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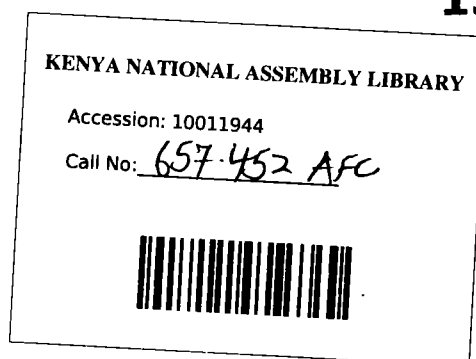
AGRICULTURAL FINANCE CORPORATION

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ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2005

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AGRICULTURAL FINANCE CORPORATION

THE CORPORATION

Agricultural Finance Corporation is a government owned statutory body established under the Agricultural Finance Corporation Act Cap 323 of the Laws of Kenya enacted in 1963 for the purposes of assisting the development of Agriculture in the country and its registered offices are at:-

REGISTERED OFFICE

DEVELOPMENT HOUSE,
MOI AVENUE,
P.O. BOX 30367 – 00100 GPO,
NAROBİ,
KENYA

BOARD OF DIRECTORS

The following are members of the Board who served during the financial year

Mr. Robert James Kigunda	- Chairman
Mr. Omurembe Iyadi	- Managing Director
Mrs. Rael Magut	- Member
Mr. Dominic Kiruthi	- Member
Mr. Gerald Munene Mugo	- Member
Mr. Masudi Ali Mwakileo	- Member
Eng. Michael Felix Alwala	- Member
Permanent Secretary, Ministry of Finance	- Member
Permanent Secretary, Ministry of Agriculture	- Member
Permanent Secretary, Ministry of livestock and Fisheries	- Member
Mrs. Gladys Nasieku Tarayia	- Corporation Secretary

BANKERS

NATIONAL BANK OF KENYA LIMITED,
Harambee avenue,
P.O. BOX 72866,
NAIROBI.

AUDITORS

Controller & Auditor General,
Kenya National Audit Office,
P.O. Box 30084 - 00100 GPO,
NAIROBI.

AGRICULTURAL FINANCE CORPORATION

CHAIRMAN'S STATEMENT ON 2004/2005 FINANCIAL YEAR

I have the pleasure once more to present the annual report and financial statements for the Corporation for the year ended 30th June 2005. This is the second financial year since the commencement of the restructuring and recovery programme.

General overview

During the year under review, the Government through the Strategy for Revitalizing Agriculture, addressed critical factors that had constrained the growth of Agriculture. Consequently, the Gross Domestic Product grew by 5.8% in 2005 compared to 4.3% in 2004. Agricultural Sector realized a growth of 6.7% in 2005 compared to 1.6% in 2004. Farmers through the Corporation and other financial institutions were able to access affordable credit to finance inputs and capital investment. Through the Ministry of Roads and supplemented by the Constituency Development Fund, the Government repaired rural roads and other dilapidated infrastructure in the Country, leading to reduced transport costs for agricultural products to markets, albeit the high energy costs.

The Corporation's 2004/2005 improved performances should therefore be viewed within this context.

Corporate performance

During the year the Corporation recorded a loss of Kshs.1.1 billion compared to a loss of Kshs.1.643 billion in the previous year. The loss is attributable to heavy provision for doubtful debts amounting to Kshs.1.754 billion, which the Corporation provided for on account of loans to farmers given prior to January 2003. A substantial amount of this portfolio is interest on arrears.

We intend to improve the lending levels annually to achieve our mandate albeit stiff competition emerging from Micro Finance Institutions (MFIs). However, the low interest rates charged on our loans continue to attract farmers.

Corporate Social Responsibility

As a Corporation, we believe that we are part and parcel of the wider Kenyan community. We believe that it is part of our business to make a difference to the less fortunate members of the community. For this reason, as we have done annually, we participated in the freedom from hunger walk to raise funds for the poor. We intend to put in place an outreach programme that shall continuously identify needy groups within our community that will benefit from our corporate social responsibility programme to improve their socio-economic status.

The Board of Directors

The board consists of six independent non-executive directors including the Chairman and the Permanent Secretaries for the Ministries of Agriculture and Finance. The Managing Director is the ninth member with no voting right. The Board delegates the day-to-day running of the Corporation to the Managing Director.

On 17th December 2003, Mr. Omurembe Iyadi replaced Mr. George Omari Nyamweya as the Corporation's Managing Director. The Board provides overall strategic direction, reviews performance, ensures that the Corporation achieves its mandate to the Government and customers.

AGRICULTURAL FINANCE CORPORATION

THE DIRECTORS REPORT

ON

THE 2004/2005 FINANCIAL STATEMENTS

The Directors have pleasure in presenting their report together with the audited financial statements of Agricultural Finance Corporation for the year ended 30th June 2005.

Directors

The following are members of the Board who served during the financial year.

Mr. Robert James Kigunda	- Chairman
Mr. Omurembe Iyadi	- Managing Director
Mrs. Rael Magut	- Member
Mr. Dominic Kiruthi	- Member
Mr. Gerald Munene Mugo	- Member
Mr. Masudi Ali Mwakileo	- Member
Eng. Michael Felix Alwala	- Member
Permanent Secretary, Ministry of Finance	- Member
Permanent Secretary, Ministry of Agriculture	- Member
Permanent Secretary, Ministry of Livestock and Fisheries	- Member
Mrs. Gladys Nasieku Tarayia	- Corporation Secretary

Management

During the year, Mr. Omurembe Iyadi who is the Managing Director was responsible to the Board on the day-to-day management of the Corporation and was assisted by the following senior members of staff :-

Mrs. Gladys N. Tarayia	- Deputy Managing Director/Corporation Secretary
Mr. K.W.C. Tallam	- Human Resources Manager
Mrs. Elizabeth M. Musyoka	- Financial Controller
Mr. Richard K. Malel	- Technical Services Co-coordinator
Mr. Job Kemei	- Chief Planning Officer
Mr. H. A. Shikokoti	- Chief Internal Auditor

Staff compliment

The Corporation had a staff compliment of 569 members out of which 344 were deployed in the field offices and 225 at the Head Office.

Branch network

During the year the Corporation operated a network of 31 branches and six regional offices, distributed evenly throughout the country to facilitate financing of agricultural activities.

Operations

During the financial year, the Corporation received a further Kshs.260 million being the third tranche of the total equity capital of Kshs1.3 billion the Government had pledged to inject into the Corporation to improve the capital base and for lending to customers over a five-year period. These funds improved the liquidity position of the Corporation and availed funds for lending to our customers.

The mandate of the Agricultural Finance Corporation, a Government owned statutory body established under the Agricultural Finance Corporation's Act Cap 323 of the Laws of Kenya is to assist in the development of the agricultural sector by providing loans to farmers, co-operative societies, incorporated groups, private companies and other persons engaging in agricultural business.

The Corporation's lending activities improved substantially during the year as compared to the preceding years. The Corporation processed loans to the farming community amounting to Kshs.1.094 billion compared to Kshs.660.8 million in the previous year. This impressive performance was as a result of aggressive processing of loans, which reduced the funds turn around time. Likewise the total loan portfolio increased by Kshs.1.185 billion from Kshs.4.869 billion the previous year to Kshs.6.054 billion in the year 2005.

The total collections increased tremendously during the year by 207% from Kshs.242.9 million last year to Kshs.746 million. This was as a result of the management's aggressive collection strategies employed to ensure that all loans processed were collected on due dates.

Results

The Corporation recorded improved results during the year, which was a sign of recovery from the lackluster performance in the prior year as is summarized in the table below: -

	Kshs. '000' 2005	Kshs. '000' 2004	Kshs. '000' Increase/(Decrease)
Total Income	1,110,163	868,020	242,143
Total Expenses	2,210,263	2,510,961	(300,698)
Profit (Loss) before tax	(1,100,100)	(1,642,941)	542,841

Despite the fact that the Corporation recorded improved overall results as compared to the previous year, the provisions made for non-performing loans made prior to December 2002 impacted negatively on the net result.

Operating expenses

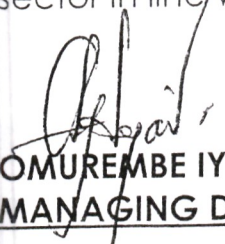
Operating expenses increased by Kshs.50.4 million to Kshs.455.9 million during the year from Kshs.405.5 million in the previous year. This increase of 12.4% was as a result of increased business volume.

Non-performing loans

In line with the prudential guidelines issued to financial institutions by Central Bank of Kenya, the Corporation made a final provision of Kshs.1.754 billion for the non-performing old loan portfolio, down from last year's Kshs.2.106 billion. The whole non-performing old loan portfolio has now been fully provided for.

Future

The Board of Directors and the Management are committed to the finalization of restructuring programmes aimed at turn-around of the Corporation to achieve long-term financial sustainability. The Corporation is therefore poised to play its mandate in the development of the agricultural sector in line with the Strategy for Revitalization of Agriculture (SRA).


OMUREMBE IYADI
MANAGING DIRECTOR.

SEPTEMBER 2006

AGRICULTURAL FINANCE CORPORATION

FINANCIAL STATEMENTS AS AT 30 JUNE 2005

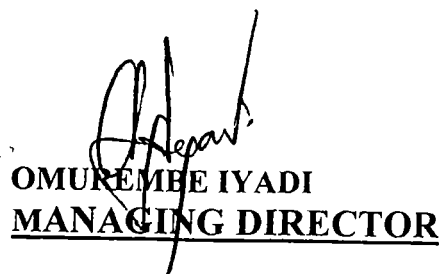
STATEMENT OF DIRECTORS RESPONSIBILITIES

The Agricultural Finance Corporation Act Cap 323 and the State Corporations Act Cap 446 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the Corporation for that year. It also requires the directors to ensure that the Corporation keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The directors accept responsibility for the annual 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 and the manner required by the Agricultural Finance Corporation Act Cap 323. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate 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.


PATRICK K. KINYORI
CHAIRMAN


OMUREMBE IYADI
MANAGING DIRECTOR

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2005

I have audited the financial statements of Agricultural Finance Corporation for the year ended 30 June 2005 in accordance with the provisions of 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. The financial statements are in agreement with the books of account.

Respective Responsibilities of the Directors and the Controller and Auditor General

As set out in the statement of directors responsibilities, the directors are responsible for the preparation of financial statements which give a true and fair view of the Corporation's state of affairs and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

The audit was conducted in accordance with the International Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. I believe my audit provides a reasonable basis for my opinion.

1. Loans to Farmers

Recovery of large and small scale loans has not significantly improved and as disclosed in Notes 3, 4 and 5 to the financial statements, the outstanding loan balances and accrued interest stood at Kshs. 6,053,715,000 as at 30 June 2005. A substantial amount of these loans has remained outstanding for a very long period of time and it is not clear why management has not instituted effective measures for their recovery. The non-recovery of the loans has resulted in a very high bad and doubtful debts provision of Kshs. 4,536,086,000 as at 30 June 2005. The high provision for bad and doubtful debts of Kshs. 1,754,369,000 made in the financial statements for the year under review is clearly the cause of the poor result for the year of a loss of Kshs. 1,100,000,000.

2. Receivables and Prepayments

Included in the receivables and prepayments balance of Kshs. 101,224,000 is an amount of Kshs. 51,150,596 in respect of Auction fees and advertisement charges which has remained outstanding for along time. Also, included is rent accrual of Kshs. 40,018,000 in respect of Development House (2003/04 Kshs. 42,457,445) out of which Kshs. 21,882,000 (54.7%) relate to the year 1999 and earlier. It is not clear why management has not taken adequate measures to recover these rent arrears.

Opinion

Except for the matters discussed in the foregoing paragraphs, in my opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30 June 2005 and of the loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Agricultural Finance Corporation Act (Cap 323).



E.N. MWAN

CONTROLLER AND AUDITOR GENERAL

Nairobi.

8 May 2006


AGRICULTURAL FINANCE CORPORATION
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

		2005	2004
INCOME:	NOTES	Kshs'000	Kshs'000
INTEREST INCOME:			
LARGE SCALE	3.3	659,817	554,583
SMALL SCALE	4.3	104,968	69,573
SEASONAL CROP	5.3	71,961	30,328
		<u>836,746</u>	<u>654,484</u>
TOTAL INTEREST INCOME			
LESS: INTEREST EXPENSES:			
REDEEMABLE LOANS	13(b)	40,830	40,939
REBATES INTEREST	13(c)	333	423
		<u>41,163</u>	<u>41,362</u>
NET INTEREST INCOME			
OTHER OPERATING INCOME	16	273,417	213,536
		<u>1,069,000</u>	<u>826,658</u>
TOTAL OPERATING INCOME			
CHARGE FOR DOUBTFUL DEBTS	19	(1,754,369)	(2,105,465)
OTHER OPERATING EXPENSES	17	(414,731)	(364,134)
		<u>(1,100,100)</u>	<u>(1,642,941)</u>
PROFIT/(LOSS) BEFORE TAXATION			
TAXATION	12	-	-
		<u>(1,100,100)</u>	<u>(1,642,941)</u>
PROFIT/(LOSS) AFTER TAXATION			
		<u><u>(1,100,100)</u></u>	<u><u>(1,642,941)</u></u>

AGRICULTURAL FINANCE CORPORATION
BALANCE SHEET AS AT 30 JUNE 2005

		2005		2004
ASSETS:	NOTES	Kshs.'000		Kshs.'000
Non current assets				
Property and equipment	10	460,892		850,739
Repossessed farm properties	9	99,434		105,249
Deferred tax asset	12	189,625		189,625
Loan to farmers	3.4, 4.4 & 5.4	741,065		811,702
Staff loans	6	110,748	108,853	
Prov. For doubtful debts	8(d)	(7,161)	103,587	(6,156)
		1,594,603		2,060,012
Current assets				
Cash and bank balances	2(a)	296,843		739,530
Short term deposits	2(b)	548,743		120,888
Receivables and Prepayments	2(c)	101,224		110,745
Consumable stores	2(d)	2,169		2,115
Loan to farmers	3.5, 4.5 & 5.5	5,312,650	4,057,060	
Prov. For doubtful debts	8(a,b&c)	(4,536,086)	776,564	(2,916,674)
		1,725,543		2,113,664
Total assets		3,320,146		4,173,676
EQUITY AND LIABILITIES				
Equity and reserves				
Grants	15	899,771		899,771
Government equity capital	18	2,167,766		1,907,766
General reserve	14(a)	(764,384)		337,879
Revaluation reserve	14(b)	175,363		175,363
		2,478,516		3,320,779
Non current liabilities				
Redeemable loans	13(a)	566,731		568,454
Current liabilities				
Payables	11(a)	239,168		230,405
Other Payables and accruals	11(b)	35,731		54,038
		274,899		284,443
Total capital and liabilities		3,320,146		4,173,676

The financial statements on pages 3 to 18 were approved by the board on 22/01/2006 and were signed on its behalf by:


ROBERT J. KIGUNDA
CHAIRMAN


OMUREMBE IYADI
MANAGING DIRECTOR

AGRICULTURAL FINANCE CORPORATION

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2005

	Government Equity Capital Kshs.000	General Reserve Kshs.000	Revaluation Reserve Kshs.000	Grants Kshs.000
At 1 July 2003	1,647,766	1,415,329	175,363	130,771
Additions	260,000	(1,077,450)	-	769,000
At 30 June 2004	<u>1,907,766</u>	<u>337,879</u>	<u>175,363</u>	<u>899,771</u>
At 1 July 2004	1,907,766	337,879	175,363	899,771
Prior Year adjustment		(2,163)		
Profit/(Loss) for the year		(1,100,100)		
Additions	260,000		-	-
At 30 June 2005	<u>2,167,766</u>	<u>(764,384)</u>	<u>175,363</u>	<u>899,771</u>

AGRICULTURAL FINANCE CORPORATION
CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2005

	2005	2004
	Kshs.'000	Kshs.'000
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit/(loss) before taxation	(1,100,100)	(1,642,941)
Adjustments for:		
Depreciation	39,408	34,562
Loss on disposal of assets	-	237
Profit on disposal of assets	(95,223)	(70,500)
Profit on disposal of repossessed properties	(8,392)	(675)
Prior year adjustment	(4,503)	565,491
(Decrease)/Increase to repossessed properties	5,815	(17,654)
(Increase)/Decrease in loans to farmers	434,459	449,837
(Decrease)/Increases in loans to staff	(890)	5,972
Increase in consumable stores	(54)	(288)
(Decrease)/Increases in receivables	9,521	1,367
Increase in payables	(9,544)	188,552
	-----	-----
NET CASHFLOW FROM OPERATING ACTIVITIES	(729,503)	(486,040)
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase/ (Disposal)of properties & equipment	(52,125)	(15,832)
Proceeds from disposal of properties & equipment	500,000	70,500
Proceeds from disposal of repossessed farm properties	8,796	632
	-----	-----
NET CASH FLOW FROM INVESTING ACTIVITIES	456,671	55,300
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES		
Government equity received	260,000	260,000
Government grant received	-	769,000
Government loan repayments	(2,000)	-
	-----	-----
NET CASHFLOW FROM FINANCING ACTIVITIES	258,000	1,029,000
	-----	-----
NET INCREASE IN CASH & CASH EQUIVALENTS	(14,832)	598,260
Cash and cash equivalent 1 July 2004	860,418	262,158
	-----	-----
Cash and cash equivalent 30 June 2005 (Note 2(a) and 2(b))	845,586	860,418
	=====	=====

AGRICULTURAL FINANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. ACCOUNTING POLICIES:

(a) Basis of preparation

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards and under the historical cost basis of accounting as modified by revaluation of certain property and equipment, and financial instruments.

(b) Property, Equipment and Depreciation

Property and equipment are stated at cost or valuation less accumulated depreciation.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the carrying values of the assets over the expected useful lives.

The annual depreciation 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%
Show stands	10%
Furniture	12.5%
Fittings	20%
Office equipment	20%
Office and Residential Buildings	2%
Computers	33.3%

(c) Interest

Interest receivable and payable is calculated and included on the accrual basis.

(d) Provision for doubtful debts

Specific provision is made in respect of loans whose recovery is considered doubtful.

(e) Retirement benefit obligations.

The institution contributes to a defined benefits retirement scheme which it funds and whose assets are held in a separate Trustee administered fund.

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 to which they relate.

(f) Cash and cash equivalents

For the purposes of the cashflow statement, cash and cash equivalents comprise balances with maturity value less than 91 days from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

2(a).CASH AND BANK BALANCES

	2005	2004
	Kshs.'000	Kshs.'000
Current Accounts	217,247	735,031
Branch Collection Accounts	77,315	1,352
Branch Imprest Accounts	2,281	3,147
	-----	-----
	296,843	739,530
	=====	-----

(b).SHORT TERM DEPOSITS

Deposits	545,808	120,750
Interest Receivable on Short Term Deposits	2,935	138
	-----	-----
	548,743	120,888
	=====	=====

These are funds held in Short Term Deposits at National Bank of Kenya which mature on monthly basis.
The funds are for operations and lending activities.

	2005	2004
	Kshs.'000	Kshs.'000
(c).RECEIVABLES AND PREPAYMENTS		
Unallocated loan disbursements	354	27
Auction fees & advert. charges	51,151	47,629
Development house rent accrued	40,018	42,457
Other rent receivable	2,430	1,676
Prepaid expenses	527	1,664
Employees other deductions	7,987	3,052
Due from Alico	-	239
Local authority service charge	-	162
Other accounts receivable	35,777	39,052
Recoverable fees and charges	307	-
Suspense	(790)	3,486
Funds at Trust Bank Ltd (under receivership)	106,990	106,990
Less:Accum.Prov. For Doubtful Debts	(143,527)	(135,689)
	-----	-----
BALANCE AT 30 JUNE 2005	101,224	110,745
	=====	-----

(d).CONSUMABLE STORES

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

	2005	2004
	Kshs.'000	Kshs.'000
Stationery & Office Supplies Stock	2,169	2,115
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

3. LARGE SCALE LOANS 2005 2004

The summary balances and transactions during the period are as follows;

	Kshs.'000	Kshs.'000
BALANCE AS AT 1 JULY 2004		
3.1 Not Yet Due: Principal	500,899	478,077
Interest	39,025	40,360
3.2 Arrears: Principal	523,524	477,135
Interest	671,856	638,053
Interest on arrears	1,446,093	1,118,680
Rehabilitation	110	110
	3,181,507	2,752,415
3.3 ADD: TRANSACTIONS DURING THE PERIOD		
Advances	153,916	102,381
Interest earned	659,817	554,583
Repayments & write off	(276,879)	(184,262)
Net Transfers to farm properties	-	(43,610)
	536,854	429,092
BALANCE AT 30 JUNE 2005	3,718,361	3,181,507
ANALYSIS OF BALANCES AS AT 30.06.2005		
3.4 Not Yet Due: Principal	525,187	500,899
Interest	35,858	39,025
3.5 Arrears: Principal	567,450	523,524
Interest	697,232	671,856
Interest on arrears	1,892,524	1,446,093
Rehabilitation	110	110
BALANCE AT 30 JUNE 2005	3,718,361	3,181,507
3.6 LOANS OPENED BUT NOT DISBURSED		
BALANCE AS AT 1 JULY 2004	28,310	8,296
Opened/ (cancelled)during the year	139,901	122,395
Drawings	(153,916)	(102,381)
BALANCE AT 30 JUNE 2005	14,295	28,310

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

4. SMALL SCALE LOANS.

The summary balances and transactions during thr period are as follows;

	2005	2004
	Kshs'000	Kshs'000
BALANCE AS AT 1 JULY 2004	-----	-----
4.1 Not Yet Due: Principal	300,433	24,363
Interest	13,558	1,464
4.2 Arrears: Principal	80,846	73,800
Interest	20,937	18,947
Interest on arrears	185,654	142,478
ICA loans	251	213
North Tetu & Vihiga	917	917
	-----	-----
4.3 ADD: TRANSACTIONS DURING THE PERIOD	602,596	262,182
Advances	358,051	295,739
Interest earned	104,968	69,573
Repayments	(163,211)	(24,898)
	-----	-----
	299,808	340,414
	-----	-----
BALANCE AT 30 JUNE 2005	902,404	602,596
	=====	=====
ANALYSIS OF BALANCES AS AT 30.06.2005		
4.4 Not Yet Due: Principal	544,368	300,433
Interest	23,442	13,558
4.5 Arrears: Principal	90,592	80,846
Interest	21,202	20,937
Interest on arrears	221,632	185,654
North Tetu & Vihiga	251	251
ICA loans	917	917
	-----	-----
BALANCE AS AT 30.06.2005	902,404	602,596
	=====	=====
4.6 LOANS OPENED BUT NOT DISBURSED		
BALANCE AS AT 1 JULY 2004	64,096	38,411
Opened/ (cancelled)during the year	337,894	321,424
Drawings	(358,051)	(295,739)
	-----	-----
BALANCE AT 30 JUNE 2005	43,939	64,096
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

5. SEASONAL CROP LOANS

The summary balances and transactions during the period are as follows;

	2005	2004
	Kshs'000	Kshs'000
BALANCE AS AT 1 JULY 2004	262,518	-
5.1 Not Yet Due: Principal	3,844	-
Interest	190,487	230,397
5.2 Arrears: Principal	13,621	13,548
Interest	614,189	581,367
Interest on arrears	<u>1,084,659</u>	<u>825,312</u>
5.3 ADD: TRANSACTIONS DURING THE PERIOD		
Advances	582,255	262,715
Interest earned	71,961	30,328
Repayments	(305,925)	(33,696)
Transfers & Writeoff	-	-
	<u>348,291</u>	<u>259,347</u>
BALANCE AT 30 JUNE 2005	<u><u>1,432,950</u></u>	<u><u>1,084,659</u></u>
ANALYSIS OF BALANCES AS AT 30.06.2005		
5.4 Not Yet Due: Principal	473,885	262,518
Interest	11,756	3,844
5.5 Arrears: Principal	283,955	190,487
Interest	18,687	13,621
Interest on arrears	644,667	614,189
	<u>1,432,950</u>	<u>1,084,659</u>
BALANCE AT 30 JUNE 2005	<u><u>1,432,950</u></u>	<u><u>1,084,659</u></u>
5.6 LOANS OPENED BUT NOT DISBURSED		
BALANCE AS AT 1 JULY 2004	119,984	(10)
Opened /(cancelled) during the year	518,658	382,709
Drawings	(582,255)	(262,715)
	<u>56,387</u>	<u>119,984</u>
BALANCE AT 30 JUNE 2005	<u><u>56,387</u></u>	<u><u>119,984</u></u>

Note that the Loans to Farmers figure of Shs5,312,650,000 under Current Assets includes an amount of Shs 873,431,000 being the instalments falling due within the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

6. LOANS TO STAFF

	HOUSE LOANS	CAR LOANS	ADVANCES	TOTALS
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Balance as at 01.07.04				
Principal	63,554	4,358	995	68,907
Interest	33,808	4,007	2,131	39,946
	<u>97,362</u>	<u>8,365</u>	<u>3,126</u>	<u>108,853</u>
TRANSACTIONS IN THE PERIOD:				
Advances	8,516	2,469	4,126	15,111
Interest earned	8,158	946	480	9,584
Repayments	(18,177)	(1,637)	(3,088)	(22,902)
Adjustments	29	1	72	102
	<u>(1,474)</u>	<u>1,779</u>	<u>1,590</u>	<u>1,895</u>
Balance as at 30.06.05	<u>95,888</u>	<u>10,144</u>	<u>4,716</u>	<u>110,748</u>
ANALYSIS OF BALANCES				
Principal	53,922	5,191	2,105	61,218
Interest	41,966	4,953	2,611	49,530
Balance as at 30.06.05	<u>95,888</u>	<u>10,144</u>	<u>4,716</u>	<u>110,748</u>

7. PROVISIONS FOR DOUBTFUL DEBTS

The provision for bad and doubtful loans is arrived at by identifying specific bad and doubtful debts on various classes of loans.

(a) DOUBTFUL DEBTS CHARGES FOR THE YEAR:

		2005	2004
	Scheme	Kshs'000	Kshs'000
Large scale loans:			
	1	41,618	70,222
	2	940,913	631,320
	3 & 7	2,204	10,336
	5	12,079	9,930
	31	547,440	540,762
		<u>1,544,254</u>	<u>1,262,570</u>
Small scale loans:			
	4	163	656
	6	5,780	21,479
	8	1,317	3,162
	9	229	641
	10.. 12	20,818	36,380
	14	65,705	20,485
	16	(15)	15
	30	28,523	93,041
		<u>122,520</u>	<u>175,859</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005
 7.(a) DOUBTFUL DEBTS CHARGES FOR THE YEAR: (Continued)

	2005	2004
	Kshs'000	Kshs'000
Seasonal crop loans:		
26	9,024	72,912
27	1,512	1,346
29	29	15
32	3,546	5,651
33	4,577	6,500
34	1	-
35..42	60,060	556,078
	78,749	642,502
	-----	-----
	1,745,523	2,080,931
REPOSSESSED FARM PROPERTIES	-	18,500
SMALL DEBITS WRITE-OFF	3	1,129
	-----	-----
NET CHARGE ON LOANS TO FARMERS	1,745,526	2,100,560
	-----	-----
SUNDRY DEBTORS:		
CHARGE ON EX-STAFF LOANS	1,005	1,632
CHARGE ON DEVELOPMENT HOUSE	7,838	3,273
	-----	-----
	8,843	4,905
	-----	-----
	1,754,369	2,105,465
	=====	=====
8. ACCUMULATED PROVISIONS FOR DOUBTFUL DEBTS		
The accumulated provisions for the year is as follows:		
	2005	2004
	Kshs'000	Kshs'000
(a) LARGE SCALE LOANS		
Balance as at 1st July 2004	1,915,022	1,010,342
Charge for the year	1,544,254	1,262,570
Adjustment/ writeback during the year	(163,713)	(357,890)
	-----	-----
BALANCE AS AT 30.06.2005	3,295,563	1,915,022
	=====	=====
(b) SMALL SCALE LOANS		
Balance as at 1st July 2004	199,891	184,872
Charge for the year	122,520	175,859
Adjustment/ writeback during the year	(766)	(160,840)
Bad debts written off during the year	(1,076)	-
	-----	-----
BALANCE AS AT 30.06.2005	320,569	199,891
	=====	=====
(c) SEASONAL CROP LOANS		
Balance as at 1st July 2004	801,761	242,769
Charge for the year	78,749	642,502
Adjustment/ writeback during the year	-	(83,510)
Bad debts written off during the year	39,444	-
	-----	-----
	919,954	801,761
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

8. ACCUMULATED PROVISIONS FOR DOUBTFUL DEBTS (Continued)

	2005	2004
PROVISIONS SUMMARY	Kshs'000	Kshs'000
(a) LARGE SCALE LOANS	3,295,563	1,915,022
(b) SMALL SCALE LOANS	320,569	199,891
(c) SEASONAL CROP LOANS	919,954	801,761
GRAND TOTALS	4,536,086	2,916,674

(d) PROVISIONS FOR DOUBTFUL DEBTS - STAFF LOANS

This relates to specific amounts owed by ex-staff whose recovery is deemed doubtful. The balance in the accounts is arrived as shown below:

Balance as at 01.07.04	6,156	4,524
Charge for the year: House loans	146	906
Car loans	506	437
Personal advances	353	289
Balance as at 30.06.2005	7,161	6,156

9. REPOSSESSED FARM PROPERTIES:

These are revalued at the total of the principal and interest due at the date of foreclosure less subsequent recoveries. The amount outstanding as at 30th, June, 2005 was Kshs 204,647,706.03. However, the Corporation has been unable to realise these properties and is of the opinion that if a forced sale could be effected, material losses would arise. In view of this, the provisions already made of Kshs 105,213,852.72 against these balances is deemed adequate hence no additional provisions have been made in the year.

10. PROPERTY AND EQUIPMENT

	LAND	BUILDINGS	MOTOR VEHICLES	FURNITURE & EQUIPMENT	COMPUTERS	TOTALS
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs.'000
COSTS:						
Balance as at 01.07.04	9,368	1,026,744	53,673	174,252	29,339	1,293,376
ADDITIONS		110	43,916	889	7,210	52,125
DISPOSALS	-	(479,424)	(356)	(71,467)	(480)	(551,727)
BALANCE AS AT 30.06.05	9,368	547,430	97,233	103,674	36,069	793,774
DEPRECIATION:						
Balance as at 01.07.04	-	202,281	46,653	167,671	26,032	442,637
PRIOR YEAR ADJUSTMENT			(2,340)			(2,340)
ADJUSTMENT	-	-	-	114	13	127
CHARGE	-	20,185	13,319	3,886	2,018	39,408
DISPOSALS	-	(75,962)	(356)	(70,152)	(480)	(146,950)
BALANCE AS AT 30.06.05	-	146,504	57,276	101,519	27,583	332,882
NET BOOK VALUE 30.06.2005.	9,368	400,926	39,957	2,155	8,486	460,892
NET BOOK VALUE 30.06.2004.	9,368	824,463	9,360	6,581	3,307	853,079

NB: A prior year adjustment reversing depreciation charge on new motor vehicles for financial year 2003/2004 amounting to Kshs. 2,340,000 has been effected on the accumulated depreciation balance brought forward on 01.07.2004 and net book value figure as at 30.06.2004.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

11. PAYABLES AND ACCRUALS

(a). PAYABLES	2005	2004
	Kshs'000	Kshs'000
Borrowers' Credit Balances	122,929	74,978
Unprocessed Loan Receipts	449	1,646
Interest accrued on redeemable loans	81,334	40,780
Due to Agency	(209)	232
Due to Marketing Bodies	9,228	9,228
Loan drafts outstanding	<u>25,437</u>	<u>103,541</u>
BALANCE AT 30TH JUNE 2005	<u>239,168</u>	<u>230,405</u>

(b). OTHER PAYABLES AND ACCRUALS

Sundry creditors general	12,001	32,033
Insurance receipts	1,429	1,335
Stale cheques	800	87
External audit fee accrued	4,055	3,705
Gratuity	<u>17,446</u>	<u>16,878</u>
BALANCE AT 30TH JUNE 2005	<u>35,731</u>	<u>54,038</u>

12. DEFERRED TAX ASSET:

The net deferred tax asset is arrived at as follows:

Balance B/F as at 01.07.04	189,625	189,625
Deferred tax asset for prior year	489,322	-
Deferred tax asset for the year	<u>322,908</u>	<u>-</u>
Balance as at 30th June	<u>1,001,855</u>	<u>189,625</u>
Balance c/f	<u>189,625</u>	<u>189,625</u>

Defferred Tax asset for the year 2003/04 of Kshs.489,322,000 and for the current year amounting to Kshs.322,908,000 respectively which were computed in line with Tax legislation have not been recognised in the balance sheet because in the opinion of the management the same may not be recoverable in the foreseeable future. Therefore only Kshs.189,625,000 for prior years is reflected in the accounts.

13. REDEEMABLE LOANS AND INTEREST:

(a). REDEEMABLE LOANS:

The redeemable loans outstanding as at 30th June 2005 were as follows:

	2005	2004
	Kshs'000	Kshs'000
KFW SMALL SCALE	4,436	6,159
IDA 105	7,721	7,721
IDA 344	24,299	24,299
IDA 1143 KE	9,841	9,841
IBRD 1995 KE	258,036	258,036
AFC CREDIT 4	182,748	182,748
A D B (PIGS)	79,650	79,650
	<u>566,731</u>	<u>568,454</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

13. REDEEMABLE LOANS AND INTEREST (Continued):

(b) INTEREST ON REDEEMABLE LOANS:

The interest charge on redeemable loans outstanding as at 30th June 2005 were as follows:

	2005	2004
	Kshs'000	Kshs'000
KFW SMALL SCALE	218	217
IDA 105	270	271
IDA 344	243	244
IDA 1143 KE	787	789
RSDP & IBRD 1995 KE	34,533	34,626
A D B (PIGS)	4,779	4,792
	-----	-----
	40,830	40,939
	=====	=====

All loans are long term Government loans advanced to the Corporation and repayable with specific rate 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.

(c) REBATES INTEREST

These are interest paid to clients on their credit balances at the rate of 1 % p.a on loan repayments received in advance before the instalments falls due.

14. RESERVES

(a). GENERAL RESERVE

	2005	2004
	Kshs'000	Kshs'000
Balance as at 1st July 2004	337,879	1,415,329
Prior year adjustment- vehicles depreciation	2,340	
Prior year adjustment-suspense account	(4,503)	565,491
Profit/(Loss) after taxation for the year	(1,100,100)	(1,642,941)
	-----	-----
Balance as at 30th June 2005	(764,384)	337,879
	=====	=====

The General Reserve is the undistributed profit/loss from the operations.

(b) REVALUATION RESERVE

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. However, there was no revaluation during the Financial Year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

15. GRANTS	2005	2004
DETAILS	Kshs'000	Kshs'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 Sec Scheme 42 2004	769,000	769,000
	<u>899,771</u>	<u>899,771</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 market financial risks.

16. INCOMES	2005	2004
	Kshs'000	Kshs'000
(a) INTEREST ON INVESTMENTS	51,489	14,791
(b) RENT INCOME	24,792	28,613
(c) LANGATA INSTITUTE	5,385	22,250
(d) APPL, CONVEYANCE & INSPECTION FEES	82,812	69,041
(e) PROFIT ON SALE OF ASSETS	103,615	70,937
(f) INSURANCE COMMISSION	29	43
(g) SUNDRIES	5,295	7,861
	<u>273,417</u>	<u>213,536</u>

(a) INTEREST ON INVESTMENTS

Details are as follows:-

	2005	2004
	Kshs'000	Kshs'000
Short Term Deposits	37,572	2,276
Staff Loans	9,496	9,613
Other bank accounts	4,421	2,902
	<u>51,489</u>	<u>14,791</u>

(b) RENT INCOME

Details are as follows:-

	2005	2004
	Kshs'000	Kshs'000
Development House	32,873	34,901
Development House expenses	(16,417)	(13,545)
	<u>16,456</u>	<u>21,356</u>
Other Properties	8,336	7,257
	<u>24,792</u>	<u>28,613</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

(c) LANGATA INSTITUTE

	2005	2004
	Kshs'000	Kshs'000
Details are as follows:-		
Income	7,306	34,049
Expenses	(1,921)	(11,799)
	-----	-----
	5,385	22,250
	=====	=====

(d) APPLICATION, CONVEYANCE & INSPECTION FEES

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

(e) PROFIT ON SALE OF ASSETS

	2005	2004
	Kshs'000	Kshs'000
The details are as follows:-		
Sale of Langata Training Institute & Sports Complex	95,223	-
Gain on sale of Farm Properties	8,392	70,937
	-----	-----
	103,615	70,937
	=====	=====

(f) INSURANCE COMMISSION

These are commissions received from insurance firms for collecting premiums from members of staff on their behalf.

(g) SUNDRIES

These are incomes received from exhibitors during field days conducted in conjunction with other stakeholders, unidentified loan receipts for periods in excess of two years and small credit balances in clients accounts which are considered uneconomical to process refunds.

	2005	2004
	Kshs'000	Kshs'000
17. OPERATING EXPENSES		
(a) STAFF COSTS	250,816	218,800
(b) BOARD MEMBERS' ALLOWANCES	5,003	2,096
(c).ADMINISTRATION EXPENSES:	118,504	107,776
(d) DEPRECIATION	39,408	34,562
(e) AUDITORS REMUNERATION	1,000	900
	-----	-----
	414,731	364,134
	=====	=====

18. GOVERNMENT EQUITY

The Financial Restructuring of the Corporation was approved by the National Assembly vide certificate of sessional paper No. 1 of 2000 dated 6th November, 2002. To this effect the Government undertook to inject additional equity to the Corporation amounting to Kshs. 1.302 billion in five equal instalments. The third tranche of Kshs. 260 million was received during the financial year 2004/2005.

The equity is a Government injection to the Corporation which is not subject to refund hence has no maturity date as it is meant to build the capital base of the Corporation and also avail funds for lending to the clients. The financial instrument has no associated market financial risk.

19. CONTINGENT LIABILITIES:

There were no contingent liabilities.

20.COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparative figures have been adjusted to take into account the effect of the prior adjustments.

