

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 25 JUL 2019

DAY:  
THURSDAY

REPORT

TABLED  
BY:

Hon. Aden Duale

CLERK-AT  
THE TABLE:

Lemne Moses

OF

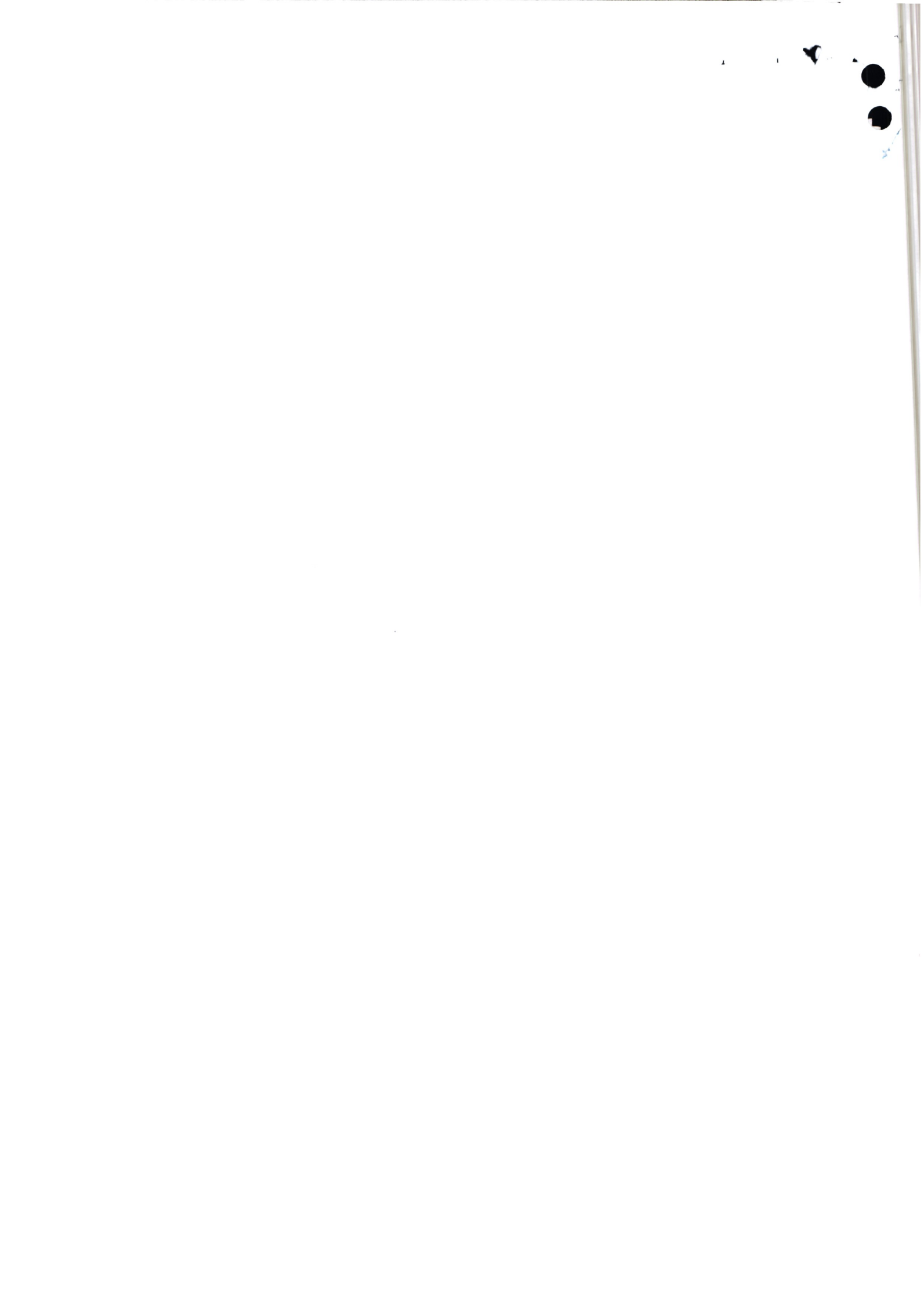
THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
AGRICULTURAL FINANCE CORPORATION

FOR THE YEAR  
ENDED 30 JUNE 2018

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OF KENYA  
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**AGRICULTURAL FINANCE CORPORATION**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30<sup>TH</sup> JUNE, 2018**



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

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## **I. KEY ENTITY INFORMATION**

### **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. It was then tasked in assisting in the effective and peaceful transfer of land to indigenous farmers, as well as injecting new capital to farm owners to spur development. After successful implementation of this task, AFC was further reconstituted in 1969 to assume a wider mandate by taking over the functions of the Land and Agricultural Bank of Kenya.

Today we remain the leading Government Credit institution mandated to provide credit for the sole purpose of developing agriculture. This role is crucial given that Agriculture is the mainstay of the Kenyan economy where 80% of the Kenyan population which is rural based relies on agriculture as their main support system. The Corporation is domiciled in Kenya and has 47 numbers of branches in 33 counties.

### **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 group representatives, private companies, public bodies, local authorities and other persons engaging in agriculture or agricultural industries.

### **PRINCIPAL ACTIVITIES**

The Corporation is primarily charged with the responsibility of providing credit facilities for the sole purpose of developing agriculture. The Corporation has for the last fifty six (56) years 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.

## KEY ENTITY INFORMATION (Continued)

### Vision

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

### Mission

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

### Core Values

- i. **Courtesy:** Being polite, respectful and considerate while serving customers within the corporation.
- ii. **Innovativeness:** Developing new diversified products and services that meet customer's need and expectations.
- iii. **Commitment:** Dedication, loyalty and selflessness in discharging duties to transform livelihoods.
- iv. **Integrity:** Adhering to moral and ethical principles to ensure efficiency in service delivery.

## **KEY ENTITY INFORMATION (Continued)**

### **BOARD OF DIRECTORS**

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

<b>Name</b>		<b>Appointment date</b>
Franklin Bett	Chairman	09-Mar-2016
Susan Wanjiru Karanja	Alternate to the Cabinet Secretary The National Treasury	02-Oct-2015
Momata Gichana	Alternate to the Principal Secretary Ministry of Agriculture	08-Aug-2016
Lucas Meso, MBS	Managing Director	12-Mar-2017
David Kiptanui Koros	Member	02-Oct-2015
Edwin Cheruiyot Rotich	Member	02-Oct-2015
David Njoroge	Member	02-Oct-2015
Fredrick Onyango	Member	02-Oct-2015
Naima Badhawi	Member	02-Oct-2015

### **CORPORATION SECRETARY**

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

## KEY ENTITY INFORMATION (Continued)

### REGISTERED OFFICE

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

### CORPORATE CONTACTS

#### HEADQUARTER

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

#### CONTACTS

**Telephone:** +254-020-3317199  
**E-mail:** [info@agrifinance.org](mailto:info@agrifinance.org)  
**Website:** [www.agrifinance.org](http://www.agrifinance.org)

### CORPORATE 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.

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

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## **KEY ENTITY INFORMATION (Continued)**

### **INDEPENDENT AUDITOR**

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

Auditor General,

Kenya National Audit Office,

P.O Box 30084 - 00100 GPO

Nairobi.

Kenya.

### **PRINCIPAL LEGAL ADVISERS**

The Attorney General,

State Law Office,

Harambee Avenue,

P.O. Box 40112 – 00200 City Square

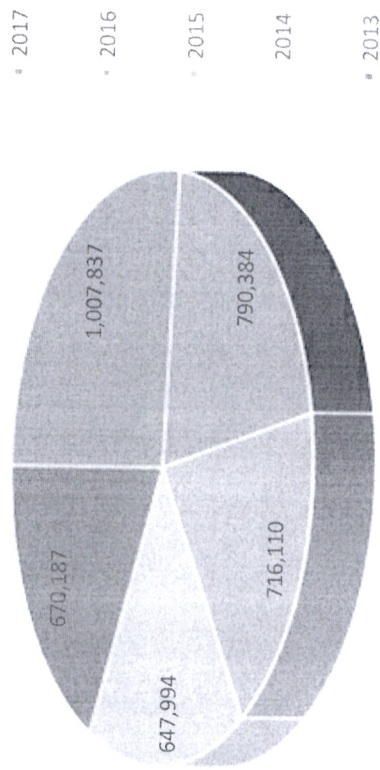
Nairobi, Kenya.

**BUSINESS HIGHLIGHTS**  
**FIVE YEAR HISTORICAL PERFORMANCE – STATEMENT OF COMPREHENSIVE INCOME**

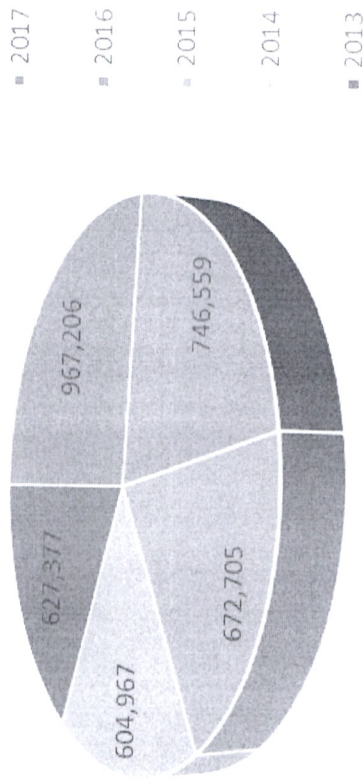
	2017 KES'000	2016 KES'000	2015 KES'000	2014 KES'000	2013 KES'000
<b>Revenues</b>					
Interest Income:					
Interest on Loans	932,485	682,010	602,672	526,987	491,250
Interest on Short Term Deposits	75,352	108,374	113,438	121,007	178,937
<b>Total interest income</b>	<b>1,007,837</b>	<b>790,384</b>	<b>716,110</b>	<b>647,994</b>	<b>670,187</b>
<b>Less: Interest expenses</b>					
Interest on Redeemable Loans	38,562	39,486	40,251	40,306	40,307
Rebate Interest	2,069	4,339	3,154	2,721	2,503
	<b>40,631</b>	<b>43,825</b>	<b>43,405</b>	<b>43,027</b>	<b>42,810</b>
<b>Net interest income</b>	<b>967,206</b>	<b>746,559</b>	<b>672,705</b>	<b>604,967</b>	<b>627,377</b>
<b>Non-Interest income</b>					
Other Operating Income	113,912	277,852	114,499	125,754	103,517
Fee Income	182,557	225,952	226,991	219,749	209,394
Income from doubtful debts	607,443	60,845	100,392	159,240	112,337
<b>Total Non-Interest income</b>	<b>903,912</b>	<b>564,649</b>	<b>441,882</b>	<b>504,743</b>	<b>425,248</b>
<b>Total Revenues</b>	<b>1,871,118</b>	<b>1,311,208</b>	<b>1,114,587</b>	<b>1,109,710</b>	<b>1,052,625</b>
<b>Operating Expenses</b>					
Staff Cost	(737,510)	(698,098)	(587,097)	(647,575)	(513,962)
Board Expenses	(24,401)	(12,053)	(15,920)	(11,755)	(10,507)
Administration Costs	(233,883)	(221,077)	(212,296)	(190,677)	(177,212)
Depreciation & Amortisation	(117,229)	(72,283)	(68,133)	(62,347)	(50,557)
Charge for Doubtful Debts	(486,767)	(58,083)	(24,836)	(38,423)	(159,591)
<b>Total Expenses</b>	<b>(1,599,790)</b>	<b>(1,061,594)</b>	<b>(908,282)</b>	<b>(950,777)</b>	<b>(911,829)</b>
<b>Profit before tax</b>	<b>271,328</b>	<b>249,614</b>	<b>206,305</b>	<b>158,933</b>	<b>140,796</b>
Tax for the Year	(143,721)	(67,933)	(39,156)	(52,198)	(62,948)
<b>Profit for the year</b>	<b>127,607</b>	<b>181,681</b>	<b>167,149</b>	<b>106,735</b>	<b>77,848</b>

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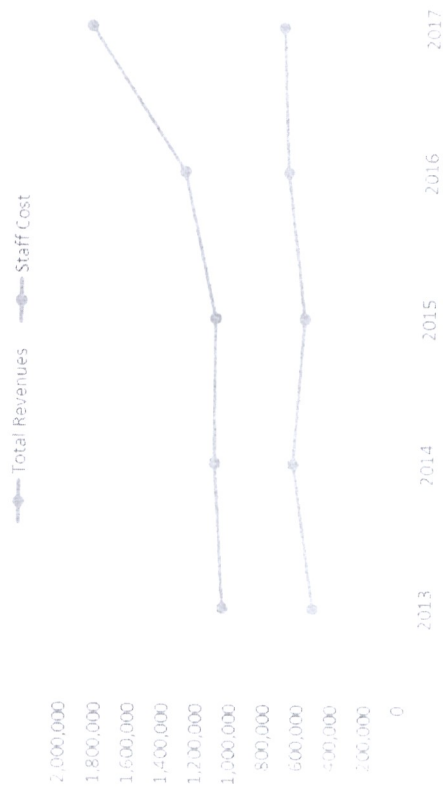
**Total interest income**



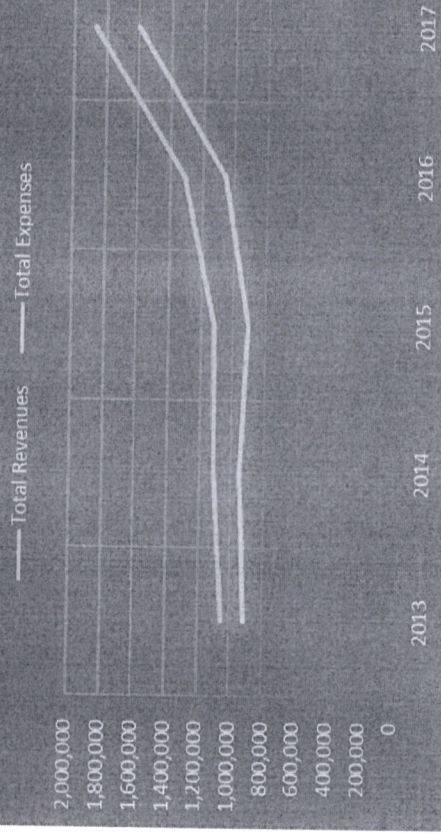
**Net interest income**



**Total Revenue vis Staff Cost**



**Revenue vis Expenses**



**FIVE YEAR HISTORICAL PERFORMANCE (Continued)**

<b>STATEMENT OF FINANCIAL POSITION</b>					
<b>ASSETS:</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>
<b>Non-Current Assets</b>					
Property and Equipment	1,079,401	1,139,856	1,135,700	1,128,564	1,137,981
Intangible Assets	138,902	9,969	10,191	7,092	7,452
Deferred Tax Asset	588,975	632,446	700,379	173,661	178,660
Reposessed Farm Properties	137,995	137,995	169,053	700,379	709,880
Net Loans to Customers	4,896,792	4,294,811	4,313,848	3,978,304	2,545,881
<b>Total Non-Current Assets</b>	<b>6,842,065</b>	<b>6,215,077</b>	<b>6,329,171</b>	<b>5,988,000</b>	<b>4,579,854</b>
<b>Current Assets</b>					
Cash and Bank Balances	130,833	109,218	134,878	166,946	146,422
Short Term Deposits	1,117,576	712,498	910,743	1,023,453	1,608,618
Net Short Term Loans to Customers	1,863,232	2,538,219	2,157,467	1,428,826	1,995,381
Trade and Other Receivables	600,215	61,611	218,946	205,812	129,851
Inventories	1,937	1,063	1,542	1,232	1,139
<b>Total Current Assets</b>	<b>3,713,793</b>	<b>3,422,609</b>	<b>3,423,576</b>	<b>2,826,269</b>	<b>3,881,411</b>
<b>Total Assets</b>	<b>10,555,858</b>	<b>9,637,686</b>	<b>9,752,747</b>	<b>8,814,269</b>	<b>8,461,265</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity and Reserves</b>					
Grants	3,597,951	2,856,476	2,856,476	2,356,476	2,356,476
Government Equity Capital	2,687,766	2,687,766	2,687,766	2,687,766	2,687,766
General Reserve	911,278	783,671	601,934	434,757	358,574
Revaluation Reserve	787,618	787,618	787,618	787,618	787,618
<b>Total Equity and Reserves</b>	<b>7,984,613</b>	<b>7,115,531</b>	<b>6,933,794</b>	<b>6,266,617</b>	<b>6,190,434</b>

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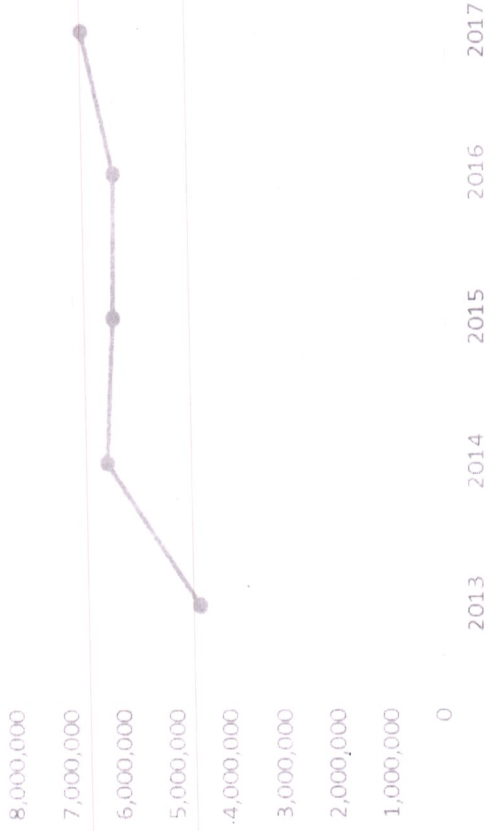
<b>Non-Current Liabilities</b>					
Redeemable Government Loans and Interest:					912,464
Agency Funds	1,003,258	984,825	970,576	950,270	915,696
	831,734	852,218	926,573	901,573	
<b>Total Non-Current Liabilities</b>	<b>1,834,992</b>	<b>1,837,043</b>	<b>1,897,149</b>	<b>1,851,843</b>	<b>1,828,160</b>
<b>Current Liabilities</b>					
Payables	363,918	389,221	567,419	385,543	321,435
Trade and Other Payables	201,603	225,403	283,894	278,940	120,865
Current Tax Payable	170,732	70,482	70,482	31,326	-
Current Accounts	-	6	9	-	371
<b>Total Current Liabilities</b>	<b>736,253</b>	<b>685,112</b>	<b>921,804</b>	<b>695,809</b>	<b>442,671</b>
<b>Total Equity and Liabilities</b>	<b>10,555,858</b>	<b>9,637,686</b>	<b>9,752,747</b>	<b>8,814,269</b>	<b>8,461,265</b>

**Agricultural Finance Corporation**  
**Reports and Financial Statements**  
**For the year ended 30<sup>th</sup> June, 2018**

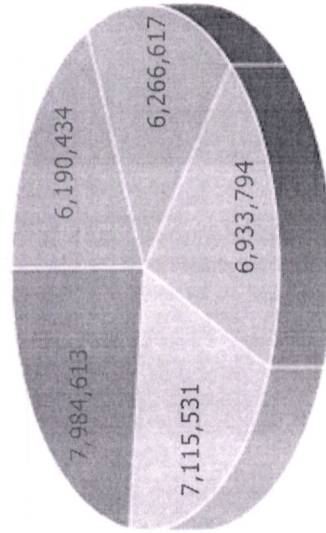
**Growth in Asset Base**



**Total Non-Current Assets**

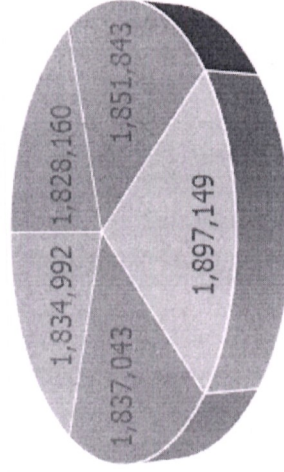


**Total Equity and Reserves**



■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017

**Total Non-Current Liabilities**



■ 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017

## II. THE BOARD OF DIRECTORS



**Mr. Franklin Kipng'etich Bett**  
**Chairman – Board of Directors**

**Mr. Frankline Kipng'etich Bett** is a career civil servant with over thirty five years of service in the Government of Kenya. He has served in the Ministry of Finance for over 10 years rising to the position of undersecretary. He also served as The Comptroller of State House, the Permanent Secretary in the Ministry of Environment, the Kenya High Commissioner to Australia, a nominated and an elected Member of Parliament, Chair of the Parliamentary Select Committee on Agriculture, Lands and Natural Resources and a Cabinet Minister. He holds a Bachelor of Commerce (Accounting) degree from The University of Nairobi.



**Mr. Henry K. Rotich**  
**Cabinet Secretary,**  
**National Treasury**

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

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

## THE BOARD OF DIRECTORS (Continued)

Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics.

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



***Dr. Richard L.  
Lesiyampe, CBS  
Principal Secretary –  
State Department for***

**Dr. Richard Lesiesian Lesiyampe, CBS**, is the Principal Secretary, State Department for Crop Development, in the Ministry of Agriculture, Livestock, Fisheries and Irrigation.

Dr. Lesiyampe has previously worked as a Principal Secretary, State Department of Environment and Natural Resources, in the Ministry of Environment, Water and Natural Resources and as the Chief Executive Officer of Kenyatta National Hospital, where he provided transformational leadership in the management of hospital resources and creating an enabling environment for employees to unleash their potential in the provision of effective, efficient and sustainable quality service delivery to clients in tandem with expectations of Vision 2030 and beyond.

Dr. Lesiyampe has a Doctoral Degree from the Kenya Methodist University, an MBA degree from the University of Nairobi with a bias in Strategic Human Resource Management. Alongside the professional accolades, he has also undertaken numerous public service certifications ranging from Risk Management to Cash and Precision Management. He has served in various capacities rising from a District Officer, Personnel Officer, Deputy Director and Chief Executive Officer to his current position as a Principal Secretary.

## THE BOARD OF DIRECTORS (Continued)

While at Kenya Wildlife Service, Dr. Lesiyampe received Presidential decoration for playing a key role as team leader responsible for the formulation of a new strategic plan for Kenya Wildlife Service, leading the institution to the most coveted Company of the Year Awards (COYA) in 2007, 2008 and 2009. He also received another Presidential Award – (MBS) in the year 2012 for the Stability and Management of Kenyatta National Hospital.



**Mr. Lucas Meso, MBS**  
**Managing Director**

**Mr. Lucas Meso** is the Managing Director of the Agricultural Finance Corporation. Mr. Meso's experience spans over 20 years in senior management positions in the banking sector. He previously worked for the Central Bank of Kenya, East African Development Bank, Commercial Bank of Africa and the Co-operative Bank of

Kenya. In recognition of his role in the development of Agri-business, Mr. Meso was honoured with a Presidential National Decoration Award, Moran of the Order of the Burning Spear (MBS).

He has also made outstanding contributions in economic development in the country. As the AFC team leader, Mr. Meso visualizes transforming the Corporation into a premier class, customer focused agricultural financing outfit where value to stakeholders takes precedence.

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

## THE BOARD OF DIRECTORS (Continued)



**Mr. David Njoroge**  
**Board Member**

**Mr. David Njoroge** is a professionally qualified Agriculturalist with vast experience teaching in secondary and tertiary institutions. He is currently working at Mount Kenya University, Nakuru County. He is also a Director of Bidii Company Limited involved in consultancy in farming in Nakuru County. Mr. Njoroge holds Master of Science degree in Agricultural Education, (M.Sc Agricultural education) from Egerton University, Post Graduate Diploma in Education (Credit) from the University of Nairobi and Bachelor of Science degree in Agriculture (Hons).



**Mr. David Kiptanui  
Koros**  
**Board Member**

**Mr. David Koros** has previously worked in the Administration Department at Moi University. Between the year 2002 and 2007, he was the elected Member of Parliament for Eldoret South Constituency, being a member of the Health and Powers and Privilege Committees. He has been on the Board of Directors of East African Portland Cement. Mr. Koros holds Bachelor of Arts Degree with a Major in Political Science and a Minor in Economics from Kanpur University, India. He has a Diploma in Public Advertising Management, Marketing Organization, Office Administration, Human Relation and Industrial Psychology and Computer Programming.

## THE BOARD OF DIRECTORS (Continued)



**Mr. Cheruiyot Rotich**  
**Board Member**

**Mr. Cheruiyot Rotich** is a Finance executive with over fourteen (14) years' experience in leading strategic organizational aspects of financial and operations system development. Mr. Rotich previously worked with reputable international organizations including World Vision International/Kenya, ICCO Netherlands-East & Central Africa Region, Royal Paedro Limited-Kenya, War Child Holland- South Sudan and Relief International – Somalia.

Mr. Rotich holds a Master Degree in Business Administration (MBA) from the University of Manchester, United Kingdom, Bachelor of Commerce degree (Accounting Option) from Kenyatta University with a First Class Honours award, is a Certified Public Accountant CPA (K) and Financial Systems specialist.



**Mrs. Naima Badhawi**  
**Board Member**

**Mrs. Naima Badhawi** is a career banker specialized in Accounting and Finance. She brings with her a wealth of experience arising from her (32) years in the Financial services Sector. She has worked for Barclays Bank of Kenya Ltd and First Community Bank. She heads the Naima Badhawi Foundation and a the founder member of Fawfiq Youths Malindi. She has also served as a Board Member for Coast General Hospital, Tudor Services Ltd and Al Wataniya Insurance Agency Ltd. She is currently the Secretary General of Mombasa County Council of Elders and Co-opted Member of Answar Muslim Sister's Education Wing.

## THE BOARD OF DIRECTORS (Continued)



**Mr. Fredrick Onyango  
Odhiambo**  
**Board Member**

**Mr. Fredrick Onyango** has extensive expertise and experience in consultancy having worked for over seven years in various Non-Governmental Organizations (local and International), public and private sectors including Vestergaard-Frandsen (EA) Ltd, City Council of Nairobi, Kenya Forex Bureaus Association, Save the children/South Sudan (SCi-SS), Norwegian Refugee Council, International Union for Conservation in Nature (IUCN), Constitution & Reform Education Consortium (CRECO) , Oxfam GB, WaterAid, World Customs Organisation Regional Office for Capacity Building East and Southern Africa (WCO-ROCB-ESA) and Society for International Development (SID). Mr. Onyango holds a Bachelor of Commerce degree (Accounting) from the University of Nairobi with second upper class honors and currently undertaking Master of Science (Finance) from the University of Nairobi.



**Ms. Susan Wanjiru  
Karanja**  
**Alternate Board  
Member**

**Ms. Susan Wanjiru** is an Alternate Director representing the Cabinet Secretary, National Treasury, since 2015. She also serves as an Alternate Director in the National Construction Authority Board of Directors. Her experience spans over 34 years in Public Service. She has served in the Ministry of Finance rising to the position of Senior Assistant Director Investment responsible for general administration and management of the unit, implementing and reviewing investment policies, developing financial guidelines covering the operations of State Corporations, formulating proposals for reforms of government investments and appraising State Corporations programs and capital projects.

She holds a Master's Degree in Business Administration from the *Eastern and Southern African Management Institute (ESAMI)*, a *Post graduate Diploma in Corporate Governance* and a

## **THE BOARD OF DIRECTORS (Continued)**

Bachelor of Commerce – Finance and Accounting from the University of Nagpur. She is a Certified Investment & Financial Analyst and a member of the Institute of Directors Kenya.



**Mr. Julius Momata  
Gichana**  
**Alternate Board  
Member**

**Mr. Gichana Momata** is an Alternate Director representing the Principal Secretary, State department for Crop Development, Ministry of Agriculture, Livestock, Fisheries and Irrigation, since 2015.

His experience spans over 30 years in Civil Service in matters of Public Financial Management. He has served in various Ministries in the Government as Head of finance and has sat on the Board of Ken-Gen as an Alternate Director to the Principal Secretary, Energy. Currently, he is serving as a Senior Chief Finance Officer in the State Department of Agriculture.

He holds a Master's Degree in Bachelor of Arts (Economics) from Vanderbilt University, USA, Bachelor of Arts (Economics) University of Nairobi and he has attended and been awarded certificates in Corporate Governance, Strategic Management, Leadership and Integrity, Change Management, Succession Management.



**Rose Ochanda Mrs.**  
**Corporation Secretary  
& Chief Manager Legal  
Services**

**Mrs. Rose Ochanda** is the Corporation Secretary and Chief Manager Legal Services. She has served in various positions in State Corporations such as the Kenya Industrial Estates Limited and the Kenya Bureau of Standards as the Company Secretary and Chief Legal Officer respectively. She has also practiced as an Advocate in

private with a focus on litigation, commercial and conveyance law. She is a holder of a Master in Business Administration Degree in Strategic Management and LLB (Hons) Degrees from the University

of Nairobi.

### III. MANAGEMENT TEAM



**Mr. Lucas Meso, MBS**  
**Managing Director**

**Mr. Meso** is the Managing Director of the Agricultural Finance Corporation. Mr. Meso's experience spans over 20 years in senior management positions in the banking sector. He previously worked for the Central Bank of Kenya, East African Development Bank, Commercial Bank of Africa and the Co-operative Bank of Kenya. In

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

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



**Rose Ochanda Mrs.**  
**Corporation Secretary**  
**& Chief Manager Legal**  
**Services**

**Mrs. Ochanda** is the Corporation Secretary and Chief Manager Legal Services. She has served in various positions in State Corporations such as the Kenya Industrial Estates Limited and the Kenya Bureau of Standards as the Company Secretary and Chief Legal Officer respectively. She has also practiced as an Advocate in

private with a focus on litigation, commercial and conveyance law. She is a holder of a Master in Business Administration Degree in

## MANAGEMENT TEAM (Continued)

Strategic Management and LLB (Hons) Degrees from the University of Nairobi.



***Mrs. Millicent Omukaga***  
***Head of Operations***

**Mrs. Omukaga** is a career banker, a strategist and an accountant with immense experience in institutional transformation from the financial sector

She has 16 years of management and leadership experience having served as a General Manager as well as held management positions at KWFT, Family Bank, Price Water House Coopers (PwC), Kenya Commercial Bank, Commission for Higher Education and AFRACA.

Millicent is also a Certified Microfinance Trainer of Trainers for the World Bank TDLC and has served as the Local Consultant/Trainer for Sida's private sector development ITP in East Africa.

She holds a Bachelor of Commerce degree and a Master of Business Administration (both from the University of Nairobi), she is currently pursuing her PhD in Development Studies at Erasmus University of Rotterdam. She is a Certified Public Accountant of Kenya, Certified Internal Auditor and holds a postgraduate certificate in Strategy and Change Management from the Harvard Business School, USA.



***CPA Tom O. Akeno***  
***General Manager – Finance***

**CPA Akeno** is an accomplished finance professional with extensive public service experience spanning over 25 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

### **MANAGEMENT TEAM (Continued)**

ranks of Senior Accountant, Assistant Chief Accountant, Chief Accountant and currently is the General Manager Finance. He is also the Chairperson of AFC Staff Pension Schemes and Ufanisi Savings and Credit Co-operative Society.

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. Simon M. Maitha**  
**General Manager**  
**Business Development**

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

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

## MANAGEMENT TEAM (Continued)



**Mr. K. W. C. Tallam**  
**General Manager Human Resources**

Diploma in Business Administration.

**Mr. Tallam** is the General Manager Human Resources and Administration. He is a career Human Resource Professional having worked in the Human Resource Department of the Corporation for 20 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



**Mr. Daniel O. Olilo**  
**Head of Information Communication Technology**

development, open source applications, social organization applications and systems integration.

**Mr. Olilo** is an accomplished IT Specialist with over 14 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

## MANAGEMENT TEAM (Continued)



**Mr. Jackson Opati Echoka**  
**Head of Risk Unit**

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**  
**Head of Loan Recoveries**

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.

**Mr. Echoka** is an agribusiness specialist with over 24 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.

**Ms. 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.

## MANAGEMENT TEAM (Continued)



**Ms. Pauline Kathambana**  
**Manager – Corporate**  
**Communications**

**Ms. 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.



**MS. Margaret Wanjiru**  
**Muiruri**  
**Head of Procurement**

Ms. Wanjiru is Procurement Profession having worked in Procurement Department for 15 years.

She holds a Bachelor of Business Administration – Entrepreneurship Option from the Kenya Methodist University, and currently finalizing her MBA – Finance at Kenyatta University.

Margaret also holds an Advance Diploma of Chartered Institute of Purchasing and Supplies, (CIPS) (UK) and a Diploma in Business Management of Kenya Institute of Management, (KIM). She is an Associate Member of both Kenya Institute of Supplies Management (KISM) and Chartered Institute of Purchasing and Supplies (CIPS) (UK).

## MANAGEMENT TEAM (Continued)

She has undertaken several short courses locally on Procurement and Leadership at Kenya Institute of Supplies Management (KISM), Strathmore Business School and Kenya School of Government.



**Mrs. 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

**Mrs. Betty Chemutai Suge** certification in the Certified Information Systems Auditor (CISA)  
**Head of Internal Audit**

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

She has undertaken training in several over courses, among them the Fraud Investigation and Prevention Course as well as an Anti- Corruption Course.

## **IV. CHAIRMAN'S STATEMENT**

### **GENERAL OVERVIEW**

As Agricultural Finance Corporation enters its 57<sup>th</sup> year of operation, it is my privilege to present its performance for the financial year 2017/2018.

In 2018, the financial sector was beset by various challenges, some localized and others regional, which impacted on the overall operating environment and the Corporation's performance. 2018 marked the first full year of the implementation of the capping of interest rates and added challenges of a prolonged election period in the country which depressed lending operations in this key market which was not helped by the severe drought that prevailed in most parts of the country.

Despite the circumstances, the Corporation remained resilient and maintained a good robust growth. This was catalyzed by the good governance structure at the Corporation level which helped us weather the myriad challenges and led to improved underlying performance for the business.

At the board level, we instituted key measures that resulted in a growth-focused business grounded on solid fundamentals. As we continued to oversee policy formulation for the Corporation, the management and staff must be commended for executing the strategies that saw the business thrive even in the turbulent operating environment.

### **FINANCIAL PERFORMANCE**

The 2018 financial results show total revenue reduced by 10.3% to KES 1,679,017 (2017 – KES 1,871,118) due to a reduction in interest rate on products and other business environment challenges mentioned above. Our pretax profit went up from 271 million recorded in previous year to 279 million, reflecting a slight increase of

## **CHAIRMAN'S STATEMENT (Continued)**

3%. The interest on loans reduced from KES 932 million to KES 743 million a reduction of 20.3%, which is attributable to reduced interest rate on products. Non-interest income also went down by KES 80 million to stand at KES 824 million compared to last year. This was majorly informed by reduction in account maintenance and other fees on distressed accounts waived during the year.

The Corporation continued with cost containment initiatives which were reflected by an expenditure of KES. 1,049 million compared to the budgeted amount of KES. 1,179 million yielding a cost savings of 11.0%. The Corporation's asset base increased to KES 11.3 billion compared to KES.10.6 billion recorded the previous year which represents a 6.6% growth.

As part of its Corporate Social Responsibility, the Corporation continues to give back to the community, through various activities. We were able to increase our budget for this vote in the year under review to KES 10 million up from KES 3 million in the financial year 2016/2017.

### **CORPORATE GOVERNANCE**

The Corporation is committed to maintaining high standards of Corporate Governance and the disclosures in this year's report and financial statements are in recognition of this commitment. Effective corporate governance is essential to the long term success of our business. As Chairman, my role is to guide and lead the Board, ensuring it operates effectively and contains the right balance of skills and experience to successfully execute the Corporation's strategy.

The Board currently has eight non-executive Directors who bring considerable knowledge, judgment and experience to the Corporation. The business of the

## **CHAIRMAN'S STATEMENT (Continued)**

Corporation is technical and specialist in nature, and requires considerable knowledge and experience to manage for results.

Directors are subjected to a rigorous review, and after giving thorough consideration, the Board considers that all these Directors' independence, skills and experience make them effective as non-executive Directors and as Chairpersons to the Board Committees. Their contributions in the past have been immense and currently continue to be so.

The Board is responsible for the long-term growth and profitability of the Corporation. The Board charts the direction of the Corporation and monitors Management's performance on an on-going basis.

### **OUTLOOK**

In the coming year, we will align our operations to the big four agenda. This will be accomplished as part of our review of the five-year strategic plan. This will help us in refining what we need to do in the remaining part of the plan as well as developing the building blocks for the next five-year strategy.

### **APPRECIATION**

Finally, I take this opportunity to thank my fellow directors for their support and for the vision, experience, challenge and guidance that they bring to the board deliberations. To our management team and employees, thank you for your hard work and dedicated efforts in ensuring the success of the Corporation.



**David Kiptanui Koros**  
**FOR CHAIRMAN**

## **V. MANAGING DIRECTOR'S STATEMENT**

The Corporation has endured daunting difficulties in the past couple of months, however it has contributed a huge part in fostering financial inclusion and economic development in the country. The Corporation continues to strive to be the pillar and anchor that SME's and individual farmers are looking for to grow their businesses further. Admittedly, as demand for credit gradually improves in 2018 due to better growth prospects, AFC will be more confident to extend credit to the youth and women.

The Corporation registered commendable financial results for the year ended 30th June 2018. During the year under review, the Corporation posted a pre-tax profit of KES. 278.6 million compared to KES. 271.3 million reported in the previous year, representing a growth of 2.7%. The increase is attributable to interest earnings on short term deposits of KES. 152.2 million. The net interest income decreased by 11.6% from KES 967.2 million in 2017, to KES. 854.9 million in 2018. This was occasioned by the reduction in product interest rates during the year.

Non-interest income decreased substantially from KES 296.5 million in the previous year to KES 275 million, representing a drop of 7.2%. Income from doubtful loans also decreased to Kshs 549.1 million from to KES 607.4 million realized last year, which is a performance of 9.6%.

The operating expenses increased by 6.9% from KES 1,113 million to KES 1,192 million in the report year. The Corporation's asset base increased slightly to KES 11.3 billion compared to the previous year. The growth was occasioned by Government of Kenya budgetary support of KES 300 million, receipt of risk sharing fund of KES 185 million & retained earnings.

The net loans and advances increased from KES. 6.76 billion in 2017 to KES.7.58 billion in the current year as a result of disbursement of KES 3.38 billion representing an increase of 12.2%.

## **MANAGING DIRECTOR'S STATEMENT (Continued)**

The Corporation has also commenced the journey of rebranding in order to reposition itself into an entity that can respond to the country's economic growth and the correspondent growing demand for agricultural credit.

The management will continue to put emphasis on loan collections with a view to reducing loan delinquency to the industry benchmark. More effort will be directed towards lending to different enterprises in order to diversify our loan portfolio and reduce concentration risk.

Resource mobilization from Government and other development partners will also be a priority to enable the Corporation meet the demand for loans and grow its customer base.

The Corporation will continue to play a key role in supporting the Government to achieve the big four agenda.

In conclusion, I would like to appreciate the effort and commitment of all the staff that enabled AFC achieve this good performance in year 2018. I also wish to thank our customers, partners and the Government for their continued support during the financial year. We look forward to enhancing relationships with all our stakeholders in the coming year.

I sincerely thank the Chairman and the entire Board of Directors who have provided policy guidance and direction to the management during the year.

  
**Lucas Meso, MBS**

**MANAGING DIRECTOR**

## VI. CORPORATE GOVERNANCE STATEMENT

### 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'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.

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

**Oversight:** The Board of Directors does not participate in day-to-day decision-making of the Corporation; instead, they set overall policy, based on the corporate mission and vision, and they exercise an oversight function, reviewing the actions of management. The Board puts in place appropriate policies, systems and structures for the successful implementation of policy.

The Board of Directors establishes and maintains the Corporation's overall systems of planning, accounting and internal controls that facilitate prudent risk assessment and management.

The Board of Directors sets policy guidelines for management and ensures competent management of the business including the selection, supervision and remuneration of Senior Management.

### **Board Meetings**

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

### **Board Chairman and Managing Director**

The roles and responsibilities of the Chairman of the Board and the Managing Director are distinct and separate. The Chairman provides overall leadership to the Board in line with principles of collective responsibility for Board decisions. The Managing Director is responsible to the Board and takes charge of executive management and efficient running of the Corporation on a day-to-day basis.

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

The Board has delegated to the Managing Director authority to implement Board decisions with assistance of Management team which the Managing Director chairs.

### **Board Performance Evaluation**

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

### **Internal Control**

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

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

## **CORPORATE GOVERNANCE STATEMENT (Continued)**

### **Conflict of Interest**

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

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

### **Board Sub-Committees**

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

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

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

## **VII. MANAGEMENT DISCUSSION AND ANALYSIS**

### **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. These financial risks are classified as follows:-

- Credit Risk
- Liquidity and Funding Risk
- Market Risk
- Capital management
- Operational risk

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **a) Credit Risk**

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

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

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

The Corporation writes off a loan balance 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.

### **b) Liquidity and Funding Risk**

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligation when they fall due or to fund increases in asset without incurring unacceptable costs or losses. Effective liquidity risk management is essential in order to maintain the confidence of the Corporations 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

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

encounter difficulties in meeting its obligations or financial liabilities as they fall due.

### c) Market Risk

Market risk is the risk that the values of assets and liabilities or revenues will be adversely affected by changes in market conditions or market movements. The objective of market risk management programs is to manage and control market risk exposures in order to optimize return on risk taken while maintaining a good market profile as a provider of agricultural financial products and services.

### d) 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.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **e) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Corporation's operations and are faced by all business units.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Corporation standards for the management of operational risk in the following areas:-

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Corporation's standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance & control section. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Corporation.

## VIII. CORPORATE SOCIAL RESPONSIBILITY

The Corporation's Corporate Social Responsibility (CSR) projects and activities have continued to grow from year to year. AFC is committed to engaging in CSR activities that have potential to achieve positive, long-term, social, economic and environmental impact in its areas of operation. The areas of intervention include:

- Environment
- Education
- Water and sanitation
- Health

Engagement in these projects and activities has ensured that the Corporation takes into account its social, economic and environmental impact, as well as consideration of human rights. The Corporation has thus become more open about its business activities, continually aiming to reach and maintain acceptable standards in business practice.

During the 2017/2018 FY, the Corporation took part in the following Corporate Social Responsibility activities and projects:-

S.NO	NAME OF ORGANISATION	REGION	PILLAR	BRIEF INFORMATION	AMOUNT SPENT (KES)
1)	Gertrude's Children's Hospital (Baby Andrew Mutunga)	Head Office	Health	Settlement of medical bill	300,000.00
2)	AIC Girls Loitokitok	Eastern region	Education	Construction of a dormitory	500,000.00
3)	Kimana Girls Secondary School	Eastern Region	Education	Purchase of sanitary towels	100,000.00

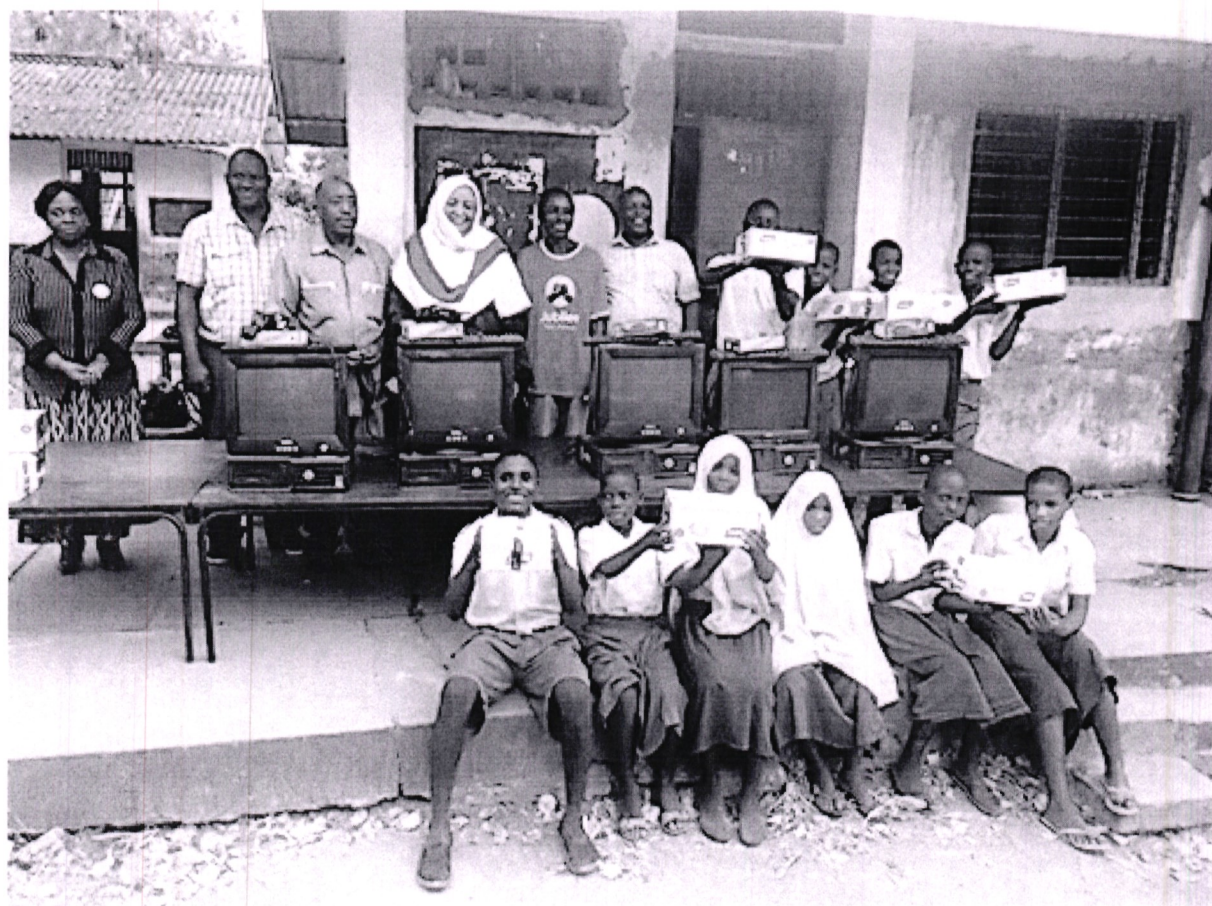
**CORPORATE SOCIAL RESPONSIBILITY (Continued)**

S.NO	NAME OF ORGANISATION	REGION	PILLAR	BRIEF INFORMATION	AMOUNT SPENT (KES)
4)	Maugunja Primary School	Coast Region	Education	1) Purchase of sanitary towels 2) donation of computers	100,000.00
5)	Double Joy Children's Farm	Nyanza/Western	Education	Donation of Double decker metal beds, mattresses and food stuff	100,000.00
6)	a) Kwanjora Special School	Mt. Kenya - Nyahururu	Education	1) Donation of Mattresses, blankets and assorted food stuffs & toiletries	40,000.00
	b) ACK St. Stephen Children's Home	Mt. Kenya - Embu		2) Donation of mattresses, blankets and assorted food stuff	60,000.00
7)	Arabuko Primary School	Coast Region	Education	Purchase and installation of water reservoir, chairs and desks for teachers	100,000.00
8)	Kinduiwo Children's Home	Central Rift	Environment	Purchase of water tank, solar batteries and food stuff	100,000.00

**CORPORATE SOCIAL RESPONSIBILITY (Continued)**

S.NO	NAME OF ORGANISATION	REGION	PILLAR	BRIEF INFORMATION	AMOUNT SPENT (KES)
9)	a) Olmeroi Primary School	Eastern Region	Education	a) Purchase of desks	50,000.00
	b) Malia Children's Home			b) Purchase of text books and exercise books	50,000.00
10)	Neema Children's Home	North Rift Region	Education	Purchase of mattresses and food stuff	100,000
11)	Bukhalalire High School	Nyanza/Western Region	Education	Furnish science and computer laboratories	980,000.00
<b>TOTAL</b>					<b>2,580,000.00</b>

## CORPORATE SOCIAL RESPONSIBILITY (Continued)



**Coast Region** - Donation of computers to Maugunja Primary school

**CORPORATE SOCIAL RESPONSIBILITY (Continued)**

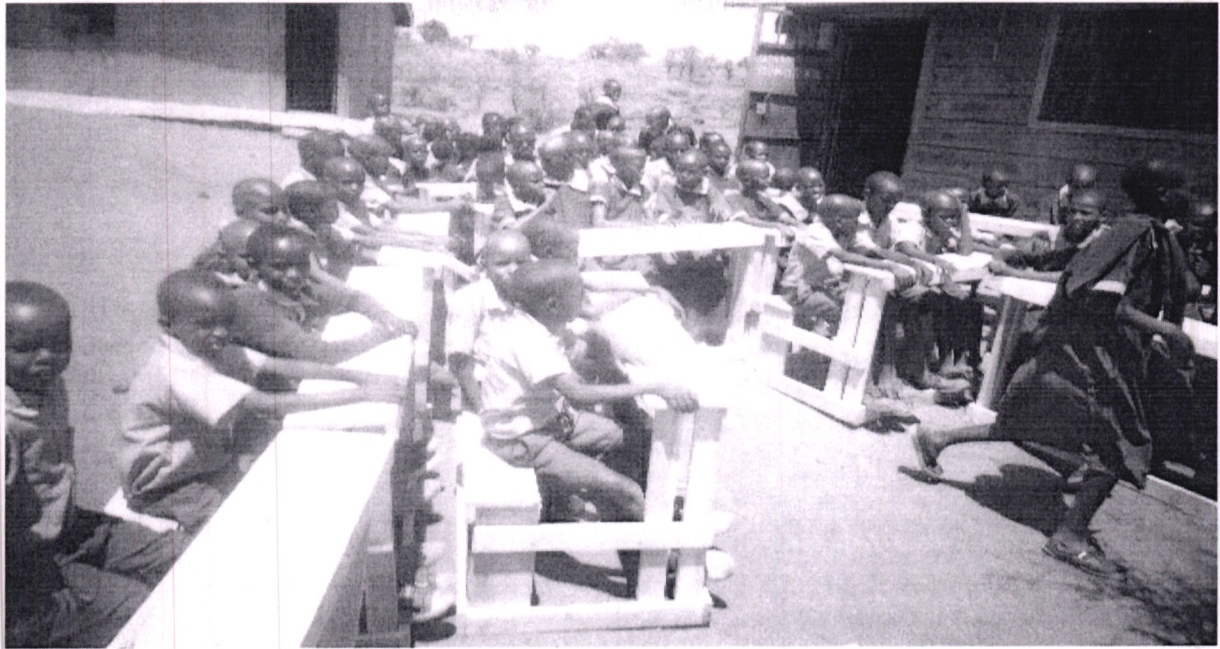


**Nyanza/ Western Region** – Donation of double decker beds and food stuff to Double Joy Children’s Home in Bondo



**Eastern Region** – Donation of books to Malia Children’s Home in Machakos

**CORPORATE SOCIAL RESPONSIBILITY (Continued)**

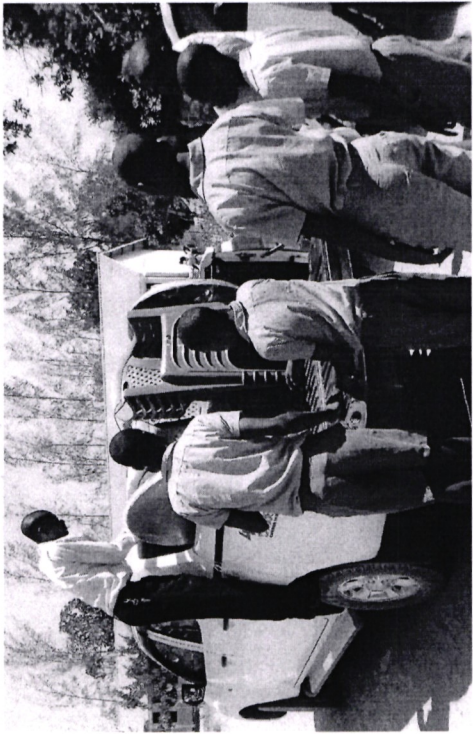


**Eastern Region** – Donation of desks to Olmeroi Primary school in Ngong

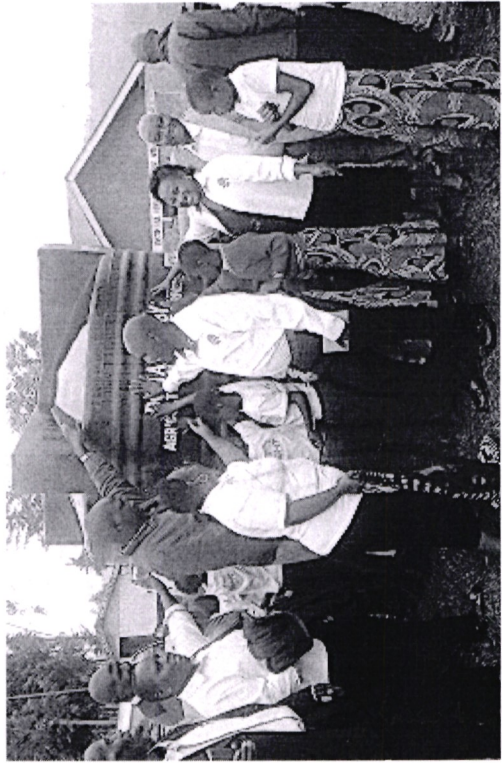


**North Rift Region** – Donation of mattresses and food stuff to Neema Children's Home in Eldoret

**CORPORATE SOCIAL RESPONSIBILITY (Continued)**



**Coast Region** – Purchase and installation of water reservoir and basic chairs and desks for teachers at Arabuko Primary School in Kilifi



**Central Rift** - Purchase of water tank, solar batteries and food stuff to Kinduiwo Children's Home in Bomet



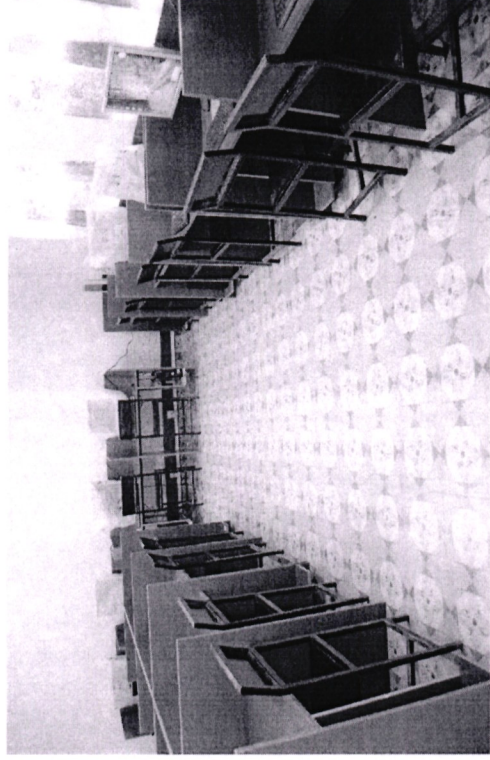
**CORPORATE SOCIAL RESPONSIBILITY (Continued)**



**Mt. Kenya Region** - Donation of Mattresses, blankets, books and assorted food stuffs to Kwanjora special school in Nyahururu and ACK St. Stephen Children's Home in Embu



**Nyanza/Western Region** - Furnished Science and Computer laboratories at Bukhalalire High school



## **IX. REPORT OF THE DIRECTORS**

The directors submit their report together with the audited financial statements for the year ended June 30, 2018, in accordance with the section 194 of the Public Finance Management (PFM) Act, 2012 which disclose the state of affairs of the Corporation.

### **Principal activities**

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

### **Results**

The results of the entity for the year ended June 30, 2018 are set out from page 50 to page 97.

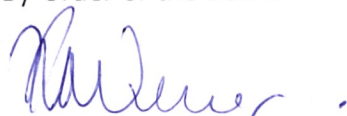
### **Directors**

The members of the Board of directors who served during the year are shown on page 3. All the directors were appointed in accordance with respective section of the constitution of Kenya.

### **Auditors**

The Auditor General is responsible for the statutory audit of the entity in accordance with the Section 194 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



**Corporation Secretary**

**Nairobi**

**Date: 28<sup>th</sup> August 2018**



**David Kiptanui Koros**

**Chair – Finance & Business**

**Development Committee**

## **X. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

The directors accept responsibility for the preparation and fair presentation of the Corporation's financial statements that are free from material misstatement whether due to fraud or error. They also accept responsibility for:-

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

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

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)**

financial year ended June 30, 2018, 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.

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 28<sup>th</sup> August, 2018 and signed on its behalf by:



**David Kiptanui Koros**  
**For Chairman**



**Lucas Meso, MBS**  
**Managing Director**



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Qualified Opinion

I have audited the accompanying financial statements of Agricultural Finance Corporation set out on pages 50 to 98, which comprise the statement of financial position as at 30 June 2018, and the statement of 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 effects 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 2018, 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 Act, Cap 323 of the Laws of Kenya.

#### Basis for Qualified Opinion

##### 1. Property and Equipment

The property and equipment balance of Kshs.1,142,668,000 as at 30 June 2018 still include as previously reported, twenty-nine developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring 1.5383 hectares with no ownership documents. In addition, the value of land and buildings with a net book value of Kshs.940,698,000 as disclosed under Note 8 (a) to the financial statements, excludes unvalued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. Although the management has explained that it has continued with the pursuit of title documents for all its properties through the Ministry of Lands and the National Land Commission, no tangible results had been achieved as at the date of this report. In the circumstances, it has not been possible to confirm whether the property and equipment balance of Kshs.1,142,668,000 reflected in the statement of financial position as at 30 June 2018 is fairly stated.

## **2. Net Medium Term Loans to Customers**

As reported in the previous years and as disclosed under Note 9 (a) to the financial statements, net medium term loans to customers of Kshs.5,602,718,000 as at 30 June 2018 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 which appeared fraudulent. Although the management has explained that the Corporation filed six cases in court against the fraudsters under Eldoret HCC No.100,102,103,104,105 and 106 of 2011 and judgement entered in favor of the Corporation, however as at the date of this report, execution of the warrants issued had not been effected. In the circumstances, the recoverability of the amount of Kshs.22,661,000 is doubtful.

## **3. Current Tax Payable**

The statement of financial position as at 30 June 2018 reflects current tax payable of Kshs. 328,017,000 which is an increase of Kshs.157,285,000 over the previous year's balance of Kshs.170,732, 000. Although the management has explained that the taxable profit was ascertained in accordance with paragraphs 15 & 16 of the Income Tax Act, Cap 470 of the Laws of Kenya, no sufficient evidence has been provided to show how the current tax figure of Kshs.328,017,000 and the corporation tax for the year of Kshs.157,285,000, respectively were determined. In addition, the report provided by the Corporation from a consultant hired to determine the current tax liability and corporation tax for the year during the year does not confirm both the current tax figure of Kshs. 328,017,000 and the corporation tax for the year of Kshs.157,285,000 as reported. Consequently, the accuracy of the current tax payable of Kshs.327,240,000 cannot be confirmed.

## **4. Loss of Cash**

As previously reported in 2015/2016 and earlier years, examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs. 35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. The case is still in court and any provisions for the loss that would have been necessary in relation to this uncertainty have not been incorporated in these financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Agricultural Finance Corporation in accordance with ISSAI 30 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## **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 matters described in the Basis for Qualified Opinion 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**

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, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective 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 control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability of Agricultural Finance Corporation to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Corporation or cease operations, or have no realistic alternative but to do so.

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 financial reporting process, reviewing the effectiveness of how the entity 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 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 control in order to give an assurance on the effectiveness of internal controls, risk management and 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 control 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 control may not prevent or detect misstatements and instances of noncompliance. 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 control.
- 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Agricultural Finance Corporation to continue as a going concern. 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 as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Agricultural Finance Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**22 May 2019**

## XI. STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018	2017
Revenues		KES'000	KES'000
<b>Interest Income:</b>			
Interest on Loans	2 (a)	743,184	932,485
Interest on Short Term Deposits	2 (b)	152,221	75,352
<b>Total interest income</b>		<b>895,404</b>	<b>1,007,837</b>
<b>Less: Interest expenses</b>			
Interest on Redeemable Loans	3	38,260	38,562
Rebate Interest	4	2,243	2,069
		<b>40,503</b>	<b>40,631</b>
<b>Net interest income</b>		<b>854,901</b>	<b>967,206</b>
<b>Non-Interest income</b>			
Other Operating Income	5 (a)	92,753	113,912
Fee Income	5 (b)	182,240	182,557
Income from doubtful debts	6	549,123	607,443
<b>Total Non-Interest income</b>		<b>824,116</b>	<b>903,912</b>
<b>Total Revenues</b>		<b>1,679,017</b>	<b>1,871,118</b>
<b>Operating Expenses</b>			
Staff Cost	7 (a)	(752,198)	(737,510)
Board Expenses	7 (b)	(21,109)	(24,401)
Administration Costs	7 (c)	(276,281)	(233,883)
Depreciation & Amortisation	8 (a & b)	(142,054)	(117,229)
Charge for Doubtful Debts	12 (a)	(208,786)	(486,767)
<b>Total Expenses</b>		<b>(1,400,427)</b>	<b>(1,599,790)</b>
<b>Profit before tax</b>		<b>278,590</b>	<b>271,328</b>
Tax for the Year	23 (a)	(157,285)	(143,721)
<b>Profit after tax</b>		<b>121,304</b>	<b>127,607</b>

Agricultural Finance Corporation  
 Reports and Financial Statements  
 For the year ended 30<sup>th</sup> June, 2018

## XII. STATEMENT OF FINANCIAL POSITION

	Notes	2018	2017
ASSETS:	NOTES	KES.'000	KES.'000
<b>Non-Current Assets</b>			
Property and Equipment	8 (a)	1,142,668	1,079,401
Intangible Assets	8 (b)	104,731	138,902
Deferred Tax Asset	10	588,975	588,975
Repossessed Farm Properties	11	259,167	137,995
Net Medium Term Loans to Customers	9 (a)	5,602,718	4,896,792
<b>Total Non- Current Assets</b>		<b>7,698,259</b>	<b>6,842,065</b>
<b>Current Assets</b>			
Cash and Bank Balances	13 (a)	146,439	130,833
Short Term Deposits	14	1,271,502	1,117,576
Net Short Term Loans to Customers	9 (b)	1,981,527	1,863,232
Trade and Other Receivables	15	149,028	600,215
Inventories	16	3,591	1,937
<b>Total Current Assets</b>		<b>3,552,087</b>	<b>3,713,793</b>
<b>Total Assets</b>		<b>11,250,346</b>	<b>10,555,858</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity and Reserves</b>			
Grants	17	3,803,691	3,597,951
Government Equity Capital	18	2,687,766	2,687,766
General Reserve	19 (a)	1,030,715	911,278
Revaluation Reserve	19 (b)	787,618	787,618
<b>Total Equity and Reserves</b>		<b>8,309,790</b>	<b>7,984,613</b>
<b>Non-Current Liabilities</b>			
Redeemable Government Loans and Interest:	20 (a)	1,034,819	1,003,258
Agency Funds	20 (b)	831,734	831,734
<b>Total Non-Current Liabilities</b>		<b>1,866,553</b>	<b>1,834,992</b>
<b>Current Liabilities</b>			
Payables	21 (a)	503,136	363,918
Trade and Other Payables	21 (b)	242,851	201,603
Current Tax Payable	21 (c)	328,017	170,732
<b>Total Current Liabilities</b>		<b>1,074,003</b>	<b>736,253</b>
<b>Total Equity and Liabilities</b>		<b>11,250,346</b>	<b>10,555,858</b>

The financial statements set out on pages 50 to 92 were approved by the Board of Directors on 28<sup>th</sup> August 2018 and were signed on its behalf by:

  
 David Kiptanui Koros  
 For Chairman

  
 Lucas Meso, MBS  
 Managing Director

**XIII. STATEMENT OF CHANGES IN EQUITY**

	Notes	Government Equity Capital	General Reserve	Revaluation Reserve	Grants	Totals
		KES.'000	KES.'000	KES.'000	KES.'000	KES.'000
<b>2016:</b>						
At 1 July 2016 - As previously stated		2,687,766	783,671	787,618	2,856,476	7,115,531
Profit for the Year	19 (a)	-	127,607	-	-	127,607
GOK Project Subsidy Funds 2016	17	-	-	-	550,000	550,000
GOK Risk Sharing Fund Account	17	-	-	-	191,475	191,475
<b>Balance as at 30 June 2017</b>		<b>2,687,766</b>	<b>911,278</b>	<b>787,618</b>	<b>3,597,951</b>	<b>7,984,613</b>
<b>Balance as at 1 July 2017</b>		<b>2,687,766</b>	<b>911,278</b>	<b>787,618</b>	<b>3,597,951</b>	<b>7,984,613</b>
GOK Project Subsidy Funds 2017		-	-	-	20,000	20,000
GOK Risk Sharing Fund Account		-	-	-	185,740	185,740
Profit for the Year	19 (a)	-	121,304	-	-	121,304
<b>Balance as at 30th June 2018</b>		<b>2,687,766</b>	<b>1,032,582</b>	<b>787,618</b>	<b>3,803,691</b>	<b>8,311,657</b>

#### XIV. STATEMENT OF CASH FLOW

	NOTES	2018 KES.'000	2017 KES.'000
<b>Cash flow from operating activities:</b>			
Profit/(Loss) Before Taxation		278,590	271,328
<b>Adjustments for:</b>			
Interest on Short Term Deposits	2 (b)	(152,221)	(75,352)
Depreciation of Property & Equipment	8 (a)	80,090	75,652
Amortisation of Intangible Assets	8 (b)	61,964	41,577
Adjustment of depreciation due to reclassification of Fittings	8 (b)	12	-
Profit/loss on Disposal of Assets	22 (c)	(1,675)	(3,147)
Interest expense	20 (a)	38,262	38,561
Increase in Inventories		(1,654)	(874)
Increase in Trade and Other Receivables		451,187	(538,604)
Decrease in Trade and Other Payables		180,465	(49,103)
Interest paid		(7,000)	(11,000)
<b>Net cash flows generated from operating activities</b>		<b>928,021</b>	<b>(250,962)</b>
<b>Cash flow from Investing activities:</b>			
Purchase of Property & Equipment		(143,370)	(78,218)
Purchase of Intangible Assets		(27,791)	(110,362)
Interest on Short Term Deposits	2 (b)	152,221	75,352
Proceeds from disposal of Property & Equipment	22 (c)	1,639	6,020
Increase in Repossessed Farm Properties		(121,172)	-
Decrease in Short Term Loans to Customers		(117,962)	674,987
Decrease in Loans to Customers		(705,926)	(601,981)
<b>Net cash flow used in investing activities</b>		<b>(962,362)</b>	<b>(34,202)</b>
<b>Cash flow from Financing activities:</b>			
Reinstatement of Codf Funds		-	10,388
Reclassification impact of IFRS 9	19 (a)	(1,867)	-
Kenya Sugar Board repayments		-	(40,000)
GOK Project Subsidy Funds 2016	17	-	550,000
GOK Risk Sharing Fund Account	17	185,740	191,475
GOK Project Subsidy Funds 2016	17	20,000	-
<b>Net cash flow used in financing activities</b>		<b>203,873</b>	<b>711,863</b>
Net increase in cash and cash equivalent		169,532	426,699
Cash and cash equivalent at the beginning of the year		1,248,409	821,710
<b>Cash and cash equivalent at the end of the period</b>		<b>1,417,941</b>	<b>1,248,409</b>

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 value.

**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2018**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2017-2018 Kshs	2017-2018 Kshs	2017-2018 Kshs	2017-2018 Kshs	2017-2018 Kshs
<b>Revenue</b>					
<b>Interest Income:</b>					
Interest on Loans	873,753	-	873,753	743,184	(130,569)
Interest on Short Term Deposits	80,000	-	80,000	152,221	72,221
<b>Total interest income</b>	<b>953,753</b>	<b>-</b>	<b>953,753</b>	<b>895,405</b>	<b>(58,348)</b>
<b>Non-Interest income</b>					
Fee/Other Operating Income	353,219	1,249	354,468	274,993	(79,475)
Income from doubtful debts	200,000	490,000	690,000	549,123	(140,877)
<b>Total Non-Interest income</b>	<b>553,219</b>	<b>491,249</b>	<b>1,044,468</b>	<b>824,116</b>	<b>(220,352)</b>
<b>Total Revenues</b>	<b>1,506,972</b>	<b>491,249</b>	<b>1,998,221</b>	<b>1,719,520</b>	<b>212,548</b>
<b>Expenses</b>					
Staff Cost	745,990	50,710	796,700	752,198	44,502
Board Expenses	25,000	-	25,000	21,109	3,891
Administration Costs	298,400	59,800	358,200	276,281	81,919
Depreciation & Amortisation	98,000	38,000	136,000	142,054	(6,054)
Charge for Doubtful Debts	48,000	283,500	331,500	208,786	122,714
Interest on Redeemable Loans	42,000	-	42,000	38,260	3,740
Rebate Interest	8,000	-	8,000	2,243	5,757
<b>Total expenditure</b>	<b>1,265,390</b>	<b>432,010</b>	<b>1,697,400</b>	<b>1,440,931</b>	<b>256,469</b>
<b>Surplus for the period</b>	<b>241,582</b>	<b>-</b>	<b>300,821</b>	<b>278,590</b>	<b>(22,231)</b>

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018  
(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 31<sup>st</sup> December 2017, the management reviewed the approved budget for the financial year 2017/2018 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 and additional budgetary allocation. The additional budgetary allocation in the Supplementary budget had an overall effect on the approved budget figure of KES 1,300 million for the year 2017/18FY.

The net interest income decreased by 11.9% from KES 967 million in 2017 to KES 852 million in 2018. This was occasioned by the reduction in product interest rates during the year.

Staff cost remained relatively high compared to the previous year. This was occasioned by implementation of the Collective Bargaining Agreement for the year 2017/18 for unionisable staff and the effect of annual increments for the management staff.

## **XVI. NOTES TO FINANCIAL STATEMENTS**

### **1.1. 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 entity's principal activity is providing credit facilities for sole purpose of developing agriculture.

### **1.2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

#### **i) Basis of measurement**

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below. For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Corporation uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Corporation using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account.

Fair values are categorized into three levels. This is based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:-

- **Level 1** fair value measurements; derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** fair value measurements; derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

## **NOTES TO FINANCIAL STATEMENT (Continued)**

- **Level 3** fair value measurements; those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Transfers between levels of the fair value hierarchy are recognised by the Corporation at the end of the reporting period during which the change occurred.

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

### **ii) Use of estimates**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgment in the process of applying the Corporation's accounting policies.

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

### **1.3. ADOPTION OF NEW AND REVISED STANDARDS**

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

## **NOTES TO FINANCIAL STATEMENT (Continued)**

### **i) New standards, amendments and interpretations effective and adopted during the year**

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after January 1, 2018. As permitted, the Corporation did not restate its prior period comparative financial statements on adoption of the new standard. The key changes to our accounting policies and the expected impact resulting from the adoption of IFRS 9 include adoption of the new standard and expected credit loss methodology commensurate with its size, complexity, structure, economic significant and the risk profile of its exposure.

The application of the standard impacted on the income statement and the retained earnings.

### **ii) Early adoption of standards**

The Corporation adopted IFRS 9 standard in the year 2018.

## **1.4. 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.

### **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

## NOTES TO FINANCIAL STATEMENT (Continued)

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.

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

## NOTES TO FINANCIAL STATEMENT (Continued)

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. 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%
Office equipment	20%		

## **NOTES TO FINANCIAL STATEMENT (Continued)**

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.

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 written off after all efforts at recovery 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. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

## **NOTES TO FINANCIAL STATEMENT (Continued)**

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 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.

## **NOTES TO FINANCIAL STATEMENT (Continued)**

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 on 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 capitalised as part of the cost of the project.

## **NOTES TO FINANCIAL STATEMENT (Continued)**

### **j) Budget information**

The original budget for FY 2017-2018 was approved by the National Assembly on 17<sup>th</sup> March 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Corporation recorded additional appropriations of the 2017-2018 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.

### **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.

## **NOTES TO FINANCIAL STATEMENT (Continued)**

### **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). The Corporation's contributions to the above schemes are charged to the profit and loss account in the year which they relate. An actuarial valuation done as at 30<sup>th</sup> June 2015 indicated the fund had a deficit of KES 204.9 million. The Corporation paid KES 50 million to the scheme to reduce the deficit during the year under review.

### **m) Provision for Doubtful Debts**

During the year the Corporation finalized 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.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after January 1, 2018. As permitted, the Corporation did not restate the prior period comparative figures of the financial statements when it adopted the requirements of the new standard. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 were recognized in the retained earnings in line with the applicable exemptions in IFRS 9 paragraph 7.2.15 and 7.2.26.

## NOTES TO FINANCIAL STATEMENT (Continued)

The application of IFRS 9 reduced our Retained earnings by KES. 1.867 million as at 30th June, 2018. The tables below reconcile the closing impairment allowances for financial assets in accordance with IAS 39 and provisions for loan commitments in accordance with IFRS 9.

### Impairment Allowance Reconciliation

Asset	Value	B/f Provision – IAS 39	Write offs	Net Cumm Provisions	Reclassification impact	Additional provision IFRS 9	Provisions as at 30-06-2018
Loan Advances/Portfolio	8,640,074	2,101,055	1,246,768	854,287	(1,867)	180,418	1,032,838
Other debts	623,389	23,174	23,174	-	-	28,369	28,369

Summary note on charge and accumulated provisions for the year as at 30<sup>th</sup> June 2018

Accumulated Provisions	Amount	B/F	Charge
Short Term	336,263	310,798	25,465
Medium Term	652,964	514,253	138,711
Staff	43,611	27,369	16,242
Other Debts	-	-	28,369
<b>Total</b>			<b>208,787</b>

## 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**

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

### 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

## **NOTES TO FINANCIAL STATEMENT (Continued)**

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, 2018.

## 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 2017/18 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.

<b>Key management remuneration</b>	<b>2018 KES'000</b>	<b>2017 KES'000</b>
Directors	21,109	24,402
Key management compensation	40,813	39,447

### 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.

## 1.5. 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)**

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>2 (a). Interest on Loans</b>		
Interest on Medium Term Loans	630,531	789,478
Interest on Short Term Loans	85,076	117,122
Interest on Staff Loans	27,577	25,885
<b>Balance as at 30th June</b>	<b>743,184</b>	<b>932,485</b>

**2 (b). Interest on Short Term Deposits**

Details are as follows:-

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
Short Term Deposits	152,151	75,352
Bank Accounts	70	-
<b>Balance as at 30th June</b>	<b>152,221</b>	<b>75,352</b>

**3. Interest on Redeemable Loans**

The interest charge on redeemable loans outstanding as at 30th June 2018 were as follows:

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
RSDP & IBRD 1995 KE	34,532	34,531
A D B (PIGS)	3,729	4,031
<b>Balance as at 30th June</b>	<b>38,260</b>	<b>38,562</b>

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

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>4. Rebates Interest</b>	<b>2,243</b>	<b>2,069</b>
<b>Balance as at 30th June</b>	<b>2,243</b>	<b>2,069</b>

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

**NOTES TO FINANCIAL STATEMENT (Continued)**

<b>5 (a). Other operating Income</b>	<b>2018</b>	<b>2017</b>
<b>Non-Interest Income</b>	<b>KES.'000</b>	<b>KES.'000</b>
Rent income - Note 22 (a).	69,434	83,279
Profit on disposal of assets - Note 22 (b).	1,675	3,147
Agency commission	3,201	3,316
Sundries	18,444	24,170
<b>Balance as at 30th June</b>	<b>92,753</b>	<b>113,912</b>

<b>5 (b). Fees Income</b>	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
Application & Forms fees	35,716	23,042
Conveyance	55,187	49,805
Loan Commitments Fees	35,956	34,449
Inspection fees	121	128
Other Loan Processing fees	6,691	6,848
Discharge of Securities Fees	5,160	5,670
Loan Waiver Processing Fees	237	509
Account Maintenance Fee Income	43,171	62,106
<b>Balance as at 30th June</b>	<b>182,240</b>	<b>182,557</b>

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 outstanding prior to January 2003 had been fully provided for as doubtful debt as at 30th June 2005 and interest accrual on such loans suspended. However, recoveries from the portfolio have been recognised as income. During the period the Corporation received GOK subsidy of KES 407M for repayment of these loans as shown below:-

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
Recoveries from NPL's	549,123	607,443
<b>Balance as at 30th June</b>	<b>549,123</b>	<b>607,443</b>

**NOTES TO FINANCIAL STATEMENT (Continued)**

7. (a) Staff Costs	Actual	Budget	Variance Budget	Actual	Variance Actual
	30.06.18 KES.'000	30.06.18 KES.'000	30.06.18 KES.'000	30.06.17 KES.'000	2017 vs 2018 KES.'000
Salaries	403,449	434,000	30,551	395,726	7,723
Overtime	2,607	2,800	193	2,431	176
House allowance	101,525	102,000	475	101,468	57
Transport allowance	45,797	46,000	203	45,049	748
Hardship allowance	9,069	9,500	431	9,207	(138)
Acting/Duty & Aggregation allowance	1,011	1,500	489	1,144	(133)
Leave allowance	3,170	4,500	1,330	4,925	(1,755)
Entertainment Allowance	-	-	-	300	(300)
Other emoluments	1,200	1,200	-	1,200	-
Staff appointments & transfers allowances	1,185	3,000	1,815	3,018	(1,833)
Medical & staff Insurance expenses	46,270	65,000	18,730	61,301	(15,031)
Staff Insurance expenses	7,832	10,500	2,668	3,328	4,504
Pension contributions	34,282	34,500	218	33,877	405
Pension deficit contributions	50,000	50,000	-	50,000	-
NSSF employers contribution	1,226	1,400	174	1,206	20
Gratuities	15,656	18,700	3,044	13,172	2,484
Welfare & Uniforms	9,546	11,100	1,554	7,424	2,122
Leave Days Accrual	18,372	-	(18,372)	2,734	15,638
<b>Total</b>	<b>752,198</b>	<b>795,700</b>	<b>43,502</b>	<b>737,510</b>	<b>14,688</b>

**NOTES TO FINANCIAL STATEMENT (Continued)**

7. (b) Board Members' Expenses	Actual	Budget	Variance Budget	Actual	Variance Actual
	30.06.18 KES.'000	30.06.18 KES.'000	30.06.18 KES.'000	30.06.17 KES.'000	2017 vs 2018 KES.'000
Chairman's Standing Fees	960	1,000	40	960	-
Sitting Allowance	6,540	8,000	1,460	8,020	(1,480)
Travelling Allowance	2,026	3,000	974	3,272	(1,246)
Night Out & Meal Allowance	6,570	7,000	430	7,371	(801)
Sundry Board Expenses	-	500	500	10	(10)
Training Expenses	4,110	4,500	390	4,033	77
Medical	902	1,000	98	735	167
<b>Total</b>	<b>21,109</b>	<b>25,000</b>	<b>3,891</b>	<b>24,401</b>	<b>(3,292)</b>
<b>7. (c) General &amp; Administrative Expenses:</b>	<b>30.06.18 KES.'000</b>	<b>30.06.18 KES.'000</b>	<b>30.06.18 KES.'000</b>	<b>30.06.17 KES.'000</b>	<b>2017 vs 2018 KES.'000</b>
Bank charges	2,874	3,000	126	2,993	(119)
Corporate Comm & advertisement	9,947	36,300	26,353	7,308	2,639
Publicity/Shows & Field days	6,438	8,000	1,562	6,996	(558)
ISO Certification	589	6,000	5,411	933	(344)
Corporate social responsibility/Donations	3,086	10,000	6,914	2,840	246
General office expenses	15,776	18,000	2,224	13,927	1,849
Insurance of Corporation assets	4,663	5,000	337	1,932	2,731
Insurance of Motor Vehicles	6,941	7,000	59	5,715	1,226
Land rent & rates	1,454	2,000	546	1,266	188
Legal fees	3,377	4,000	623	1,287	2,090
Maintenance of buildings	3,812	6,500	2,688	5,972	(2,160)
Maintenance of furniture & equipment	5,914	5,200	(714)	4,397	1,517
Office rentals	21,075	22,000	925	15,747	5,328

**NOTES TO FINANCIAL STATEMENT (Continued)**

7. (c) General & Administrative Expenses:	Actual	Budget	Variance Budget	Actual	Variance Actual
	30.06.18 KES.'000	30.06.18 KES.'000	30.06.18 KES.'000	30.06.17 KES.'000	2017 vs 2018 KES.'000
Printing & stationery	6,925	7,000	75	5,156	1,769
Professional consultants	7,176	13,500	6,324	3,768	3,408
Subscriptions to professional bodies	2,038	2,500	462	1,978	60
Research & development	416	1,500	1,084	-	416
Security	26,618	29,000	2,382	24,989	1,629
Software licences Taxes & licences	28,426	28,700	274	7,391	21,035
Telephone, internet & postage	28,158	30,000	1,842	28,226	(68)
General hotel & travel	24,169	30,000	5,831	19,193	4,976
Entertainment Expense	700	3,000	2,300	-	700
Training	26,026	28,000	1,974	33,709	(7,683)
Vehicle fuel & oil	12,925	13,500	575	10,182	2,743
Vehicle maintenance	9,933	13,000	3,067	12,874	(2,941)
Water, electricity & gas	6,694	7,500	806	6,258	436
Transformation expenses	7,892	16,000	8,108	6,469	1,423
Auditors Fees	1,531	2,000	469	1,531	-
Fringe Benefit Tax	708	1,000	292	846	(138)
<b>Total</b>	<b>276,281</b>	<b>359,200</b>	<b>82,919</b>	<b>233,883</b>	<b>42,398</b>
<b>Total</b>	<b>1,049,587</b>	<b>1,179,900</b>	<b>130,313</b>	<b>995,794</b>	<b>53,793</b>
<b>Average number of employees at the end of the year was:</b>	<b>30.6.18</b>	<b>30.6.17</b>			
Permanent Employees - Management	238	238			
Permanent employees - Unionisable	279	271			
<b>Total</b>	<b>517</b>	<b>509</b>			

**NOTES TO FINANCIAL STATEMENT (Continued)**

**8. (a) Property and Equipment**

	Land & Building	Motor Vehicles	Furniture & Fittings	Computer Hardware	Office and ICT Equip and Others	Totals
	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000
<b>COSTS:</b>						
As at 1st July 2017	1,096,287	243,997	126,306	157,963	160,203	1,784,756
Additions	12,271	43,995	75,255	4,496	7,352	143,370
Adjustment in dep for fittings	-	-	(13)	-	-	(13)
Disposal	-	(7,653)	-	-	-	(7,653)
<b>As at 30 June 2018</b>	<b>1,108,558</b>	<b>280,340</b>	<b>201,548</b>	<b>162,459</b>	<b>167,555</b>	<b>1,920,460</b>
<b>DEPRECIATION:</b>						
Charge for previous years	146,621	188,931	78,234	143,434	148,135	705,355
Charge for the year	21,239	30,985	12,981	8,293	6,593	80,090
Disposals	-	(7,653)	-	-	-	(7,653)
<b>As at 30 June 2018</b>	<b>167,860</b>	<b>212,263</b>	<b>91,215</b>	<b>151,727</b>	<b>154,728</b>	<b>777,792</b>
<b>NET BOOK VALUE</b>						
As at 30 June 2018	940,698	68,077	110,334	10,733	12,827	1,142,668
As at 30 June 2017	949,666	55,066	48,072	14,529	12,068	1,079,401

## 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	118,429	29,607
Office Equipment	135,274	27,055
Computer Hardware	129,241	43,037
Software	15,196	5,060
Furniture and Fittings	72,253	9,032
<b>Total as at 30<sup>th</sup> June</b>	<b>470,393</b>	<b>113,791</b>

### 8. (b) Intangible Assets

	2018 KES'000	2017 KES'000
<b>COSTS:</b>		
<b>As at 1 July</b>	<b>229,988</b>	<b>59,478</b>
Additions	27,792	170,510
Obsolete software written-off	(40,363)	-
<b>As at 30<sup>th</sup> June 2018</b>	<b>217,418</b>	<b>229,988</b>
<b>AMORTISATION</b>		
<b>As at 1 July</b>	<b>91,086</b>	<b>49,509</b>
Charge for the year	61,964	41,577
Obsolete software written-off	(40,363)	-
<b>As at 30<sup>th</sup> June 2018</b>	<b>112,687</b>	<b>91,086</b>
<b>NET BOOK VALUE</b>	<b>104,731</b>	<b>138,902</b>

**NOTES TO FINANCIAL STATEMENT (Continued)**

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>Loans to Customers</b>		
<b>9. (a) Loans to Customer</b>		
Medium Term Loans	5,920,712	6,372,422
Staff Loans	363,782	299,306
Directors Loans	14,799	15,066
<b>Total Medium Loans to Customer</b>	<b>6,299,293</b>	<b>6,686,794</b>
Less Accumulated Provision	-	1,790,257
Medium term loans	652,964	-
Staff Loans	43,611	-
<b>Net loans to Customer</b>	<b>5,602,718</b>	<b>4,896,537</b>
<b>9. (b) Short Term Loans to Customers</b>	2,317,790	2,174,285
Less Accumulated Provision	-	310,798
Short term loans	336,263	-
<b>Net Short Term Loans to Customers</b>	<b>1,981,527</b>	<b>1,863,487</b>
<b>Classified Under</b>		
12. (b) Medium Term Loans	652,964	1,762,888
12. (b) Short Term Loans	336,263	310,798
12. (b) Staff Loans	43,611	27,369
12. (b) Other debtors	28,368	23,174
<b>Total</b>	<b>1,061,205</b>	<b>2,124,229</b>

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.

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>10. Deferred Tax Asset:</b>		
The net deferred tax asset is arrived at as follows:		
Balance b/f as at 1 <sup>st</sup> July	588,975	632,446
Tax for the year	-	(43,471)
<b>Balance as at 30<sup>th</sup> June</b>	<b>588,975</b>	<b>588,975</b>

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>11. Repossessed Farm Properties:</b>		
Acquisition value as at 1 <sup>st</sup> July	137,995	137,995
Add write back of Provision	58,428	-
Additions - FPIP	62,744	-
<b>Balance as at 30<sup>th</sup> June</b>	<b>259,167</b>	<b>137,995</b>

## NOTES TO FINANCIAL STATEMENT (Continued)

### 12 (a). Provisions for doubtful debts

The charged amounts are classified as below.

#### Doubtful debts charges for the year:

	2018 KES.'000	2017 KES.'000
<b>Loans to Customers:</b>		
Specific provision	-	305,887
General provision	164,176	169,046
<b>Total</b>	<b>164,176</b>	<b>474,933</b>
<b>Staff Loans:</b>		
Specific provisions	-	8,456
General provisions	16,242	2,731
<b>Total</b>	<b>16,242</b>	<b>11,187</b>
<b>Other Debts:</b>		
Specific provisions	28,368	647
<b>Total</b>	<b>28,368</b>	<b>647</b>
<b>Total charge for the year</b>	<b>208,786</b>	<b>486,767</b>

## NOTES TO FINANCIAL STATEMENT (Continued)

### 12 (b). Accumulated provisions for doubtful debts

	2018	2017
<b>Specific Provisions</b>	<b>KES'000</b>	<b>KES'000</b>
Balance as at 1 <sup>st</sup> July	1,659,350	1,737,288
Charge for the year	-	305,887
Interest Concession - Farm Loans	(701,050)	223,618
Re-categorization of suspended Interest	(330)	-
Reclassification impact of IFRS 9	1,867	-
Write back during the year	(549,123)	(607,443)
<b>Balance as at 30<sup>th</sup> June</b>	<b>410,715</b>	<b>1,659,350</b>
<b>General Provisions</b>		
Balance as at 1 <sup>st</sup> July	414,336	325,456
Charge for the year	164,176	169,046
Interest Concession - Farm Loans	-	(80,166)
<b>Balance as at 30<sup>th</sup> June</b>	<b>578,512</b>	<b>414,336</b>
<b>Staff Loans:</b>		
<b>Specific Provisions</b>		
Balance as at 1 <sup>st</sup> July	24,638	20,387
Charge for the year	-	8,456
Interest Concession - Staff Loans	-	(4,205)
<b>Balance as at 30<sup>th</sup> June</b>	<b>24,638</b>	<b>24,638</b>
<b>General Provisions</b>		
Balance as at 1 <sup>st</sup> July	2,731	-
Charge for the year	16,242	2,731
<b>Balance as at 30<sup>th</sup> June</b>	<b>18,973</b>	<b>2,731</b>
<b>Other debts:</b>		
Balance as at 1 <sup>st</sup> July	23,174	22,527
Written off	(23,174)	-
Charge for the year	28,368	647
<b>Balance as at 30<sup>th</sup> June</b>	<b>28,368</b>	<b>23,174</b>
<b>Provisions Summary</b>		
General Provisions	1,061,205	2,124,229
<b>Balance as at 30<sup>th</sup> June</b>	<b>1,061,205</b>	<b>2,124,229</b>

**NOTES TO FINANCIAL STATEMENT (Continued)**

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>13 (a). Cash and Bank Balances</b>		
Current accounts	77,566	41,161
Branch Collection Accounts	24,853	12,347
Branch Imprest Accounts	6,825	10,884
Branch Loan Funds Accounts	37,195	66,441
<b>Balance as at 30th June</b>	<b>146,439</b>	<b>130,833</b>

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>14. Short Term Deposits</b>		
Co-operative Bank	300,000	350,000
National Bank of Kenya	750,000	550,000
Kenya Commercial Bank	205,000	50,000
NIC Bank	-	150,000
Interest receivable	16,502	17,576
<b>Balance as at 30th June</b>	<b>1,271,502</b>	<b>1,117,576</b>

The average effective interest rate on the short term deposits as at June 30, 2018 was 10.7% (2017 9.7%). 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.

## NOTES TO FINANCIAL STATEMENT (Continued)

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	2018 KES.'000	2017 KES.'000
<b>a) Current account</b>			
Kenya Commercial bank	Various	34,581	24,513
Barclay Bank of Kenya	651600952	52	160
Co-operative Bank of Kenya	Various	2,520	2,814
National Bank of Kenya	Various	106,790	88,562
<b>Balance as at 30<sup>th</sup> June</b>		<b>143,943</b>	<b>116,049</b>
<b>b) On - call deposits</b>			
National Bank of Kenya	01400004368304	200,000	-
<b>Balance as at 30<sup>th</sup> June</b>		<b>200,000</b>	<b>-</b>
<b>b) On - call deposits</b>			
Kenya Commercial bank	MM1635030200	20,000	50,000
<b>Balance as at 30<sup>th</sup> June</b>		<b>20,000</b>	<b>50,000</b>
<b>c) Fixed deposits account</b>			
Co-operative Bank	Various	300,000	300,000
National Bank of Kenya	Various	550,000	550,000
Kenya Commercial Bank	Various	185,000	50,000
NIC Bank	Various	-	150,000
Interest receivable	Various	16,502	17,576
<b>Balance as at 30<sup>th</sup> June</b>		<b>1,051,502</b>	<b>1,067,576</b>
<b>d) Staff car loan/ mortgage</b>			
National bank of Kenya	01001061023900	807	709
<b>Balance as at 30<sup>th</sup> June</b>		<b>807</b>	<b>709</b>
<b>e) Others(specify)</b>			
Cash in transit	Various	3,480	3,707
cash in hand	Various	130	123
M-Pesa Phone Float	Various	1,268	1,469
M-Pesa Cash Float	Various	2,032	1,830
MBanking accounts	Various	7,726	2,719
Vault Cash	Various	7,052	4,227
<b>Balance as at 30<sup>th</sup> June</b>		<b>21,688</b>	<b>14,075</b>
<b>Grand total</b>		<b>1,417,941</b>	<b>1,248,409</b>

## NOTES TO FINANCIAL STATEMENT (Continued)

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>15. Trade and other receivables</b>		
Rent receivable- Other properties	40,834	50,502
Prepaid expenses	39,425	15,905
Utilities & Other deposits	2,281	1,471
Accounts receivable- Others	75,384	538,224
Recoverable fees and charges	19,472	17,287
<b>Balance as at 30th June</b>	<b>177,396</b>	<b>623,389</b>
Specific Provision for Bad Debts	28,368	23,174
<b>Balance as at 30th June</b>	<b>149,028</b>	<b>600,215</b>

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

Less than 30 days	6,012	507,374
Between 30 and 60 days	17,560	4,623
Between 61 and 90 days	8,032	325
Between 91 and 120 days	9,570	1,742
Over 120 days	134,115	15,266
<b>Total</b>	<b>175,289</b>	<b>529,330</b>

### 16. Inventories

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

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
Stationery & Office Supplies	2,940	1,320
Kitchen, Detergents & Toiletries	246	39
Computer Stationery	404	578
<b>Balance as at 30th June</b>	<b>3,591</b>	<b>1,937</b>

**NOTES TO FINANCIAL STATEMENT (Continued)**

<b>17. GRANTS</b>	<b>2018 KES'000</b>	<b>2017 KES'000</b>
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	570,000	550,000
GOK Risk Sharing Fund Account	377,215	191,475
<b>Balance as at 30<sup>th</sup> June</b>	<b>3,803,691</b>	<b>3,597,951</b>

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

**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 Kshs. 1.3 billion in five equal installments. The fifth and last tranche of Kshs. 260 million was received in 2006/2007 financial year. The Government also converted loans due from the Corporation amounting to Kshs.1,387,765,881 into equity bringing the total figure to Kshs. 2,687,765,881. The equity injection was meant to build a sustainable capital base for the Corporation. The financial instrument has no associated financial market risk.

**NOTES TO FINANCIAL STATEMENT (Continued)**

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>19. Reserves</b>		
<b>(a) General Reserve</b>		
Balance as at 1 <sup>st</sup> July	911,278	783,671
Reclassification impact of IFRS 9	(1,867)	-
Profit after taxation for the year	121,304	127,607
<b>Balance as at 30<sup>th</sup> June</b>	<b>1,030,715</b>	<b>911,278</b>

The General Reserve is the undistributed profit from the operations.

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>(b) Revaluation reserve</b>		
Balance as at 1 <sup>st</sup> July	787,618	787,618
<b>Balance as at 30<sup>th</sup> June</b>	<b>787,618</b>	<b>787,618</b>

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.

**NOTES TO FINANCIAL STATEMENT (Continued)**

**20. (a) Redeemable Government Loans and Interest:**

	Int Rates	Principal b/f	Accum Int b/f	Accrued Interest	Principal Payment	Receipts	Interest payment	Principal Balance	Accum Int c/f	Total
	%									
	<b>p.a</b>	<b>30.06.17</b>	<b>30.06.17</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>
		<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>
IBRD 1995 KE Credit 4	0.080	258,036	289,168	20,645	-	-	-	258,036	289,168	547,204
RSDP1974 KE	0.076	182,748	194,558	13,889	-	-	-	182,748	194,558	377,306
ADB Livestock (Pig)	0.060	62,143	55,166	3,729	-	-	(7,000)	62,143	48,166	110,309
<b>Sub Total</b>		<b>502,927</b>	<b>538,892</b>	<b>38,262</b>	<b>-</b>	<b>-</b>	<b>(7,000)</b>	<b>502,927</b>	<b>531,892</b>	<b>1,034,819</b>

**20. (b) Agency Funds:**

	Int Rates	Principal b/f	Accum Int b/f	Accrued Interest	Principal Payment	Receipts	Interest payment	Principal Balance	Accum Int c/f	Total
	%									
	<b>p.a</b>	<b>30.06.17</b>	<b>30.06.17</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>	<b>30.06.18</b>
		<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>	<b>KES.'000</b>
Kenya Sugar Board	-	722,218	-	-	-	-	-	722,218	-	722,218
Coffee Dev Fund	-	9,516	-	-	-	-	-	9,516	-	9,516
NIB- Ahero rice rev fund	-	100,000	-	-	-	-	-	100,000	-	100,000
<b>Sub Total</b>		<b>831,734</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>831,734</b>	<b>-</b>	<b>831,734</b>
<b>Total</b>		<b>1,334,661</b>	<b>538,892</b>	<b>38,262</b>	<b>-</b>	<b>-</b>	<b>(7,000)</b>	<b>1,334,661</b>	<b>531,892</b>	<b>1,866,553</b>

## NOTES TO FINANCIAL STATEMENT (Continued)

		2018	2017
	NOTES	KES.'000	KES.'000
<b>21. Payables and Accruals</b>			
<b>(a) Payables</b>			
Borrowers credit balances		361,848	273,091
Unprocessed Loan Receipts		53	1,740
Customers Loan deposits		141,235	89,087
<b>Balance as at 30th June</b>		<b>503,136</b>	<b>363,918</b>
<b>(b) Other Payables and Accruals</b>			
Cash security deposits		8,299	14,527
Insurance receipts		3,924	8,609
External audit fees		3,062	1,531
Gratuity		23,520	14,425
Employees other deductions		734	861
Accrued Leave days		25,589	8,512
Other payables		139,461	114,577
Interest on redeemable loans		38,262	38,561
<b>Balance as at 30th June</b>		<b>242,851</b>	<b>201,603</b>
<b>(c) Current Tax payable</b>			
		2018	2017
		KES.'000	KES.'000
Balance as at 1st July		170,732	70,482
Corporate tax for the year	24 (a)	157,285	100,250
<b>Balance as at 30th June</b>		<b>328,017</b>	<b>170,732</b>

## NOTES TO FINANCIAL STATEMENT (Continued)

<b>22. (a) Rent Income</b>	<b>KES.'000</b>	<b>KES.'000</b>
Details are as follows:-		
Development House Income/(Loss)	12,693	27,772
Other Properties net Income	56,741	55,507
<b>Balance as at 30<sup>th</sup> June</b>	<b>69,434</b>	<b>83,279</b>

<b>22. (b) Profit/Loss on disposal of assets</b>	<b>2018</b>	<b>2017</b>
The details are as follows:-		
	<b>KES.'000</b>	<b>KES.'000</b>
Motor Vehicles	1,639	3,147
Gain on disposal of other assets	36	-
<b>Balance as at 30<sup>th</sup> June</b>	<b>1,675</b>	<b>3,147</b>

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

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

S/NO	REG NO	MAKE	DATE PURCHASED	COST PRICE	PROFIT	SELLING PRICE
1	KAR 402 L	TOYOTA COROLLA	7/27/2004	1,393	450	450
2	KAR 272 L	DAIHATSU TERRIOS	7/27/2004	1,560	351	351
3	KAR 264 L	DAIHATSU TERRIOS	7/27/2004	1,560	351	351
4	KAW 881 Z	SUZUKI JIMNY 1.3 JX	7/20/2007	1,580	360	360
5	KAR 271 L	DAIHATSU TERRIOS	7/27/2004	1,560	127	127
<b>Balance as at 30<sup>th</sup> June</b>				<b>7,653</b>	<b>1,639</b>	<b>1,639</b>

**NOTES TO FINANCIAL STATEMENT (Continued)**

**INCOME TAX EXPENSE/ (CREDIT)**

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
<b>23(a) Current taxation</b>		
	<b>NOTES</b>	
Current taxation based on the adjusted profit for the year at 30%	157,285	100,250
Current tax: prior year under/(over) provision	-	-
Current year deferred tax charge		43,471
Prior year under-provision for deferred tax	-	-
	<b>157,285</b>	<b>143,721</b>

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

	<b>2018</b>	<b>2017</b>
	<b>KES.'000</b>	<b>KES.'000</b>
Profit before taxation	278,590	271,328
Tax at the applicable tax rate of 30%	83,577	81,398
Current tax: 2010/2011 under-provision	-	-
Tax effects of expenses not deductible for tax purposes	11,575	51,536
Tax effects of income not taxable	-	(944)
Tax effects of excess capital allowances over depreciation/amortization	62,636	11,731
Deferred tax prior year over-provision	(503)	-
	<b>157,285</b>	<b>143,721</b>

**XVII. 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)
2017/2018 Audit certificate	<b>Work in progress</b> Note 8 (a) to the financial statements reflects an amount of Kshs 180,371,000 disclosed as fixed assets transfer account, and which relates to assets transferred during the year. However, the management has not disclosed the nature of this class of property and equipment in these financial statements. In addition, no evidence has been provided to support the transfer and the corresponding entries to the transfer have not been explained. In the circumstances, it is not been possible to confirm the validity and completeness of the amount of Kshs. 180, 371,000.	The detailed schedule for the transfers from WIP of Kshs 180,372,000 clearly indicating to which classes of assets the respective amounts were transferred to during the year is hereby attached labelled Cert 005. To support the transfers and the corresponding entries, a system generated report has been spooled and attached for further verification.	General Manger – Finance. Mr Tom O. Akeno	Resolved.	
	<b>Budgetary Control-Staff Insurance</b> The statement of comprehensive income reflects an amount of Kshs 737,510,000 under staff costs, which includes an	During the period under review, the Corporation accrued medical and staff insurance expenses amounting to Kshs 11,546,165.44 being ex-gratia support to meet	General Manger – Finance. Mr Tom O. Akeno	Resolved.	

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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>amount of Kshs 61,301,000 paid on staff medical insurance. This payment exceeded the budget and approved amount of Kshs 53,000,000 by Kshs 8,301,000. The excess expenditure was more than 15% of the budget on staff medical and insurance during the year 2016/2017 contrary to section 12 of the State Corporations Act, Cap 446, which states that no State Corporation shall without the prior approval in writing of the Minister and Treasury incur any expenditure for which provision has not been made in annual estimate prepared and approved in accordance with section 11 of the same Act. The Corporation was therefore in breach of the Law.</p>	<p>a medical bill incurred by a staff member who is now deceased. The accrued expenses exceeded the approved budget limits by KSHS 8,301,000.00. Accordingly, the Corporation has requested The National Treasury to grant requisite authority to incur the above expenses following the Board of Directors' approval in its meeting of 29th June, 2017. Once the approval is obtained, the Corporation will proceed to make the payments.</p>			
<p><b>Trade and other receivables</b>  The statement of financial position reflects a balance of Kshs. 600,215,000 (2015/2016 –Kshs 61,611,000) under trade and other receivables and as disclosed in Note 15 to the financial statements, which is an increase of Kshs 538,604,000 or 800% over the previous year. Note 1 (f) to the financial statements indicates that trade and other receivables are recognized at fair values less allowances for uncollectible amounts which are assessed</p>	<p>The Kshs 23,174,000 is in respect to accumulated provisions for doubtful accounts receivable. Included in the provisions is Kshs 22,526,882.80 relating to uncollectable rent from the Judiciary and Kshs 646,889.51 relating to misappropriated funds. All these receivables were provided for fully since the chances of recovering the amounts were remote.</p>	<p>The Kshs 23,174,000 is in respect to accumulated provisions for doubtful accounts receivable. Included in the provisions is Kshs 22,526,882.80 relating to uncollectable rent from the Judiciary and Kshs 646,889.51 relating to misappropriated funds. All these receivables were provided for fully since the chances of recovering the amounts were remote.</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>	<p>Resolved.</p>	

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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>for impairment on a continuing basis and an estimate made. However, Note 15 to the financial statements does not show an assessment for impairment loss and neither has management provided documentary evidence showing how the specific provisions for bad debts figure of Kshs 23, 174,000 in respect to trade and other receivables was determined. Consequently, the accuracy of the trade and other receivables balance and charge for doubtful debts cannot be confirmed.</p>				
<p><b>Tax for the year</b>            As previously reported, the statement of financial position reflects current tax payable of Kshs 170, 732,000 which is an increase of Kshs 100,250,000 over the previous year's balance of Kshs 70,482,000. However, no tax computations have been provided to show how the current tax payable figure of Kshs 170, 732,000 and corporation tax for the year of Kshs 143,721,000 respectively were determined. Consequently the current tax payable of Kshs 170, 732,000 cannot be confirmed.</p>	<p>In the amended draft response, the correct accounting profit figure of Kshs 271,327,000 was used to re-compute tax expense and tax payable amounts to Kshs 143,721,210 and Kshs 100,249,715 respectively. Subsequently, the deferred tax charge under note 10 to the financial statements has been amended and the note updated accordingly.</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>	<p>Resolved.</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.

*[Signature]*  
**Managing Director**

Date...28/08/2018.....

*[Signature]*

**For Chairman of the Board**

Date...28/08/2018.....

**APPENDIX 1 PROJECT IMPLEMENTED BY THE CORPORATION**

No project was undertaken during the period under review.

**APPENDIX 2 RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Other	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	04/07/2017	GOK Drought Mitigation Funds	500,000	-	-	500,000	-	-	500,000
The National Treasury	07/09/2017	GOK Drought Mitigation Funds	407,000	-	-	407,000	-	-	407,000
The National Treasury	07/09/2017	Budgetary support	300,000	-	300,000	-	-	-	300,000
The National Treasury	23/10/2017	Taita Taveta GOK Project Subsidy Funds	400,000	-	-	-	-	400,000	400,000
The National Treasury	21/05/2018	Budgetary support	30,000	-	30,000	-	-	-	30,000
International Fund for Agricultural Development (IFAD)	23/05/2018	Risk Sharing Funds	185,740	-	-	-	-	-	185,740
<b>Total</b>			<b>1,822,740</b>	<b>-</b>	<b>330,000</b>	<b>907,000</b>	<b>-</b>	<b>400,000</b>	<b>1,822,740</b>

**APPENDIX 3 ANALYSIS FOR MOVEMENT IN PROPERTY AND EQUIPMENT FOR CASH FLOW STATEMENT**

Opening balances	Land & Buildings	Motor Vehicles	Furniture & Fittings	Computers	Office and ICT Equip and Others	Software
<b>Balances as at 30th June 2017</b>	<b>1,096,287</b>	<b>243,997</b>	<b>126,306</b>	<b>157,963</b>	<b>160,203</b>	<b>229,988</b>
Less: Accumulated Depreciation	146,621	188,931	78,234	143,434	148,135	91,086
<b>Opening balances as at 1st July 2017</b>	<b>949,666</b>	<b>55,066</b>	<b>48,072</b>	<b>14,529</b>	<b>12,068</b>	<b>138,902</b>
Add: Additions during the year	12,271	43,995	75,255	4,496	7,352	27,792
Depreciation eliminated on disposal	-	7,653	-	-	-	40,363
Less: Disposal during the year	-	7,653	-	-	-	40,363
Depreciation charge	21,225	30,985	13,127	8,293	6,593	61,964
<b>Balances as at 30th June 2018</b>	<b>940,711</b>	<b>68,076</b>	<b>110,200</b>	<b>10,732</b>	<b>12,827</b>	<b>104,730</b>

Property and Equipment as at June 2018  
 Intangible Assets as at June 2018  
**1,218,303**

**Add Purchases**  
 Property and Equipment as analyzed above  
 Intangible Assets  
 143,370  
 27,791  
**1,389,464**  
**1,389,464**  
 (48,016)  
**1,341,448**

Less dep for the year  
 Add dep on disposal  
 (142,187)  
 48,016  
**Non-Current assets as at 30-06-2018**  
**1,247,277**

