PARLIAMENT
OF KENYA
LIBRARY

AGRICULTURAL FINANCE CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS 2007

OUR CORPORATE VISION

To be the financial institution of choice for agricultural development in Kenya

OUR CORPORATE MISSION

To provide customer focused financial services for the development of the agricultural sector in Kenya

OUR CORE VALUES

- *Customer focus*
- *Consultative leadership*
- *Trust and honesty*
- *Integrity and fairness*
- *Cultivating long term relationships*
- *Social responsibility*

Our business is the farmers' development

CONTENTS

CONTENTS	PAGES
Corporation Information	3
Chairman's Statement	4-8
Report of the Directors	9-12
Statement of Directors' Responsibilities	13
Report of the Controller and Auditor General	14-15
Balance Sheet	16
Income Statement	17
Statement of Changes in Equity	18
Cashflow Statement	19
Notes to the Financial Statements	20-29

THE CORPORATION

Agricultural Finance Corporation is a Government owned statutory body established under the Agricultural Finance Corporation Act Cap 323 of the Laws of Kenya enacted in 1963 for the purposes of assisting the development of Agriculture in the country.

BOARD OF DIRECTORS	APPOINTMENT	DATE
Mr. Patrick K. Kinyori	Chairman	19.06.2006
Mr. Omurembe Iyadi	Managing Director	19.06.2006
Mrs. Rael Magut	Member	19.06.2006
Mr. Masudi Ali Mwakileo	Member	19.06.2006
Mr.John K. Chebii	Member	19.06.2006
Mr. Mutwiri Ikiao	Member	19.06.2006
Mr.Benson Wairegi	Member	19.06.2006
Permanent Secretary	Ministry of Finance	
Permanent Secretary	Ministry of Agriculture	

REGISTERED OFFICE
DEVELOPMENT HOUSE,
MOI AVENUE,
P.O. BOX 30367, 00100
NAIROBI.
KENYA

BANKERS
NATIONAL BANK OF KENYA LIMITED,
HARAMBEE AVENUE,
P.O.BOX 72866,
NAIROBI.

AUDITORS
CONTROLLER & AUDITOR GENERAL,
KENYA NATIONAL AUDIT OFFICE,
P.O.BOX 30084,-00100
NAIROBI.

CHAIRMAN'S STATEMENT ON 2006/2007 FINANCIAL YEAR

Introduction

I have great pleasure to present the annual report and financial statements for the Agricultural Finance Corporation for the financial year ended 30th June, 2007. This is the fourth year since the Corporation commenced implementation of restructuring and recovery measures approved by the Government through Sessional Paper No. 1 of 2002. It is also the second year of the implementation of the Corporation's 2005/2010 strategic plan.

Business Environment Overview

During the year under review, the Government through the Strategy for Revitalizing Agriculture continued to address critical factors constraining the growth of agriculture as a key economy driver. The Gross Domestic Product grew by 7.1% in 2007 compared to 6.4% in 2006. The agricultural sector realized a slow growth of 2.3% in 2007 compared to 4.4% in 2006. This was mainly due to the delay in the long rains and low volume of short rains which greatly affected the production of maize and beans. However, there were notable growths in horticultural, coffee and dairy sub-sectors. The general economy experienced low inflationary rate which was mainly attributed to reduction in food prices, appreciation of the Kenyan shilling and a sound monetary policy framework. Farmers were able to access affordable credit from the Corporation and other financial institutions to purchase farm inputs and finance capital investment.

Financial Results

The Corporation recorded a gross turnover of Shs.670 million compared to Kshs.602.6 million the previous year which resulted in growth of 11%. Further, it recorded a pre-tax profit of Kshs. 57.1 million compared to Kshs.42.6 million in the previous year giving an increase of 34%.

Indeed this is a commendable performance guided by the strategic plan.

Corporate Social Responsibility

The Corporation is committed to being a responsible corporate citizen in Kenya's business landscape. Towards this end, the Corporation has been involved in a number of Corporate Social Responsibility activities. These include: -

- Support in the Sports arena,
- Assistance to those affected and infected by HIV/Aids,
- Participation in freedom from hunger walk as well as the various charities that cater for the street children.

Through the above, the Corporation improved the social-economic status of the less fortunate members of our society.

The Board of Directors

The Board provides overall strategic direction and reviews performance while the Managing Director is responsible for the day-to-day running of the Corporation. There are four committees of the Board.

Board Committees

The committees of the Board were as follows: -

Audit Committee

- Benson Irungu Wairegi - Chairman
- Lucy Kitundu
- Omurembe Iyadi

Credit & Risk Committee

- Masudi Mwakileo - Chairman
- Lucy Kitundu
- Mary Kamau
- Omurembe Iyadi
- S. Mutwiri Ikiao

Finance & Business Development Committee

- S. Mutwiri Ikiao - Chairman
- Masudi Mwakileo
- Lucy Kitundu
- Mary Kamau
- Omurembe Iyadi

Human Resources Committee

- Rael Magut - Chairlady
- John Kipkoech Chebii
- Mary Kamau
- Omurembe Iyadi

Corporate Governance Statement

The Board is committed to best practice in Corporate Governance in steering the business to greater heights of prosperity. Towards this end, the Board holds meetings regularly. The Board is accountable to the Government for ensuring that the Corporation complies with the law and the highest standards of corporate governance and business ethics.

The Future

The corporate strategic plan for the period 2005-2010 provides a roadmap to achieving the strategic objectives that has turned around the Corporation's performance. Agriculture remains the backbone of the Country's economy. The achievement of the strategic objectives will complement Government efforts to realize the agricultural sector objectives outlined in Vision 2030.

The Corporation is working toward building a long term financial sustainability to effectively deliver on its mandate and achieve its vision of becoming the financial institution of choice for agricultural development in Kenya. The Development Finance Institutions Strategy will provide a roadmap in reforming the Corporation once it has been approved by the Government. It will provide a paradigm shift in the management and governance of the Corporation.

Appreciation

On behalf of the Board of Directors, I would like to take this opportunity to thank the Government for both financial and technical support to the Corporation, the Ministry of Agriculture for policy guidance, the esteemed customers for believing in us and the management and staff for their loyalty, dedication and commitment.

PATRICK KINYORI
CHAIRMAN

MAY, 2009

THE DIRECTORS' REPORT

ON

THE 2006/2007 FINANCIAL STATEMENTS

The Directors have the pleasure to present the annual report and the audited financial statements of the Agricultural Finance Corporation for the year ended 30th June, 2007.

Management

The Managing Director, Mr Omurembe Iyadi, was responsible to the Board on the day-to-day management of the Corporation. The following senior members of staff assisted him: -

Mrs. Gladys N. Tarayia	-	Deputy Managing Director
Miss. Wangui Mwaniki	-	Corporation Secretary
Mr. K.W.C. Tallam	-	Human Resources Manager
Mr. Francis K. Maritim	-	Ag. Financial Controller
Mr. Richard K. Malel	-	Technical Services Coordinator
Mr. Job K. Kemei	-	Chief Planning Officer
Mr. Henry A. Shikokoti	-	Chief Internal Auditor

The management team with its focus on implementing key strategic objectives for growth was able to achieve improved results in major areas of the business.

Staff compliment

During the year the Corporation completed the staff rationalization through which the Corporation attained a staff compliment of 433 members out of which 267 were deployed in the field offices and 166 to the Head Office.

Branch network

The Corporation operated a network of thirty three (33) branches and five (5) regional offices, distributed across the country. They are to facilitate effective discharging of the Corporations mandate of financing agricultural activities.

Operations

The Corporation received loanable funds amounting to Kshs. 610 million during the period. Of this, Kshs. 300 million was from Kenya Sugar Board for sugar development, Kshs. 50 million was from Coffee Development Fund for the coffee sector, while Kshs. 260 million was the fifth and final tranche of the total equity capital of Kshs1.3 billion that the Government had pledged to inject into the Corporation. These funds went a long way to improve the institutions capital base and for lending to customers. Loans disbursed during the year amounted to Kshs .1.8 billion an amount that was similar to the amount disbursed in the previous year. The total good loan portfolio increased from Kshs. 2.51 billion the previous year to Kshs. 3.29 billion during the year.

Loan repayments increased from Kshs.1,041 million the previous year to Kshs.1,748 million. The improvement in loan repayments was mainly attributed to aggressive and well thought out collection strategies employed by the management which ensured that loans processed were collected on due dates.

Results	2007 Kshs. '000	2006 Kshs. '000	Increase Kshs.'000
Total income	669,631	602,635	66,996
Total Expenditure	612,557	560,052	52,505
Pre-tax profit	57,074	42,583	14,491
Provision for tax	27,118	22,508	4,610
Profit after tax	29,956	20,075	9,881

As a result of prudent management, the Corporation returned a pre-tax profit of Kshs. 57.1 million up from Kshs 42.6 million the previous year.

The Future

The Corporation adopted a five year strategic plan in 2005.The plan provides a roadmap to turn around the Corporation's performance. The Board of Directors and the Management will review the strategic plan in due course to align it with the Government's Vision 2030 and ensure that the Corporation plays a major role in the socio-economic development of the country.

On behalf of the management team, I wish to thank the board for its untiring guidance ar direction. I also wish to express my appreciation to the entire staff for their dedication and ou loyal farmers for picking Agricultural Finance Corporation as the financial institution c choice.

Thank you.

OMUREMBE IYADI
MANAGING DIRECTOR.

March 2009

FINANCIAL STATEMENTS AS AT 30 JUNE 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment and estimates in conformity with International Financial Reporting Standards and the manner required by the Agricultural Finance Corporation Act Cap 323. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

PATRICK K. KINYORI
CHAIRMAN

OMUREMBE IYADI
MANAGING DIRECTOR

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenyaweb.com

REPUBLIC OF KENYA

P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMEN OF AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of Agricultural Finance Corporation for the year ended 30 Jun 2007 set out on pages 3 to 16 which comprise the balance sheet as at 30 June 2007, the incom statement, statement of changes in equity and cash flow statement for the year then ended, togethe with a summary of significant accounting policies and other explanatory notes in accordance with th provisions of Section 14 of the Public Audit Act, 2003. I have obtained all the information an explanations which, to the best of my knowledge and belief, were necessary for the purpose of th audit.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements which give a true and fair vie of the Corporation's state of affairs and its operating results in accordance with the Internationa Financial Reporting Standards. This responsibility includes: designing, implementing an maintaining internal controls relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error; selecting and applyin appropriate accounting policies; and making accounting estimates that are reasonable in th circumstances.

Responsibility of the Controller and Auditor General

My responsibility is to express an independent opinion on the financial statements based on the audit The audit was conducted in accordance with the international Standards on Auditing. Those standard require compliance with ethical requirements and that the audit be planned and performed with a vie to obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

Opinion

In my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30 June 2007 and of its profit and cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Agricultural Finance Corporation Act (Cap 323 of the Laws of Kenya).

P. N. KOMORA, C.B.S.

CONTROLLER AND AUDITOR GENERAL

Nairobi

05 March 2008

BALANCE SHEET AS AT 30 JUNE 2007

ASSETS:	NOTES		2007 Kshs.'000		2006 Kshs.'000
Non current assets					
Property and equipment	8		494,486		433,081
Repossessed farm properties	7		80,450		93,096
Deferred tax asset	10		952,229		979,347
Loans to farmers	3	6,470,189		6,946,247	
Prov. for doubtful debts	6(a)	(3,175,725)	3,294,464	(4,435,984)	2,510,263
Loans to staff	4	109,427		121,328	
Prov. for doubtful debts	6(b)	(34,651)	74,776	(34,113)	87,215
			4,896,405		**4,103,002**
Current assets					
Cash and bank balances	2(a)		15,439		33,626
Short term deposits	2(b)		307,270		314,099
Receivables and prepayments	2(c)		95,272		68,156
Consumable stores	2(d)		2,161		2,066
			420,142		**417,947**
Total assets			**5,316,547**		**4,520,949**
EQUITY AND LIABILITIES					
Equity and reserves					
Grants	13		1,002,271		1,002,271
Government equity capital	16		2,687,766		2,427,766
General reserve	12(a)		(69,430)		(94,689)
Revaluation reserve	12(b)		175,363		175,363
			3,795,970		**3,510,711**
Non current liabilities					
Redeemable loans	11(a)		**912,295**		566,731
Current liabilities					
Payables	9(a)		547,884		385,649
Other payables and accruals	9(b)		60,398		57,858
			608,282		**443,507**
Total capital and liabilities			**5,316,547**		**4,520,949**

The notes on pages 7 to 16 form an integral part of these accounts The financial statements on pages 3 to 16 were approved by the Board on 26.2.2008 and were signed on its behalf by

PATRICK K. KINYORI
CHAIRMAN

OMURENBE IYADI
MANAGING DIRECTOR

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	NOTES	2007 Kshs'000	2006 Kshs'000
INCOME:			
Interest Income		249,749	202,575
Total interest income		**249,749**	**202,575**
Less: Interest expenses			
Redeemable loans	11(b)	40,611	40,767
Rebate interest	11(c)	1,755	996
		42,366	**41,763**
Net interest income		207,383	160,812
Other operating income	14(a-f)	188,828	267,096
Total operating income		**396,211**	**427,908**
Extra-ordinary income			
Income from doubtful debts	14(g)	231,054	132,964
Total income		**627,265**	**560,872**
Operating expenses	15	(426,803)	(385,524)
Depreciation	8	(40,092)	(31,854)
Charge for doubtful debts	5	(36,779)	(100,911)
Profit before extra-ordinary items		**123,591**	**42,583**
Retrenchment cost	15(f)	(66,517)	-
Profit before taxation		**57,074**	**42,583**
Taxation	10	(27,118)	(22,508)
PROFIT AFTER TAXATION		**29,956**	**20,075**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Government equity capital Kshs.000	General reserve Kshs.000	Revaluation reserve Kshs.000	Grants Kshs.000
As at 1 July 2005		**2,167,766**	**(764,384)**	**175,363**	**899,771**
Prior year adjustment	6(a)		(164,957)		
Prior year adjustment	4		2,347		
Transfer to deferred tax	10		812,230		
GOK equity injection	16	260,000			
Grants	13				102,500
Profit for the year			20,075	-	
As at 30 June 2006		**2,427,766**	**(94,689)**	**175,363**	**1,002,271**
As at 1 July 2006		**2,427,766**	**(94,689)**	**175,363**	**1,002,271**
GOK equity injection	16	260,000			
Prior year adjustment	4		(4,697)		
Profit for the year			29,956		
As at 30 June 2007		**2,687,766**	**(69,430)**	**175,363**	**1,002,271**

CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2007

	2007 Kshs.'000	2006 Kshs.'000
CASH FLOW FROM OPERATING ACTIVITIES:		
Profit/(loss) before taxation	57,074	42,583
Adjustments for:		
Depreciation	40,092	31,854
Loss on disposal of asset	320	320
Profit on disposal of assets	(8,055)	(3,940)
Profit on disposal of repossessed properties	(7,659)	(1,715)
Prior year adjustment	-	(162,610)
(Decrease)/Increase to repossessed properties	12,646	6,338
(Increase)/Decrease in loans to farmers	(784,201)	(992,634)
(Decrease)/Increases in loans to staff	12,439	16,372
Increase in consumable stores	(95)	103
(Decrease)/Increases in receivables	(27,116)	33,068
Increase in payables	164,775	168,608
NET CASHFLOW FROM OPERATING ACTIVITIES	**(539,780)**	**(861,653)**
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase/ (Disposal)of properties & equpiment	(106,805)	(4,363)
Proceeds from disposal of properties & equipment	8,055	3,940
Proceeds from disposal of repossessed farm properties	7,659	1,715
NET CASH FLOW FROM INVESTING ACTIVITIES	**(91,091)**	**1,292**
CASH FLOW FROM FINANCING ACTIVITIES		
Government equity received	260,000	260,000
Government/GTZ grants received		102,500
Government loan repayments	(4,145)	-
KSB Funds	300,000	-
Coffee Board Funds	50,000	-
NET CASHFLOW FROM FINANCING ACTIVITIES	**605,855**	**362,500**
NET INCREASE IN CASH & CASH EQUIVALENTS	(25,016)	(497,861)
Cash and cash equivalent 1 July	347,725	845,586
Cash and cash equivalent 30 June (Note 2(a) and 2(b))	**322,709**	**347,725**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1.ACCOUNTING POLICIES:

(a)Basis of preparation

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

(b)Property, Equipment and Depreciation

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

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

The annual depreciation rates in use are

Freehold land	Nil		
Leasehold premises and improvements rates are based on the unexpired lease term or 50 years whichever is less			
Motor vehicles	25%	Show stands	10%
Furniture	12 5%	Computers	33 3%
Fittings and Office equipment	20%	Office and Residential Buildings	2%
Softwares	20%		

Softwares

The computer softwares have been considered to have a probable benefit to the Corporation exceeding the cost beyond one year and are recognised as an intangible asset

The computer software costs recognised as assets are stated at cost less amortisation

Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

(c)Interest

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

(d)Provision for doubtful debts

Specific provision is made in respect of loans whose recovery is considered doubtful A general provision of 2 % of the loan portfolio has also been made in the accounts

(e) Retirement benefit obligations.

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

The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF) The Corporation's contributions to the above schemes are charged to the profit and and loss account in the year which they relate

(f) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

2(a).CASH AND BANK BALANCES	2007	2006
	Kshs.'000	Kshs.'000
Current accounts	7,826	28,244
Branch collection accounts	4,023	4,009
Branch imprest accounts	3,590	1,373
Balance as at 30th June	**15,439**	**33,626**

(b).SHORT TERM DEPOSITS		
Deposits	302,695	310,875
Interest receivable	4,575	3,224
	307,270	**314,099**

These are funds held in short term deposits at National Bank of Kenya which mature between one and three months. basis. The funds are for operations and lending activities.

(c).RECEIVABLES AND PREPAYMENTS	2007	2006
	Kshs.'000	Kshs.'000
Unallocated loan disbursements	-	70
Auction fees & advert. charges	52,593	51,653
Development house rent accrued	36,101	33,630
Other rent receivable	4,303	2,092
Prepaid expenses	852	850
Employees other deductions	18,396	1,831
Due to Alico	35	
Other accounts receivable	36,185	36,191
Recoverable fees and charges	5,496	512
Suspense	(1,075)	(1,603)
Funds at Trust Bank Ltd (under liquidation)	-	106,990
Less:Accum.prov. for doubtful debts	(57,614)	(164,060)
Balance as at 30th June	**95,272**	**68,156**

(d).CONSUMABLE STORES

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

	2007	2006
	Kshs.'000	Kshs.'000
Stationery & office supplies stock	2,161	2,169

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

3.LOANS TO CUSTOMERS	2007	2006
	Kshs.'000	Kshs.'000
Medium term loans	5,225,703	5,209,779
Short term loans	1,244,486	1,736,468
	6,470,189	6,946,247

4. LOANS TO STAFF

	HOUSE LOANS	CAR LOANS	ADVANCES	TOTALS
Balance as at 01.07.06	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Principal	40,256	16,900	5,691	62,847
Interest	48,913	6,302	3,266	58,481
	89,169	**23,202**	**8,957**	**121,328**
Transactions for the period				
Advances	1,735	4,087	9,689	15,511
Interest earned	5,401	1,614	666	7,681
Repayments	(12,344)	(5,256)	(11,148)	(28,748)
Adjustments	(3,246)	328	(3,427)	(6,345)
	(8,454)	**773**	**(4,220)**	**(11,901)**
Balance as at 30.06.07	**80,715**	**23,975**	**4,737**	**109,427**
Analysis of balances				
Principal	26,309	16,059	805	43,173
Interest	54,406	7,916	3,932	66,254
Balance as at 30.06.07	**80,715**	**23,975**	**4,737**	**109,427**

5. Provision for doubtful debts

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

(a)Doubtful debts charges for the year:

Loans to farmers	2007	2006
	Kshs'000	Kshs'000
Medium term loans	682	1,201
Short term loans	-	5,809
Specific provisions on loans	682	7,010
Auction fees and charges	-	34,506
Total specific provisions	682	41,516
General provisions on loans	33,319	32,443
	34,001	73,959
Staff loans		
Charge on ex-staff loans	2,778	26,952
Total charge for the year	**36,779**	**100,911**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

6.ACCUMULATED PROVISIONS FOR DOUBTFUL DEBTS

The accumulated provisions for the year is as follows:	2007	2006
(a) Loans to farmers	**Kshs'000**	**Kshs'000**
Balance as at 1st July	4,403,541	4,536,086
Charge for the year	-	5,832
Write-off adjustment-2005		164,957
Write-off adjustment-2006		(144,613)
Write-off adjustment-2007	(1,064,765)	-
Writeback during the year	(228,813)	(158,721)
Balance as at 30 June	**3,109,963**	**4,403,541**

	2007	2006
Provision summary	**Kshs'000**	**Kshs'000**
Specific Provisions	3,109,963	4,403,541
General Provisions	65,762	32,443
Grand totals	**3,175,725**	**4,435,984**

(b) Provisions for doubtful debts - staff loans

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

	2007	2006
	Kshs'000	**Kshs'000**
Balance as at 1 July	34,113	7,161
Charge for the year: House loans	1,641	25,982
Car loans	682	587
Personal advances	456	383
Recoveries	(2,241)	-
Balance as at 30 June	**34,651**	**34,113**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

7. REPOSSESSED FARM PROPERTIES:

These are revalued at the total of the principal and interest due at the date of foreclosure less subsequent recoveries The amount outstanding as at 30th June,2007 was Kshs 185,664,170 95 However, the Corporation has been unable to realise these properties and is of the opinion that if a forced sale could be effected, material losses would arise In view of this, the provisions already made of Kshs 105,213 852 72 against these balances is deemed adequate hence no additional provisions have been made in the year

8. PROPERTY AND EQUIPMENT

	Land & buildings	Motor vehicles	Furniture & equipment	Computer hardware	Computer software	Totals
COSTS:	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**	**Kshs'000**
As at 1 July 2006	**545,231**	**88,921**	**116,930**	**38,423**	-	**789,505**
Additions	-	22 351	5,024	38,109	41,321	106,805
Transfers	-	-	-	-	-	-
Disposal	(6 622)	(1 560)	(476)	-		(8,658)
Adjustment	320					320
	---	---	---	---	---	---
As at 30 June 2007	**538,929**	**109,712**	**121,478**	**76,532**	**41,321**	**887,972**
	---	---	---	---	---	---
DEPRECIATION:						
At 1 July 2006	145,136	62 283	114 544	34,461	-	356,424
Charge for the year	10,547	13 974	1 200	10,987	3 384	40 092
Transfers						-
Disposals	(1,774)	(780)	(476)			(3,030)
	---	---	---	---	---	---
As at 30 June 2007	**153,909**	**75,477**	**115,268**	**45,448**	**3,384**	**393,486**
	---	---	---	---	---	---
NET BOOK VALUE						
As at 30 June 2007	**385,020**	**34,235**	**6,210**	**31,084**	**37,937**	**494,486**
	======	======	======	======	======	======
As at 30 June 2006	400 095	26 638	2 386	3 962	-	433 081
	======	======	======	======	======	======

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

9. PAYABLES AND ACCRUALS

(a).Payables	2007 Kshs'000	2006 Kshs'000
Borrowers' credit balances	343,108	203,583
Unprocessed loan receipts	14,853	1,588
Interest accrued on redeemable loans	162,516	122,100
Due to Agency	-	(13)
Loan drafts outstanding	27,407	58,391
Balance as at 30 June	**547,884**	**385,649**

(b).Other payables and accruals		
Sundry creditors general	39,378	3,644
Insurance receipts	1,520	1,315
Stale cheques	-	59
External audit fees	3,681	4,555
Gratuity	15,819	15,124
Accrued pension contributions	-	3,824
Accrued salary arrears	-	29,337
Balance as at 30 June	**60,398**	**57,858**

10. DEFERRED TAX ASSET:

The net deferred tax asset is arrived at as follows:

Balance b/f as at 1st July	979,347	189,625
Deferred tax asset for the year 2003/2004	-	489,322
Deferred tax asset for the year 2004/2005	-	322,908
Tax for the year	(27,118)	(22,508)
Balance as at 30th June	**952,229**	**979,347**

11. REDEEMABLE LOANS AND INTEREST:

(a). Redeemable loans:	2007 Kshs'000	2006 Kshs'000
KFW SMALL SCALE	-	4,436
IDA 105	7,721	7,721
IDA 344	24,299	24,299
IDA 1143 KE	9,841	9,841
IBRD 1995 KE	258,036	258,036
AFC CREDIT 4	182,748	182,748
A D B (PIGS)	79,650	79,650
KENYA SUGAR FUNDS	300,000	-
COFFEE BOARD FUNDS	50,000	-
Balance as at 30th June	**912,295**	**566,731**

The Corporation was able to access lines of credit from the Kenya Sugar Board of Kshs.300 million and Coffee Board of Kenya of Kshs.50 million for on lending to sugar and coffee farmers respectively.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

11.REDEEMABLE LOANS AND INTEREST (Continued):

(b) Interest on redeemable loans

The interest charge on redeemable loans outstanding as at 30th June 2007 were as follows:

	2007 Kshs'000	2006 Kshs'000
KFW SMALL SCALE	-	292
IDA 105	270	134
IDA 344	243	243
IDA 1143 KE	787	787
RSDP & IBRD 1995 KE	34,532	34,532
A D B (PIGS)	4,779	4,779
Balance as at 30th June	**40,611**	**40,767**

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

(c) Rebates Interest

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

12. RESERVES

(a).General reserve	2007 Kshs'000	2006 Kshs'000
Balance as at 1st July	(94,689)	(764,384)
Transfer to deferred tax	-	812,230
Prior year adjustment- loans write - off 2005	-	(164,957)
Prior year adjustment- staff loans	(4,697)	2,347
Profit/(Loss) after taxation for the year	29,956	20,075
Balance as at 30th June	**(69,430)**	**(94,689)**

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

(b) Revaulation Reserve

Property and equipment are stated at cost or as revalued from time to time less accumulated depreciation. The Corporation's policy is to revalue property once every five years. Increases in the carrying amount arising on revaluation are credited to a revaluation reserve.Decreases that offset previous increases of the same assets are charged against the revaluation reserve. All other decreases are charged to the Income Statement. However, there was no revaluation during the financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

13.GRANTS	2007	2006
Details	**Kshs'000**	**Kshs'000**
Development	20,611	20,611
Rehabilitation	18,752	18,752
I C A	2,500	2 500
Special Emergency Fund	3,470	3,470
Ministry of Finance	40,000	40,000
IDA 105/344	2,168	2,168
IDA 692	3,335	3,335
Vihiga	700	700
North Tetu	149	149
IADP	278	278
Narok Agricultural Dev Project	760	760
World Bank Credit 4	21,925	21,925
IDA 1143 KE	14,529	14,529
IDA 1995 KE	1,594	1,594
Japanese Grant Sec Scheme 42 2004	769,000	769,000
GTZ Grant-2006	7,500	7,500
GOK Grant Livestock Off Take 2006	95,000	95,000
	---	---
Balance as at 30th June	**1,002,271**	**1,002,271**
	======	======

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

14.OTHER OPERATING INCOMES	2007	2006
	Kshs'000	**Kshs'000**
(a) Interest on Investment	30,291	63,933
(b) Rent Income	18,288	26,065
(c) Appl. Conveyance & Inspection Fees	128,989	146,083
(d) Profit on Sale of Assets	15,714	5 655
(e) Insurance Commission	37	34
(f) Sundries	(4,491)	25,326
	---	---
	188,828	**267,096**
	======	======

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

(a) Interest on investments

Details are as follows.-	2007	2006
	Kshs'000	Kshs'000
Short term deposits	22,190	54,300
Staff loans	7,680	8,928
Other bank accounts	421	705
Balance as at 30 June	**30,291**	**63,933**

(b) Rent income

Details are as follows:-	2007	2006
	Kshs'000	Kshs'000
Development house income	25,831	24,697
Writeback doubtful debts -rent	-	7,793
Development house expenses	(20,166)	(17,052)
	5,665	15,438
Other properties net income	12,623	10,627
	18,288	**26,065**

(c) Application, conveyance & inspection fees

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

(d) Profit on disposal of assets	2007	2006
The details are as follows -	Kshs'000	Kshs'000
Motor vehicles	739	3,570
Buildings	7,316	370
Gain on disposal of farm properties	7,659	1,715
	15,714	**5,655**

(e) Insurance commission

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

(f) Sundries

These are incomes received from exhibitors during field days conducted in conjuction with other stakeholders. unidentified loan receipts for periods in excess of two years and small credit balances in clients accounts which are considered uneconomical to process refunds.However. other debits that could not be matched to the loan account balances were appropriated through the account.

(g) Income from doubtful debts

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

	2007	2006
	Kshs'000	Kshs'000
Large scale loans	228,813	123,392
Small scale loans	-	9,551
Seasonal crop credit loans	-	21
	228,813	132,964
Ex-staff loans	2,241	-
Total	231,054	-

	2007	2006
15.OPERATING EXPENSES	Kshs'000	Kshs'000
(a) Staff costs	283,026	282,024
(b) Board members' expenses	8,959	8,610
(c) Administration expenses	133,658	93,890
(d) Auditors fees	1,160	1,000
	426,803	**385,524**

15.(e) Retrenchment cost

The Corporation spent a total of Kshs.66 million on the staff rationalization which was done during the financial year.

16. GOVERNMENT EQUITY

The Financial Restructuring of the Corporation was approved by the National Assembly vide certificate of sessional paper No. 1 of 2000 dated 6th November. 2002. To this effect the Government undertook to inject additional equity to the Corporation amounting to Kshs. 1.3 billion in five equal instalments The fifth and last tranche of Kshs. 260 million was received during the financial year 2006/2007. The equity is a Government injection to the Corporation which is meant to build the capital base of the Corporation.The financial instrument has no associated market financial risk.

17. CONTINGENT LIABILITIES:

There were no contigent liabilities as at the balance sheet date.

18.COMPARATIVES

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