS CORPORATE CONTACTS	4
MAIN BANKERS.....	4
INDEPENDENT AUDITORS.....	4
PRINCIPAL LEGAL ADVISERS.....	4
MANAGEMENT TEAM	10
STATEMENT ON CORPORATE GOVERNANCE	14
Code of Conduct	14
Board Responsibilities	14
Board Meetings	15
Board Chairman and Managing Director	15
Board Performance Evaluation	16
Internal Control	16
Conflict of Interest.....	17
Board Sub-Committees	17
STATEMENT OF DIRECTORS' RESPONSIBILITIES	18
FINANCIAL RISK MANAGEMENT	20
a) Credit Risk	20
Loan Provision for Bad and doubtful debts 2013/2014.....	21
b) Liquidity and Funding Risk.....	21
c) Market Risk.....	21
OFFICE OF THE AUDITOR-GENERAL.....	23

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

AGRICULTURAL FINANCE CORPORATION

BACKGROUND INFORMATION

The Agricultural Finance Corporation (AFC), a wholly owned Government Development Finance Institution (DFI), was established in 1963 initially as a subsidiary of the Land and Agricultural Bank. In 1969, it was incorporated as a fully – fledged financial institution under the Agricultural Finance Corporation Act, Cap 323 of the laws of Kenya

PRINCIPAL ACTIVITIES

The Corporation is primarily charged with the responsibility of providing credit facilities for the sole purpose of developing agriculture. The Corporation has for the last fifty one (51) years been able to discharge this responsibility through an expansive branch network, quality, affordable, accessible financial products and services tailored to meet diverse and exclusive needs of Kenyan farmers.

Vision

“To be the preferred Agricultural Development Financial Institution of quality services and a point of reference for Agricultural Finance”

Mission

“To offer innovative, affordable and diverse financial products and services through the adoption of modern technology and networks aimed at transforming the livelihood of the farming community in Kenya, in pursuit of food security and sustainable Agricultural Development.”

Core Values

- i. **Courtesy:** Being polite, respectful and considerate while serving customers within the Corporation.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

- ii. **Innovativeness:** Developing new diversified products and services that meet customer's needs and expectations.
- iii. **Commitment:** Dedication, loyalty and selflessness in discharging duties to transform livelihoods.
- iv. **Integrity:** Adhering to moral and ethical principles to ensure efficiency in service delivery.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

BOARD OF DIRECTORS

APPOINTMENT DATE

The Directors who held office during the period were as follows:-

Mr. Patrick Osero	Chairman	31.12.2013
Cabinet Secretary	National Treasury	06.07.2013
Principal Secretary	Ministry of Agriculture	06.07.2013
Mr. Lucas Meso, MBS	Managing Director	12.03.2014
Mr. John K. Chebii	Member	13.07.2012
Mrs. Stella N. K. Gatere	Member	19.09.2012
Mrs. Rose Nginja	Member	13.07.2012
Mr. Julius Mburugu	Member	13.07.2012
Mr. Jared O. Aimba	Member	19.09.2012

CORPORATION SECRETARY

Mrs. Rose Ochanda
Development House,
Moi Avenue,
P.O Box 30367 – 00100 GPO
Nairobi.
Kenya

REGISTERED OFFICE

Development House,
Moi Avenue,
P.O Box 30367 – 00100 GPO
Nairobi.
Kenya.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

CORPORATE HEADQUARTERS

Development House,
Moi Avenue,
P.O Box 30367 – 00100 GPO
Nairobi.
Kenya.

CORPORATE CONTACTS

Telephone: +254-020-3317199
E-mail: info@agrifinance.org
Website: www.agrifinance.org

MAIN BANKERS

National Bank of Kenya Limited,
Harambee Avenue,
P.O Box 41862 - 00100 GPO
Nairobi.
Kenya.

Co-operative Bank of Kenya Limited,
Co-op House Branch,
P.O Box 67881 – 00200 City Square
Nairobi.
Kenya.

INDEPENDENT AUDITORS

The Corporation's auditors in accordance with the Public Audit Act, 2003 were:-

Auditor General,
Kenya National Audit Office,
P.O Box 30084 - 00100 GPO
Nairobi.
Kenya.

PRINCIPAL LEGAL ADVISERS

The Attorney General,
State Law Office,
Harambee Avenue,
P.O. Box 40112 – 00200 City Square
Nairobi, Kenya.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

THE BOARD OF DIRECTORS



MR. PATRICK OSERO
BOARD CHAIRMAN

Mr. Osero is the Chairman of the Board of Agricultural Finance Corporation. He is the Managing Director of Priority Management and Properties Ltd Kenya. Prior to joining the Corporation, he served as the Vice Chairman of the Board at Agricultural Development Corporation (ADC). He also worked as the Assistant Complex Manager at ADC in Kitale, Nakuru and Isiolo.

The Chairman's vision for the Corporation is to ensure support for the Government's efforts in irrigation, agribusiness, food security, cash crop production, and to mobilize adequate financial resources that will see conversion of AFC into a farmers' bank.

He holds a Master of Science Degree in Entrepreneurship from the Jomo Kenyatta University of Agriculture and Technology (JKUAT) and a Bachelor of Science Degree in Agriculture from the University of Eastern Africa Baraton. He was honoured to be a Kenyan delegate during the 10th Non-aligned Summit held in Jakarta – Indonesia. He also received the best Athlete award at the University of Eastern Africa - Baraton University.



MR. HENRY K. ROTICH
CABINET SECRETARY,
NATIONAL TREASURY

Mr. Henry K. Rotich is the Cabinet Secretary for National Treasury. Prior to his appointment, Rotich was the Head of Macroeconomics at the Treasury, Ministry of Finance, since March 2006. Under this capacity he was involved in the formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. In addition, he was also involved in the preparation of key budget documents including the Budget Statements, as well as

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

providing strategic coordination of structural reforms in the area of fiscal and financial sector.

Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya since 1994. Between, the years 2001-2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist. He was also a Director of several Boards of State Corporations, including:- Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics.

He holds a Master Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds Master's Degree in Economics and a Bachelor's Degree in Economics (First Class Honours) both from the University of Nairobi.



**MS. SICILY KARIUKI, MBS
PRINCIPAL SECRETARY OF
AGRICULTURE**

Ms. Sicily Kariuki is the Principal Secretary, State Department of Agriculture. Prior to her appointment, she was the Chief Executive Officer of the Tea Board of Kenya. She holds a Bachelor of Commerce degree from the University of Nairobi and a Master of Business Administration Degree (Strategic Management) from ESAMI/Maastricht School of Management and has a post graduate qualification in International Food Laws.



**MR. LUCAS MESO, MBS
MANAGING DIRECTOR**

Mr. Lucas Meso is the Managing Director of the Agricultural Finance Corporation. Mr. Meso's experience spans over 20 years in senior management positions in the banking sector. He previously worked for the Central Bank of Kenya, East African Development Bank, Commercial Bank of Africa and the Co-operative Bank of Kenya. In recognition of his role in development of Agri-farming as a commercial business, Mr. Meso was honoured with a Presidential National Decoration

Award, Moran of the Order of the Burning Spear (MBS).

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

He has also made outstanding contributions in economic development in the country.

As the AFC team leader, Mr. Meso visualizes transforming the Corporation into a premier class, customer focused agricultural financing outfit where value to stakeholders takes precedence. He envisages a Corporation with extensive service outreach and meaningful impact to the Kenyan agricultural economy.

He holds a Master Degree in Business Administration specializing in Strategic Management from Maastricht (MSM)/Esami and a Bachelor of Science Degree in Financial Services from the University of Manchester. He is an associate of the Chartered Institute of Bankers (ACIB) UK, a fellow of the IFS School of Finance (FIFS) and a graduate of Advanced Management Program, Strathmore University in collaboration with IESE Business School, Barcelona - Spain.



MR. JOHN CHEBII
BOARD MEMBER

Mr. Chebii is a member of the Board, having been re-appointed on 13th July 2012. He is a lawyer by profession and currently a Senior Lecturer at School of Law - Moi University, Eldoret. His areas of specialization in the practice of Law are Civil, Criminal Litigation and Commercial transactions. He is a member of the Law Society of Kenya, Institute of Certified Public Secretaries, East Africa Law Society and Kenya Institute of Management.

He is credited with various publications including steps for ensuring factionary prosecutions under the Forest Act Cap 385, the Wildlife Conservation and Management Act Cap 376 Laws of Kenya and Comparative Law "Its place and value in Legal scholarship" University of Zambia Law Journal Vol. 2 issue I of 2004 amongst others.

He holds Master of Laws (LLM), Bachelor of Laws LLB (Hons) and Diploma in Legal studies.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)



STELLA N.K GATERE
BOARD MEMBER

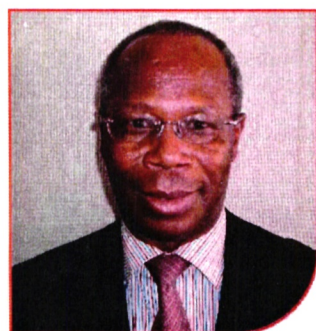
Mrs. Gatere was appointed to the Board on 19th September, 2013 to serve for a period of 3 years. She served the military and rose up the ranks from Lieutenant to First Class Staff officer in the Armed Forces. She attained an Advanced Finance Officers Course from Indiana, USA. Mrs. Stella sits in various Boards and committees, including the Kentmere Farmers Ltd, amongst others. She is also a budding entrepreneur managing a dairy farm and a small scale milk plant.

She is a Certified Public Accountant (CPA-K) from the then Strathmore College.



MRS. ROSE NG'INJA
BOARD MEMBER

Mrs. Ng'inja was appointed to the Board on 13th July 2012 to serve for a period of 3 years. She is the Chief Manager – Human Resources and Administration at the Kenya Pipeline Company. She holds a Bachelor of Arts Degree in Economics & Sociology from the University of Nairobi. Mrs. Ng'inja previously worked for reputable international organizations like Oxfam GB, UNICEF, TACK International and Unilever Kenya.



MR. JULIUS MBURUGU
BOARD MEMBER

Mr. Mburugu was appointed to the Board on 13th July 2012, to serve for a period of 3 years. He is the Managing Director of Entwise Associates. He has solid working experience in Kenya, Zambia, Malawi and Ghana as a lead consultant and project manager with several reputable organizations. These include the World Bank, UNDP, DANIDA, ILO, UNIDO, AfDB, FKE and CODA amongst others. His areas of specialization include Business Management, Entrepreneurship, Value addition and Institutional Development. He also doubles up in Policy

Formulation and Evaluation of Donor Funded projects. Prior to joining the Corporation, he had served as a Council member of the National Council for Science and Technology.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

As an independent and self-motivated professional, he is credited with various publications including a Handbook for Cotton Farmers and Extension Officers, Business Education and Entrepreneurship training manuals, development of strategic plans for re-positioning of Kenya Polytechnic and Kenya Industrial Training Institute Nakuru, a Concept note on Work 4 Youth in Kenya amongst others.

Mr. Mburugu holds a Master of Education Degree (M.Ed) from the University of Manchester, Bachelor of Education Degree (B.Ed) from the University of Nairobi and a Diploma in Business Education from Kenyatta University College. He is a member of the Kenya Institute of Management (KIM).



JARED AIMBA
BOARD MEMBER

Mr. Aimba was appointed to the Board on the 19th September 2012. He is a consultant in the area of management and financial services including debt management and insurance. He has a particular interest in the area of SME capacity building. Mr. Aimba is an experienced banker having practiced in the industry for over 15 years working in local, regional and international banks at senior management and Board levels. He left the banking industry in 2009 to go in to consultancy.

He holds a Bachelor of Science Degree in Financial Services from the University of Manchester Institute of Science and Technology. He is an Associate of the Chartered Institute of Bankers (UK) and a Fellow of the Kenya Institute of Bankers. He is also a graduate of Advanced Management Program (AMP), Strathmore University in collaboration with IESE Business School, Barcelona - Spain.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

MANAGEMENT TEAM



**MR. LUCAS MESO, MBS
MANAGING DIRECTOR**

Mr. Lucas Meso is the Managing Director of the Agricultural Finance Corporation. Mr. Meso's experience spans over 20 years in senior management positions in the banking sector. He previously worked for the Central Bank of Kenya, East African Development Bank, Commercial Bank of Africa and the Co-operative Bank of Kenya. In recognition of his role in development of Agri-farming as a commercial business,

Mr. Meso was honoured with a Presidential National Decoration Award, Moran of the Order of the Burning Spear (MBS). He has also made outstanding contributions in economic development in the country. As the AFC team leader, Mr. Meso visualizes transforming the Corporation into a premier class, customer focused agricultural financing outfit where value to stakeholders takes precedence. He envisages a Corporation with extensive service outreach and meaningful impact to the Kenyan agricultural economy.

He holds a Master Degree in Business Administration specializing in Strategic Management from Maastricht (MSM)/Esami and a Bachelor of Science Degree in Financial Services from the University of Manchester. He is an associate of the Chartered Institute of Bankers (ACIB) UK, a fellow of the IFS School of Finance (FIFS) and a graduate of Advanced Management Program, Strathmore University in collaboration with IESE Business School, Barcelona - Spain.



**ROSE OCHANDA MRS.
CORPORATION SECRETARY
& CHIEF MANAGER LEGAL
SERVICES**

Mrs. Ochanda is the Corporation Secretary and Chief Manager Legal Services. She has served in various positions in State Corporations such as the Kenya Industrial Estates Limited and the Kenya Bureau of Standards as the Company Secretary and Chief Legal Officer respectively. She has also practiced as an Advocate in private with a focus on litigation, commercial and conveyance law.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

She is a holder of a Master in Business Administration Degree in Strategic Management and LLB (Hons) Degrees from the University of Nairobi.



MRS LEAH GACHERU
AG. GENERAL MANAGER -
OPERATIONS

Mrs. Gacheru is the Acting General Manager – Operations. She joined the Corporation in 1982 as a Loan Officer and has risen through the ranks of Branch Manager, Regional Manager and Relationship Manager - Micro Credit.

She holds a Bachelor of Arts Degree in Economics from the University of Nairobi and a Diploma in advanced course in the Economics of Banking from Finafrica Milan (Italy).



MR. ISMAIL G. GUYO
GENERAL MANAGER -
FINANCE

Mr. Guyo is the General Manager Finance. He joined the Corporation in March 2012. He has extensive banking experience spanning over 16 years in areas of credit, operations and finance.

Prior to joining the Corporation, he had worked for Equity bank where he led business performance, budgeting and planning portfolio in the finance department and as a Head of Finance at First Community Bank. He has also worked at K-Rep bank, as a Senior Finance Manager in charge of Financial accounting and

reporting division.

He holds a Master of Business Administration –Finance from the University of Nairobi and a Bachelor of Science Degree in Business Administration from U.S.I.U majoring in Accounting and Finance disciplines. He also holds a Diploma in Audit from Co-operative College of Kenya. He is a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He serves in Public Policy and Governance Committee of the Institute.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)



Ms. MIRIAM N. NJOROGE
CHIEF INTERNAL AUDITOR

Ms. Njoroge is the Chief Internal Auditor. She joined the Corporation in January, 2012. She has over 10 years of professional experience in accounting, assurance, donor fund management and tax consultancy. Prior to joining the Corporation Miriam worked for PriceWaterhouseCoopers as an audit consultant in various non-governmental organizations. She also has extensive experience in audit of private sector as well as State Corporations.

She holds a Bachelor of Commerce Degree (Accounting option) from the University of Nairobi and is a CPA (K) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). She is currently pursuing a Master Degree in Business Administration in Strategic Management.



MR. SIMON M. MAITHA
AG. GENERAL MANAGER
BUSINESS DEVELOPMENT

Mr. Maitha is the Acting General Manager Business Development. He is an agribusiness expert with over 20 years' experience in designing and overseeing the implementation of various agricultural credit projects and programmes. He has successfully managed the Corporation's strategic planning, marketing, corporate communications and resource mobilization functions as well as the Quality Management System (ISO 9001:2008).

He holds a B.Sc Degree in Agriculture from the University of Nairobi. Currently he is pursuing two Master Degrees, MBA & MSc (Entrepreneurship) at Jomo Kenyatta University of Agriculture and Technology. He is a member of the Kenya Institute of Management.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)



MR. K. W. C. TALLAM
AG GENERAL MANAGER
HUMAN RESOURCES &
ADMINISTRATION

He holds a B.Sc (Business Administration) Degree from the United States International University (USIU) and a Diploma in Business Administration.

Mr. Tallam is the Acting General Manager Human Resources and Administration. He is a career Human Resource Professional having worked in the Human Resource Department of the Corporation for 19 years rising from the position of Personnel officer, Senior Personnel Officer, Principal Personnel Officer and Human Resources Manager.

He is also a Trustee of the AFC Staff Pension Scheme and the Chairman of the Ufanisi Saving and Credit Co-operative Society.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

STATEMENT ON CORPORATE GOVERNANCE

Code of Conduct

It is of major importance to the Corporation that its leaders create a "tone at the top" and a corporate culture that promotes ethical conducts on management and employees. The single most important factor in creating such a culture is the quality of corporate leadership, especially the "tone at the top" set by the Board of Directors and senior management. The Board of Directors and Management of the Corporation understand this and are committed to this it. To this effect, Corporations resources are only to be used to conduct its business or for purposes authorized by management.

Any act by a member of the Board of Director or Management that involves theft, fraud, unauthorized disclosure, embezzlement, or misappropriation of any property is prohibited. Each member of the Board of Director or Management is responsible for the assets under their control. Each Director must follow security procedures to protect assets and must be alert to situations that could lead to loss or misuse of assets.

Board Responsibilities

The Board of Directors is responsible for providing overall policy and leadership to the Corporation and is primarily accountable to the Government as regards to performance. The Board's duties and responsibilities include:

- **Fiduciary responsibility:** The Board of Directors has a fiduciary responsibility to care for the finances and legal requirements of the Corporation. They must act in good faith and with a reasonable degree of care, and they must not have any conflicts of interest. That is, the interests of the Corporation must take precedence over personal interests of individual Board members.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

- Mission and Vision of the Corporation: the Board of Directors are responsible for setting the mission of the Corporation and ensuring that all actions are related to and adhere to that mission. The Board can change the mission, but only after careful deliberation.
- Oversight: The Board of Directors does not participate in day-to-day decision-making of the Corporation; instead, they set overall policy, based on the corporate mission and vision, and they exercise an oversight function, reviewing the actions of management. The Board puts in place appropriate policies, systems and structures for the successful implementation of policy;
- The Board of Directors establishes and maintains the Corporation's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management;
- The Board of Directors sets policy guidelines for management and ensures competent management of the business including the selection, supervision and remuneration of Senior Management.

Board Meetings

An annual plan of scheduled Board meetings is prepared each year by the Corporation Secretary, including meetings for the sub-committees. The full Board meets at least four times a year and special meetings may be convened when need arises. Guidelines are in place concerning the content, presentation and delivery of papers for each Board meeting to ensure that Directors have adequate information and sufficient time for appropriate briefing ahead of each meeting.

Board Chairman and Managing Director

The roles and responsibilities of the Chairman of the Board and the Managing Director are distinct and separate. The Chairman provides overall leadership to the Board in line with principles of collective responsibility for Board decisions. The Managing Director is responsible to the Board and takes charge of executive

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

management in the course of effective and efficient running of the Corporation on a day-to-day basis. The Board has delegated to the Managing Director authority to implement Board decisions with assistance of Management which the Managing Director chairs.

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of its performance and that of its committees and individual directors is carried out each year. This involves a self-review of the Board's capacity, functionality and effectiveness of performance against its set objectives. Evaluation enables directors to suggest how Board procedures may be improved by assessing strengths and weaknesses and addressing its balance of skills, knowledge and experience. This is done by the GOK Performance contract on the KPI of the respective Board members.

Internal Control

The Board has collective responsibility for establishment and management of appropriate systems of internal control and for reviewing their effectiveness. The system of internal control in place has defined procedures with operational and financial controls to ensure that assets are safeguarded, transactions authorized and recorded properly, and that material errors and misstatements are either prevented or detected within a reasonable period of time.

Internal assurance is carried out by an independent Internal Audit Department that reports to the Board Audit Committee and provides confirmation that the Corporations standards, policies and procedures as set by the Board are being complied with.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

Conflict of Interest

The Corporation's policy provides that Directors, their immediate families and companies where they have interests in, only do business with the Corporation at arm's length.

Where a matter concerning the Corporation may result in a conflict of interest, the Director is obliged to declare the same and exclude themselves from any discussion or vote over the matter in question.

Board Sub-Committees

To enhance the breadth and depth of achieving Board responsibilities, the Board has delegated authority to various sub-committees although the Board retains ultimate collective accountability for performance and corporate governance. Committees of the Board are as follows:

- Audit Committee
- Finance and Business Committee
- Credit and Risk Committee
- Human Resource Committee

These committees have formally determined terms of reference with defined scope of authority, set by the Board of Directors.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Agricultural Finance Corporation Act Cap 323, Section 194 of the Public Finance Management Act, 2012 Cap 412 and section 14 of the State Corporations Act Cap 446 require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Corporation for that year/period. The Directors are also required to ensure that the Agricultural Finance Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial period ended on June 30th, 2014. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period.
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation.
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud.
- (iv) Safeguarding the assets of the Corporation.
- (v) Selecting and applying appropriate accounting policies.
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

(IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30th, 2014, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Corporation's financial statements were approved by the Board on September 29, 2014 and signed on its behalf by:



PATRICK OSERO
CHAIRMAN



LUCAS MESO, MBS
MANAGING DIRECTOR

FINANCIAL RISK MANAGEMENT

In financial services sector, sustainable growth in profitability involves selectively taking and managing risks. The risk management resources and processes are designed to identify, understand, measure and report risks that the Corporation business is exposed to and develop governance, controls and risk management framework necessary to mitigate these risks as appropriate.

The Corporation operates in an environment of numerous risks as shown below that may cause financial and non-financial results to differ significantly from expected outcomes. The Corporation has an enterprise-wide approach to the identification, measurement, monitoring and management of risk faced across the organization. These risks are classified as follows: -

- Credit Risk
- Liquidity and Funding Risk
- Market Risk

a) Credit Risk

Credit risk is the potential for loss due to the Corporation's clients' failure or unwillingness to meet their contractual credit obligation. It's the single largest risk that the Corporation faces. This arises principally from the loans and advances given to our clients.

The amounts presented in these financial statements are net of impairment allowances based on prudent assessment of clients' abilities to meet their contractual obligations.

To facilitate the day to day management of credit risk, there is an independent risk unit based in Head Office charged with responsibility of referencing our clients before advancement of loans to assess their credit worthiness.

Loans and advances to customers are classified as indicated below:-

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

Loan Provision for Bad and doubtful debts 2013/2014

Grade	Portfolio	%	Bad debts Provision
Normal	3,571,808	1%	35,718
Watch	1,192,190	3%	35,766
Sub-Standard	736,344	20%	147,269
Doubtful	2,362,581	100%	2,362,581
Total	7,862,923		2,581,334

General Provision

Opening balance	2,329,202
Add Increase during the year	38,423
Closing balance	2,367,625

b) Liquidity and Funding Risk

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligation when they fall due or to fund increases in asset without incurring unacceptable costs or losses. Effective liquidity risk management is essential in order to maintain the confidence of the Corporations funders and financiers and to enable our core business to continue operating even under adverse liquidity circumstances.

The Corporation has established the Asset and Liabilities Committee (ALCO) that is tasked with the responsibility of ensuring that all foreseeable funding and commitments are met when they fall due and that the Corporation will not encounter difficulties in meeting its obligations or financial liabilities as they fall due.

c) Market Risk

Market risk is the risk that the values of assets and liabilities or revenues will be adversely affected by changes in market conditions or market movements. The objective of market risk management programs is to manage and control market risk

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

exposures in order to optimize return on risk taken while maintaining a good market profile as a provider of agricultural financial products and services.

AGRICULTURAL FINANCE CORPORATION
Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

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P.O. Box 30084-00100
NAIROBI



OFFICE OF THE AUDITOR-GENERAL

**REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL
FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2014**

REPORT OF THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Agricultural Finance Corporation set out on pages 23 to 45 which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Promoting Accountability in the Public Sector

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Land and Building

As disclosed in note 8(a) to the accounts and as previously reported in 2012/2013, land and buildings balance of KES.1 ,014,478,000 as at 30 June 2014 includes twenty nine (29) developed plots measuring 5.3324 hectares valued at KES.191 ,627,798 and seven undeveloped plots measuring 1.5383 hectares worth KES.914,255, against which respective ownership documents were not availed for audit review. In addition, the value

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

of land and buildings as now reported excludes various parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. In the circumstances, it has not been possible to confirm whether land and buildings balance of KES. 1,014,478,000 as at 30 June 2014 is fairly stated.

2. Loss of Cash

As previously reported, an examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of KES. 35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. According to information available, the cheques were cashed by an accountant in charge of cash office, who also doubled as the Corporation's bank agent. Initial investigations revealed that the fraud was perpetrated by recycling and falsifying documents for re-imburement claims. Further, information indicates that although the Corporation operated several bank accounts, the fraud was perpetrated mainly at the National Bank of Kenya Branch along Harambee Avenue, Nairobi. The case is in court and until it is fully determined, it is not possible to confirm whether the amount will be recovered.

3. Provision for Doubtful Debts

The statement of comprehensive income includes KES.38,423,000 in respect of charge for doubtful debts as disclosed under note 9 (a) to the accounts. However audit verification revealed that these were bad debts written off but the management has not provided authority by the Board of Directors and Treasury for the write off for audit verification. Although the management has explained that Treasury granted authority for write off, available evidence shows that the authority granted was for interest concession formula and not a write off. In the absence of explicit authority by Treasury, the write off was improper.

4. Board Expenses

Section 6(1) of the state Corporations Act, Cap 446, of the Laws of Kenya states that

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

'unless the written law by or under which a state corporation is established or the articles of association of the state corporation otherwise require, a Board shall consist of a Chairman, the Chief Executive, the Permanent Secretary of the parent Ministry, the Permanent Secretary to the Treasury and not more than seven (7) other members not being employees of the state corporation appointed by the Minister.' Section 10(1) of the Act, allows the chairman and the board members to be paid sitting allowance out of the funds of the corporation on attendance of board/committee meetings. However, records examined indicated that the Corporation paid a total of KES. 592,000 as sitting allowance to non-directors in attendance during board/committee meetings. The Corporation was therefore in breach of the law.

5. Net Loans to customers

(i) As previously reported, short term loans to customers balance of KES. 2,054,467,000 as disclosed in note 12 (b) includes an amount of KES. 22,661,100 advanced to 13 farmers in Kapsabet. According to information available, the Corporation advanced the amount against various collaterals in form of title deeds which appeared to be fraudulent. In the circumstances, it has not been possible to ascertain the recoverability of the amount of KES. 22,661,100 advanced to the farmers.

(ii) Similarly, loans to staff of KES. 253,367,000 as disclosed in note 12(c) to the accounts includes an amount of KES. 19,922,472.65 owed by ex-staff in respect of house loans, personal advance and car loans. Although the Corporation has made a provision of KES. 20,387,000 for doubtful debts, it has not, however, been clarified why the amounts could not be offset against the final dues of the affected former employees.

6. Administration Costs

Included in the administration costs figure of KES. 850,007.000 as disclosed under note 7 to the accounts is KES. 647,575,000 in respect of staff costs. However, audit verifications revealed that this figure includes KES. 1,523,859.10 paid as acting allowances to staff for more than six months, contrary to the provisions of paragraph 6.10.2 (g) of staff policy and manual

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

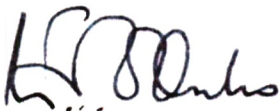
which states that no acting appointment on a substantive vacant position shall be made in excess of six (6) months. The payment is therefore irregular.

7. Budgetary control

The Corporation overspent by KES. 2,006,000 and KES. 5,869,000 on medical expenses and purchase of motor vehicles respectively during the year under audit. However, there was no evidence for audit verification showing that the over-expenditure was approved by the parent Ministry and Treasury as provided for under Section 12 of the State Corporations Act, Cap 446 of the Laws of Kenya. The Corporation was therefore in breach of law.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Agricultural Finance Corporation Act, 323 of the Laws of Kenya.



Edward R. O. Ouko, CBS

AUDITOR-GENERAL

Nairobi

23 March 2015

AGRICULTURAL FINANCE CORPORATION
 Reports and Financial Statements
 for the year ended 30th June, 2014 (KES'000)

STATEMENT OF COMPREHENSIVE INCOME

		2014	2013
REVENUES:	NOTES	KES'000	KES'000
Interest Income:			
Interest on Loans	2 (a)	526,987	491,250
Interest on Short Term Deposits	2 (b)	121,007	178,937
Total interest income		647,994	670,187
Less: Interest expenses			
Interest on Redeemable Loans	3	40,306	40,307
Rebate Interest	4	2,721	2,503
		43,027	42,810
Net interest income		604,967	627,377
Other Operating Income	5 (a)	125,754	215,854
Fee Income	5 (b)	219,749	209,394
Income from doubtful debts	6	159,240	112,337
TOTAL REVENUES		1,109,710	1,164,962
OPERATING EXPENSES			
Administration Costs	7	(850,007)	(701,681)
Depreciation of Property & Equipment	8 (a)	(61,798)	(49,800)
Amortization of Intangible Assets	8 (b)	(549)	(757)
Charge for Doubtful Debts	9 (a)	(38,423)	(159,591)
Profit Before Taxation		158,933	140,796
Tax for the Year	10	(52,198)	(62,948)
PROFIT AFTER TAXATION		106,735	77,848

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

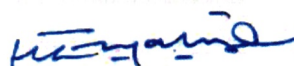
STATEMENT OF FINANCIAL POSITION

ASSETS:	NOTES	2014 KES.'000	2013 KES.'000
Non-Current Assets			
Property and Equipment	8 (a)	1,128,564	1,137,981
Intangible Assets	8 (b)	7,092	7,452
Repossessed Farm Properties	11	173,661	178,660
Deferred Tax Asset	10	700,379	709,880
Net Loans to Customers	12	5,407,130	4,541,262
		7,416,826	6,575,235
Current Assets			
Cash and Bank Balances	13 (a)	166,946	146,422
Short Term Deposits	14	1,023,453	1,608,618
Trade and Other Receivables	15	205,812	129,851
Inventories	16	1,232	1,139
		1,397,443	1,886,030
Total Assets		8,814,269	8,461,265
EQUITY AND LIABILITIES			
Equity and Reserves			
Grants	17	2,356,476	2,356,476
Government Equity Capital	18	2,687,766	2,687,766
General Reserve	19 (a)	434,757	358,574
Revaluation Reserve	19 (b)	787,618	787,618
		6,266,617	6,190,434
Non-Current Liabilities			
Redeemable Loans & Interest Payables	20	1,892,149	1,868,467
Current Liabilities			
Payables	21 (a)	385,543	321,435
Trade and Other Payables	21 (b)	238,634	80,558
Current Tax Payable	21 (c)	31,326	-
Current Accounts	13 (b)	-	371
		655,503	402,364
Total Capital and Liabilities		8,814,269	8,461,265



PATRICK OSERO
CHAIRMAN

Dated 29th September 2014



LUCAS MESO, MBS
MANAGING DIRECTOR

Dated 29th September 2014

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

STATEMENT OF CASH FLOW

	NOTES	2014 KES.'000	2013 KES.'000
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit/(Loss) Before Taxation		158,933	140,796
Adjustments for:			
Depreciation of Property & Equipment	2 (a)	61,798	49,800
Amortization of Intangible Assets	2 (b)	549	757
Income Tax Paid	10	(11,371)	-
Profit/loss on Disposal of Assets	23 (c)	914	(1,520)
Increase in Repossessed Farm Properties		4,999	(109,108)
Increase in Loans to Customers		(865,868)	(241,080)
Increase in Inventories		(93)	(216)
Decrease in Trade and Other Receivables		(75,961)	23,615
Increase in Trade and Other Payables		262,490	9,484
NET CASH FLOW FROM OPERATING ACTIVITIES		(463,610)	(127,472)
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of Property & Equipment	8 (a)	(53,295)	(46,171)
Purchase of Intangible Assets	8 (b)	(189)	-
Proceeds from disposal of Property & Equipment	23 (c)	-	1,520
NET CASH FLOW FROM INVESTING ACTIVITIES		(53,484)	(44,651)
CASH FLOW FROM FINANCING ACTIVITIES			
Coffee Development Fund repayment	20 (a)	(16,475)	(12,844)
Restatement in General Reserve		(30,552)	(17,269)
GOK Loans Grant	20 (a)	(2,501)	-
		-	700,000
Kenya Sugar Board repayments	20 (a)	(42,000)	(41,646)
Coffee Development Fund	20 (a)	4,352	2,649
National Irrigation Board Receipt	20 (a)	40,000	-

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

**NET CASHFLOW FROM
FINANCING ACTIVITIES**

(47,176)

630,890

**NET INCREASE IN CASH &
CASH EQUIVALENTS**

(564,270)

458,767

Cash and cash equivalent 1 July

1,754,669

1,295,902

**Cash and cash equivalent 30
June (Note 9 and 10)**

1,190,399

1,754,669

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

STATEMENT OF CHANGES IN EQUITY

	Government Equity Capital	General Reserve	Revaluation Reserve	Grants	Totals
	KES.000	KES.000	KES.000	KES.000	KES.000
As at 1 July 2012	2,687,766	297,995	787,618	1,656,476	5,429,855
Grant	-	-	-	700,000	700,000
Reinstatement of Loans write off/Codf transfer	-	(17,269)	-	-	(17,269)
Profit for the Year	-	77,848	-	-	77,848
As at 30 June 2013	2,687,766	358,574	787,618	2,356,476	6,190,434
As at 1 July 2013	2,687,766	358,574	787,618	2,356,476	6,190,434
Profit for the Year	-	106,735	-	-	106,735
Reinstatement of Loans write off/Codf transfer	-	(30,552)	-	-	(30,552)
As at 30 June 2014	2,687,766	434,757	787,618	2,356,476	6,266,617

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

NOTES TO FINANCIAL STATEMENT

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies adopted in the preparation of these financial statements are set out below.

A. Statement of Compliance and Basis of Preparation

The financial statements of the Corporation have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plants and equipment, marketable securities and financial instruments at fair value impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (KES'000).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

B. Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the entity's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the entity's activities as described below.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

- i) **Revenue from the sale of goods and services** is recognised in the year in which the entity delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the entity actually receives such grants.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- v) **Other income** is recognised as it accrues.
- vi) **Income from doubtful debts** is recognised upon actual collections.

C. Property and Equipment

All categories of property and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Certain categories of property and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

D. Depreciation and Impairment of Property & Equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on Property and Equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Freehold land Nil

Leasehold premises and improvements rates are based on the unexpired lease term or 50 years whichever is less.

Motor vehicles	25%	Computers and Software	33.3%
Furniture	12.5%	Buildings	2%
Fittings & office equipment	20%		

Items of Property & Equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

E. Intangible Assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

F. Amortisation and Impairment of Intangible Assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

G. Trade and Other Receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

H. Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

I. Provision for Doubtful Debts

The Corporation adopted the Central Bank prudential guidelines with modifications to reflect the risks and uncertainties specific to the agricultural sector.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

To this effect loans have been classified into five categories as follows: Normal, Watch, Sub-Standard, Doubtful and Loss.

The provisions for these categories are as outlined below;

Normal – Nil

Watch - 1 %

Sub- Standard 5 %

Doubtful - Specific provision on loan amount less security value

Loss - Specific provision on loan amount less security value.

J. Retirement Benefit Obligations.

The Corporation previously contributed to a defined benefits retirement scheme which it funded and whose assets are held in a separate Trustees' administered fund. With effect from January 2008 the Corporation contributes to a defined contribution pension scheme following the closure of the defined benefits scheme in December 2007. The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). The Corporation's contributions to the above schemes are charged to the profit and loss account in the year which they relate. However at the time of closure of the Defined Benefit scheme, the fund was under funded to the tune of KES 324 million as per actuarial valuation. The Corporation pays KES 33 million annually to the scheme to reduce the deficit. As at 30th June, 2014 the deficit balance stood at KES 170.5 million.

K. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

L. Trade and Other Payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

M. Provision for Staff Leave Pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

P. WIP and Inter-Branch Suspense

These are accounts in the system which holds transactions to be posted after running of end of the day procedure.

Q. Farm Properties in Possession

These are clients farms that failed to attract bidders/buyers at a public auction hence, the Corporation purchased them at the reserved price. The acquired farms will be later disposed off through a competitive bidding or a private treaty.

R. Net Loans to Customers

These are advances to clients and staff net off the provision of bad and doubtful debts.

N. Comparative Figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

O. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

	2014	2013
	KES.'000	KES.'000
2 (a). Interest on Loans		
Interest on Medium Term Loans	351,819	316,792
Interest on Short Term Loans	155,092	144,503
Interest on Staff Loans	20,076	29,955
	<u>526,987</u>	<u>491,250</u>

2 (b). Interest on Short Term Deposits

Details are as follows:-

	2014	2013
	KES.'000	KES.'000
Short Term Deposits	119,456	177,724
Bank Accounts	1,551	1,213
Balance as at 30th June	<u>121,007</u>	<u>178,937</u>

3. INTEREST ON REDEEMABLE LOANS

The interest charge on redeemable loans outstanding as at 30th June 2014 were as follows:

	2014	2013
	KES.'000	KES.'000
IDA 344	209	209
IDA 1143 KE	787	787
RSDP & IBRD 1995 KE	34,531	34,532
A D B (PIGS)	4,779	4,779
Balance as at 30th June	<u>40,306</u>	<u>40,307</u>

These are long term Government loans advanced to the Corporation and repayable at specific rates of interest accrued on annual basis. The Corporation is not exposed to the risks of interest rate fluctuations in the market as the rates were determined at the time of loan receipt.

	2014	2013
	KES.'000	KES.'000
4. Rebates Interest	2,721	2,503

These are rebates paid to clients on their credit balances at the rate of 1 % p.a on loan repayments received in advance before the instalments fall due in compliance with AFC Act Cap 323.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

5 (a). OTHER INCOMES	2014	2013
Non Interest Incomes	KES.'000	KES.'000
Rent income - Note 23 (a).	94,183	63,384
Profit on disposal of assets- Note 23 (c).	(914)	1,520
Agency commission	1,249	1,104
NIB Agency commission	8,857	-
Sundries	22,379	37,509
Write back FPIP provisions	-	-
As at 30th June	<u>125,754</u>	<u>103,517</u>

5 (b). FEE INCOME	2014	2013
	KES.'000	KES.'000
Application & Forms fees	29,776	30,441
Conveyance	70,293	64,456
Loan Commitments Fees	42,568	34,200
Inspection fees	59	111
Other Loan Processing fees	14,391	11,535
Discharge of Securities Fees	8,896	8,230
Loan Waiver Processing Fees	1,694	1,145
Account Maintenance Fee Income	52,072	59,276
Total	<u>219,749</u>	<u>209,394</u>

6. Income from doubtful debts

All loans outstanding prior to January 2003 had been fully provided for as doubtful debts as at 30th June 2005 and interest accrual on such loans suspended. However, recoveries from the portfolio have been recognised as income as shown below:-

	2014	2013
	KES.'000	KES.'000
Recoveries from NPL's	159,240	112,337
Write back FPIP provisions	-	-
	<u>159,240</u>	<u>112,337</u>

These are incomes from applications, conveyancing and farm inspection fees received when loans are being processed during the year.

7. ADMINISTRATION COSTS	2014	2013
	KES.'000	KES.'000
(a) Staff Costs	647,575	513,962
(b) Board members' expenses	11,755	10,507
(c) General & Administration expenses	189,517	175,892
(d) Auditors fees	1,160	1,320
Total	<u>850,007</u>	<u>701,681</u>

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

8. (a) PROPERTY PLANT AND EQUIPMENT

	Land & Buildings KES'000	Motor Vehicles KES'000	Furniture & Equipment KES'000	Computer Hardware KES'000	Work in Progress KES'000	Totals KES'000
COSTS:						
As at 1 July 2013	1,097,201	160,877	220,681	124,957	-	1,603,716
Additions	-	38,369	7,350	4,284	3,292	53,295
Eliminated on disposal	(914)	(357)	-	-	-	(1,271)
As at 30 June 2014	1,096,287	198,889	228,031	129,241	3,292	1,655,740
DEPRECIATION:						
Charge for previous years	60,694	103,648	181,080	120,313	-	465,735
Charge for the year	21,115	25,562	11,909	3,212	-	61,798
Eliminated on Write-off	-	(357)	-	-	-	(357)
As at 30 June 2014	81,809	128,853	192,989	123,525	-	527,176
NET BOOK VALUE						
As at 30 June 2014	1,014,478	70,036	35,042	5,716	3,292	1,128,564
As at 30 June 2013	1,036,507	57,229	39,601	4,644	-	1,137,981

Included in the Motor Vehicles, is vehicle reg KBW 068 V costing Kes 3,365,000.00 which was burnt during Mpeketoni terrorist attack. The Corporation has lodged an insurance claim with the insurer.

Property, plant and equipment include the following items that are fully depreciated:

	COST KES'000	NORMAL ANNUAL DEPRECIATION CHARGE KES'000
Motor Vehicles	81,148	20,287
Equipment & Furniture	113,116	18,321
Computer Hardware	112,939	37,609
Software	51,399	17,116
	358,602	93,333

8. (b) INTANGIBLE ASSETS

	2014 KES'000	2013 KES'000
COSTS:		
As at 1 July	53,490	53,490
Additions	189	-
Disposals	-	-
As at 30 June	53,679	53,490
AMORTISATION		
As at 1 July	46,038	45,281
Charge for the year	549	757
Disposals	-	-
As at 30 June	46,587	46,038
NET BOOK VALUE	7,092	7,452

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

9 (a). PROVISIONS FOR DOUBTFUL DEBTS

The provision for bad and doubtful loans is done in line with the policy in note (I).

The charged amounts are classified as below.

DOUBTFUL DEBTS CHARGES FOR THE YEAR:

Loans to customers	2014 KES.'000	2013 KES.'000
General provision		
Doubtful	-	54,410
Loss	38,423	105,181
Total	38,423	159,591
Staff loans:		
Specific provisions	-	-
Total charge for the year	38,423	159,591

9 (b). ACCUMULATED PROVISIONS FOR DOUBTFUL DEBTS

The accumulated provisions are analysed as below:

	2014	2013
Specific Provisions	KES'000	KES'000
Balance as at 1 July	2,153,688	2,439,070
Adjustments	50,030	(173,045)
Write-offs	-	-
Write back during the year	(159,240)	(112,337)
Balance as at 30 June	2,044,478	2,153,688
General Provisions		
Balance as at 1st July	284,724	125,133
Charge for the year		
Sub-standard	-	54,410
Doubtful	-	-
Loss	38,423	105,181
Balance as at 30 June	323,147	284,724
Provisions Summary	KES'000	KES'000
Specific Provisions	2,044,478	2,153,688
General Provisions	323,147	284,724
Balance as at 30 June	2,367,625	2,438,412
Classified Under		
Medium Term Loans	2,279,469	2,350,256
Short Term Loans	67,769	67,769
Staff Loans	20,387	20,387
	2,367,625	2,438,412

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

10. DEFERRED TAX ASSET:	2014	2013
	KES.'000	KES.'000
The net deferred tax asset is arrived at as follows:		
Balance b/f as at 1 st July	709,880	772,828
Income Tax paid	11,371	-
Tax provision for FY 2012/13	13,295	-
Tax for the year	(34,167)	(62,948)
Balance as at 30 June	<u>700,379</u>	<u>709,880</u>

11. REPOSSESSED FARM PROPERTIES:	2014	2013
	KES.'000	KES.'000
Acquisition value as at 1 st July	264,494	155,386
Less Accum Provisions 1 st July	(85,834)	(85,834)
Additions - FPIP	-	119,797
Disposals - FPIP	(4,999)	(10,689)
Balance as at 30 June	<u>173,661</u>	<u>178,660</u>

12. LOANS TO CUSTOMERS	2014	2,013
	KES.'000	KES.'000
12. (a) Medium Term Loans	5,466,921	4,678,958
(b) Short Term Loans	2,054,467	2,063,150
(c) Directors & Staff Loans	253,367	237,566
Total Loans to Customer	<u>7,774,755</u>	<u>6,979,674</u>
Less Accumulated Provision as per note 9 (b).	<u>2,367,625</u>	<u>2,438,412</u>
Net loans to Customer	<u>5,407,130</u>	<u>4,541,262</u>

12 (a). These are loans whose maturity periods are between twelve months and five years.

12 (b). These are loans whose maturity periods is up to 12 months and instalments for medium term loans that will fall due within the next twelve months.

12 (c). These are loans to current staff, ex-staff current and past directors.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

13 (a). CASH AND BANK BALANCES

	2014 KES.'000	2013 KES.'000
Current accounts	109,116	60,074
Branch Collection Accounts	3,791	14,678
Branch Imprest Accounts	5,782	7,917
Branch Loan Funds Accounts	48,257	63,753
Balance as at 30th June	166,946	146,422

13 (b). CASH AND BANK BALANCES

Current accounts	-	(371)
	-	(371)

14. SHORT TERM DEPOSITS

	2014 KES.'000	2013 KES.'000
Co-operative Bank	400,000	300,000
National Bank of Kenya	151,000	251,000
Kenya Commercial Bank	350,000	573,996
Family Bank	100,000	100,000
Interest receivable	22,453	33,622
Equity Bank	-	200,000
CFC Bank	-	150,000
Balance as at 30th June	1,023,453	1,608,618

The average effective interest rate on the short term deposits as at June 30, 2014 was 10.0% (2013 9.1%). These are funds held in short term deposits at various banks which mature between one and six months.

The funds are for operations and lending activities.

15. TRADE & OTHER RECEIVABLES

	2014 KES.'000	2013 KES.'000
Loan Fees	88,168	82,461
Rent receivable- Other properties	46,135	2,694
Prepaid expenses	11,862	17,288
Accounts receivable- Others	51,417	11,176
Recoverable fees and charges	8,216	2,768
Work in progress	14	13,464
Less:Accum.prov. for doubtful debts	-	-
Balance as at 30th June	205,812	129,851

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	7,532	13,464
Between 30 and 60 days	11,862	17,288
Between 61 and 90 days	54,351	16,638
Between 91 and 120 days	43,899	-
Over 120 days	88,168	82,461
	205,812	129,851

16. INVENTORIES

These are stocks of stores valued at cost at the end of the financial year.

	2014 KES.'000	2013 KES.'000
Stationery & Office Supplies	940	992
Kitchen,Detergents & Toiletries	14	46
Computer Stationery	278	101
	1,232	1,139

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

17. GRANTS	2014	2013
	KES'000	KES'000
Development	20,611	20,611
Rehabilitation	18,752	18,752
I C A	2,500	2,500
Special Emergency Fund	3,470	3,470
Ministry of Finance	40,000	40,000
IDA 105/344	2,168	2,168
IDA 692	3,335	3,335
Vihiga	700	700
North Tetu	149	149
IADP	278	278
Narok Agricultural Dev. Project	760	760
World Bank Credit 4	21,925	21,925
IDA 1143 KE	14,529	14,529
IDA 1995 KE	1,594	1,594
Japanese Grant SCC Scheme 42 2004	769,000	769,000
GTZ Grant-2006	6,055	6,055
GOK Grant Livestock Off Take 2006	95,000	95,000
GOK Grant Livestock Off Take 2009	190,000	190,000
GOK Grant Livestock Off Take 2011	405,650	405,650
GOK Grant Livestock Off Take 2012	60,000	60,000
GOK Grant 2013	700,000	700,000
Balance as at 30th June	<u>2,356,476</u>	<u>2,356,476</u>

These are non-refundable grants from the Government of Kenya and other donors to finance specific lines of credit (schemes) and have no associated financial market risks

18. GOVERNMENT EQUITY

The Government approved the financial restructuring of the Corporation vide Sessional paper No. 1 dated 6th November, 2002. To this effect the Government undertook to inject additional equity to the Corporation amounting to KES. 1.3 billion in five equal installments.

The fifth and last tranche of KES. 260 million was received in 2006/2007 financial year. The Government also converted loans due from the Corporation amounting to KES.1, 387, 765, 881 into equity bringing the total figure to KES.2, 687, 765, 881. The equity injection was meant to build a sustainable capital base for the Corporation. The financial instrument has no associated financial market risk.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

19. RESERVES

	2014	2013
(a). General Reserve	KES.'000	KES.'000
Balance as at 1st July	358,574	297,995
Restatement of loan write off/CoDF transfer	(30,552)	(17,269)
Profit after taxation for the year	106,735	77,848
Balance as at 30th June	434,757	358,574

The General Reserve is the undistributed profit from the operations.

	2014	2013
(b) Revaluation reserve	KES.'000	KES.'000
Balance as at 1st July	787,618	787,618
Additions	-	-
Balance as at 30th June	787,618	787,618

Property and Equipment are stated at cost or as revalued from time to time less accumulated depreciation. The Corporation's policy is to revalue property once every five years.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same assets are charged against the revaluation reserve. All other decreases are charged to the Income Statement.

20. (a) REDEEMABLE LOANS AND INTEREST:

	INTEREST RATES	PRINCIPAL	ACCUM	ACCRUED	PRINCIPAL	INTEREST	PRINCIPAL	ACCUM	TOTAL	
	% p.a	30.06.2013	INTEREST B/F	INTEREST	REPAYMENTS	RECEIPTS	REPAYMENT	INTEREST C/F		
		KES.'000	30.06.2013	30.06.2013	30.06.2014	30.06.2014	30.06.2014	30.06.2014	30.06.2014	
			KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	
IDA 344KE SMALL SCALE	0.010	20,876	420	209	(1,926)	-	(575)	18,950	54	19,004
IDA 1143KE CREDIT 4	0.080	9,841	7,876	788	-	-	-	9,841	8,664	18,505
IBRD 1995 KE CREDIT 4	0.080	258,036	206,542	20,643	-	-	-	258,036	227,185	485,221
RSDP1974 KE	0.076	182,748	138,966	13,887	-	-	-	182,748	152,853	335,601
ADB LIVESTOCK (PIG)	0.060	79,650	47,816	4,779	-	-	-	79,650	52,595	132,245
KENYA SUGAR BOARD	0	884,218	-	-	(42,000)	-	-	842,218	-	842,218
COFFEE DEV FUND	0	21,478	-	-	(16,475)	4,352	-	9,355	-	9,355
NIB- AHERO RICE REV FUND	0	10,000	-	-	0	40,000	-	50,000	-	50,000
TOTAL		1,466,847	401,620	40,306	(60,401)	44,352	(575)	1,450,798	441,351	1,892,149

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2014 (KES'000)

21. PAYABLES AND ACCRUALS

	2014	2013
	KES.'000	KES.'000
(a) Payables		
Borrowers credit balances	254,406	242,337
Unprocessed Loan Receipts	20,247	19,726
Loan drafts outstanding	10,206	3,008
Customers Loan deposits	100,684	56,364
Balances as at 30th June	385,543	321,435
(b) Other Payables and Accruals		
Sundry creditors general	8,835	8,731
Cash security deposits	22,134	24,039
Insurance receipts	6,571	-
External audit fees	1,160	1,160
Gratuity	4,245	7,910
Suspense - interbranch	12,902	-
Accrued pension contributions	11,744	-
Employees other deductions	6,869	-
Accrued Leave days	8,610	8,610
Other payables	155,564	30,108
Balance as at 30th June	238,634	80,558
(c) Current Tax payable		
Tax on Rental Income	31,326	-
Balance as at 30th June	31,326	-

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

22. (a) Staff Costs	ACTUAL	BUDGET	ACTUAL	VARIANCE	VARIANCE
	30.06.14	30.06.14	30.06.13	BUDGET	ACTUAL
	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000
Salaries	315,892	344,178	296,183	28,286	19,709
Overtime	961	2,800	929	1,839	32
House allowance	70,338	93,676	69,471	23,338	867
Transport allowance	28,973	40,956	28,693	11,983	280
Hardship allowance	5,979	5,875	5,234	(104)	745
Acting/Duty& Aggregation allowance	2,168	4,200	2,231	2,032	(63)
Leave allowance	3,722	6,086	2,558	2,364	1,164
Severance pay	100,000	100,000	-	-	100,000
Other emoluments	720	3,500	720	2,780	-
Staff appointments & transfers allowances	2,645	6,500	2,330	3,855	315
Medical & staff Insurance expenses	45,898	44,500	24,430	(1,398)	21,468
Pension contributions	27,585	32,268	32,216	4,683	(4,631)
Pension deficit contributions	33,000	33,500	33,852	500	(852)
NSSF employers contribution	1,158	1,380	1,155	222	3
Insurance	-	-	3,230	-	(3,230)
Accrued Leave Days	-	-	-	-	-
Gratuities	3,893	11,200	5,029	7,307	(1,136)
Welfare & Uniforms	4,643	7,500	5,150	2,857	(507)
Total	647,575	738,119	513,411	90,544	134,164
22. (b) Board Members' Allowances	11,755	15,000	10,507	3,245	1,248

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

	ACTUAL	BUDGET	ACTUAL	VARIANC	VARIANC
				E BUDGET	E ACTUAL
22. (c) General & Administrative Expenses:	30.06.1	30.06.1	30.06.1		2013 v
	4	4	3	30.06.14	2014
	KES.'00	KES.'00	KES.'00	KES.'000	KES.'000
	0	0	0		
Bank charges	2,877	7,500	5,559	4,623	(2,682)
Corporate Comm & advertisement	7,870	10,000	2,716	2,130	5,154
Publicity/Shows & Field days	3,709	5,500	5,312	9,021	(1,603)
ISO Certification	1,142	1,500	1,016	358	126
Corporate social responsibility/Donations	482	750	519	268	(37)
General office expenses	12,725	15,000	12,637	2,275	88
Insurance of Corporation assets	6,630	7,800	1,287	1,170	5,343
Land rent & rates	1,650	1,824	1,147	174	503
Legal fees	2,341	5,000	2,723	2,659	(382)
Maintenance of buildings	2,808	5,000	2,943	2,192	(135)
Maintenance of furniture & equipment	3,455	3,500	7,055	45	(3,600)
Office rentals	11,846	15,000	11,999	3,154	(153)
Printing & stationery	8,038	12,300	7,723	4,262	315
Professional consultants	5,527	7,000	9,307	1,473	(3,780)
Subscriptions to professional bodies	2,112	2,200	1,432	88	680
Research & development	-	1,000	-	1,000	-
Security	20,879	21,000	18,669	121	2,210
Misappropriation	-	-	520	-	(520)
Software licences Taxes & licences	11,511	11,500	9,037	(11)	2,474
Telephone, internet & postage	21,737	23,000	20,726	1,263	1,011
General hotel & travel	17,651	18,500	16,289	849	1,362
Training	18,618	20,000	12,428	1,382	6,190
Vehicle fuel & oil	10,974	11,000	10,660	26	314
Vehicle maintenance	8,545	9,800	9,249	1,255	(704)
Water, electricity & gas	6,390	6,821	5,490	431	900
Total	189,517	222,495	176,443	32,978	13,074
22. (d) Auditors Fees	1,160	1,000	1,320	(160)	(160)
Total	850,007	976,614	701,681	126,607	(160)

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2014 (KES'000)

	30.06.14	30.06.13
Average number of employees at the end of the year was:		
Permanent Employees - Management	194	171
Permanent employees – Unionisable	286	308
Temporary and contract employees	6	6
Total	486	485

NOTE 23

(a) Rent Income	2014	2013
Details are as follows:-	KES.'000	KES.'000
Development House Income/(Loss)	31,161	28,991
Other Properties net Income	63,022	34,393
Balance as at 30th June	94,183	63,384

(c) Profit/Loss on disposal of assets	2014	2013
The details are as follows:-	KES.'000	KES.'000
Motor Vehicles	-	1,520
Gain on disposal of other assets	(914)	-
Balance as at 30th June	(914)	1,520

(d) Proceeds from disposal of properties & equipment & repossessed farm properties

The proceeds from sales of above assets are included in the cash and bank balances.

(e) NIB Agency commission - Bura Irrigation Scheme	2014	2013
The details are as follows:-	KES.'000	KES.'000
National Irrigation Board Agency Commission	10,000	-
Bura Branch Operational Expenses	1,143	-
	8,857	-

