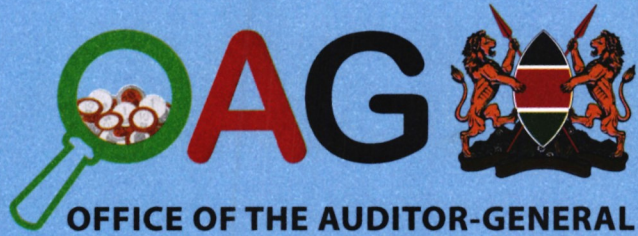


REPUBLIC OF KENYA



Enhancing Accountability

PARLIAMENT
OF KENYA
LIBRARY

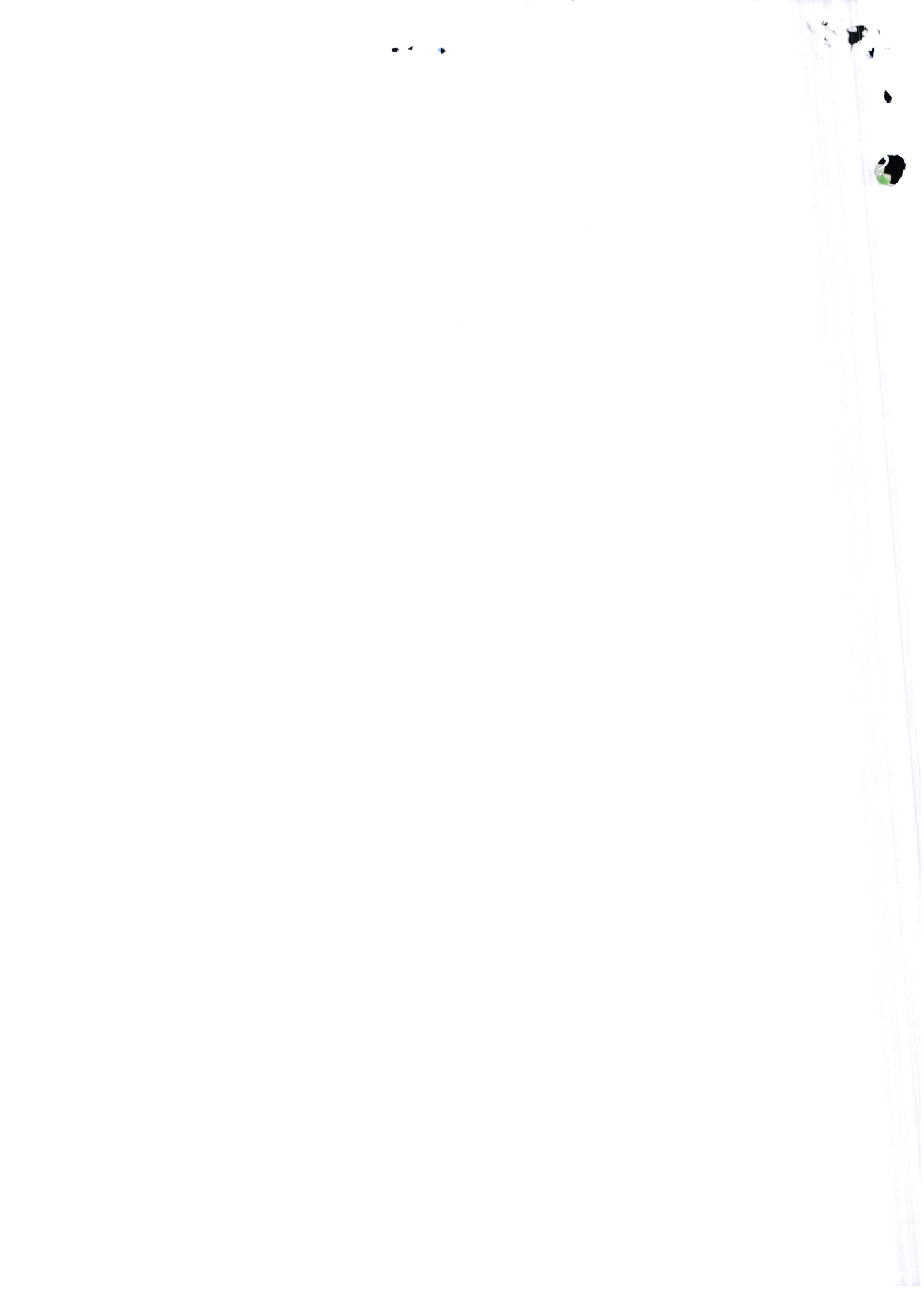
THE NATIONAL ASSEMBLY PAPERS LAID		DAY.
REPORT:	14 FEB 2023	WED
TABLED BY:	Deputy leader majority party Hon Owen Bayo, MP	
CLERK-AT -TABLE:	Finlay's number	

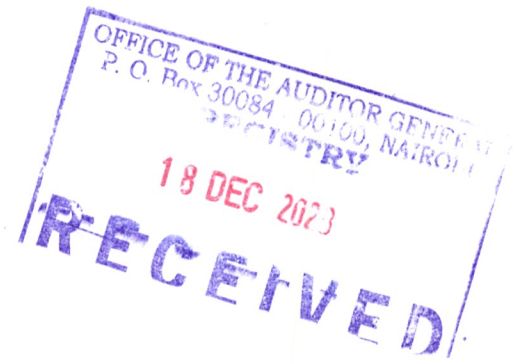
THE AUDITOR-GENERAL

ON

AGRICULTURAL FINANCE CORPORATION

**FOR THE YEAR ENDED
30 JUNE, 2023**



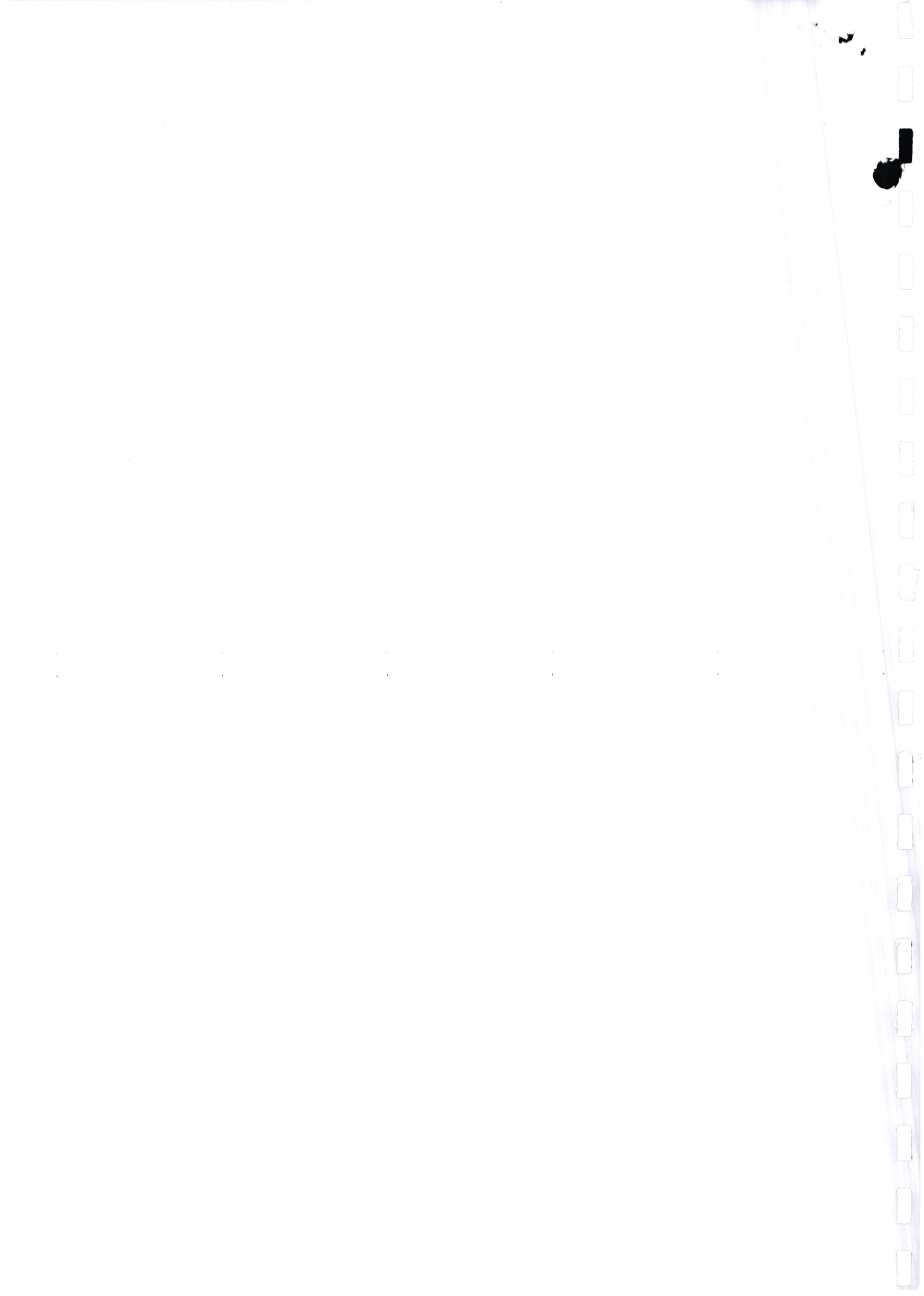


AGRICULTURAL FINANCE CORPORATION

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
30TH JUNE, 2023

Prepared in accordance with the International Financial Reporting Standards (IFRS)



CONTENTS

1.	ACRONYMS AND GLOSSARY OF TERMS	i
2.	KEY ENTITY INFORMATION	iii
	BUSINESS HIGHLIGHTS FIVE YEAR HISTORICAL PERFORMANCE	viii
3.	THE BOARD OF DIRECTORS	xiv
4.	MANAGEMENT TEAM	xxi
5.	CHAIRMAN'S STATEMENT	xxviii
6.	REPORT OF THE MANAGING DIRECTOR	xxxix
7.	STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2022/2023	xxxiv
8.	CORPORATE GOVERNANCE STATEMENT	xxxviii
9.	MANAGEMENT DISCUSSION AND ANALYSIS	xlix
10.	ENVIRONMENTAL AND SUSTAINABILITY REPORTING	lxi
11.	REPORT OF THE DIRECTORS	lxxxiii
12.	STATEMENT OF DIRECTORS' RESPONSIBILITIES	lxxxv
13.	REPORT OF THE INDEPENDENT AUDITORS ON THE AGRICULTURAL FINANCE CORPORATION	lxxxvii
14.	STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2023	1
15.	STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2023	2
16.	STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2023	4
17.	STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2023	5
18.	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2023	7
19.	NOTES TO FINANCIAL STATEMENTS	9
I.	GENERAL INFORMATION	9
II.	STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION	9
III.	APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)	10
IV.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:	16
V.	SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION	30
20.	PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	52
21.	APPENDICES	78



1. ACRONYMS AND GLOSSARY OF TERMS

AADFI	Association of Africa Development Financial Institution
AES	Agricultural Engineering Services
AFC	Agricultural Finance Corporation
AfDB	Africa Development Bank Group
ALCO	Asset and Liabilities Committee
A T P	Advocates Training Program
CE	Consulting Engineer
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
DFI	Development Finance Institution
EACC	Ethics and Anti-Corruption Commission
EBK	Engineers Board of Kenya
FAO	Food and Agriculture Organization
H.E	His Excellency
IAS	International Accounting Standards
ICPAK	Institute of Certified Public Accountants of Kenya
IEK	Institution of Engineers of Kenya
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
ISO	International Standard Organization
IPCC	Intergovernmental Panel for Climate Change
JKUAT	Jomo Kenyatta University of Agriculture and Technology
KeSEBAE	Kenya Society of Environmental, Biological and Agricultural Engineers
KRA	Kenya Revenue Authority
KRC	Kenya Railways Corporation
KTDA	Kenya Tea Development Authority
NOCK	National Oil Corporation of Kenya
NYS	National Youth Service

ACRONYMS AND GLOSSARY OF TERMS (Continued)

NEMA	National Environmental Management Authority
NORFUND	Norwegian Fund for Developing Countries
PFM	Public Finance Management.
PGDL	Post Graduate Diploma in Law
PSASB	Public Sector Accounting Standards Board
PSGRS	Prudential Standards Guidelines and Rating System
SDGs	Sustainable Development Goals
USIU	United States International University
WSP	Water and Sanitation Program

2. KEY ENTITY INFORMATION

a) 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 full – fledged financial institution under the Agricultural Finance Corporation Act, Cap 323 of the laws of Kenya. At cabinet level, the entity is represented by the Cabinet Secretary for the Ministry of Agriculture & Livestock Development, who is responsible for the general policy and strategic direction of the entity. The Corporation is domiciled in Kenya and has 47 branches in 35 counties.

b) Principal Activities

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

c) Institutional Mandate

The mandate of the Corporation is to assist in the development of Agriculture and agricultural industries by making loans to farmers, co-operative societies, incorporated Corporation representatives, private companies, public bodies, local authorities and other persons engaging in agriculture or agricultural industries.

d) Vision

“To be the Premier Agricultural Development Bank in Kenya.”

KEY ENTITY INFORMATION (Continued)

e) Mission

“To provide sustainable financing through participative and collaborative financial and non-financial interventions, innovations, technology and products.”

f) Core Values

To fulfill its mandate, pursue the Vision and accomplish its Mission, the AFC will be guided by its core values of:

- i) **Customer Focus** - We strive to put the customers’ needs first and ensure we add value in their lives;
- ii) **Integrity** - We are committed to adhering to moral and ethical principles to ensure efficiency in service delivery;
- iii) **Dedication** - We are a responsible organization, committed to ensuring our intended clients, staff and partners are well served and, that we have a lasting impact on Kenya’s agricultural sector;
- iv) **Partnerships and Teamwork** - We are committed to teamwork within the organization and partnering with different stakeholders in the market in the delivery of our services;
- v) **Social Responsibility** - We are committed to ensuring sustainability that strengthens our business, our workforce and the communities where we operate

KEY ENTITY INFORMATION (Continued)

g) Board of Directors

The Directors who held office during the year and to the date of this report were as follows: -

Name		Appointment date
1. Hon. Eng. John M Mruttu	Chairman	18-Nov-2022
2. Ms. Winnie Molonko	Alternate to the Cabinet Secretary The National Treasury	14-Apr-2023
3. Eng. Richard Kanui	Alternate to the Principal Secretary Ministry of Agriculture & Livestock Development	04-Apr-2023
4. Mr. George Kubai	Managing Director	22-Feb-2021
5. Eng. Muriuki Karue Muriuki	Member	13-May-2022
6. Dr. Zablon Nyaenya Ayiera	Member	13-May-2022
7. Mr. Julius Mutethia Kioga	Member	13-May-2022
8. Mr. Hassan Mahmoud Haji	Member	13-May-2022
9. Mr. Isaac Mundui Matu	Member	27-May-2022

KEY ENTITY INFORMATION (Continued)

h) Ag. Corporation Secretary

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

i) Registered Office

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

j) Corporation Contacts

Headquarter

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

Contacts

Telephone: +254-020-3317199

E-mail: info@agrifinance.org

Website: www.agrifinance.org

KEY ENTITY INFORMATION (Continued)

k) Corporation 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.

KCB Bank Limited,
Moi Avenue,
P.O Box 30081 - 00100 GPO
Nairobi.
Kenya.

l) Independent Auditor

The Corporation's auditor in accordance with the Public Audit Act, 2015 was:-

The Auditor General,
Office of the Auditor General,
P.O Box 30084 - 00100 GPO
Nairobi.
Kenya.

m) Principal Legal Advisers

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

BUSINESS HIGHLIGHTS FIVE YEAR HISTORICAL PERFORMANCE

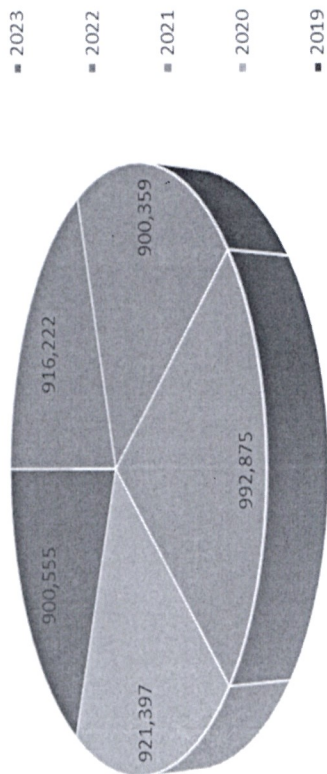
	2023	2022	2021	2020	2019
	KES'000	KES'000	KES'000	KES'000	KES'000
Revenues					
Interest Income:					
Interest on Loans	858,497	849,304	934,114	837,457	778,759
Interest on Short Term Deposits	57,725	50,918	58,761	83,940	121,796
Total interest income	916,222	900,222	992,875	921,397	900,555
Less: Interest expenses					
Interest on Redeemable Loans	14,602	14,713	15,129	15,005	15,395
Interest on RSF	9,430	9,456	9,456	9,379	9,430
Interest on INK Fund	4,190	1,243	-	-	-
Rebate Interest	3,583	3,176	2,780	2,753	2,459
	31,805	28,588	27,365	27,137	27,285
Net interest income	884,417	871,633	965,509	894,261	873,270
Non-Interest income					
Other Operating Income	414,893	169,875	145,699	183,323	171,892
Fee Income	175,628	195,056	188,489	172,225	170,980
Income from doubtful debts	47,305	53,377	298,454	1,009,952	252,138
Total Non-Interest income	637,826	418,308	632,642	1,365,499	595,010
Total Revenues	1,522,243	1,289,941	1,598,151	2,259,760	1,468,280
Operating Expenses					
Staff Cost	(799,561)	(801,352)	(740,817)	(767,651)	(681,735)
Board Expenses	(23,834)	(13,527)	(24,631)	(21,770)	(17,320)
Administration Costs	(339,135)	(319,399)	(267,452)	(298,378)	(299,854)
Depreciation & Amortization	(109,298)	(105,588)	(88,419)	(110,203)	(154,129)
Charge for Doubtful Debts	(152,043)	(2,449)	(329,124)	(743,015)	-
Total Expenses	(1,423,871)	(1,242,315)	(1,450,443)	(1,941,017)	(1,153,038)

STATEMENT OF COMPREHENSIVE INCOME

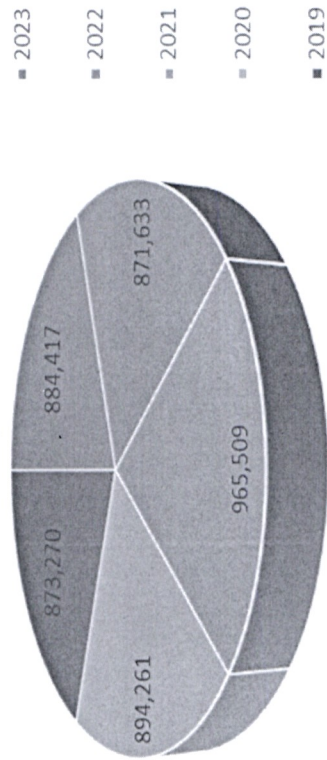
	2023	2022	2021	2020	2019
	KES'000	KES'000	KES'000	KES'000	KES'000
Profit before tax	98,372	47,626	147,708	318,743	315,242
Tax for the Year	(24,219)	(20,919)	(16,545)	(28,484)	(90,785)
Profit for the year	74,153	26,707	131,164	290,259	224,457

BUSINESS PERFORMANCE

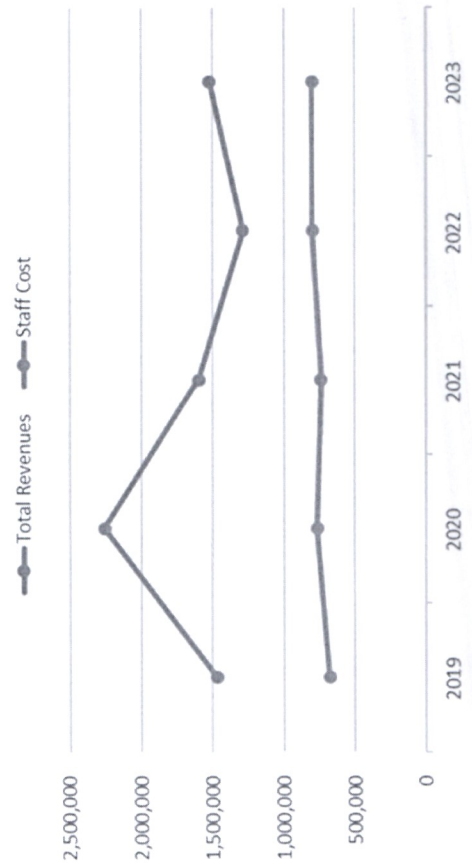
Total interest income



Net interest income



Total Revenue vis Staff Cost



Revenue vis Expenses



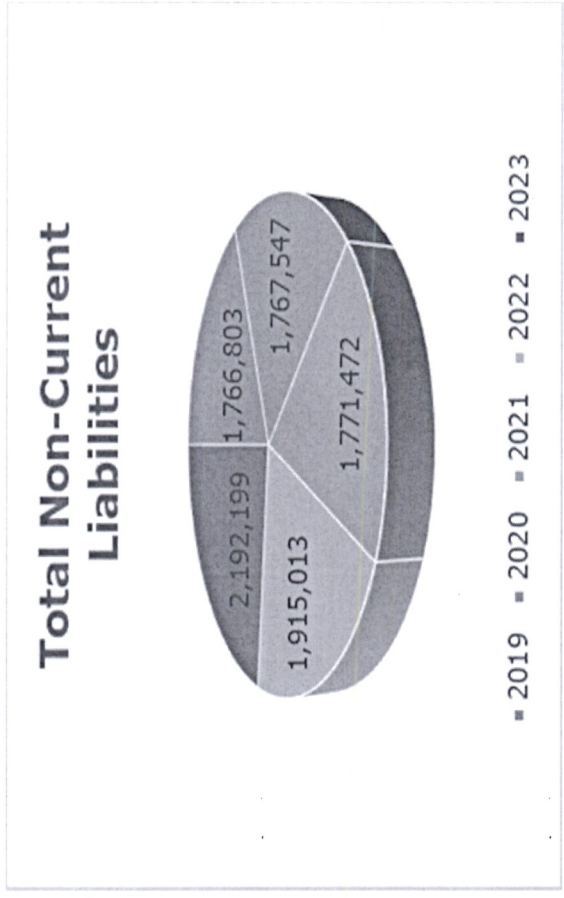
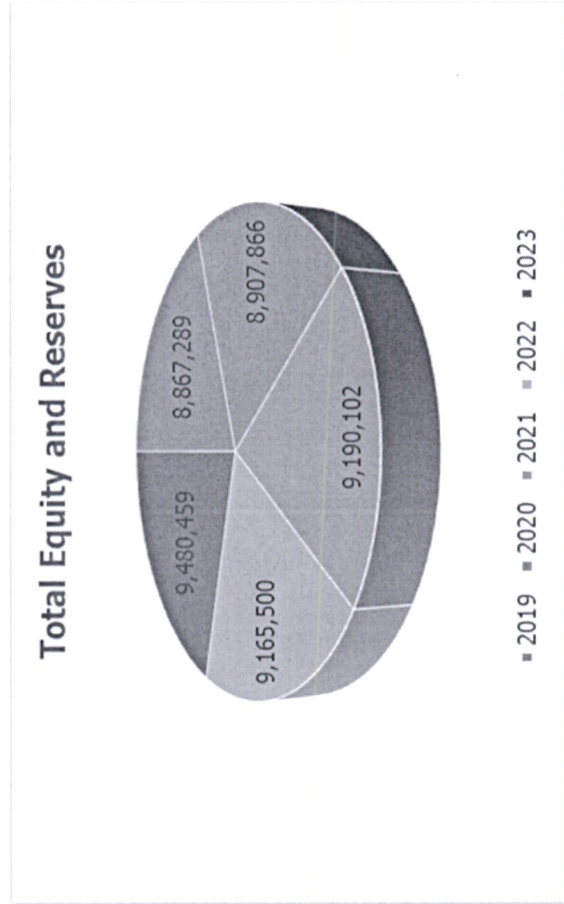
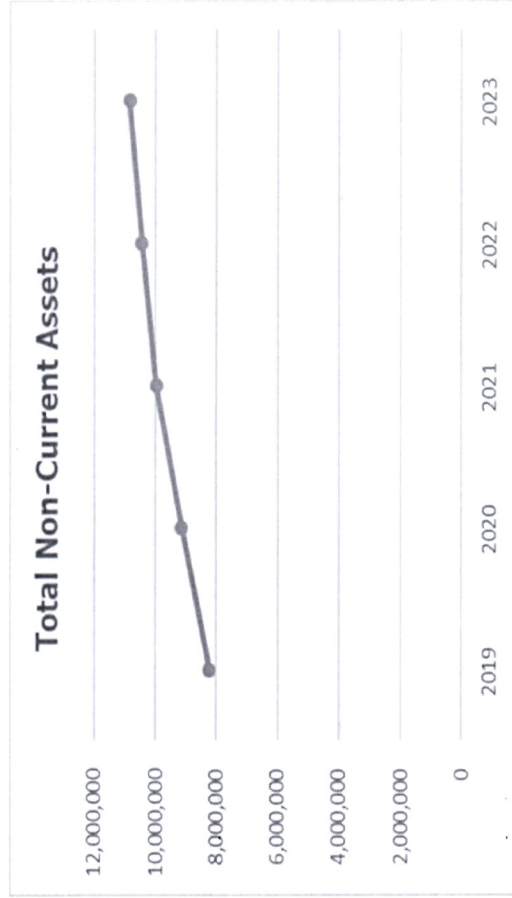
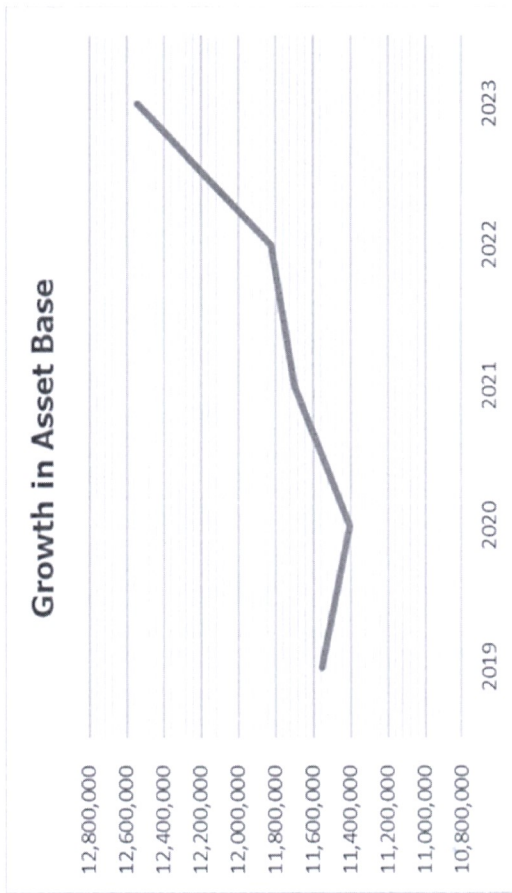
STATEMENT OF FINANCIAL POSITION

ASSETS:	2023 KES.'000	2022 KES.'000	2021 KES.'000	2020 KES.'000	2019 KES.'000
Non-Current Assets					
Property and Equipment	1,173,874	1,214,094	1,146,359	1,099,588	1,122,232
Intangible Assets	58,747	46,659	54,397	38,197	48,140
Deferred Tax Asset	20,185	21,404	12,902	3,563	555,557
Repossessed Farm Properties	389,920	377,839	365,249	267,794	268,041
Net Loans to Customers	9,193,566	8,795,746	8,394,479	7,748,754	6,238,828
Total Non-Current Assets	10,836,291	10,455,742	9,973,386	9,157,896	8,232,798
Current Assets					
Cash and Bank Balances	350,526	85,204	105,109	147,795	101,272
Short Term Deposits	381,917	511,874	611,038	778,674	1,105,958
Net Short Term Loans to Customers	795,177	651,227	912,685	1,143,204	1,961,846
Trade and Other Receivables	168,863	114,500	88,070	171,022	151,678
Inventories	5,195	4,427	4,532	4,020	2,695
Total Current Assets	1,701,678	1,367,232	1,721,434	2,244,715	3,323,448
Total Assets	12,537,969	11,822,973	11,694,819	11,402,611	11,556,245
EQUITY AND LIABILITIES					
Equity and Reserves					
Grants	4,083,923	3,783,923	3,768,923	3,617,851	3,623,994
Government Equity Capital	2,687,766	2,687,766	2,687,766	2,687,766	2,687,766
General Reserve	1,921,152	1,906,193	1,945,794	1,814,631	1,767,911
Revaluation Reserve	787,618	787,618	787,618	787,618	787,618
Total Equity and Reserves	9,480,459	9,165,500	9,190,102	8,907,866	8,867,289

STATEMENT OF FINANCIAL POSITION (Continued)

	2022 KES.'000	2021 KES.'000	2020 KES.'000	2019 KES.'000
Non-Current Liabilities				
Redeemable Government Loans and Interest:				
Risk Sharing Fund	536,961	562,523	558,599	543,204
Agency Funds	380,986	377,215	377,215	391,866
INK Fund	131,861	831,734	831,734	831,734
Enable Youth Fund	320,173	-	-	-
	822,218	822,218	-	-
Total Non-Current Liabilities	2,192,199	1,771,472	1,767,547	1,766,803
Current Liabilities				
Payables	548,617	481,304	437,883	390,589
Trade and Other Payables	269,447	149,855	179,442	135,784
Current Tax Payable	34,156	90,745	100,312	385,384
Current Accounts	13,091	11,343	9,561	10,395
Total Current Liabilities	865,310	733,247	727,198	922,152
Total Equity and Liabilities	12,537,969	11,694,820	11,402,611	11,556,245

BUSINESS PERFORMANCE



3. THE BOARD OF DIRECTORS



HE. John M Mruttu is the Chairman of the Board of Agricultural Finance Corporation. Mruttu is a registered engineer. He holds a Bachelor of Science, Mechanical Engineering and MBA from the University of Nairobi. He is a former County Governor of Taita-Taveta County. During his tenure as the Governor, he was able to achieve several milestones in critical areas like health, education, financial inclusion and agriculture which empowered the people of Taita-Taveta County to be more productive.

Mruttu worked at Kenya Petroleum Refineries Limited as a Chief engineer in 2000, during his time, he was responsible for all engineering activities for the company. He served in that role for three years and was thereafter promoted to a Manufacturing and Deputy General Manager. In 2006 he was again promoted to be the General Manager/CEO of Kenya Petroleum Refineries Ltd. In 2012 he was made Chief Operating Officer of the firm and finally left in 2012 to join politics.



Dr. Zablon Nyaenya Ayiera is a lecturer at Moi University, School of Arts and Social Sciences, Nairobi campus and a Departmental Director of Stewardship Development and Trust Services at East Kenya Union Conference of Seventh Day Adventist Church. He has published widely and carried a number of research on societal and theology issues.

He also serves in various boards and Christian development programs including Chairman Board of Management at Menyanya High school, Chairman Board of Management at Riomego

THE BOARD OF DIRECTORS (Continued)

SDA Primary Boarding School, East Kenya Union Conference of Seventh Day Adventist Church Camp Meeting Coordinator among others.

Dr. Ayiera holds a Ph.D from Moi University, Masters in Theology from St. Paul's University and a Bachelor of Arts in Theology from Tanzania Adventist College, University of Eastern Africa, Baraton.



Eng. Muriuki Karue Muriuki is a registered consulting engineer. He is a former Senator for Nyandarua County and a former MP for Olkalou Constituency. He is credited for having crafted the bill that established the Constituency Development Fund (CDF) in 2003.

Karue holds a Bachelor of Science in Engineering from the University of Nairobi and a roadworks course from Birmingham University.



Mr. Kubai is responsible for spearheading the Corporation's business strategy and operational excellence. He has proven executive leadership skills with over 15 years' experience in business management, relationship management, supply planning, project management, credit control, depot management and performance management.

Prior to joining the Corporation, he worked at National Oil Corporation of Kenya (NOCK) where he was the General Manager, Downstream Operations. Mr. Kubai has held senior managerial positions in commercial banks, insurance companies and multinational corporations having

THE BOARD OF DIRECTORS (Continued)

worked with Equity Bank, Sanlam Kenya (Pan Africa Insurance Holdings) and the Coca-Cola Company among others.

Kubai holds a Bachelor's degree from Maseno University and a Masters of Business Administration from Jomo Kenyatta University of Agriculture and Technology.



Julius Mutethia Kioga is a business consultant with competencies in Strategic Management and Leadership, corporate restructuring and turnarounds, entrepreneurial ventures and corporate governance.

He has vast experience in the Banking and Petroleum, Oil and Gas sectors. He was the founder of Mid Oil Africa Ltd, the first successful Kenyan Petroleum Oil Company that was eventually acquired by Kenya Oil Company Ltd.

Mutethia is a holder of an MBA in Strategic Management from Maastricht School of Management, Netherlands. He is a Certified Public Accountant (CPA) and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).



Hassan Mahmoud Haji is an accomplished Public Administration professional with experience in management and administration having worked in the County Government of Lamu, Ministry of Environment and Natural Resources, Administration Police Training College and the Provincial Administration.

Hassan has a thorough understanding of Government policies and procedures as well as legislative drafting.

THE BOARD OF DIRECTORS (Continued)

He is a holder of a Masters Degree in International Studies and Diplomacy, a Bachelor of Science in Social Work from Indira Gandhi National Open University and a Post graduate Diploma in Public administration and Management from Glasgow Caledonian University.



Mr. Isaac Mundui Matu is a skilled agricultural manager and a farmer. Currently he is the Managing Director of a family farm in Njoro. He has also worked as a Farm Manager at Murithia Farm and Transport Manager at Murithia Transporters in Nakuru.

He holds a Bachelor of Business Administration Studies from College of British Columbia, Vancouver, Canada.



Ms Winnie Molonko holds a Masters Degree in Law (LLM) from University of Nairobi, Bachelor of Laws Degree (LLB) of Moi University, Diploma in Law from the Kenya School of Law, a post graduate efficiency certificate in legislative drafting from Ghana Law School, a certificate in Legislative Drafting from Royal Institute of Public Administration- London. She is a Certified Secretary of Kenya, Commissioner for Oaths, Notary Public and an

advocate of the High Court of Kenya. She has over 15 years of experience having worked as a Parliamentary Counsel, State Law Office, Senior Regulatory Officer- Capital Markets Authority and Legal Counsel at Central Bank of Kenya. Currently, she is working at the National Treasury & Planning.

THE BOARD OF DIRECTORS (Continued)



Eng. Richard Kanui is the Current Engineering Secretary, Directorate of Agricultural Engineering Services (AES), State Department for Crop Development, Ministry of Agriculture and Livestock Development. Eng. Kanui is a self-motivated Engineer with hands on experience in Agricultural Mechanization, Irrigation, Water Resources Management and Land Resources Management geared towards achieving 100% food and nutrition security. Eng. Richard Munyao Kanui,

CE Previously he was the Senior Principal Superintending Engineer/Deputy Director, Irrigation and Drainage Department, Ministry of Water, Sanitation and Irrigation (Previously Ministry of Water and Irrigation); Ag. Deputy General Manager, Engineering Services, National Irrigation Authority (Previously National Irrigation Board) among others key position where he has served the country diligently. Eng. Kanui holds a Master of Technology in Irrigation Water Management from the Indian Institute of Technology, Roorkee, India; a BSc. Degree in Agricultural Engineering from Egerton University, Eldoret, Kenya; and a Post Graduate Diploma in Project Management from Central Institute of Management, India. He is a Registered Consulting Engineer (CE) with the Engineers Board of Kenya (EBK), a Corporate Member at the Institution of Engineers of Kenya (IEK), Vice Chairperson of the Kenya Society of Environmental, Biological and Agricultural Engineers (KeSEBAE) and a National Environmental Management Authority (NEMA) Lead Expert.

THE BOARD OF DIRECTORS (Continued)



Mr. Mainga Evans Ezekiel is the acting Corporation Secretary & Chief Legal Services Officer. He is a highly skilled and experienced advocate with over 10 years of experience and a proven track record of success. He holds a Bachelor of Laws (LLB) - Makerere University, Kampala and a Post Graduate Diploma in Law (PGDL) from Kenya School of Law for the Advocates Training Program (A T P). He has worked as an advocate at M/s Kabue Thumi in an engagement by M/s Blue Shield Insurance Company where he achieved a 90% success

rate in settling court matters through negotiations, resulting in significant cost savings for the insurance company and improved client satisfaction. He has also worked at Namada & Co. Advocates as an associate and at Kenya Christian Lawyers Fellowship Organization. He is a trained Arbitrator.

THE BOARD OF DIRECTORS (Continued)

BOARD COMMITTEES

Name of the Committee	Members
Finance & Resource Mobilization Committee	1 Julius Mutethia – Chairperson 2. Richard Kanui – Member 3. Isaac Matu - Member
Human Resource Committee	1. Hassan Haji – Chairperson 2. Julius Mutethia – Member 3. Richard Kanui – Member
Credit and Risk Committee	1. Dr. Zablon Ayiera – Chairperson 2. Ms. Winnie Molonko- Member 3. Eng. Muriuki Karue – Member
Audit Committee	1. Eng. Muriuki Karue – Chairperson 2. Hassan Haji- Member 3. Ms.Winnie Molonko- Member

4. MANAGEMENT TEAM



Mr. George Kubai is the Managing Director of Agricultural Finance Corporation. He is responsible for spearheading the Corporation's business strategy and operational excellence. He has proven executive leadership skills with over 15 years' experience in business management, relationship management, supply planning, project management, credit control, depot management and performance management. Prior to joining the

Corporation, he worked at National Oil Corporation of Kenya.

(NOCK) where he was the General Manager, Downstream Operations. Mr. Kubai has held senior managerial positions in commercial banks, insurance companies and multinational Corporations having worked with Equity Bank, Sanlam Kenya (Pan Africa Insurance Holdings) and the Coca-Cola Company among others. He holds a Bachelor's degree from Maseno University and a Masters of Business Administration from Jomo Kenyatta University of Agriculture and Technology.



CPA Tom Akeno is an accomplished finance professional with extensive public service experience spanning over 30 years having previously worked for the Ministry of Agriculture and the Kenya Tea Development Authority (KTDA). He has vast experience in financial accounting and management, corporate finance, financial systems implementation and Co-operative's management. Since joining the Corporation as an Accountant in

1995, he has risen through the ranks of Senior Accountant, Assistant Chief Accountant, Chief Accountant and currently is the Chief Finance & Investments Officer. He is a former Chairperson of AFC Staff Pension Schemes, and current chairperson of Ufanisi DT Savings and Credit Co-operative Society.

MANAGEMENT TEAM (Continued)

He holds a Master Degree in Business Administration specializing in Finance from the University of Nairobi and a Bachelor of Business Administration Degree in Accounting and Finance from the Kenya Methodist University. Akeno is a Certified Public Accountant and a member of good standing of the Institute of Certified Public Accountant of Kenya (ICPAK).



Mr. Kipkemboi Tallam is the Chief Human Capital and Administration Officer. He is a career Human Resource Professional having worked in the Human Resource Department of the Corporation for over 30 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. He holds a B.Sc (Business

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



Mr. Daniel Olilo is an accomplished Information Technology Specialist with over 16 years of experience in the field of ICT. He has previously worked at the Regional Centre for Mapping of Resources where he was able to implement various applications that are currently being used to serve RCMRD's member countries. Daniel is a holder of a Bachelor of Science in Computer Studies, University of Sunderland. He is currently

pursuing a Master of Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT). Daniel's areas of interest include Systems development, open source applications, social organization applications and systems integration.

MANAGEMENT TEAM (Continued)



Mr. Jackson Echoka is an agribusiness specialist with over 30 years' experience working with farmers in the agricultural sector. He is also an experienced trainer on agriculture finance. He has successfully overseen pilot implementation of an innovative Information Technology based product targeting financial inclusiveness for smallholder farmers in the Corporation.

He holds a Master of Science degree in Agricultural and Applied Economics from the University of Nairobi in collaboration with University of Pretoria, and currently pursuing Doctor of Philosophy (PhD) in Agriculture at the University of Nairobi.



Ms. Anastasia Wachira has a wealth of experience in credit having participated in formulation of various credit policies in Barclays. She is a career Banker having worked with Barclays Bank of Kenya Ltd for nine years in various departments including Compliance, Retail Credit Unit and Credit Operations. Ms. Wachira's areas of interest include Finance, Credit and Risk analysis and the real estate market.

Ms. Wachira is a holder of a Bachelor of Commerce (Finance & Banking) from Egerton University. She is currently finalizing her Master of Commerce (MCOM) at Strathmore University.

MANAGEMENT TEAM (Continued)



Ms. Pauline Kathambana is a Communications Specialist with 20 years' experience in corporate communications, internal communications and brand strategy. She has previously worked for the East African Development Bank and the Kenya Power, and has been a consultant to organisations such as the Water and Sanitation Program (WSP) of the World Bank, the Norwegian Fund for Developing Countries (NORFUND) and the Anglo-American School, Moscow. In addition she is an accomplished facilitator and trainer.

She holds a Master of Arts degree in International Studies from the University of Nairobi and a Bachelors of Education from Kenyatta University, Kenya. She is a member of the Public Relations Society of Kenya.



Mr. Bonano Badia is an accomplished finance expert specializing in project finance, deal structuring and rehabilitation of underperforming projects with practical industry experience spanning two decades. He has extensive experience in unusual and innovative development financing. His milestones projects include the innovation and implementation of weather based index products, managing the premier farmer based lending program under the Sugar Development Fund amounting KES 1.2 billion, designing and implementing bespoke IT credit based delivery systems and leading cross cutting teams on various socio-economic assignments notably integrated squatter resettlement programs, national agricultural mechanization program and a taskforce member on the

MANAGEMENT TEAM (Continued)

rehabilitation of agricultural based state agencies. As credit lead, his main roles entail crafting strategies that deliver subsidized credit sustainably in a rapidly evolving and competitive environment.

He manages an annual fund in excess of KES 800 million with a staff compliment of over 350. His achievements in this role include the mainstreaming of the African Development Bank Lead Prudential Standards Guidelines and Rating System (PSGRS) in AFC, institutionalizing Credit Referencing and Risk transfer mechanisms and entrenching benchmark credit norms in the largely agri-based portfolio. Bonano is a CPA finalist from the Strathmore University. He holds a Bachelors Degree in Economics, and a Masters of Science in Finance & Investment from the University of Nairobi.



Mrs. Betty Suge has over 10 years' experience in Accounting, Auditing & Risk Management from both the Private and Public Sectors. She holds a Master of Business Administration in Finance-(Kenyatta University) and a Bachelor of Commerce in Accounting (Daystar University). She is also a Certified Public Accountant (CPAK) and is currently pursuing certification in the Certified Information Systems Auditor (CISA)

Betty is member of the Institute of Certified Public Accountants (ICPAK) as well as the Institute of Internal Auditors (IIA).

She has undertaken international courses, among them the Fraud Investigation and Prevention as well as an Anti- Corruption.

MANAGEMENT TEAM (Continued)



Mr. John N. Mungai is an economist with over 10 years of experience in economic development and development finance. His key strengths and interests include: financial inclusion, project finance; strategy development and execution; economic and operational planning; research; fundraising; project management; Quality Management and performance management.

He previously worked as an economist for The National Treasury and Planning - Kenya and the County Government of Meru- Kenya. Mr. Mungai holds a Bachelors of Arts degree in Economics from Egerton University and a Masters of Science (MSc.) degree in Economics from Jomo Kenyatta University of Agriculture and Technology (JKUAT). He has also undertaken other relevant courses including; Senior Management Course (KSG), ISO QMS lead auditor Course (Bureau Veritas), Result Based Monitoring and Evaluation Course (KSG), Financial Modelling Project Finance Course (AADFI) and Policies for Growth Course (The World Bank Institute)



Mr. Nicholas Njeru is a seasoned practitioner in Procurement with practical experience of over 16 years, 10 of which have been in senior management. He previously worked for Kenya Revenue Authority (KRA), Kenya Vision 2030 Delivery Secretariat, BOC Gases Kenya, Africa Online Holdings Ltd, Safaricom Ltd and the National Treasury (Ministry of Finance).

Njeru holds a Masters Degree in Economics and Bachelors of Arts Degree in Economics from the University of Nairobi. He also has a post graduate Diploma in Procurement & Supply (CIPS) and is a certified Strategic Supply Chain Practitioner and CPA Finalist.

MANAGEMENT TEAM (Continued)



Mr. Mainga Evans Ezekiel is the acting Corporation Secretary & Chief Legal Services Officer. He is a highly skilled and experienced advocate with over 10 years of experience and a proven track record of success. He holds a Bachelor of Laws (LLB) - Makerere University, Kampala and a Post Graduate Diploma in Law (PGDL) from Kenya School of Law for the Advocates Training Program (A T P). He has worked as an advocate at M/s Kabue Thumi in an engagement by M/s Blue Shield Insurance Company where he achieved a 90% success rate in settling court matters through negotiations, resulting in significant cost savings for the insurance company and improved client satisfaction. He has also worked at Namada & Co. Advocates as an associate and at Kenya Christian Lawyers Fellowship Organization. He is a trained Arbitrator.

5. CHAIRMAN'S STATEMENT

The Corporation continued to post positive results despite the operating environment being challenging due to various factors. As we transitioned toward the endemic phase and economic activities continue to normalize, the lower demand for financial loans and continued drought has had an effect on our operations and performance. The war in Ukraine further adversely impacted the global economy by causing immense human suffering and exacerbating existing fragilities in the global economy - constraining growth, increasing inflation, disrupting supply chains, heightening energy and food insecurity and elevating financial stability risks . Nevertheless, despite facing an ongoing volatile and uncertain business landscape, we managed to overcome these hurdles by tapping into our robust fundamentals and sturdy balance sheet.

The growth outlook remains subdued and downside risks have increased. Successive shocks, including Russia's war against Ukraine, in the context of tightening monetary policy stances needed to bring down inflation, are weighing on the recovery and macro-financial stability, as shown by recent banking and financial-market stress episodes. Inflation has moderated somewhat, but underlying price pressures remain sticky. Debt vulnerabilities are elevated, while food and energy insecurity persist, affecting vulnerable counties and people the most. In addition, inequality is increasing, climate shocks are intensifying and fragmentation risks are rising.

The Corporation remains resilient in delivering value to its clients and other stakeholders, in spite of the challenging and competitive business environment and maintained healthy cash and cash equivalents, which stood at KES 719.4 million during the year under review.

CHAIRMAN'S STATEMENT (Continued)

Governance

The Corporation holds itself to the highest standards of corporate governance and business ethics across our businesses in order to safeguard the interests of our stakeholders and to ensure long-term value creation.

In this regard, the Corporation has enhanced its Board Diversity Policy in order to drive the entity's long-term objectives successfully. The Board will continually articulate, implement and review the adequacy and effectiveness of the Corporation's risk management and internal control system in line with AFC Act, Public Finance Management Act 2015 (PFM) and other statutory regulations to manage our risks and opportunities and promote meaningful engagement with our stakeholders.

Moving Forward

The Board will continue to exercise financial prudence and tighten operating costs to maximize stakeholders' value through our four (4) strategic growth drivers i.e. strategic diversification, driving technology & innovation, cost and organizational effectiveness and looking into sustainability as a new growth area.

Moving forward, we will continue to seek opportunities to drive our business forward with our diversified range of products and services by leveraging on our strong track record and capabilities that we have built over the years to ensure the viability of the business. We will continue to pursue value creation, business sustainability, and growth strategies on all business segments of the Corporation.

CHAIRMAN'S STATEMENT (Continued)

Acknowledgement

On behalf of the Board, I wish to express my sincere appreciation to all our valued stakeholders, customers, partners, bankers, suppliers, and contractors for their continued support, mutual trust and utmost confidence in the Corporation.

My deepest appreciation to the management and staff at all levels for their contributions, dedications, loyalty, and hard work, in working together for the Corporation business sustainability as well as in building their career path with the Corporation. I am very confident that with their continuing commitment, perseverance, right attitude and teamwork, the Corporation will be able to realize its Vision, Mission, and Core Values.

Finally, I wish to place on record my deepest gratitude to my fellow members of the Board for their immense contributions, wise counsel and confidence in the direction of the Corporation.

Thank you,



H.E Eng. John M Mruttu
Chairman

6. REPORT OF THE MANAGING DIRECTOR

Managing Director's Statement

This has been a year of significant progress for the Corporation against a backdrop of unexpected and challenging conditions. We have strengthened our core products and reshaped the way we do business. In this uncertain global context, decisive, well-calibrated, and agile policies tailored to sector-specific circumstances are key to entrench a sustainable recovery, safeguard macroeconomic and global financial stability, support the vulnerable, and strengthen resilience. Policymakers have taken swift actions to strengthen confidence in the financial sector, which remains sound and resilient, supported by the reforms implemented by our government. The financial outcomes for this year clearly demonstrate that we are on track with our strategic priorities and have successfully built a bigger and more profitable Corporation

Financial Review

AFC today is a Corporation built to deliver resilient performance, even in turbulent times. We are geographically diverse, with a product portfolio built on long-term investment in our loans, and a culture that delivers everyday efficiency while pursuing opportunities with focus and agility. Those underlying strengths are reflected in our performance over the last year.

Our results for the past year 2022/23 prove that we succeeded as a Corporation. Our clients sought our expertise and did significantly more business with us. Our Corporation's full-year revenues rose by 18% to KES 1.52 billion, a level we have not reached. Our non-interest income also increased by 52.5% to KES 637.8 million, despite inflation-related cost pressure in many areas.

REPORT OF THE MANAGING DIRECTOR (Continued)

As a result, we increased our pre-tax profit by 106.6% to KES 98.4 million compared to KES 47.6 million in the year 2021/22. This is the Corporation reflection of improved performance and is testament to our resilience in difficult times. Other financial indicators equally underscore this resilience; for example, we succeeded at limiting loan loss provisions an acceptable provision of KES 152 million, exactly in the range we had predicted immediately after Russia's invasion of Ukraine that resulted in a volatile economy with high inflation coupled with sky rocking increase in prices for goods and petroleum products. In a capricious year like 2022/23 especially, this first-class risk management was crucial.

In 2022/23, we scaled up the branch network to a total of 47 branches by opening one new branch in Maua town, one of the key strategic location. We continued to enhance our digital transformation leadership. This saw the Corporation sign a loan agreement of KES 1.9 billion with The National Treasury for Enable Youth Program.

Looking Forward

In the coming financial year, we aim to continue to improve and are therefore planning further steps along this path. We aim to increase revenues, loan loss provisions and costs are expected to remain essentially flat, which will allow us to continue investing in technology and controls. This year too, we will have to deal with another volatile and challenging economic.

The Corporation has proven that it has the resilience and stability to survive in difficult times and deliver the best possible performance. Our ambition remains unchanged: we strive to be the best financial institution for provision of agricultural credit; we want to support our farmers in whatever way they need, wherever they

REPORT OF THE MANAGING DIRECTOR (Continued)

are in the country. We want to provide the solutions they need to protect against volatility and uncertainties.

Conclusion

I am proud of what our Corporation and employees across the region have achieved, collectively and individually.

I want to express sincere gratitude to the board of directors as well as management for their counsel, guidance and commitment to our clients and various stakeholders.

I extend sincere appreciation to our 484 colleagues for their continued dedication and their unwavering focus on strategy, customers and our respective communities that we operate in across the country.

Finally, I would like to express my sincere gratitude to our esteemed customers for choosing us, the government for their support, and our other stakeholders who continue to walk the journey with us.

With continued laser focus on sustainable growth, I am confident that our best days are ahead.



Mr. George Kubai
Managing Director

7. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2022/2023

Section 81 Subsection 2 (f) of the PFM Act, 2012 requires the accounting officer to include in the financial statements, a statement of the Corporation's performance against the predetermined objectives. AFC has pillars and objectives within its strategic plan for the FY 2018/2019-2022/2023. AFC's three strategic pillars are anchored on the BIG 4 Agenda specifically on '**food and nutritional security**' and '**agro-manufacturing**'

These strategic pillars are;

- a) The Big 4 Agenda
- b) Financial inclusion and access
- c) Business Efficiency and governance

The Corporation developed its annual work plan based on the above pillars. The assessment of the Board's performance against the annual work plan is done on a quarterly basis. The Corporation achieved its annual targets set for the FY 2022/23 as indicated in the table below.

Strategic Pillar	Objective	Initiatives	Activities 2022/2023	Achievements 2022/2023
a) The Big 4 Agenda	Enhance Government collaboration to achieve Big Four Agenda and minimize wastage	i). Enhance Government collaboration to achieve Big Four Agenda	Establishing partnerships	<ul style="list-style-type: none"> ➤ Signed MOU with TNT on the SAFER – W/Bank programme ➤ Signed an MoU with TNT on the RK-FINFA (IFAD) Bank Programme ➤ Existing MOU with MOALF & TNT on ENABLE YOUTH Kenya. ➤ Mid-term review carried out on ENABLE Youth Kenya Programme

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2022/2023 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2022/2023	Achievements 2022/2023
		ii). Partner with all credit providing government institutions/ agencies in the agricultural sector	Establishing partnerships	<ul style="list-style-type: none"> ➤ Existing partnership with TNT on Risk Sharing Facility ➤ Existing partnership with Commodities Fund
b) Financial inclusion and access	Drive financial inclusion in agriculture sector	Develop lending products for marginalized sectors in agribusiness (Youth, Women, People in ASALs and Islamic Finance)	<p>Develop Warehouse Receipt Financing product</p> <p>Mobilize funds to lend to targeted groups</p>	<ul style="list-style-type: none"> ➤ Developed WR financing product (prototype) in readiness for pilot and roll-out. ➤ KES 70.77 million disbursed to youth through the ENABLE Youth Programme
		Formulate partnerships with the private sector	Develop five partnerships with private sector	<p>Developed partnerships with:</p> <ul style="list-style-type: none"> ➤ Safaricom (DigiFarm) – Digital Loan product ➤ ICR – Gender mainstreaming partnership ➤ AGRA/FSD Kenya – Warehouse Receipt Finance product development ➤ FSD Kenya – development of AFC 2023 -2027 strategic plan

**STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR
FINANCIAL YEAR 2022/2023 (Continued)**

Strategic Pillar	Objective	Initiatives	Activities 2022/2023	Achievements 2022/2023
c) Business Efficiency	Optimize the business model and accordingly enhance operational efficiencies to realize cost savings	Optimize the business model (through rebalancing loan book and enhance recoveries of NPLs)	Undertake wholesale lending	A total of KES 410 million has been disbursed towards the wholesale lending model
		Enhance organizational capabilities	Recover NPLs	KES 47.3 million in NPLs recovered
			Train staff	<p>Trainings conducted during the period under review as follows:</p> <ul style="list-style-type: none"> ➤ Data Protection training ➤ Employee discipline, suspension, termination and dismissal training. ➤ Designing Cutting-Edge Advocacy Campaigns, Projects and Event Management Strategies ➤ Introduction to Kenya Sign Language ➤ Internal Audit and Financial statement review in the Public sector ➤ Corporate Data Consistency, Data Security and Real time reporting system training ➤ Collective Bargaining for Public Service staff on public. ➤ Resolution of Public Complaints and Implementation of

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2022/2023 (Continued)

				Service Charter
d) Enhance Governance & management framework		Adherence to Statutory and Legal requirements Constitution of Kenya, AFC Act, PPOA, Labour Laws, Environment etc.	Submit all reports	Submitted four quarterly reports to: <ul style="list-style-type: none"> • The Commission on Administrative Justice. • Public Procurement Regulatory Authority • The National Treasury on financial performance
		Enhanced compliance to standards e.g. ISO 9001:2015	Internal & external ISO 9001:2015 audits	Undertook Internal ISO audits in December 2022 & June, 2023 & External ISO audit in January 2023

8. CORPORATE GOVERNANCE STATEMENT

The Board of Directors of AFC consider that good governance, achieved through an ethical culture, competitive performance, effective control and legitimacy, can create sustainable value and enhance long-term equity performance. The Board applies good governance practices to promote strategic decision making for the organization to balance short, medium and long-term outcomes to reconcile interests of the AFC as a whole together with its stakeholders and the society to create sustainable shared value. To that end, sound governance practices, based on accountability, transparency, ethical management and fairness, are entrenched across the business. Directors have a statutory duty to promote the success of the Corporation for the benefit of its stakeholders. In promoting the success of the Corporation, Directors must have due regard to the long-term consequences of their decisions, the legitimate interests of employees, the need to foster effective business relationships with suppliers, customers and various stakeholders, the impact of the Corporation's operations on the community and the environment, and the desire to maintain a reputation for high standards of business conduct.

The Board is committed to ensuring that the Corporation complies with the laws, regulations and standards applicable to it. The Board ensures that high standards and practices in Corporate Governance and more specifically the principles, practices and recommendations set out under the *Mwongozo code* is adhered to.

The Board also regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations across all the regions where we operate. Our corporate governance framework enables the Board to oversee the strategic direction of the organization, financial goals, resource allocation, risk appetite and to hold the executive management accountable for execution.

CORPORATE GOVERNANCE STATEMENT (Continued)

Corporation operates within a clearly defined governance framework which provides for delegated authority and clear lines of responsibility without abdicating the responsibility of the Board. Through the framework, the Board sets out the strategic direction of the Corporation while entrusting the day-to-day running of the organization to the executive management led by the Managing Director, with their performance against set objectives and policies closely monitored. The Board operates through four committees mandated to review specific areas and assist the Board undertake its duties effectively and efficiently

The Board Charter, which has been approved and is regularly reviewed by the Board, provides for a clear definition of the roles and responsibilities of the Chairman, directors as well as the Company Secretary. The roles and responsibilities of the Chairman and the Managing Director are separate and distinct with a clear division of responsibility between the running of the Board and the executive responsibility of running the Corporation's business.

The Board

The Corporation is governed by a Board of Directors each of whom is, except for the Managing Director and the Corporation Secretary. The primary responsibility of the Board is to act in the best interests of Corporation and to foster the long-term success of the Corporation, in accordance with its legal requirements and its responsibilities to stakeholders. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Corporation manages risks effectively and monitors financial performance and reporting. The Board serves as the focal point and custodian of corporate governance in the organisation. The directors recognise that good governance can create a good return to the Government by enhancing long-term

CORPORATE GOVERNANCE STATEMENT (Continued)

equity performance. While the board is unwavering in its adherence with legislation and regulations, the Corporation's commitment to good governance goes beyond a commitment to comply with minimum standards – it strives to create an ethos where governance is a central consideration in the way the business of the Corporation is conducted.

Role & Responsibilities of the Board

The scope of authority, responsibility and functioning of the board is contained in a formal charter which is regularly reviewed. The Board sets the strategic objectives of the Corporation with input from management, and oversees management, performance, remuneration and governance frameworks of the Corporation. The board develops and applies a work plan to help to ensure that it attends to all its responsibilities when these responsibilities have not been delegated to a committee.

The Board's role and responsibilities include:

- i. Approving the strategic and financial plans to be implemented by management approval of the strategy, business plans and annual budgets and of any subsequent material changes in strategic direction or material deviations from business plans.
- ii. Approving the annual financial statements and annual report and the approval of quarterly reports
- iii. Overseeing the Risk Management Framework and its operation and setting the Corporation's risk appetite within which management is expected to operate.
- iv. Approving capital expenditure for investments and divestments and capital and funding proposals.
- v. Reviewing succession planning for the management team and makes senior executive appointments, organizational changes and high-level remuneration issues.
- vi. Providing oversight over performance against targets and objectives.

CORPORATE GOVERNANCE STATEMENT (Continued)

vii. Providing oversight over reporting to shareholders on the direction, governance and performance of the Group as well as other processes that require reporting and disclosure.

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 conduct on management and employees. This is facilitated through quality corporate leadership, set by the Board of Directors and senior management. To this effect, the Corporation's 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 Directors 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 accountable to the Government of Kenya. The Board is responsible for the long term success of the Corporation. It sets the Corporation's core values and strategy and oversees implementation by management of the strategic objectives. It ensures there is a strong risk management and internal control framework in place that allows risks to be assessed and managed effectively, including implementation of the risk strategy, corporate governance and corporate values. It provides leadership, direction and is responsible for corporate governance and financial performance of the Corporation.

CORPORATE GOVERNANCE STATEMENT (Continued)

The Board's duties and responsibilities include:

Fiduciary responsibility

The Board of Directors has a fiduciary responsibility to care for the finances and resources 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.

Mission and Vision of the Corporation:

The Board of Directors are responsible for setting the mission of the Corporation and ensuring that all actions further 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.

CORPORATE GOVERNANCE STATEMENT (Continued)

Board Meetings

The Board has in place an annual work plan that sets out the Board activities in a year. The Board meets at least once every quarter, and additionally, when necessary, to consider all matters relating to the overall control, business performance and strategy of the Corporation and succession planning. The Chairman, in conjunction with the Corporation Company Secretary work closely with the Managing Director to come up with the annual work plan and to set the agenda for each meeting. The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request for additional information where they consider further information is necessary to support informed decision-making.

Governance Principles

The Board of Directors of AFC have established robust governance structures modelled around the guidelines contained within Mwongozo. The principles derived from the regulatory and best practice frameworks, which have enabled the Board to establish a strong foundation that effectively upholds the Corporation's Corporate Governance practices, which include but not limited to:-

Skills, Experience & Diversity

Having regard to the Corporation's vision, values and purpose, the individual attributes of each Director are as critical as the skills they bring. There is an expectation that each Director should be able to demonstrate sound business judgment, a strategic view, integrity, preparedness to question, challenge and critique and leadership qualities. At a collective level, the Corporation looks for a diversity of skills, knowledge and experience to enable the Board to provide the oversight needed to develop and achieve the overall strategy of the Corporation.

CORPORATE GOVERNANCE STATEMENT (Continued)

The Corporation seeks to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Corporation. The Directors are expected to have a clear understanding of the strategy of the Corporation as well as knowledge of the industry and markets in which the Corporation operates. The aggregate mix of skills and experience of the Directors seeks to challenge management, ensure robust and constructive debate, augments and challenges the strategic thinking of the executives thereby adding value to the Corporation. The Board regularly reviews the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the strategy. The Board continuously reviews the skills, experience and diversity mix of the Board and continues to make efforts on diversifying the skill set and gender.

Compliance	Laws; Regulations; and Applicable Standards & Policies.
Structural integrity and accountability	Board: composition; independence; competencies; diversity; complementarity; and effectiveness. Management: support structures; segregation of duty; and delegation of authority.
Timely, transparent and relevant communication and disclosures	Key policies and relevant information, to provide stakeholders with a clear understanding of our businesses.
Robust Internal Controls	Strong audit procedures and audit independence; internationally recognized auditing and accounting principles; well-scoped internal and external audits
Sustainability	Roles, objectives and remuneration aligned to the Government long term interests.
Optimized Strategy	Frequent and forward looking strategy reviews that anticipate risks and promote long term prosperity.
Integrity	Culture, practices, a well-defined, implemented Code of Conduct and Ethics.

CORPORATE GOVERNANCE STATEMENT (Continued)

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 management 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 the Management team which the Managing Director is the team leader.

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of their performance and that of committees and individual directors are 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.

CORPORATE GOVERNANCE STATEMENT (Continued)

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

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 Committees

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

- Audit
- Finance and Resource mobilization
- Credit and Risk
- Human Resource

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

CORPORATE GOVERNANCE STATEMENT (Continued)

Audit Committee

The committee is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. In addition to advising the Board on best practice, the committee also monitors management's compliance with relevant legislations, regulations and guidelines as well as the Corporation's laid down policies and procedures.

The committee has direct access to the Internal Audit function, the Company Secretary and the external auditors. During the year the committee received and reviewed the findings of the internal and external audit reports and management's action to address them.

Finance and Resource Mobilization Committee

The committee is mandated to review and make recommendations on the Corporation's financial and accounting policies, the Corporation's Annual Budget, quarterly and annual financial statements and the annual procurement plan. The committee also reviews the implementation of the Strategic plan and monitors the performance contract of the Corporation and the Government.

Human Resource Committee

The committee is mandated to formulate staff policies and procedures and ensure an adequately staffed and professionally managed human resource. The committee assists the Board in discharging its corporate governance role by reviewing staffing needs of the Corporation, appoints senior management staff, reviews training needs and undertake disciplinary measures as per the staff policies.

CORPORATE GOVERNANCE STATEMENT (Continued)

Credit and Risk Committee

The Committee is mandated to review the oversight of the overall lending policy of the Corporation and deliberate and consider loan applications beyond the credit discretion limits set for management. The committee also reviews and considers all issues that may materially impact the present and future quality of the Corporation's credit risk management function as well as the quality of the loan portfolio and ensure adequate provisions for doubtful debts are maintained in line with the best practice and prudential guidelines.

The committee is also responsible for overseeing the implementation of the Corporation's risk management framework to ensure that all existing and potential significant risks are identified and effectively managed.

9. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The performance of the Corporation for the financial year ended 30th June 2023 is presented herewith in accordance with the requirement of the Public Finance Management Act (PFM) 2012, International Financial Reporting Standards and AFC Act Cap 323.

The Corporation majorly derives its income from interest on loans. During the year under review, interest income was KES 858.5M against a budget of KES 1.23B, which is a performance of 70%. The target was not achieved as most of the disbursements made during the period were development loans whose interest accruals are spread over a longer term compared to seasonal crop credit. The operating expenditure was KES 1.4B against a budget of KES 1.6B.

Consequently, it is worth noting that the pretax profit significantly increased by 102% to KES 98.4M compared to KES 47.6M reported in 2021/2022 financial year. This increase was informed by an increase in other operating income for the year under review.

Cash flows from the operations of the Corporation are detailed in the cash flow statement for the twelve months ended June 30, 2023. The Cash and cash equivalent was KES 719.4M compared to KES 583.8M in the prior year.

Compliance with regulatory requirements

During the year ended 30th June 2023, the Corporation complied with all the statutory and regulatory obligations including but not limited to: remittance of PAYE, NHIF, NSSF, VAT, HELB, Withholding tax, etc within the stipulated deadlines.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The major risks facing the entity are as highlighted below:-

a) Financial Risk Management

In the financial services sector, sustainable growth in profitability involves selectively taking and managing risks. The Corporation's goal is to earn, on behalf of the Government, an optimal, stable and sustainable rate of return for every shilling of risk it takes, while continually investing in our business to meet our future growth objectives. The risk management resources and processes are designed to identify, understand, measure and report risks that the Corporation's businesses are exposed to, and develop governance, controls, and risk management frameworks necessary to mitigate these risks as appropriate. These resources and processes are strengthened by the Corporation's culture which emphasizes transparency, accountability and responsibility for managing the risks we are exposed to.

Risk is defined as an event or events of uncertainty which can be caused by internal or external factors resulting in the possibility of losses (downside risk). However, the Corporation appreciates that some risk events may result into opportunities (upside risk) and should therefore be actively sought and exploited.

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

b) Credit Risk

The credit portfolio is a major component of the asset portfolio of the Corporation; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Corporation's asset value and profitability. 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.

Management of credit risks

The Corporation manages credit risk in accordance with its Credit Policy, Credit Risk Appetite and related governing documents. The goal of credit risk management is to ensure the Corporation operates within the risk appetite defined in accordance with the policies and strategic objectives in the area of credit, from a single transaction to credit portfolio level.

The Corporation's credit risk management framework and policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Corporation's credit portfolio across different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions. The policy and practice of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Corporation conducts industry-level economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Corporation's business objectives are determined in accordance with these studies.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Credit review processes identify, monitor, mitigate and report to the responsible manager/function on negative signs related to borrowers. Credit risk management is based on the following principles:

- **Independence** – This ensures proper corporate governance, prevent conflicts of interest, and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.
- **Hierarchy of authority** – The Corporation has a hierarchy of authority that outlines a sequence of credit authorizations according to the level of debt of the borrower or group, the risk rating and problematic debt classifications allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committee.
- **Credit policies and procedures** – The Board of Directors of the Corporation approves the credit policies, which are examined and updated regularly, according to changes in the financial markets and in the economy. The policies and procedures include various limits on the credit portfolio in accordance with the risk appetite of the Group, including exposure limits by economic sector, country, financial institution or as a function of the risk level assessed by the Corporation. Limits are also imposed on the maximum exposure to a single borrower or a group of borrowers according to the credit rating assigned to the borrower, which reflects the borrower's risk level.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

- **Controls and risk identification** – The process of reviewing and identifying credit risks is conducted by the three lines of defense. In the first and second lines of defense, controls are applied from an individual credit item to the portfolio level according to materiality thresholds. The Credit and Risk Departments coordinate reports to the Senior Management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, stress scenarios, and presentation of general risk indicators.

The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various lines of defense, on the other hand, the identification of risk in new credit products is guided by the new products and initiatives risk assessment policy which specifies the processes to be followed for each new product at the Corporation to identify all risks inherent in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

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

The Corporation makes provision for loan balances as and when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Problematic debts and borrowers in distress

The policy for debt classifications and allowances includes indicators for the identification of customers who, according to the Corporation's assessment, may default on their obligations to the Corporation. The Credit, and Risk Departments determine whether the specific customers should be included in the Corporation's watch list, whether the customer's rating requires re-classification, and whether an allowance for credit losses is necessary. Customers identified for close monitoring and existing watch list customers are discussed monthly in the Management Credit Risk Committee. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to the Loan Recovery unit.

c) Liquidity and Funding Risk

Liquidity Risk is the risk that the Corporation is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. Effective liquidity risk management is essential in order to maintain the confidence of the Corporations financiers & partners 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.

d) 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 due to

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

fluctuations in market risk factors such as interest (IRR). The objective of market risk management programs is to manage and control market risk exposures in order to optimize return on risk taken while maintaining a good market profile as a provider of agricultural financial products and services.

e) Capital Management

The Corporation's objectives when managing capital are:

- To safeguard the Corporation's ability to continue as a going concern in order to provide acceptable returns to the shareholder and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by regulators within the markets that the Corporation operates in.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Corporation may incur in adverse market scenarios during the course of its business.
- To manage its capital structure and make adjustments to it according to changes in economic conditions and the risk characteristics of its activities.

f) Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events or legal risk but excluding strategic and reputation risk. The Corporation manages Operational Risk via a comprehensive risk management framework, and is supported by an established network of systems, policies, standards, and procedures. The Operational Risk Management Framework assist the Corporation in integrating risk management into significant activities and

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

functions. As part of this framework, AFC has defined its operational risk appetite and has established a Risk and control assessment process to help units to self-assess on significant operational risks and controls, identify, and address any gaps in the design and/or operating effectiveness of internal controls that mitigate significant operational risks. Reports on compliance with risk appetite limits are submitted on a quarterly basis, within the consolidated risk document.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Corporation. A comprehensive mapping process of operational risks in all units of the Corporation is performed regularly.

Operational Risk Management process in AFC consists of following components:

- Identification.
- Assessment.
- Monitoring.
- Controlling / Mitigating of Operational risks
- Reporting
- Training and Awareness

The goals of operational risk management are:

- To ensure effective oversight and management of operational risks in all units of the Corporation, including risk ownership and decision making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations of the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Corporation.
- To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Corporation.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

g) Strategic Risk

The Corporation defines strategic risk as the potential for loss arising from ineffective business strategies, improper implementation of those strategies, sudden unexpected changes in its operating environments, or from lack of adequate responsiveness to changes in those specific business environments. The Corporation faces several strategic risks from its environment which include:

- Macro-economic changes;
- Competition from the financial industry, and organisations providing similar services;
- Technological changes;
- Key legislative and regulatory changes;
- Major political events; and
- Human capital or social/demographic trends and changes

The institution carries out regular business performance reviews periodically, but at a minimum on a quarterly basis against. It performs regular industry strengths, weaknesses, opportunities and threats (SWOT); and peer analysis reviews and reports those. The reviews are regularly reported to the Board of Directors for information and advice, or action where significant deviations occur. The reports include identification of key risks being faced, and how they are being managed to be within approved appetite.

h) Reputational Risk

Current or potential loss to earnings and/or capital arising from damage or deterioration of the Corporation's reputation or standing due to negative perception of its image or its business practices amongst customers, counterparties,

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

shareholders, regulatory authorities and other stakeholders, whether true or not. When all other risks are managed well, this risk is substantially minimized.

Senior management and the Board of Directors receive periodic reports on the assessment of the Corporation's reputational risk exposures that arise from its business (including sales, service and legal matters) activities so as to form a view on associated risks and implement corrective actions.

i) Compliance & Legal Risk

The Corporation defines Compliance or Regulatory Risk as the potential of loss arising from non-compliance with laws, rules, regulations, obligatory practices/standards, contractual agreements, or other legal requirements including the effectiveness of preventing and handling litigation. It is not actively or deliberately pursued in the expectation of a profit or return, but occurs in the normal course of our business operations. The Corporation meets high standards of compliance with legal, regulatory and policy requirements in all business dealings and transactions.

j) Information & Communication Technology Risk

ICT Risk is the business risk associated with the use, ownership, operation, involvement, influence and adoption of ICT within an enterprise. It consists of ICT-related events and conditions that could potentially impact the business. It can occur with both uncertain frequency and magnitude, and it creates challenges in meeting strategic goals and objectives.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Policies, processes and technology have been put in place to mitigate ICT risks. These are revised regularly to bring them up-to-date with the evolving threat landscape. Information Security incidents are identified, tracked and reported.

k) Cyber Risk

Cybersecurity concerns continue to manifest across the world with hackers continuing to enhance their attack capabilities. This trend is expected to continue in coming years, and financial sector will remain a primary target. Given AFC's increasing reliance and adoption of digital systems, cyber threats make cyber security one of the Corporation's top risks.

Therefore, the Corporation endeavors to achieve cyber resilience that can withstand, detect, and rapidly react to cyberattacks, while constantly evolving and improving its defenses.

Cybersecurity is built into our culture to foster crucial behaviors that protect the Corporation and our customers' information. This includes provision of training to all staff, including rolling out mandatory cybersecurity training course, and awareness initiatives on digital channels help customers to stay safe online. The Corporation has also invested in extensive resources (both human and technological) to strengthen its information security and cyber defense system, to cope with the sophistication of cyber threats. The Corporation's defense framework consists of layers of protection using advanced technologies. The Corporation operates cyber defense processes to minimize the risk of system penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

confidentiality of data. The Corporation continually works to identify threats, risks, and enhance the effectiveness of defensive framework accordingly.

I) Fraud Risk

Fraud includes all those activities involving dishonesty and deception that can drain value from the business, directly or indirectly, whether or not there is personal benefit. The Corporation Fraud Risk Policy/framework covers both internal and external frauds, and aims to reinforce the AFC values of honesty, integrity, and ethics and in this regard has a "Zero Tolerance" approach to fraud and corruption. AFC is committed to ensuring that a fraud free environment exists, and high ethical standards are upheld in the organization. The key objectives of Fraud Risk framework are:

- Development of a suitable environment for fraud management.
- Maximum deterrence of fraud.
- Professional investigation of detected fraud.
- Effective sanctions, including legal action against people committing fraud.
- Effective methods for seeking redress in respect of money defrauded.
- Raising awareness of fraud and its prevention within the Group and to give guidance on reporting of suspected fraud and how the investigations will be conducted.

AFC is committed and continue to build capability for effective response to fraud risks having made several enhancements to our systems and controls including the implementation of the Fraud Management System. The Fraud Management System has enhanced fraud management through automated detection of fraud across banking channels by enabling identification of unusual behavior and increase in operational efficiency by augmenting fraud investigation efforts.

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

INTRODUCTION

AFC remains committed to its vision while effectively balancing sustainable business management with developmental goals. Over the course of its remarkable journey, AFC has taken the lead in introducing numerous economically viable, innovative, and sustainable models aimed at transforming lives. These initiatives encompass innovative credit products, developmental of new products, consultation services and provision of technical services. Throughout its endeavors, AFC has upheld its financial sustainability while actively pursuing its developmental initiatives. As a result, the Corporation has left a lasting impact on the lives and livelihoods of rural communities.

The sustainability strategies are firmly embedded in its vision to become the premier development financial institution (DFI) in Kenya, dedicated to fostering rural prosperity and empowering financially inclusive rural farmers.

The Sustainability Report for 2022-2023 FY emphasizes significant efforts made towards promoting economic, environmental, and social sustainability. These endeavors align with the Corporation's commitment to contribute to the achievement of the United Nations Sustainable Development Goals (SDGs).

As a frontrunner in the realm of rural development through financing agriculture in Kenya, AFC proactively involves stakeholders to gain insights, concerns and priorities. It diligently considers the feedback provided by these stakeholders to shape its developmental and business policies. As the largest Development Financial Institution (DFI) in Kenya, the Corporation maintains active engagement with state

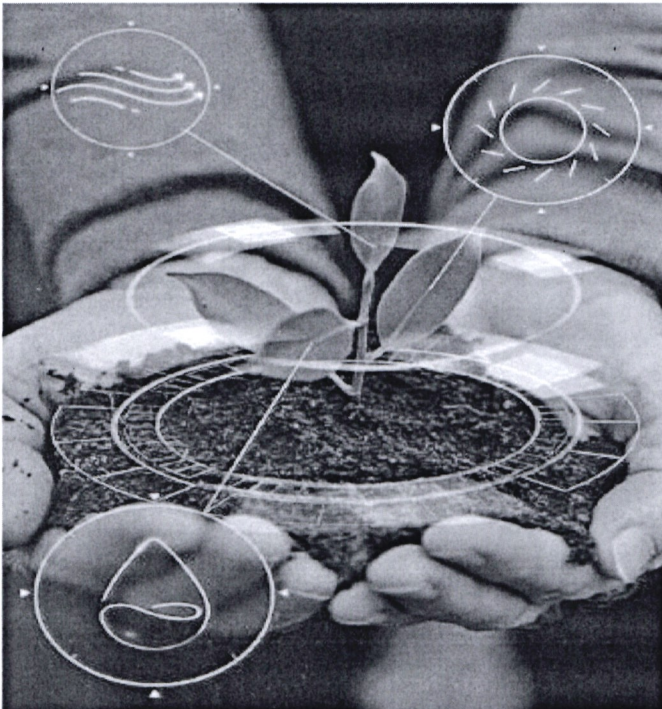
ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

governments, banks, civil society organizations, multilateral developmental agencies, farmers, traders, and various other developmental entities.

By setting measurable goals, tracking progress and reporting results, AFC can identify areas for improvement and refine its strategies over time and ensure that sustainability remains at the forefront of its operations.

THE IMPORTANCE OF SUSTAINABILITY

In the coming decades, the demand for food, fibre, agricultural products and energy will rise significantly due to a rapidly growing and urbanizing population with higher living standards. To address these challenges, it is essential to utilize the current resource base realistically and sustainably, ensuring equitable access for the entire community. According to the Food and Agriculture Organization (FAO), sustainable agriculture and rural development encompasses the effective management and



conservation of natural resources. It also involves directing technological and institutional advancements in a way that guarantees the fulfilment of present and future human needs for generations to come.

Climate change remains one of the most pressing issues of our time. Human activities have already led to a 1°C increase in global temperatures above pre-industrial

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

levels as highlighted in the 2021 Intergovernmental Panel for Climate Change (IPCC) report.

Projections indicate that global warming is likely to exceed 1.5°C during the 21st century in most scenarios and even surpass 2°C in some cases. Higher warming levels can result in more frequent extreme temperatures impacting agriculture and health. Even at 1.5°C warmer, our planet may experience increased instances of heavy precipitation and flooding. Therefore, adapting to the warming world through climate adaptation becomes essential alongside reducing carbon emissions to mitigate the impact of climate change.

Unfortunately, the financing of climate adaptation projects has significantly lagged behind climate mitigation projects. Additionally, the flow of financing towards critical sectors such as agriculture and forestry, is insufficient. These sectors require

substantial investments in adaptation projects to ensure soil health, sustainable yield, nutritional quality and food security to meet the increasing demands of growing populations. While governments and development financial institutions will continue to play a crucial role, mobilizing investments from mainstream investors is essential to tackle the scale of the challenge. The lack of sufficient financing from mainstream investors can be particularly acute in emerging economies. Local factors, such as small landholdings of farmers, may lead private investors to be hesitant without appropriate incentives. In response to these challenges, AFC has developed various financing models to bridge the gap and stimulate investment through agriculture.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

AFC SUSTAINABILITY STATEMENT



"At the Agricultural Finance Corporation (AFC), sustainability is at the core of our mission. We are committed to fostering rural prosperity and financial inclusion while ensuring the responsible and equitable utilization of resources. Through innovative financial solutions, strategic partnerships, and a strong focus on climate resilience, we aim to empower rural communities, promote sustainable agricultural practices with an aim of contributing to the achievement of the United Nations Sustainable Development Goals. Our unwavering dedication to balancing economic viability with developmental goals defines our approach as we pave the way for a more prosperous, resilient, and sustainable agricultural sector in Kenya."

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

SUSTAINABLE DEVELOPMENT GOALS (SDGs)



The Sustainable Development Goals (SDGs), established by the United Nations in 2015, constitute a comprehensive global framework for addressing the most pressing economic, social and environmental challenges facing our planet. Comprising (17) interconnected goals, the SDGs set forth a blueprint to guide nations, organizations, and individuals toward a more equitable, prosperous, and sustainable world by 2030.

These goals encompass a wide range of targets from eradicating poverty and hunger to ensuring quality education, gender equality, clean water, and affordable clean energy. In addition, they also address the urgent need to combat climate change, protect biodiversity, and promote peace and justice. Through their integrated nature,

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

the SDGs emphasize the importance of collective action, partnerships and innovative strategies to foster inclusive development that leaves no one behind.

The pursuit of the SDGs requires collaboration across sectors, borders, and disciplines. Governments, businesses, civil society and individuals also play essential roles in driving progress toward these goals. Achieving these SDGs demands transformative changes, development of policies, practices, and mindsets to create a world where prosperity is shared, environment is safeguarded, and social equity prevails. By aligning diverse efforts toward these common objectives, the SDGs provide a roadmap to tackle systemic challenges and build a sustainable future for current and future generations.

1.1. Goal 1: End poverty in all its forms everywhere



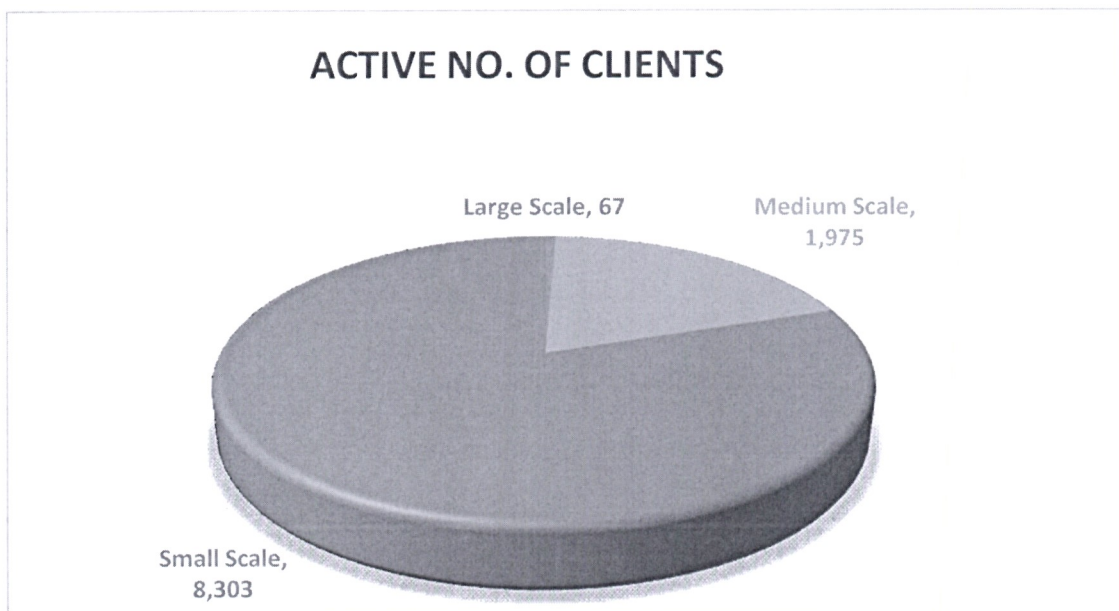
What it means to AFC: AFC's dedication lies in comprehending the needs, aspirations, and behaviours of the financially excluded, including their households and communities. To empower them, the Corporation provides specialized training for farmers enabling them to enhance productivity and effectively utilize financial services and market linkages for their growth and development.

Financial inclusion stands as a crucial national priority and a catalyst for achieving the Corporation's growth. Empowering the rural population with knowledge on how they can benefit from the lending that has perpetuated poverty for generations, AFC plays a pivotal role in financial inclusion to assist the small-scale farmers and the marginalised communities. Additionally, the Corporation has actively invested in digital technology for the convenience of all its customers.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

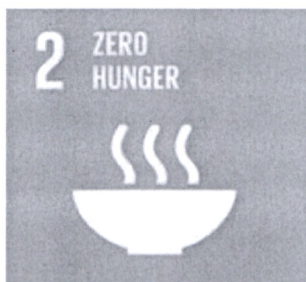
The need for more investments in small-scale -sustainable agriculture
Small-scale farmers are the most important investors of their own farms but they face a significant challenge in accessing the financial resources they need. In developing countries, these farmers require more financial support to enhance their production capabilities, establish small-scale processing industries and form collective sales organizations. Regrettably, their access to affordable credit remains highly limited. To address these challenges, the Corporation is in the process of developing new products that will play a critical role in empowering small-scale farmers and fostering sustainable agricultural practices.

Active Loans	No. of Clients	Proportion
		%
Large Scale	67	1%
Medium Scale	1,975	19%
Small Scale	8,303	80%
Total	10,345	100%



ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

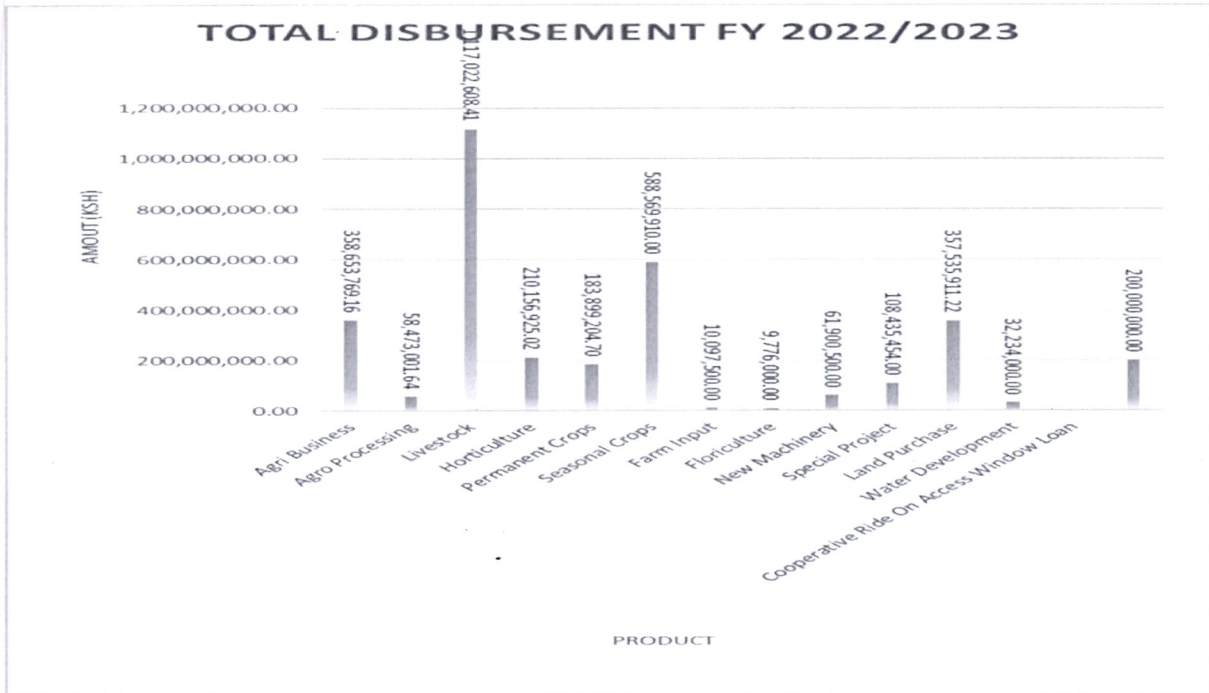
1.2 The Goal 2: End hunger, achieve food security improved nutrition and promote sustainable agriculture



What it means to AFC: AFC addresses the challenge of food security by making loans to value chain actors engaged in the production of food that ensures good health and nutrition. The products uptake in 2022/2023 FY is summarized below:

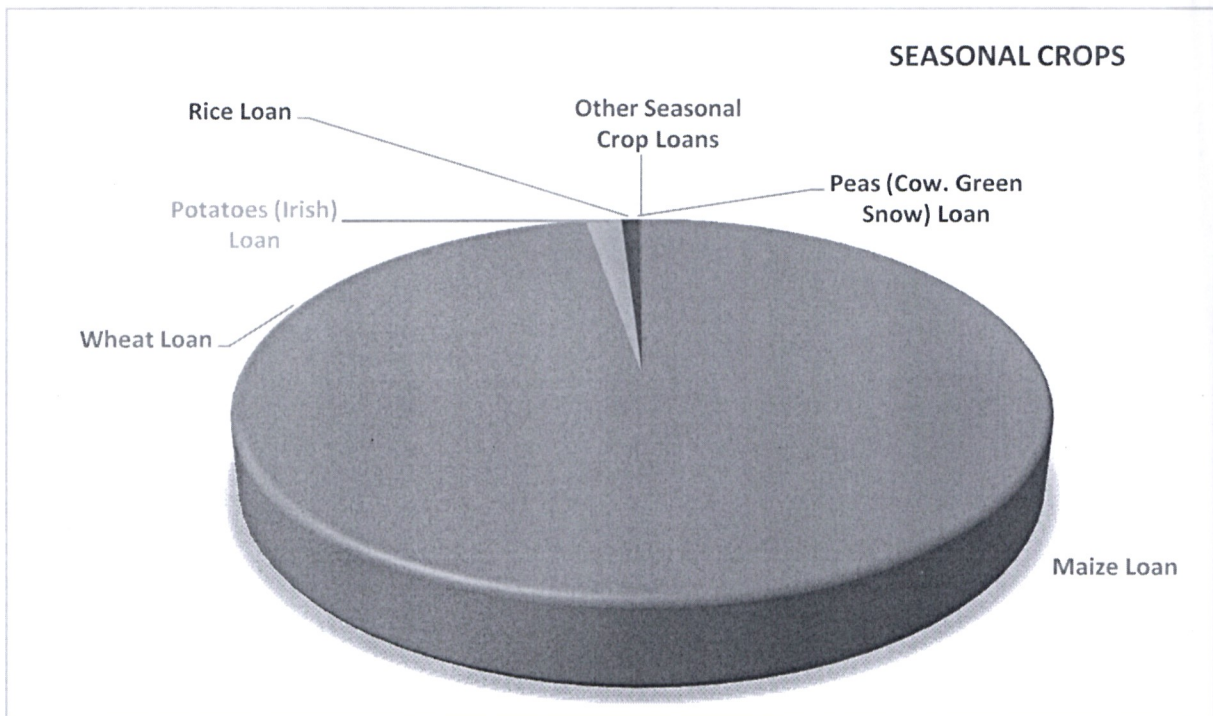
PRODUCT	AMOUNT (KES) '000
Agri Business	358,654
Agro Processing	58,473
Livestock	1,117,023
Horticulture	210,157
Permanent Crops	183,899
Seasonal Crops	588,570
Farm Input	10,098
Floriculture	9,776
New Machinery	61,901
Special Project	108,435
Land Purchase	357,536
Water Development	32,234
Cooperative Ride On AccessWindow Loan	200,000
Total	3,296,756

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)



Seasonal crops	Disbursed amount FY 22/23 (KES)'000
Maize Loan	385,791
Wheat Loan	187,164
Potatoes (Irish) Loan	9,784
Rice Loan	3,996
Peas (Cow. Green Snow) Loan	999
Other Seasonal Crop Loans	838
Total	588,572

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)



Regional Manager, North Rift, Lilian Kimulany at an AFC beneficiary farm

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Gender Equality

1.3 The Goal: Achieve gender equality and empower all women and girls



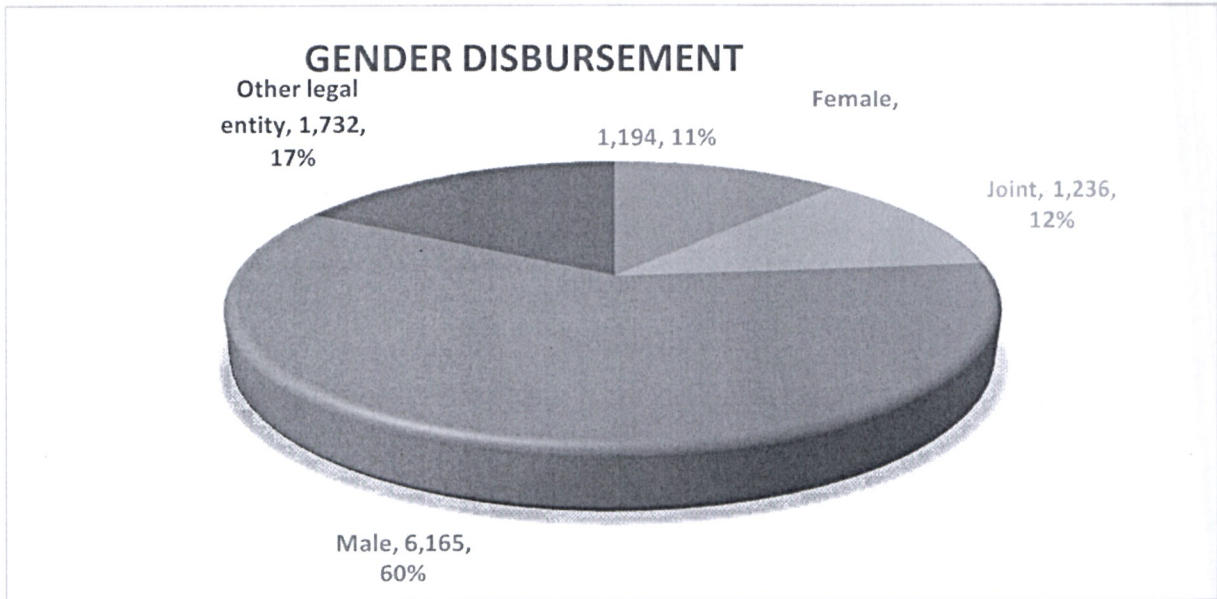
What it means to AFC: The Corporation firmly believes in the principle that all individuals are equal and its collective responsibility is to ensure that this equality is upheld in both society and the workforce.

That's why it actively advocates for equal opportunities for everyone. AFC's commitment to promoting diversity and inclusion includes monitoring and encouraging women's representation in various roles. The Corporation currently has 29% of its senior management being women, while its workforce distribution is at 54.34% male and 45.66% female, respectively.

From the financing perspective, more men applied for loans compared to women due to the fact that more men have title deeds compared to women. From the analysis, majority of the portfolio i.e. 76.42% by number and 59.7% by amount was held by the male gender while 12.89% by number and 11.57% by amount was held by the female gender.

By Gender	No. of Clients	Amount
		(KES. "M")
Female	1,333	1,194
Joint	977	1,236
Male	7,906	6,165
Other legal entity	129	1,732
Total	10,345	10,327

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)



1.4 Decent work and economic growth



The Goal: Promote sustained, inclusive and sustainable economic growth, productive employment and decent work for all

What it means to AFC: AFC is committed to ensuring the wellbeing of all employees. During the fiscal year spanning from 2022 to 2023, the

Corporation maintained a workforce comprising 484 dedicated staff members. In addition, the Corporation also took proactive steps to foster skills transfer by enlisting the services of 136 young individuals as interns, attachees and apprentices. This strategic initiative constituted 5% of the entire staff cohort, reflecting the Corporation's commitment to knowledge dissemination and the empowerment of youth.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

1.5 The Goal: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation



What it means to AFC: Innovation has brought solutions that meet farmer's requirements and provide a market for their products.

AFC was recognized as the best government institution in utilizing ICT in service delivery for its efforts in innovation and digital transformation. The Corporation won the Connected Innovation Award, The dx100 Public Sector Award and The Gold Mark Award during the Connected Summit 2023. The event sought to reward & recognize institutions that have implemented solutions derived from innovation to drive business.



AFC's Daniel Olilo and Savio Sunkuli receive the award certificate from the organizers.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

1.6 The Goal: To "Strengthen the means of implementation and revitalize the global partnership for sustainable development"

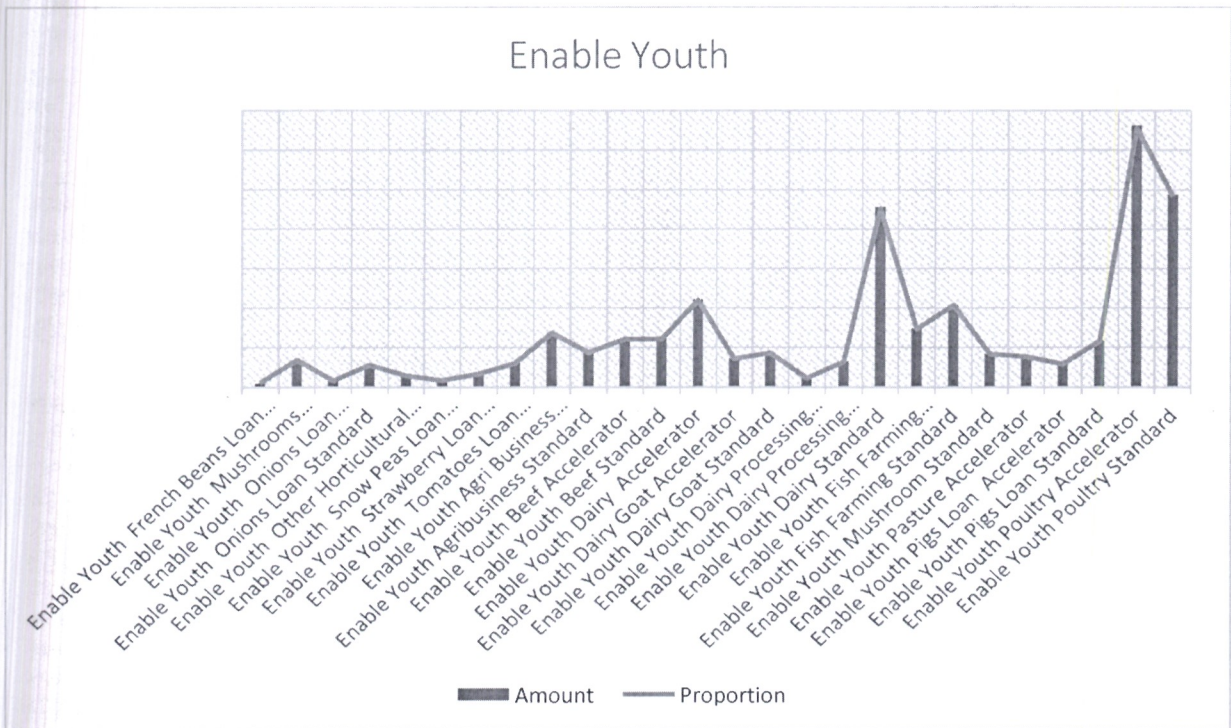


What it means to AFC: The Corporation recognizes the significance of sustainable and meaningful partnerships in achieving the targets set within the SDGs. Consequently, it actively seeks and promote collaborations that can facilitate the advancement of sustainable agriculture and food production at local, regional and national levels in the areas where it operates.

The Corporation has partnered with Africa Development Bank Group (AfDB) and the Government of Kenya to implement the ENABLE Youth Kenya program. The objective of the program is to create business opportunities and decent employment for the youth as well as prioritize value chains in Kenya through the provision of entrepreneurship skills, funding and business linkages.

The program is expected to train and empower 2,080 Agricultural Entrepreneurs (Agripreneurs), out of which 1,200 agri-businesses are expected to be generated.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)



Transformational Business Models

In its endeavor to transform into a premier agro-financier, the Corporation has developed transformational business models that it seeks to implement and grow its business whilst supporting the government’s transformation agenda. These models have been supported by other partners among them, AGRA and FSD who have expressed their commitment with AFC to develop financial solutions that address the challenges of assisting farmers through the following models.

1. Wholesale Financing Model

This model aims to catalyze financing into the agricultural sector through deployment of funding to financial institutions (FIs), asset financing companies and anchor clients that can increase lending to segments not traditionally

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

catered to by FIs. These segments would include women, youth, other marginalized groups and agripreneurs. To reach these segments, AFC will primarily focus on SACCOs, MFBS and MFIs & fin-techs that have greater reach in rural areas and among the target market.

2. Warehouse Receipt (WR) Financing Model

Under the WRS, owners of commodities deposit produce in certified warehouses and are issued a title document called a Warehouse Receipt (WR) as proof of ownership. By implementing the WRS, AFC will be a key implementer of GoK's policy on ensuring food security for all.

3. Agricultural Credit Guarantee Scheme Financing Model

Through the ACGS, AFC will deal directly with the problem of low agricultural lending by providing a mechanism for risk transfer/de-risking and diversification by covering part of the default risk hence lowering the lenders' risks and increasing their appetite for agricultural lending. This will serve to support the agricultural sector production which ultimately address the national food security goals.

4. Direct Mechanisation Financing Model

AFC will provide financing for large scale agricultural machinery (such as tractors, water pumps and other farm or processing equipment) to small holder farmers and agri-businesses through a finance lease.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Corporate Social Responsibility



Corporate Social Responsibility (CSR) is of paramount importance as it reflects a business's commitment to ethical practices and sustainable development acknowledging its broader impact beyond financial profits. By engaging in CSR initiatives, organizations contribute positively to society and the environment, fostering trust and goodwill among stakeholders. This commitment enhances brand reputation, attracts socially-conscious customers and investors, and helps mitigate potential risks associated with environmental, social, and governance issues. Ultimately, CSR aligns business goals with societal well-being, driving long-term growth while creating a more equitable and sustainable future for all.

The Corporation's CSR activities are broadly aimed at building and nurturing relationships with its employees, customers and the general public.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

The Corporation's CSR activities are also designed to meet the ethos of the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, which provides a shared blueprint for peace and prosperity for people and the planet, now and into the future.

In this regard, AFC supports programs that promote cultural and economic development of local communities. Such projects are expected to achieve positive, long-term, social, economic and environmental impact. Towards this end, the Corporation has identified 4 key pillars to guide its CSR activities, namely Environment, Education, Water and sanitation, and Health.

In the FY 2022/2023, the Corporation focused on the Environmental pillar. This was in support of the Government's initiative to combat climate change by planting 15 billion trees by 2032, aiming to reduce greenhouse gas emissions, halt deforestation, and restore 5.1 million hectares of degraded landscapes through the African Landscape Restoration Initiative.

AFC planted 14,600 tree seedlings across country through its Regional Offices with the primary objective of combating deforestation, restoring ecosystems and mitigating the adverse impacts of climate change.

In Eastern Region, the Corporation planted over 2,000 tree seedlings of six different species in Enkaji Naibor Primary & Junior Secondary School in Loitokitok Sub-County, Kajiado County. The objective of the tree planting exercise was to increase forest cover and mitigate the effects of climate change. The school dedicated 4 acres of

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

land for the tree planting exercise and provided water access for irrigation from a permanent community borehole and a 15,000-liter concrete storage water tank.

Enkaji Naibor is a Government primary and Junior Secondary school situated in Mbirikani group ranch, Kajiado South, on a 40-acre plot. Established in 1993, the school has flourished and currently serves over 900 pupils.

In Mt. Kenya Region, AFC together with the Kenya Forest team, planted 2,000 indigenous trees on two hectares of Gathiuru Forest station farm. Gathiuru Forest is part of the larger Mount Kenya Ecosystem and is one of 18 forest stations.

AFC Coast Region team planted over 2,000 trees at the National Youth Service (NYS) Bura Tana station.

In Nyanza/Western Region, the Corporation planted 2500 tree seedlings at Sigegi Forest in Migori County. During the tree planting exercise, AFC team were joined by Officers from Kenya Forest Service, local Administration, Green Life tree nursery and local CBO.

The Corporation's North Rift Region team partnered with Ngeria farm correctional facility in Uasin Gishu County, Kesses Sub-County. Over 1000 indigenous tree species were planted which included Brown olive, East African wander, Podo and Cedar.

In Central Rift, the Corporation partnered with Michinda Primary School in Nakuru County to plant a total of 2,112 trees. This included both indigenous trees and other various tree species that were planted around the school buildings as well as on boundaries. The main planting was done along a stream in an area segregated for agroforestry.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

The Corporation also participated in the Standard Chartered Nairobi Marathon 2022. The Marathon aimed to raise funds for Standard Chartered's Future makers initiative, which focuses on empowering youth and women by providing education, employment, and entrepreneurship opportunities to benefit over 24,000 individuals. In addition to fundraising, the participants of the Marathon were also given tree seedlings to plant. This effort aimed to combat the harmful effects of climate change and preserve the ecosystem, and is in keeping with AFC's commitment to environmental sustainability.



AFC team, Teachers, Parents and Pupils from Enkaji Naibor Primary & Junior Secondary School undertaking the tree planting exercise

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)



AFC team and local community planting tree seedlings



Central Rift team and Pupils from Michinda Boys Boarding Primary School inaction

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)



Staff participate in the Standard Chartered Marathon event

11. REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended June 30, 2023, in accordance with the section 194 of the Public Finance Management (PFM) Act, 2012 which disclose the state of affairs of the Corporation.

i. Principal activities

The Corporation is primarily charged with the responsibility of providing credit facilities for the sole purpose of developing agriculture.

ii. Results

The results of the entity for the year ended June 30, 2023 are set out from page 1 to page 82.

iii. Dividends

As per the current dividend policy in place, the Corporation will only consider any dividends payout, after the government loans are fully repaid and the Corporations' liquidity is healthy. The Directors therefore do not propose to pay any dividends during the year under review. The retained earnings will be utilized to repay Government loans and the surplus will be reinvested in normal corporate business.

iv. Directors

The members of the Board of directors who served during the year are shown on page iii. All the directors were appointed in accordance with respective section of the constitution of Kenya.

REPORT OF THE DIRECTORS (Continued)

v. Auditors

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



Mr. Evans Mainga
Ag. Corporation Secretary

Nairobi

Date: 22/08/2023

12. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, - 446) and the Agricultural Finance Corporation Act Cap 323 require the Directors to prepare financial statements in respect of that Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year and the operating results of the Corporation for that year. The Directors are also required to ensure that the 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 year ended on June 30, 2023. 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 entity;
- (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 entity;
- (v) selecting and applying appropriate accounting policies; and
- (vi) making accounting estimates that are reasonable in the circumstances.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and Agricultural Finance Corporation Act Cap 323. 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 30, 2023, 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.

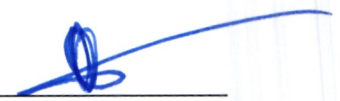
Nothing has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 22nd August, 2023 and signed on its behalf by:

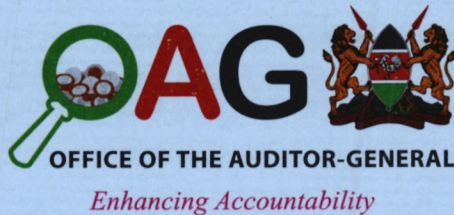


Chairman
John M Mruttu



Mr. George Kubai
Managing Director

REPUBLIC OF KENYA



Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Agricultural Finance Corporation set out on pages 1 to 77, which comprise of the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of

budget and actual amounts 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 35 of the Public Audit Act, 2015. 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Agricultural Finance Corporation as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Agricultural Finance Corporation Act, Cap 323 of the laws of Kenya and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.1,173,874,000 and as disclosed in Note 8(a) to the financial statements. As previously reported, the balance includes twenty-nine (29) developed plots measuring a total of 5.3324 hectares valued at Kshs.191,627,798 and four (4) undeveloped plots measuring a total of 0.8191 hectares with no ownership documents.

Further, the value of land excludes unvalued parcels of land located in Nanyuki and Kerugoya and includes the value of a parcel in Chogoria, which Management has explained was repossessed by the respective County Governments due to failure by the Corporation to develop the property within the stipulated time. Management has also explained that the Kerugoya plot has since been developed by the Judiciary and similarly, the Chogoria plot has been developed by Meru South Co-operative Union, with a building named Mwalimu Sacco Plaza. However, no evidence to support the repossession was provided. The balance also excludes land located in Kimilili and Busia whose ownership document was not provided. Although the Management has explained that it continues to pursue the ownership documents through the Ministry of Lands and the National Land Commission, the documents had not been obtained as at the time of audit.

In addition, included in the net book value of Kshs.34,523,000 for land is an amount of Kshs.523,382 that was utilized in the acquisition of five (5) parcels of land in Kimilili, Molo, Bungoma, Chogoria and Kisumu Municipality at a cost of Kshs.18,000, Kshs.4,010, Kshs.54,262, Kshs.438,820 and Kshs.8,290, respectively. The five (5) parcels of land have not been revalued contrary to the International Accounting Standard No.16 which requires sufficient regularity in revaluation of property, plant and equipment to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period. In addition, the ownership documents for two (2) of the parcels of land have not been secured.

Moreover, the statement of financial position reflects net book value for property and equipment and intangible assets of Kshs.1,173,874,000 and Kshs.58,747,000 respectively as disclosed in Note 8(a) and 8 (b) to the financial statements. However,

assets with a total historical cost of Kshs.992,674,000 were fully depreciated and had not been revalued yet they were still in use.

In the circumstances, the accuracy, completeness and ownership of property plant and equipment net book value of Kshs.1,173,874,000 and intangible assets balance of Kshs.58,747,000 could not be confirmed.

2. Medium Term Loans Issued on Doubtful Title Deeds

The statement of financial position reflects net medium-term loans to customers balance of Kshs.9,193,566,000 and as disclosed in Note 9 (a) to the financial statements. As previously reported, includes an amount of Kshs.22,661,000 being principal loan advanced plus interest and other loan fees to thirteen (13) farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds that were fraudulent. The Corporation filed seven (7) cases in Court against the fraudsters and judgement was entered in favor of the Corporation. However, the Corporation had not executed the warrants issued as at 30 June, 2023 and details on the other cases have not been provided.

In the circumstances, the accuracy and recoverability of loans amounting to Kshs.22,661,000 issued on fraudulent titles could not be confirmed.

3. Long Outstanding Short-Term Loans to Customers

The statement of financial position reflects net short term loans to customers of Kshs.795,177,000 and as disclosed in Note 9(b) to the financial statements. Included in the balance is gross short-term loans to customers balance of Kshs.815,396,000. Review of the short-term loan portfolio schedule provided reflects arrears of loans amounting to Kshs.225,135,805 that have been outstanding for more than one year as their maturity period was 30 June, 2023 and earlier periods with some being outstanding for more than ten (10) years. No sufficient explanation was provided by Management on the steps taken to recover these amounts.

In the circumstances, the accuracy, completeness and recoverability of short-term loans to customers of Kshs.225,135,805 could not be confirmed.

4. Non-Performing Loans to Directors

The statement of financial position reflects net medium-term loans to customers balance of Kshs.9,193,566,000 which includes Kshs.58,193,000 under Directors' loans as disclosed in Note 9 (a) to the financial statements. The balance comprises of seven (7) loan accounts out of which five (5) of the loan accounts are in arrears amounting to Kshs.35,660,367 and which have been referred to the debt recovery unit. Records provided for audit revealed that the six (6) accounts have been graded as non-collectable even upon disposal of attached securities as per the existing credit policy. Although a provision of Kshs.4,832,000 has been made on directors' loans, this may be inadequate.

In the circumstances, the accuracy and recoverability of the Directors loans balance of Kshs.58,193,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agricultural Finance Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2023. Management has not provided reasons for the delay in resolving the prior year audit issues as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Non-Disposal of Repossessed Farm Properties

The statement of financial position reflects repossessed farm properties balance of Kshs.389,920,000 and as disclosed in Note 11 to the financial statements. Review of the supporting schedule of the properties revealed that the Corporation held one hundred and thirty-eight (138) properties of repossessed parcels' of land. These had been repossessed in various years with the earliest acquisition done in the year 1976 and the latest in the year 2023. However, contrary to the guidelines of the credit policy, the entity did not dispose of any of these properties during the year under review which affects the liquidity of the Corporation and which is a compromise of its money lending objective.

In the circumstances, the financial capital held in these properties affects the liquidity of the Corporation and is a compromise on its credit policy and money lending objective.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance

about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Board of Directors

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 the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Corporation or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation

to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

05 January, 2024

14. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2023

	Notes	2023 KES'000	2022 KES'000
Revenues			
Interest Income:			
Interest on Loans	2 (a)	858,497	849,304
Interest on Short Term Deposits	2 (b)	57,725	50,918
Total interest income		916,222	900,222
Less: Interest expenses			
Interest on Redeemable Loans	3 (a)	14,602	14,713
Interest on RSF	3 (b)	9,430	9,456
Interest on INK Fund	3 (c)	4,190	1,243
Rebate Interest	4	3,583	3,176
Total Interest expenses		31,805	28,588
Net interest income		884,417	871,633
Non-Interest income			
Other Operating Income	5 (a)	414,893	169,875
Fee Income	5 (b)	175,628	195,056
Income from doubtful debts	6	47,305	53,377
Total Non-Interest income		637,826	418,308
Total Revenues		1,522,243	1,289,941
Operating Expenses			
Staff Cost	7 (a)	(799,561)	(796,911)
Board Expenses	7 (b)	(23,834)	(13,527)
Administration Costs	7 (c)	(339,135)	(323,840)
Depreciation & Amortization	8 (a & b)	(109,298)	(105,588)
Charge for Doubtful Debts	12 (a)	(152,043)	(2,449)
Total Expenses		(1,423,871)	(1,242,315)
Profit before tax		98,372	47,626
Tax for the Year	23 (a)	(24,219)	(20,919)
Profit after tax		74,153	26,707

15. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2023			
	Notes	2023	2022
ASSETS:		KES.'000	KES.'000
Non-Current Assets			
Property and Equipment	8 (a)	1,173,874	1,214,094
Intangible Assets	8 (b)	58,747	46,659
Deferred Tax Asset	10	20,185	21,404
Repossessed Farm Properties	11	389,920	377,839
Net Medium Term Loans to Customers	9 (a)	9,193,566	8,795,746
Total Non- Current Assets		10,836,291	10,455,741
Current Assets			
Cash and Bank Balances	13 (a)	350,526	85,204
Short Term Deposits	14	381,917	511,874
Net Short Term Loans to Customers	9 (b)	795,177	651,227
Trade and Other Receivables	15	168,863	114,500
Inventories	16	5,195	4,427
Total Current Assets		1,701,678	1,367,232
Total Assets		12,537,969	11,822,973
EQUITY AND LIABILITIES			
Equity and Reserves			
Grants	17	4,083,923	3,783,923
Government Equity Capital	18	2,687,766	2,687,766
General Reserve	19 (a)	1,921,152	1,906,193
Revaluation Reserve	19 (b)	787,618	787,618
Total Equity and Reserves		9,480,459	9,165,500
Non-Current Liabilities			
Redeemable Government Loans and Interest:			
Risk Sharing Fund	20 (a)	536,961	566,571
INK Fund	20 (b)	380,986	384,890
Enable Youth Fund	20 (c)	131,861	141,334
Agency Funds	20 (d)	320,173	-
	20 (d)	822,218	822,218
Total Non-Current Liabilities		2,192,199	1,915,013
Current Liabilities			
Payables	21 (a)	548,617	508,649
Trade and Other Payables	21 (b)	269,447	199,650
Current Tax Payable	21 (c)	34,156	20,919
Current Accounts	13 (b)	13,091	13,241
Total Current Liabilities		865,310	742,459
Total Equity and Liabilities		12,537,969	11,822,972

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2023 (Continued)

The financial statements set out on pages 1 to 82 were approved by the Board of Directors on 22nd August 2023 and were signed on its behalf by:



**Mr. George Kubai
Managing Director**

Dated 22/08/2023



**CPA Tom O Akeno
Chief Finance &
Investments Officer**

**ICPAK M/NO: 8116
Dated 22/08/2023**



**Eng. John M Mruttu
Chairman**

Dated 22/08/2023

16. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2023

Notes	Government Equity Capital	General Reserve	Revaluation Reserve	Grants	Totals
	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000
2021:					
At 1 st July 2020 - As previously stated					
ACDI/VOCA Grant	2,687,766	1,945,794	787,618	3,768,923	9,190,101
	-	-	-	15,000	15,000
AFC/LRD/AWW dated 12.01.2022	-	(57,554)	-	-	(57,554)
Prior year adjustment	-	(8,754)	-	-	(8,754)
Profit for the Year	-	26,707	-	-	26,707
Balance as at 30th June 2022	2,687,766	1,906,193	787,618	3,783,923	9,165,500
Balance as at 1 July 2022	2,687,766	1,906,193	787,618	3,783,923	9,165,500
Subsidy to Financial Institution	-	-	-	300,000	300,000
Prior year adjustment	-	(59,194)	-	-	(59,194)
Profit for the Year	-	74,153	-	-	74,153
Balance as at 30th June 2023	2,687,766	1,921,152	787,618	4,083,923	9,480,459

17. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2023

	NOTES	2023 KES.'000	2022 KES.'000
Cash flow from operating activities:			
Profit/(Loss) Before Taxation		98,372	47,626
Adjustments for:			
Interest on Short Term Deposits	2 (b)	(57,725)	(50,918)
Depreciation of Property & Equipment	8 (a)	89,837	86,936
Amortization of Intangible Assets	8 (b)	19,461	18,652
Profit/loss on Disposal of Assets	22 (b)	(3,144)	(2,286)
Interest expense	3 (a & b)	24,032	24,169
Increase in Inventories	16	(768)	106
Corporate Tax paid	21 (c)	(10,982)	(90,745)
Increase in Deferred Tax Asset		1,219	(8,502)
Increase in Trade and Other Receivables	15	(54,363)	(26,431)
Decrease in Trade and Other Payables	21 (a & b)	112,983	77,139
Net cash flows generated from operating activities		218,922	75,746
Cash flow from Investing activities:			
Purchase of Property & Equipment	8 (a)	(82,269)	(192,635)
Purchase of Intangible Assets	8 (b)	(31,548)	(10,913)
Interest on Short Term Deposits	2 (b)	57,725	50,918
Proceeds from disposal of Property & Equipment	22 (c)	1,563	2,223
Enable Youth Fund Management Fees		13,131	-
Increase in Repossessed Farm Properties	11	(12,081)	(12,590)
Assets reclassified		-	-
Decrease in Short Term Loans to Customers	9 (b)	(143,950)	261,458
Proceeds from disposal of Repossessed Farm Properties		12,446	-
Decrease/Increase in Loans to Customers	9 (a)	(404,051)	(401,267)
Net cash flow used in investing activities		(589,033)	(302,806)
Cash flow from Financing activities:			
INK Fund Loan repayment	19	(13,935)	-
Repayment of GOK Loan		(44,323)	-
ACDI/VOCA Grant	19	-	15,000
AFC/LRD/AWW dated 12.01.2022	19	-	(57,554)
INK Fund Loan - Additional Principal	20	6,125	-
Prior year adjustment	19	(59,194)	(8,754)
INK Fund Loan	20 (d)	-	141,334
Subsidy to Financial Institution	19	300,000	-
Agra Revenue grant		-	6,064
Financial Sector Deepening		-	10,000
Enable Youth Fund	20	320,173	-
Net cash flow used in financing activities		508,846	106,090

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2023
(Continued)

	NOTES	2023 KES.'000	2022 KES.'000
Net increase in cash and cash equivalent		135,517	(120,970)
Cash and cash equivalent at the beginning of the year		583,836	704,805
Cash and cash equivalent at the end of the period	13 & 14	719,353	583,836

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 subject to readily convertible to known amounts of cash and are insignificant risk of changes in value.

18. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2023

	Original budget	2022-2023 KES.'000	Adjustments 2022-2023 KES.'000	Final budget 2022-2023 KES.'000	Actual on comparable basis 2022-2023 KES.'000	Performance difference 2022-2023 KES.'000	% of utilization 2022-2023 %
Revenue							
Interest Income:							
Interest on Loans	1,227,000	-	-	1,227,000	858,497	(368,503)	70%
Interest on Short Term Deposits	54,000	-	-	54,000	57,725	3,725	107%
Total interest income	1,281,000	-	-	1,281,000	916,222	(364,778)	72%
Non-Interest income							
Fee/Other Operating Income	381,351	-	-	381,351	590,521	209,169	155%
Income from doubtful debts	100,000	-	-	100,000	47,305	(52,695)	47%
Total Non-Interest income	481,351	-	-	481,351	637,826	156,474	133%
Total Revenues	1,762,351	-	-	1,762,351	1,554,048	(208,303)	88%
Expenses							
Staff Cost	908,372	-	-	908,372	799,561	108,811	88%
Board Expenses	30,000	-	-	30,000	23,834	6,166	79%
Administration Costs	436,325	-	-	436,325	339,135	97,189	78%
Depreciation & Amortization	105,000	-	-	105,000	109,298	(4,298)	104%
Charge for Doubtful Debts	84,100	-	-	84,100	152,043	(67,943)	181%
Interest on Redeemable Loans	28,000	-	-	28,000	28,223	(223)	101%
Rebate Interest	3,500	-	-	3,500	3,583	(83)	102%
Total expenditure	1,595,297	-	-	1,595,297	1,455,676	139,621	91%
Surplus for the period	167,054	-	-	167,054	98,372	(68,683)	59%

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED
30TH JUNE 2023 (Continued)**

In line with The Public Finance Management Act 2012, expenditures in excess of 10% of the approved budget were submitted to The National Treasury for review and approval. In this regard, upon the analysis of the financial performance of the Corporation for the period ended 31st December 2022, the management reviewed the approved budget for the financial year 2022/2023 to take into account adjustments in funding, revenue and operational expenditures. Pursuant to this requirement, we submitted our reviewed budget items which were re-allocations from other votes. The budgetary reallocation in the Supplementary budget had no overall effect on the approved budget amount for the financial year 2022/23.

During the period under review, loans worth KES 4.14 billion were collected compared to KES 4.44 billion in the previous period representing a reduction of 7%. Interest earnings from investments in term deposits increased from 50.9 million to 57.7 million.

19. NOTES TO FINANCIAL STATEMENTS

I. GENERAL INFORMATION

AFC is established by and derives its authority and accountability from Agricultural Finance Corporation Act Cap 323. The Corporation is wholly owned by the Government of Kenya and is domiciled in Kenya. The Corporation's principal activity is providing credit facilities for sole purpose of developing agriculture.

II. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant 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 Corporation's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed.

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

The financial statements have been prepared in accordance with the PFM Act 2012, the State Corporations Act Cap 446, Agricultural Finance Corporation Act Cap 323, International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to entities reporting under IFRS.

NOTES TO FINANCIAL STATEMENT (Continued)

III. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

a. Relevant new standards and amendments to published standards effective for the year ended 30th June 2023

The Corporation has applied the following standards and amendments for the first time for their annual reporting period commencing 1st January 2023. These standards and amendments did not have a material impact on the financial statements.

Title	Key requirements	Effective Date
Amendments to IFRS 9 (Phase 2).	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.	Annual periods beginning on or after 1 January 2021
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.	Annual periods beginning on or after 1 January 2022

NOTES TO FINANCIAL STATEMENT (Continued)

Title	Key requirements	Effective Date
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).	Annual periods beginning on or after 1 January 2022

NOTES TO FINANCIAL STATEMENT (Continued)

Summary of Significant Accounting Policies (Continued)

b. Changes in accounting policies and disclosures (Continued)

New standards, amendments and interpretations issued not yet effective

Recognition of income and expenses

i. Interest income and expenses

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the Corporation estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

NOTES TO FINANCIAL STATEMENT (Continued)

ii. Dividend income

Dividend income is recognised when the Corporation's right to receive payment is established.

iii. Risk premium

Risk premium fees are charged on unsecured loans issued to customers and members of staff and is meant to mitigate against risk of default arising from permanent death or disability. The net fees, minus any claims or other costs incurred, are recognised upfront as a liability and are amortized into the profit or loss over the tenure of the loan.

iv. Fees and commission income and expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period. A contract with a customer that results in a recognised financial instrument in the Corporation's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

v. Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

NOTES TO FINANCIAL STATEMENT (Continued)

vi. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

vii. Income Tax

a) Current income Tax

Current income tax expense comprises current income tax and change in deferred income tax. Income tax expense is recognized in profit or loss except to the extent that it related to items recognized directly in equity or other comprehensive income. Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of tax payable or recoverable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

b) Deferred Income Tax

Deferred income tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination, and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or

NOTES TO FINANCIAL STATEMENT (Continued)

substantively enacted by the reporting date. A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, the Corporation considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Corporation to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

c) Financial assets and liabilities

(i) Recognition and measurement

Financial assets and financial liabilities are recognised in the Corporation's statement of financial position when the Corporation becomes a party to the contractual provisions of the instrument. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

NOTES TO FINANCIAL STATEMENT (Continued)

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e., day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

d) Early adoption of standards

The entity did not early – adopt any new or amended standards in financial year 2022/23.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

NOTES TO FINANCIAL STATEMENT (Continued)

a) 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.

- 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.

b) 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.

NOTES TO FINANCIAL STATEMENT (Continued)

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

c) 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 over their estimated useful lives and pro-rated after deducting a scrap value of KES 20. The rates used are set out in the Corporation's accounting policy for Non-Current assets as follows:

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 & Fittings	12.5%	Buildings	2%

NOTES TO FINANCIAL STATEMENT (Continued)

Office equipment 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Excess depreciation, representing the additional depreciation based on revalued amounts over depreciation based on historical costs, is transferred annually from revaluation surplus on property to retained earnings, net of deferred tax.

d) Intangible Assets

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

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

NOTES TO FINANCIAL STATEMENT (Continued)

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortized over their estimated useful lives which is three.

e) **Amortization and Impairment of Intangible Assets**

Amortization is calculated on the straight-line basis over the estimated useful life of computer software for three years at the rate of 33.3%.

All computer softwares are 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.

f) **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 charged to the Income statement and written off after all recovery efforts have been exhausted.

g) **Taxation**

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Corporation operates and generates taxable income.

NOTES TO FINANCIAL STATEMENT (Continued)

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are

NOTES TO FINANCIAL STATEMENT (Continued)

re- assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

h) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

i) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

NOTES TO FINANCIAL STATEMENT (Continued)

j) Budget information

In accordance with the requirements of State Corporation Act, Section 11 & 12 Cap. 446, legal notice no. 93 part (3), Section 4 of State Corporation Act Regulation 2004 on Performance Contracting and Section 218 of PFM Act Regulation 2015, the Corporation received its approved annual Budget vide the National Treasury circular Ref: DGIPE/A/1/10 dated 24th June 2022. Subsequent revisions were made to the approved budget in accordance with specific approvals from the appropriate authorities.

The revisions were incorporated in the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Corporation did not recorded any additional appropriations of the 2022-2023 budget.

The Corporation's budget is prepared on a difference basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section VI of these financial statements.

NOTES TO FINANCIAL STATEMENT (Continued)

k) Comparative figures

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

l) 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 guaranteed 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. A defined contribution plan, is a plan under which the Corporation pays fixed contribution in to a separate scheme and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all the employees the benefit relating to employees in service in the current or prior periods. The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). As at the date of the report the defined benefits retirement scheme had a deficit of KES 66.8 million, which the Corporation proposed to be making a quarterly payment of KES 5.6 million.

The Corporation intends to carry out an actuarial valuation of the Scheme to establish the current status after the audit of the Scheme's financial year 2022/23.

m) Provision for Doubtful Debts

The Corporation had finalized the preparations for full implementation of the International Financial Reporting Standard (IFRS) 9, which became effective January 1, 2018. This accounting standard is premised on expected losses and requires entities to increase provisioning for sectors or areas that are deemed to be of higher risk.

NOTES TO FINANCIAL STATEMENT (Continued)

IFRS 9 "Financial Instruments" replaced IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after January 1, 2018.

As at 30th June 2023 , the total loan portfolio stood at KES 10.3 billion comprising of short term loans of KES 0.81 billion, medium term loans of KES 9.5 billion, director's loans of KES 0.055 billion and staff loans of KES 0.6 billion. Total accumulated provisions for loans reduced to KES 334.6 million. The status of the accumulated provisions and portfolio classification are as summarized in the tables below.

NOTES TO FINANCIAL STATEMENT (Continued)

The tables below reconciles the closing impairment allowances for financial assets accordance with IFRS 9.

Impairment Allowance

Asset	Value	(ECL) Accumulated Provisions Balance b/f	Recoveries NPLs	Interest Concession	Charge/Write Back	Total Ecl. IFRS 9
Loan Advances/ Portfolio	10,323,338	445,081		(3,073)	(107,424)	334,584

Summary note on accumulated provisions for the year as at 30th June 2023 as disclosed under note 9

Classification	Portfolio Value	B/F	Concession	Charge, Write back/ collection	Current balance
Short Term	815,396	45,830	630	20,219	24,982
Medium Term	8,773,401	382,855	2,443	304,182	76,232
Directors	58,193	5,954	-	4,832	1,122
Staff	604,396	10,440	-	5,311	5,129
Enable Youth	71,954	-	-	40	(40)
Other Debts					
Total	10,323,339	445,079	3,073	334,584	107,424

NOTES TO FINANCIAL STATEMENT (Continued)

n) 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 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 deposits and branch imprests floats at the end of the financial year.

o) Trade and Other Payables

Trade and other payables are non-interest bearing and are carried at amortized 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.

p) Provision for Staff Leave Pay

All employees' entitlements to annual leave days which are recognised as they accrue to the employees. At the end of the financial year, a provision is made for the estimated liability for annual leave not utilized at the reporting date.

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.

NOTES TO FINANCIAL STATEMENT (Continued)

r) Net Loans to Customers

Loans and advances to customers and staff are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and which the Corporation does not intend to sell immediately or in the near term. Loans and advances to customers are recognised when cash is advanced to borrowers and are net off the provision of bad and doubtful debts.

s) Legal and other claims

Provisions for legal claims are recognised when the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

t) Derecognition

The Corporation derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or substantially all the risks and rewards of ownership incidental to the financial asset are transferred. A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished.

u) 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, 2023.

NOTES TO FINANCIAL STATEMENT (Continued)

v) Related Parties Disclosures

Government of Kenya

The Government of Kenya is the principal shareholder of the entity, holding 100% of the entity's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. There were no other entity transactions involving the Government of Kenya.

Employees

The entity provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Corporation. Business transactions with all parties, including the Directors or their related parties are carried out at arms' length. In the financial year 2022/23 the Directors submitted their annual declarations of interests which included:

An acknowledgement that should it come to the attention of a Director that a matter concerning the Corporation may result in a conflict of interest, they are obliged to declare the same and will exclude themselves from any discussion or decision over the matter in question.

An acknowledgement that should the Director be appointed to the Board of an entity, including a Government entity that may expose the Director to potential or actual conflict of interest, the Director will be obliged to declare such appointment, undergo an assessment to determine the extent of such conflict and, where applicable, offer their resignation as a Director where the conflict cannot be mitigated by the existing Board policies for the management of conflicts of interest.

NOTES TO FINANCIAL STATEMENT (Continued)

An acknowledgement that the foregoing also applies to interests of the immediate family members of the Directors.

i) Nature of related party relationships

Companies and other parties related to the Corporation include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Key management remuneration	2023	2022
	KES'000	KES'000
Directors	23,834	13,527
Key management compensation	80,077	57,981

w) Contingent Liability

The Corporation does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. The Corporation didn't have any contingent liability for the period under review.

V. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared.

NOTES TO FINANCIAL STATEMENT (Continued)

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of asset, its susceptibility, adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset

Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Corporation's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Corporation reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the

NOTES TO FINANCIAL STATEMENT (Continued)

Operation department is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Corporation also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various sectors. Assets with similar risk characteristics are grouped together for the purpose of determining the collective impairment within the Corporation.

NOTES TO FINANCIAL STATEMENT (Continued)

	2023	2022
	KES.'000	KES.'000
2 (a). Interest on Loans		
Interest on Medium Term Loans	763,185	747,223
Interest on Short Term Loans	64,574	54,534
Interest on Staff Loans	30,739	47,547
Balance as at 30th June	858,497	849,304

2 (b). Interest on Short Term Deposits

Details are as follows:-

	2023	2022
	KES.'000	KES.'000
Short Term Deposits	57,167	50,421
Bank Accounts	558	497
Balance as at 30th June	57,725	50,918

3 (a). Interest on Redeemable Loans

The interest charge on redeemable loans outstanding as at 30th June 2023 were as follows:

	2023	2022
	KES.'000	KES.'000
GOK Restructured Red. Loan	14,602	14,713
Balance as at 30th June	14,602	14,713

3 (b). Interest on RSF

Risk Sharing Fund	9,430	9,456
Balance as at 30th June	9,430	9,456

3 (b). Interest on INK Fund

INK Fund	4,190	1,243
Balance as at 30th June	4,190	1,243

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 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 of loan receipt.

NOTES TO FINANCIAL STATEMENT (Continued)

4. Rebates

Interest	2023 KES.'000	2022 KES.'000
Rebates Interest	3,583	3,176
Balance as at 30th June	3,583	3,176

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.

5 (a). Other operating Income

Non Interest Income	2023 KES.'000	2022 KES.'000
Rent income - Note 22 (a).	128,144	115,056
Profit on disposal of assets- Note 22 (b).	3,144	2,286
Agency commission	18,076	4,356
Sundries	6,062	21,241
Write back of provisions	259,467	26,935
Balance as at 30th June	414,893	169,875

5 (b). Fees Income

	2023 KES.'000	2022 KES.'000
Application & Forms fees	27,847	26,089
Conveyance	62,747	75,064
Loan Commitments Fees	45,979	55,240
Inspection fees	103	125
Other Loan Processing fees	4,893	5,239
Discharge of Securities Fees	4,555	4,934
Loan Waiver Processing Fees	466	546
Account Maintenance Fee Income	29,038	27,820
Balance as at 30th June	175,628	195,056

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

6. Income from doubtful debts

All loans considered to be non-performing are provided and classified as doubtful debts as the likelihood of full repayment is remote. However, any subsequent recoveries are recognized as income.

	2023 KES.'000	2022 KES.'000
Income from Muri Farm	47,305	53,377
Balance as at 30th June	47,305	53,377

NOTES TO FINANCIAL STATEMENT (Continued)

7. (a) Staff Costs	Actual 2023 KES.'000	Actual 2022 KES.'000
Salaries	450,096	465,568
Overtime	3,659	3,566
House allowance	106,025	111,364
Transport allowance	50,963	55,051
Hardship allowance	8,741	9,223
Acting/Duty & Aggregation allowance	3,423	2,303
Leave allowance	3,902	3,912
Other emoluments	1,200	1,200
Staff appointments & transfers allowances	1,980	5,781
Medical & staff Insurance expenses	84,055	66,562
Staff Insurance expenses	5,942	3,255
Pension contributions	36,929	38,722
Pension deficit contributions	15,900	-
NSSF employers contribution	3,315	1,251
Gratuities	23,429	19,726
Leave Days Accrual	-	9,426
Total	799,561	796,911

7. (b) Board Members' Expenses	Actual 2023 KES.'000	Actual 2022 KES.'000
Chairman's Standing Fees	595	805
Sitting Allowance	8,620	4,340
Travelling Allowance	1,499	813
Night Out & Meal Allowance	7,509	3,120
Sundry Board Expenses	340	-
Training Expenses	4,823	3,859
Medical	448	589
Total	23,834	13,527

NOTES TO FINANCIAL STATEMENT (Continued)

7. (c) General & Administrative Expenses:	Actual 2023 KES.'000	Actual 2022 KES.'000
Bank charges	4,684	4,170
Corporate Comm & advertisement	5,195	16,669
Publicity/Shows & Field days	3,344	793
ISO Certification	1,196	2,038
Corporate social responsibility/Donations	2,809	6,499
General office expenses	17,043	14,976
Insurance of Corporation assets	1,718	1,754
Insurance of Motor Vehicles	6,369	10,160
Land rent & rates	982	1,140
Legal fees	778	916
Maintenance of buildings	2,940	2,239
Maintenance of furniture & equipment	12,071	13,518
Office rentals	22,429	21,946
Printing & stationery	7,399	7,368
Professional consultants	13,929	6,446
Subscriptions to professional bodies	2,510	2,577
Research & development	161	1,318
Security	29,071	24,735
Software licences Taxes & licences	46,357	45,062
Telephone, internet & postage	35,190	33,881
General hotel & travel	23,142	23,609
Entertainment Expense	-	1,985
Training	32,201	37,320
Vehicle fuel & oil	20,440	15,724
Vehicle maintenance	14,044	10,217
Water, electricity & gas	10,327	7,689
Transformation expenses	8,473	2,806
Auditors Fees	7,661	1,531
Welfare & Uniforms	6,426	4,440
Fringe Benefit Tax	246	315
Total	339,135	323,840
Total	1,162,530	1,134,278
	30.6.23	30.6.22
Average number of employees at the end of the year was:		
Permanent Employees - Management	256	268
Permanent employees – Unionisable	228	244
Total	484	512

NOTES TO FINANCIAL STATEMENT (Continued)

8. (a) Property and Equipment		Freehold Land	Buildings & Civil Works	Motor Vehicles	Office Equipment Furniture & Fittings	Computer Hardware	Fixed assets transfer account	Totals
	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000
As at 30 June 2022	34,523	1,111,821	344,346	485,613	99,404	32,576	2,108,283	
Additions	-	10,891	-	70,198	1,180	38,658	120,927	
Transfers	-	-	-	-	-	(71,234)	(71,234)	
Disposal	-	-	(9,702)	-	(125)	-	(9,827)	
As at 30 June 2023	34,523	1,122,712	334,644	555,811	100,459	-	2,148,149	
DEPRECIATION:								
Charge for previous years	-	251,246	299,202	266,608	77,133	-	894,189	
Charge for the year	-	22,297	14,344	47,004	6,191	-	89,837	
Disposal	-	-	(9,702)	-	(49)	-	(9,751)	
As at 30 June 2023	-	273,543	303,844	313,612	83,275	-	974,275	
NET BOOK VALUE								
As at 30 June 2023	34,523	849,169	30,799	242,198	17,183	-	1,173,874	
As at 30 June 2022	34,523	860,575	45,144	219,005	22,271	32,576	1,214,094	

NOTES TO FINANCIAL STATEMENT (Continued)

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

	COST	NORMAL ANNUAL DEPRECIATION CHARGE
	KES'000	KES'000
Motor Vehicles	313,844	287,536
Office Equipment	182,707	166,098
Computer Hardware	186,618	143,552
Software	269,119	179,413
Furniture and Fittings	40,385	33,655
Total as at 30th June	992,674	810,253

NOTES TO FINANCIAL STATEMENT (Continued)

8. (a) Property and Equipment		Freehold Land	Buildings & Civil Works	Motor Vehicles	Office Equipment Furniture & Fittings	Computer Hardware	Fixed assets transfer account	Totals
		KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000
COSTS:								
As at 30 June 2021		34,523	1,054,031	344,346	418,555	84,641	17,517	1,953,613
Additions		-	57,790	-	67,058	14,762	53,024	192,635
Transfers		-	-	-	-	-	(37,965)	(37,965)
As at 30 June 2022		34,523	1,111,821	344,346	485,613	99,404	32,576	2,108,283
DEPRECIATION:								
Charge for previous years		-	229,382	277,078	225,923	74,870	-	807,254
Charge for the year		-	21,864	22,124	40,685	2,263	-	86,936
As at 30 June 2022		-	251,246	299,202	266,608	77,133	-	894,189
NET BOOK VALUE								
As at 30 June 2022		34,523	860,575	45,144	219,005	22,271	32,576	1,214,094
As at 30 June 2021		34,523	824,648	67,268	192,632	9,771	17,517	1,146,359

NOTES TO FINANCIAL STATEMENT (Continued)

8. (b) Intangible Assets

	2023	2022
	KES'000	KES'000
COSTS:		
As at 1 July	286,236	275,322
Additions	31,549	10,914
As at 30 June	317,785	286,236
AMORTISATION		
As at 1 July	239,577	220,925
Charge for the year	19,461	18,652
As at 30 June	259,038	239,577
NET BOOK VALUE	58,747	46,659

NOTES TO FINANCIAL STATEMENT (Continued)

	2023	2022
	KES.'000	KES.'000
Loans to Customers		
9. (a) Loans to Customer		
Medium Term Loans	8,845,354	8,531,064
Staff Loans	604,396	609,005
Directors Loans	58,193	54,927
Total Medium Loans to Customer	9,507,943	9,194,996
Less Accumulated Provision		
Medium term loans	304,233	382,856
Directors Loans	4,832	5,955
Staff Loans	5,311	10,439
Net loans to Customer	9,193,566	8,795,746
9. (b) Short Term Loans to Customers	815,396	697,058
Less Accumulated Provision		
Short term loans	20,219	45,831
Net Short Term Loans to Customers	795,177	651,227
Classified Under		
9. (a) Medium Term Loans	304,233	382,856
9. (a) Directors Loans	4,832	5,955
9. (a) Staff Loans	5,311	10,439
9. (b) Short Term Loans	20,219	45,831
Total	334,585	445,082

Medium Term Loans: These are loans whose maturity period are between twelve months and four years.

Staff Loans: These are loans to current staff and ex-staff

Directors Loans: These are loans to current & past directors

Short Term Loans: 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.

	Notes	2023	2022
		KES.'000	KES.'000
10. Deferred Tax Asset:			
The net deferred tax asset is arrived at as follows:			
Balance b/f as at 1 st July		21,404	12,902
Timing difference for the FY		(1,219)	8,502
Balance as at 30th June		20,185	21,404

	2023	2022
	KES.'000	KES.'000
11. Repossessed Farm Properties:		
Acquisition value as at 1 st July	377,839	365,249
Additions - FPIP	22,868	15,000
Disposals - FPIP	(10,787)	(2,410)
Balance as at 30th June	389,920	377,839

NOTES TO FINANCIAL STATEMENT (Continued)

12 (a). Provisions for doubtful debts

The provision for bad and doubtful loans are done in line with the policy in note (M).
The charged amounts are classified as below.

Doubtful debts charges for the year:

	2023 KES.'000	2022 KES.'000
Loans to Customers:		
General provision	152,043	-
Total	152,043	-
Other Debts:		
Specific provisions	-	2,449
Total	-	2,449
Total charge for the year	152,043	2,449

12 (b). Accumulated provisions for doubtful debts

The accumulated provisions are analysed as below:

	2023 KES'000	2022 KES'000
General Provisions		
Balance as at 1 st July	434,642	463,211
Write back of provisions	-	(26,935)
Charge for the year	147,211	-
Interest Concession - Farm Loans	(3,069)	(3,947)
Movement in provisions Staff specific	-	2,314
Recoveries from NPL	(254,332)	-
Balance as at 30th June	324,452	434,642
Directors Loans		
General Provision		
Balance as at 1 st July	5,955	7,127
Write Back	(1,123)	-
Recoveries from NPL	-	(1,172)
Balance as at 30th June	4,832	5,955
Staff Loans:		
Specific Provisions		
Balance as at 1 st July	10,440	9,482
Write back	(5,128)	958
Balance as at 30th June	5,312	10,440
General Provisions		
Balance as at 1 st July	-	3,272
Movement in provisions during the year	-	(3,272)
Balance as at 30th June	-	-

Other debts:

Balance as at 1 st July	2,449	-
Charge for the year	-	2,449
Balance as at 30th June	2,449	2,449

Provisions Summary

General Provisions	337,044	447,531
Balance as at 30th June	337,044	447,531

	2023	2022
	KES.'000	KES.'000
13 (a). Cash and Bank Balances		
Current accounts	50,491	26,831
Branch Collection Accounts	10,071	13,163
Branch Imprest Accounts	5,596	15,848
Branch Loan Funds Accounts	35,625	29,361
Enable Youth Fund	248,742	-
Balance as at 30th June	350,526	85,204

13 (b). Cash and Bank Balances

Current accounts	(13,091)	(13,241)
Balance as at 30th June	(13,091)	(13,241)

	2023	2022
	KES.'000	KES.'000
14. Short Term Deposits		
Equity Bank	277,241	277,241
Family Bank	99,974	229,974
Interest receivable	4,702	4,659
Balance as at 30th June	381,917	511,874

The average effective interest rate on the short term deposits as at June 30, 2023 was 10.8% (2022 10%). These are committed funds held in short term deposits at various banks awaiting disbursements to farmers and whose maturity is between one to six months.

The make – up of bank balances and short term deposits is as follows:

Summarized analysis of the cash and cash equivalents

Financial institution	Account number	2023	2022
		KES.'000	KES.'000
a) Current account			
Kenya Commercial bank	Various	26,112	6,421
Co-operative Bank of Kenya	Various	74,215	11,225
National Bank of Kenya	Various	222,029	36,016
Balance as at 30th June		322,356	53,662
b) Fixed deposits account			
Equity Bank	Various	277,241	277,241
Family Bank	Various	99,974	229,974
Interest receivable	Various	4,702	4,659
Balance as at 30th June		381,917	511,874
d) Staff car loan/ mortgage			
National bank of Kenya	01001061023900	1,734	1,734
Balance as at 30th June		1,734	1,734
e) Others(specify)			
Cash in transit	Various	113	194
cash in hand	Various	16	34
M-Pesa Phone Float	Various	1,632	1,453
M-Pesa Cash Float	Various	1,668	1,847
MBanking accounts	Various	8,233	12,008
Vault Cash	Various	1,683	1,030
Balance as at 30th June		13,345	16,566
Grand total		719,352	583,836

	2023	2022
	KES.'000	KES.'000
15. Trade and other receivables		
Rent receivable- Other properties	48,830	88,646
Prepaid expenses	100,657	7,804
Utilities & Other deposits	3,915	3,859
Accounts receivable- Others	17,910	16,641
Balance as at 30th June	171,312	116,950
Specific Provision for Bad Debts	2,449	2,449
Balance as at 30th June	168,863	114,500
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	102,871	65,134
Between 30 and 60 days	9,803	5,723
Between 61 and 90 days	5,024	6,375
Between 91 and 120 days	7,760	18,427
Over 120 days	45,854	21,291
Total	171,312	116,949

16. Inventories

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

	2023	2022
	KES.'000	KES.'000
Stationery & Office Supplies	4,784	3,730
Kitchen, Detergents & Toiletries	142	156
Computer Stationery	269	540
Balance as at 30th June	5,195	4,427

	2023	2022
	KES'000	KES'000
17. GRANTS		
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
Grants - Food Security	500,000	500,000
GOK Project Subsidy Funds 2016	112,447	112,447
Grant - Development Vote	550,000	550,000
GOK Subsidy to Financial Inst	550,000	250,000
ACDI/VOCA Grant	15,000	15,000
Balance as at 30th June	4,083,923	3,783,923

These are non-refundable grants from the Government of Kenya and other donors to finance specific lines of credit (scheme) 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 260 million was received in 2006/2007 Financial Year. The Government also converted loans due from the Corporation amounting to 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.

NOTES TO FINANCIAL STATEMENT (Continued)

	2023	2022
	KES.'000	KES.'000
19. Reserves		
(a) General Reserve		
Balance as at 1st July	1,906,193	1,945,794
AFC/LRD/AWW dated 12.01.2022	-	(57,554)
Prior year adjustment	(59,194)	(8,754)
Profit after taxation for the year	74,153	26,707
Balance as at 30th June	1,921,152	1,906,193

The General Reserve is the undistributed profit from the operations.

	2023	2022
	KES.'000	KES.'000
(b) Revaluation reserve		
Balance as at 1 st July	787,618	787,618
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. 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

	2023	2022
	KES.'000	KES.'000
20. (a) Redeemable Government Loans and Interest:		
Principal		
GOK Restructured Red. Loan	486,734	486,734
Sub Total	486,734	486,734
Interest		
GOK Restructured Red. Loan	50,227	79,837
Sub Total	50,227	79,837
Total	536,961	566,571
20. (b) Risk Sharing Fund & Interest		
Risk Sharing Fund	377,215	377,215
Interest	3,771	7,675
Sub Total	380,986	384,890
20. (c) INK Fund & Interest		
INK Fund	131,861	141,334
Sub Total	131,861	141,334
20. (d) Enable Youth Fund		
Enable Youth Fund	320,173	-
Sub Total	320,173	-
Total	1,369,981	1,092,795
20. (d) Agency Funds:		
	2023	2022
	KES.'000	KES.'000
Kenya Sugar Board	722,218	722,218
NIB- Rice rev fund	100,000	100,000
Sub Total	822,218	822,218
Grand Total	2,193,172	1,915,013

NOTES TO FINANCIAL STATEMENT (Continued)

	NOTES	2023 KES.'000	2022 KES.'000
21. Payables and Accruals			
(a) Payables			
Borrowers credit balances		401,366	408,195
Unprocessed Loan Receipts		437	131
Customers Loan deposits		66,719	69,724
Suspended Income on Non-Performing Accounts		80,094	30,599
Balance as at 30th June		548,617	508,649
(b) Trade and Other Payables			
Cash security deposits		3,296	2,840
Insurance receipts		14,653	8,133
External audit fees		1,531	3,062
Gratuity		26,002	25,426
Accrued Leave days		10,952	11,780
Revenue Grants		9,456	15,326
Other payables		178,552	107,670
Interest on redeemable loans		25,005	25,412
Balance as at 30th June		269,447	199,650
(c) Current Tax payable			
		2023 KES.'000	2022 KES.'000
Balance as at 1 st July		20,919	90,745
Tax paid		(10,982)	(90,745)
Corporate tax for the year	23 (a)	24,219	20,919
Balance as at 30th June		34,156	20,919

NOTES TO FINANCIAL STATEMENT (Continued)

Analysis of Rent Income& Profit on disposal of assets

	2023	2022
	KES.'000	KES.'000
22. (a) Rent Income		
Details are as follows:-		
Development House Income/(Loss)	67,828	55,828
Other Properties net Income	60,317	59,229
Balance as at 30th June	128,144	115,056

	2023	2022
	KES.'000	KES.'000
22. (b) Profit/Loss on disposal of assets		
The details are as follows:-		
Motor Vehicles	1,481	-
Gain on disposal of other assets	1,663	2,286
Balance as at 30th June	3,144	2,286

22. (c) Proceeds from disposal of properties & equipment & repossessed farm properties

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

INCOME TAX EXPENSE/ (CREDIT)

23(a) Current taxation	2023 KES.'000	2022 KES.'000
Current taxation based on the adjusted profit for the year at 30%	24,219	20,919
	24,219	20,919

NOTES

(b) Reconciliation of tax expense/(credit) to the expected tax based on accounting profit

	2023 KES.'000	2022 KES.'000
Profit before taxation	98,372	47,626
Tax at the applicable tax rate of 30%	29,512	14,288
Tax effects of expenses not deductible for tax purposes	(29,512)	(14,288)
Rental income tax	24,219	20,919
	24,219	20,919

20. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2021/2022 Audit certificate	<p>Unsupported Property, Plant and Equipment</p> <p>The statement of financial position and Note 8(a) to, the financial statements reflects a balance of Kshs. 1,214,094,000 in respect of property, plant and equipment. As previously reported, included in the property, plant and equipment balance are twenty-nine (29) developed plots measuring a total of 5.3324 hectares valued at Kshs. 191,627,798 and</p>	<p>The Nanyuki and Kerugoya plots were repossessed by respective county authorities as the Corporation could not abide by the condition of developing the property within the stipulated time in the allotment letters. These plots were dropped from our list of assets for this reason. For Busia plot, the Corporation is following up on the ownership document with the Ministry of Lands. The parcel of land has</p>	Ag. Chief Manager Legal Services	Unresolved.	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>seven (7) undeveloped plots with no ownership documents. In addition, the balance includes a parcel in Chogoria which Management has explained that it has been repossessed by County Government.</p> <p>Further, the value of land excludes unvalued parcels of land located in Nanyuki and Kerugoya which Management has explained was repossessed by the respective County Governments due to failure by the Corporation to develop the property within the stipulated time. However, no evidence to support the repossession was provided. The balance also excludes land located in Busia whose ownership was not provided.</p>	<p>since been developed.</p> <p>The Corporation revalued its land and properties in the financial year 2017/2018. However, the listed properties could not be revalued since the Corporation did not have the requisite title deeds to prove their ownership. These properties were allotted to the Corporation by various local authorities.</p> <p>All the listed undeveloped parcels of land without ownership documents were excluded from the list of our assets hence they do not form part of our assets disclosed under note 8 of the financial statements for purposes of fair presentation and following the auditor's recommendation in the management letter ref: AFC/5/2013/2014/ (6) dated 8th</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Although Management has explained that it continues to pursue the ownership documents through the Ministry of Lands and the National Land Commission, the documents had not been obtained as at the time of audit.</p> <p>Included in the net book value of Kshs. 34,523,000 for land is an amount of Kshs.523,382 that was utilized in the acquisition of five (5) parcels of land in Kimilili, Malo, Bungoma, Chogoria and Kisumu Municipality at a cost of Kshs.18,000, Kshs 4,010, Kshs.54,262, Kshs 438,820 and Kshs.8,290, respectively. The five (5) parcels of land have not been revalued contrary to the International Accounting Standard No.16</p>	<p>December 2014. This is also in line with guidance note under the revaluation model "If an item is revalued, the entire class of assets to which that asset belongs must be revalued (IAS 16.36). IAS 16 requires that all assets in the recognized classifications must be revalued for the new values to be adopted for disclosure purposes. Therefore, the valuation report was not adopted on this basis and the Auditor's recommendations in a letter ref. AFC/5/2016-2017/ (10) dated 7th February 2018.</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>which requires sufficient regularity in revaluation of property, plant and equipment to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period. In addition, the ownership documents for three (3) of the parcels of land have not been secured. Moreover, the statement of financial position reflects net book value for property and equipment and intangible assets of Kshs.1,214,094,000 and Kshs 46,659,000 respectively as disclosed in Notes 8(a) and 8(b) of the financial statements. However, assets with a total historical cost of Kshs.810,253,000 were fully depreciated and had not</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>been revalued yet they were still in use.</p> <p>In the circumstances, the accuracy, completeness and ownership of property plant and equipment balance of Kshs. 1,214,094,000 could not be confirmed.</p> <p>Non-Performing Loans to Customers</p> <p>The statement of financial position and Note 9 to the financial statements reflects loans to customers totalling Kshs.9,892,054,000. Review of loan portfolio records provided for audit review revealed that Management had classified loans totalling Kshs. 3,068,757,220 as non-performing</p>		Chief Credit Officer.	Unresolved	
		<p>The Corporation grants loans that are secured through various securities as provided in the credit policy manual. At the time of appraisal stage a valuation of the security is carried out based on criteria specified in the policy. The delinquency rate is calculated on the basis of total arrears on the total outstanding loan balances. The delinquency by the auditors</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>representing 31% of the total reported loan book as at 30 June, 2022. However, only loan balances amounting to Kshs. 830,573,976 held in 2,457 accounts with arrears amounting to Kshs. 829,695,138 were transferred to the debt recovery unit for specialized attention during the year under review. This is almost double the maximum allowable standard of 15% by the prudential guidelines of the Association of African Development Finance Institutions, which the Corporation uses as specified in Chapter 7.1 of the Credit Policy.</p> <p>Further, the loan portfolio reflects Directors' loans of Kshs. 54,927,000 which</p>	<p>was arrived at after dividing the total nonperforming loan by total outstanding portfolio which is contrary to the prudential guidelines of the Association of African Development Finance Institutions, which the corporation uses as specified in Chapter 7.1 of the credit policy.</p> <p>As at 30th of June, 2021, the Corporation loan portfolio stood at Kshs 9,783,128,422.92. Included in these balances are arrears of Kshs 213,902,201.21 translating to a delinquency level of 21.6%. However, the management has noted the concern to ensure the delinquency level is within the allowable standard of 15%.</p>			

Agricultural Finance Corporation
Annual Reports and Financial Statements for the year ended 30th June, 2023

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>comprises of seven (7) loan accounts out of which six of the loan accounts are in arrears amounting to Kshs. 35,829,353 and have all been referred to the debt recovery unit. Review of records revealed the six accounts have been graded as non-collectable even upon disposal of attached securities as per the existing credit policy. Although a provision of Kshs.5,955,000 has been made on directors' loans, this may be inadequate.</p> <p>In the circumstances, the accuracy and completeness of the medium-term loans to customers of Kshs. 8,531,064,000 and short-term loans to customers of Kshs. 697,058,000 could not</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>be confirmed.</p> <p>Medium Term Loans Issued on Doubtful Title Deeds</p> <p>The statement of financial position reflects a balance of Kshs. 8,795,746,000 in respect of net medium-term loans to customers which, as previously reported, includes an amount of Kshs. 22,661,000 advanced to thirteen farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds that were fraudulent. The Corporation filed seven (7) cases in Court against the fraudsters and judgement was entered in favour of the</p>	<p>In the year 2007, the Corporation advanced agricultural loans to farmers in Kapsabet for cane development in line with it's mandate to support agriculture and agricultural enterprises in the country. Unknown to the corporation, the funds were advanced in the strength of title deeds relating to fictitious parcels of land issued as collateral despite the Corporation having exercised due diligence in perfecting the security at the lands office. The process of accepting a title deed as a security at AFC begins with a search being carried out on the</p>	<p>Head Loan Recoveries</p>	<p>Unresolved</p>	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Corporation. However, the Corporation had not executed the warrants issued as at 30 June, 2022 and details on the other cases have not been provided.</p> <p>In the circumstances, the recoverability of the loans issued on fraudulent titles was doubtful.</p>	<p>property, followed by a valuation using prequalified professional valuers. This process identifies true ownership of the property before the security is perfected by a first ranking charge on the property.</p> <p>The loan beneficiaries defaulted in the repayment and the Corporation moved to dispose off the collaterals to recover the outstanding balances in exercise of its statutory power of sell.it is at this juncture that it was established that the title deeds in question were defective. Certainly, the fraud was perpetuated by borrowers in connivance with officials at the Lands Ministry at Kapsabet, occasioning the institution great loss.</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>The Corporation filed civil proceedings at the high court in Eldoret against seven fraudsters where the Corporation received judgment against them.</p> <p>The management asserts that it employed internal mechanism through the regional and the branch offices to carry out investigation on the traceability of the fraudsters. Presently, the execution of the said warrants is not possible due to their expiry.</p> <p>It is in light of these circumstances that the management found it prudent to make a provision for doubtful debts</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Unsupported Trade and Other Receivables</p> <p>The statement of financial position and Note 15 to the financial statements reflects trade and other receivables balance net of specific provision for bad debts of Kshs. 114,500,000. Included in the balance are other receivables of Kshs. 16,641,000 which further includes overdrawn balances on loan servicing of Kshs. 1,186,185 whose detailed listing of the debtors was not provided for audit review.</p> <p>In addition, receivables balance includes rent receivable of Kshs.97,496,000 out of which Kshs. 2,238,000 is due from the NHIF Nakuru.</p>	<p>Arising from your audit observation with respect to the variances between rent receivable balances in head office records and the Nakuru branch records, we established that there were rent receipts which were posted to the rent income instead of rent receivable. This had a duplication effect considering that rent invoices are accrued. We reviewed the records and conducted a reconciliation. We effected a prior adjustment in respect to rent receivable</p>	<p>Chief Finance & Investments Officer.</p>	<p>Resolved</p>	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Review of the ledger reveal that the balance related to the last quarter of the financial year while the lease agreement provided for rent totalling Kshs. 1,930,000 which was actually received on 30 May, 2022. No explanation for the anomaly has been provided and this results in overstatement of rent receivables balance.</p> <p>In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs. 114,500,000 could not be confirmed.</p> <p>Budgetary Control and Performance</p> <p>The statement of comparison</p>	<p>The Corporation is classified as a</p>	<p>Chief Finance & Investments Officer.</p>	<p>Resolved</p>	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs. 1,930,449,000 and Kshs. 1,318,530,000 respectively resulting to an under-funding of Kshs. 611,920,000 or 32% of the budget.</p> <p>Similarly, the Corporation expended Kshs. 1,270,904,000 against an approved budget of Kshs.1,559,457,000 resulting to an under-expenditure of Kshs.288,553,000 or 19% of the budget.</p> <p>The revenue underperformance and the under-expenditure may have impacted negatively on the achievement of the planned goals and objectives of the Corporation.</p>	<p>commercial state agency and therefore does not receives funds for operations from the exchequer. The revenues for the Corporation largely comes from interest on loans, fees charged for loan processing and rental income leased out to tenants. Our funds for lending comes from revolved collections and increases in revenues is normally supported by new injection of development funds for lending from the Government. The Corporation's cash flows was affected by drought and the locust invasions which affected the crops and livestock of our clients' leading to defaults or delays in loan repayments. Hence we were not able to meet the projected revenues target in the budget of KES. 1,930,449,000. Revenues for the financial year ended 3th June</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		2023 was KES1,318,530,000 representing a performance of 68%. Arising from the above, the management had to institute cost containment measures to ensure we operate within the budget hence the expenditure of KES. 1,270,904,000 representing 81% of the budget.			
	<p>Irregular Write-Off of Fraudulent Transactions</p> <p>The statement of financial position and Note 13(b) to the financial statements reflects bank current accounts overdraft balance of Kshs. 3,241,000 which is in respect of a bank account held at the National Bank Eldoret branch. The balance is net of Kshs. 15,061,900 being the value of</p>	<p>In the FY 2017/18, fraudulent transactions were detected at our AFC Eldoret branch. Investigations carried out revealed that the Corporation had lost an amount of Kes. 15,061,900 comprising of:-</p> <p>01 Un-banked collections</p>	Chief Finance & Investments Officer.	Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>fraudulent transactions at the Eldoret branch that occurred in the financial year 2017/2018.</p> <p>Although Management has explained that provisions for these losses were made in the books no evidence of provision for losses amounting to Kshs. 9,090,400 was provided. However, no authority from the National Treasury to write off the balance as required by regulation 148(6) of the Public Finance Management (National Government) Regulations, 2015 has been provided and progress on the investigations on the fraud was also not provided.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>2,266,000</p> <p>02 Falsified withdrawals 3,705,500</p> <p>03 Un-remitted transfers 4,412,450</p> <p>04 Un-remitted collections 4,947,950</p> <p>Totals 15,061,900</p> <p>All the above transactions affected the AFC Eldoret loan funds bank account reported through the cashbook general ledger number 1080010. Since the recoverability of the above amounts was doubtful, an allowance in form of provisions against the potential loss was necessary in the books in line with the requirements of IFRS9. The</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Delay in Disposal of Repossessed Farm Properties</p> <p>The statement of financial position and Note 11 to the financial statements reflects the value of repossessed farm properties of Kshs. 377,839,000 in respect of one hundred and thirty-two (132). Management explained that the Corporation had so far managed to dispose off only</p>	<p>recognition of the misappropriation was effected vide GJV No. 144164 (Copy attached labelled DR 027) touching on the AFC Eldoret account to recognise the loss of funds amounting to Kshs.9,090,400.</p> <p>We acknowledge that disposal of these farms properties has been a challenge due to the following;</p> <ol style="list-style-type: none"> 1. They are squatted on by the former owners who were already occupants at the time of acquisition. 2. Some of these properties 	Head Loan Recoveries	Unresolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>fourteen (14) properties worth Kshs. 16,430,000 which was an indication that the rate of disposal was slow.</p> <p>In the circumstances, the delay in disposal of the properties was likely adversely affect the liquidity of the Corporation and subsequently affect achievement its core mandate.</p>	<p>are situated in areas where people hold strong cultural beliefs against buying neighbors properties especially where there are graves.</p> <p>3. Most of the potential buyers give offers that do not meet the market price of the property.</p> <p>Despite the above cited challenges, the management is committed to engaging potential buyers with a view of disposing the properties to unlock the capital held for lending.</p> <p>We wish to clarify that the schedule for disposal provided amounting to KES.16,430,000 was not for the financial year under audit but included properties sold to date to demonstrate the efforts</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Irregular Discharge of Loan</p> <p>The statements of changes in net assets reflects a reduction in general reserves of Kshs. 57,554,000 being reversal of interest and penalties accrued between January 2018 to June, 2021 on two rescheduled loan that had been disbursed in 2013 that was settled when the borrower substituted the initial collateral of two pieces in Nyeri of land for 40 plots of land located in Kiambu.</p> <p>Review of records revealed</p>	<p>by management in realizing the Farm properties in possession.</p> <p>i. Bradegate holdings account was closed on 12th January 2022 which fell within the period under review. Further we confirm that the account did not exist in the portfolio after the closure on 12th January 2022 and therefore did not form part of the closing loan portfolio as at 30th June 2022.</p> <p>ii. The Corporation had initiated the redemption process where a demand notice and a statutory notice had been issued on 07.07.2017 and 19.12.2017 respectively. Before the statutory notice matured, the client approached the Corporation with</p>	<p>Head Loan Recoveries</p>	<p>Unresolved</p>	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>that a borrower had obtained two loans amounting to Kshs. 100,000,000 which were secured with two parcels in Nyeri County. The borrower defaulted on repayment and the loan repayment was rescheduled in 2015 which was also defaulted. In January, 2018, the borrower offered an initial forty (40) parcels of land as settlement for the loan and later an additional nine (9) parcels plots. According to the Board of Directors meeting held on the 28 August, 2018 the following recommendations were made;</p> <p>i) A professional valuation be made of the new proposed collateral, ii) The Corporation to</p>	<p>a proposal to surrender 40 plots in place of his debt. The proposal was accepted by the Board and approved for implementation. Subsequently, the management acquired and pursued sale of these properties.</p> <p>iii. A valuation of the substituted plots of land was done by Mureithi Valuers Ltd and a report was filed.</p> <p>iv. Bradegate holdings, having met all the conditions issued by the Corporation (i.e to transfer 49 plots in place of its debt) wrote through Kabira Kioni and Company Advocates asking the Corporation to release the two securities since there was no any other pending obligation on their part. The Board through an adhoc committee resolved to release the</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>advertise and dispose of the parcels subject to the</p> <p>iii) professional valuation,</p> <p>iv) The proceeds of the sale shall be assessed to determine the parcels adequacy in fully meeting the client's liability to the Corporation,</p> <p>v) That the primary securities for the loan shall only be released to the client upon outstanding recovery of the entire outstanding amount</p> <p>However, the following anomalies were noted;</p> <p>i. The account was closed on 13 January, 2022 and reversals/write off amount due as at that date of Kshs. 61,211,833 were done. Although Management has explained</p>	<p>title deeds to save the Corporation from reputation risk and possible litigation.</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>that this relates to the accumulated interest and penalties charged during the renegotiation of the settlement, detailed working and approval by the Board was not provided. In addition, the loan- statement provided has missing transaction of charges on the account between 29 August, 2016 to 1 September, 2020.</p> <p>ii. The valuation report provided was dated 17 November, 2017 which was before the date the borrower requested for substitution of the collateral .In addition, the valuation report does not support the values the parcels of land were recognized at of Kshs. 95,000,000 and the board approved release of the</p>				

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>initial security before disposal of the substituted land to determine if the client's liability to the Corporation had been fully met.</p> <p>In the circumstances, the discharge of the loan was irregular.</p> <p>Unapproved Short-Term Deposits</p> <p>The statement of financial position reflects short term deposits of Kshs. 511,874,000. The balance includes Kshs. 229,974,000 and Kshs. 277,241,000 held in fixed deposit accounts" in Family bank and Equity bank respectively. This was contrary to the Treasury circular No. 4 of 2017 which provides that</p>	<p>The nature of the Corporation's operations requires some legal formalities to be completed before release of funds to the farmers. As such, there is a time lapse between commitment of funds and actual disbursements. Taking cognizance of the time value of money, the Corporation continuously assesses its liquidity position and appropriately staggers the committed funds on</p>	Chief Finance & Investments Officer.	Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>State Corporations are required to invest surplus funds in Treasury bills and Treasury bonds and in commercial banks with approval from The National Treasury.</p> <p>In the circumstances, Management was in breach of the National Treasury guidelines.</p>	<p>call deposits to match its cash flow requirements on a continuous basis.</p> <p>The Government encourages open policy and fair competition in the sector, all banks registered and regulated by the Central Bank of Kenya are at liberty to transact with any government entity without further approval subject to the provisions of the PFM Act 2012 and other laws relating to the management of public finances.</p> <p>Further, the Corporation ensures that the commercial banks have clearances from the National treasury before engaging them</p>	Ag. Chief Manager Legal Services	Resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>During the year under review, and as previously reported inadequacies were noted on controls governing the treatment and movements of loan security documents held by the Corporation. The Legal Department did not provide for audit an up to date register, maintained of all security documents as prescribed in the clause 5.3.1 of the Credit Policy.</p> <p>Further, corresponding entries were not maintained in the Corporation's banking system in line with the Credit Policy. In addition, the current banking system was operationalized in 2016 but the Corporation is yet to fully migrate and maintain a</p>	<p>An up to date register for all loan securities held by the Corporation is maintained in both hard and soft entries. Effective 2016 when the FITNES system was operationalized, the security details for all loans disbursed are maintained in the system. All other security details for loans disbursed prior 2016, are available in the Equinox Banking System which has been maintained as a reference system. Further, we confirm that all loans maintained in the previous system i.e EBS were successfully migrated to the current system and requisite balances verified before the change-over. On a regular basis, the legal department conducts stock take on the securities held for purposes of ensuring existence</p>			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>register for prior years loans together with the corresponding securities. Further, a monitoring and evaluation framework to regularly check and report on the status of land securities has not been instituted.</p> <p>In the circumstances, existence of effective internal controls in respect of loans securities could not be confirmed.</p>	<p>and completeness.</p> <p>Further to the auditor's recommendations, a monitoring and evaluation framework has been established through creation of a module in the Core banking system where all securities are mapped to the loan applications with a unique identifier in the both the physical file and the system. Any movement of a security from the registrar, is logged and a workflow of the same approved through a maker, checker control.</p>			

GUIDANCE NOTES:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.



**Managing Director
Date 22/08/ 2023**



**Chairman of the Board
Date 22/08/ 2023**

21. APPENDICES

APPENDIX I: PROJECT IMPLEMENTED BY THE CORPORATION

No project was undertaken during the period under review.

APPENDIX II: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded / recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
The National Treasury	29/09/2022	Grant - Development Vote	300,000	-	300,000	-	-	-	300,000
Total			300,000	-	300,000	-	-	-	300,000

APPENDIX III: INTER-ENTITY CONFIRMATION LETTER

Agricultural Finance Corporation
P.O Box 30367 -00100 G.P.

The National Treasury and Planning wishes to confirm the amounts disbursed to you as at 30th June 2023 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate the column E in the table below. Please sign and stamp this request in the space provided and return it to us.

Confirmation of amounts received by [Insert name of beneficiary entity] as at 30th June 2023

Reference Number	Date Disbursed	Amounts Disbursed by [SC/SAGA/Fund] (KShs'000) as at 30 th June 2023			Amount Received by [beneficiary entity] (Kshs) as at 30 th June 2023 (E)	Differences (F)=(D-E)
		Recurrent (A)	Development (B)	Inter-Ministerial (C)		
	29/09/2022		300,000		300,000	
Total					300,000	

In confirm that the amounts shown above are correct as of the date indicated.

Head of Accountants department of beneficiary entity:

Name Tom O. Akeno **Sign**  **Date** 22/08/2022

APPENDIX IV: REPORTING OF CLIMATE RELEVANT EXPENDITURES

Agricultural Finance Corporation
Tel 0733600039
Email Address: info@agrifinance.org
Name of CEO/MD/ George Kubai
Name and contact details of contact person (in case of any clarifications) Tom O. Akeno

Project Name	Project Description	Project Objectives	Project Activities	Kenya Shillings ('000)				Source of Funds	Implementing Partners
				Q1	Q2	Q3	Q4		
Water Development	Better water conservation practices	Sufficient and reliable water supply	Sinking boreholes and other water storage facilities	37,354	37,354	37,354	37,354	AIA	None
Drought Mitigation	Drought tolerate crops	Ensure food and nutrition security and livelihood	Targets mandate crops i.e sorghum, millet, cowpeas etc	16,369	16,369	16,369	16,369	AIA	None
Irrigation	Artificial water application to the soil using various systems	Address over reliance on rain feed agriculture	Financing irrigation systems i.e pipping pumps etc	24,902	24,902	24,902	24,902	AIA	None

APPENDIX V: REPORTING OF CLIMATE RELEVANT EXPENDITURES (Continued)

	Environmentally friendly Horticulture farming practices	Environmental safety	Practicing environmentally friendly farming practices	58,928	58,928	58,928	58,928	58,928	AIA	None
Eco friendly Horticulture	Environmentally friendly Horticulture farming practices	Environmental safety	Practicing environmentally friendly farming practices	58,928	58,928	58,928	58,928	58,928	AIA	None
Green House Financing	Farming practices within shelter structures	Management of extreme weather conditions	Optimal temperature control, consistent air circulation and proper moisture delivery	41,246	41,246	41,246	41,246	41,246	Internally	None
Organic Farming	Use of ecological based pest control and biological fertilizers	Lower risks and sustainable farming practices	Crop rotation, animal manures, crop residues, green manures and the biological control of pests and diseases to maintain soil health and productivity	3,459	3,459	3,459	3,459	3,459	Internally	None

APPENDIX VI: REPORTING DISASTER MANAGEMENT EXPENDITURE

Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments
Disaster Recovery	Recovery plans	Loss of data/information	Backup servers and power generators	Servers and Generators	13,000	Ongoing

