



PARLIAMENT  
OF KENYA  
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# **AGRICULTURAL FINANCE CORPORATION**

**ANNUAL REPORT JULY 2010 – JUNE 2011 FINANCIAL YEAR**



## **AFC Mandate**

The Agricultural Finance Corporation (AFC) is a wholly owned Government Development Finance Institution (DFI) established in 1963, initially as a subsidiary of the then Land and Agriculture Bank. In 1969, it was incorporated as a fully fledged financial institution under the Agricultural Finance Corporation Act Cap 323 Laws of Kenya with a mandate of assisting in the development of agriculture and agricultural industries by making loans and providing managerial and technical assistance to the loan beneficiaries.

### **Vision**

"To be the financial institution of choice for agricultural development in Kenya, aiming to be the best Development Finance Institution (DFI) in the World"

### **Mission**

"To Provide Customer focused and sustainable financial services to the agricultural sector in Kenya"

### **Core Values**

Customer Focus

Professionalism

Great Leadership

Team work

Social Responsibility

## Table of Contents

<b>1.</b>	<b>Technical Competency</b> .....	<b>4</b>
1.1	Board of Directors .....	4
1.1.1	Hezbon Kadulo Mariwa: Chairman .....	4
1.1.2	Joshua Kibet Choge: Deputy Chairman.....	4
1.1.3	Lucas Meso: Managing Director .....	4
1.1.4	Mutwiri Ikiao: Member .....	5
1.1.5	Dr. John Kipkoech Chebii: Member.....	5
1.1.6	Mtalaki J. Mwashimba: Member .....	6
1.1.7	Duncan G. Mwangi: Member .....	6
1.1.8	Permanent Secretary, Ministry of Agriculture – Represented by Mary Kamau (Mrs.) – Alternate Director .....	7
1.1.9	Permanent Secretary, Ministry of Finance (Treasury) – Represented by Lucy Gitundu (Mrs.) – Alternate Director.....	7
1.2	Management Team .....	8
1.2.1	Alome.K. Achayo (Mrs.) - General Manager Business Development .....	8
1.2.2	Daniel O. Ogutu - General Manager human resources.....	8
1.2.3	Rose Ochanda (Mrs.): Corporation Secretary and Chief Manager Legal Services....	8
1.2.4	Florence Obado (Mrs.) - Ag. General Manager Operations.....	9
1.2.5	Thomas Nyaga Njuki Ag. General Manager Finance .....	9
1.2.6	Henry Shikokoti – Ag. Chief Internal Auditor .....	10
<b>2.</b>	<b>Chairman’s Overview</b> .....	<b>11</b>
<b>3.</b>	<b>Managing Director’s Overview</b> .....	<b>13</b>
<b>5.</b>	<b>Sustainability Review</b> .....	<b>18</b>
<b>6.</b>	<b>Statement on Corporate Governance</b> .....	<b>20</b>
6.1	Code of Conduct.....	20
6.2	Board Responsibilities.....	20
6.3	Board meetings .....	21
6.4	Board Chairman and Managing Director.....	22
6.5	Board Performance Evaluation.....	22
6.6	Directors’ Remuneration.....	23

6.7	Internal control.....	23
6.8	Conflict of interest.....	23
6.9	Board Sub-committees.....	24
7	<b>Audited Financial Statements.....</b>	<b>25</b>

AGRICULTURAL FINANCE CORPORATION

# **1. Technical Competency**

## **1.1 Board of Directors**

### **1.1.1 Hezbon Kadulo Mariwa: Chairman**

Mr. Mariwa is a holder of a Bachelor of Commerce – (Accounting and Finance) from the University of Nairobi and a CPA (K). He is currently the Chief Executive Officer of Marylyne Enterprises Limited, a firm in the telecommunications industry. Prior to joining AFC Mr. Mariwa was the Chairman – Cash Dingo Kenya Limited a regional Switch initiative. Between July 2004 and June 2006, he was the Director, currency Operations and Branch Administration Department and the Director, Internal Audit and Risk Management Department respectively at the Central Bank of Kenya

### **1.1.2 Joshua Kibet Choge: Deputy Chairman**

Mr. Choge is a holder of a Bachelors of Science degree from the University of Nairobi and a holder of CPA Part III Section V. Prior to joining AFC, he was the Assistant Chief Internal Auditor at the East African Portland Cement Company Limited and an Assistant Accountant at ICDC and at the Kenya National Trading Corporation as a Management Trainee

### **1.1.3 Lucas Meso: Managing Director**

Mr. Lucas Meso holds a Masters Degree in Business Administration specializing in Strategic Management from Maastricht (MSM)/Esami and a Bachelors of Science Degree in Financial Services from the University of Manchester. He is an associate of

the Chartered Institute of Bankers (ACIB) UK and a fellow of the IFS School of Finance (FIFS).

Mr. Meso's experience spans over 20 years in senior management positions in the banking sector. He has previously worked for the Central Bank of Kenya, East African Development Bank, Commercial Bank of Africa and the Co-operative Bank of Kenya.

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.

#### **1.1.4 Mutwiri Ikiao: Member**

Mr. Ikiao has a wealth of experience in the Banking and Insurance Industries. Between 1976 and 1980, he worked as a Bank Executive at the National Bank of Kenya. He also worked as the General Manager Finance and Administration at Sutra Africa Assurance Company Limited between 1991 and 2005. He served as a non executive director at the Kenya Industrial Estates for a period of six years. He also served at Williamson Development Company Limited as a director. He has participated in various country services and has visited various African countries to attend educational and international business forum.

#### **1.1.5 Dr. John Kipkoech Chebii: Member**

Mr. Chebii holds a PhD, a Masters of Law (LLM), Bachelors of Law (LLB) and a Diploma in Legal Studies. His area of specialization in the practice of Law is Civil Litigation, Criminal Litigation and Commercial Transactions. He is a Lawyer by profession and is currently a senior lecturer and Dean, School of Law at Moi University Eldoret. He is a member of the Law Society of Kenya, Kenya Institute of

Management, Institute of Certified Public Secretaries and the East African Law Society. He is credited with various publications including "Steps for ensuring factionary prosecutions under the Forest Act, Cap 385 and the Wildlife Conservative and Management, Cap 376 Laws of Kenya", "Comparative Law: Its Place and Value in Legal Scholarship", University of Zambia Law Journal Vol. 2 issue of 2004, amongst others.

#### **1.1.6 Mtalaki J. Mwashimba: Member**

Mr. Mwashimba holds a Bachelors of Law Degree from the University of Wolverhampton and a Diploma in Law from the Kenya School of Law. He is currently pursuing a Masters Degree from the University of Liverpool. He is a partner in Ndung'u Githuka Mwashimba and Co Advocate. He is a member of the Chartered institute of Arbitrators. He has attended various courses locally and abroad including Corporate Governance training conducted by the Centre for Corporate Governance, a course on Constituency Development Fund, Council of Legal Education Course on International and Commercial Law, an advocates role in the Initial Public Offers and the 2<sup>nd</sup> colloquium of the IUCN Academy of Environmental Law on Land Use for sustainable development

#### **1.1.7 Duncan G. Mwangi: Member**

Mr. Mwangi holds a Masters of Business Administration (MBA) and a B.Sc Business Administration both from the United States International University. He is also a CPA (K) and a CPS(K) and a member of the Institute of Certified Public Accountants of Kenya and the Institute of Certified Public Secretaries of Kenya. He is currently the Managing Partner of Githiga Mwangi & Associates responsible for Management Consultancy, Project Appraisals, Human Resources and IT systems. Prior to joining AFC, he was a trustee and a director of the Union East Africa Trust Limited (UEAT). He was also the Director at Operate a Smile and the Financial Advisor to the

Agricultural Society of Kenya. He has also been a director at the Barclays Plaza limited. He has held other positions including business consultancies for Greenland Agro Producers Limited, Chief Executive Officer at Today's Online Limited, Finance and Administration Director – Premier Dairy Limited, Consultant for the East African Portland Cement Limited, Financial Controller at East African Industries Limited, Commercial Director at Gaily and Roberts Limited, Commercial Manager – Elida Ponds, Management Accountant for Oil Crop Development Limited and Assistant Financial accountant – East African Industries. He was the price winner in the Financial Management Paper – PriceWaterHouse

**1.1.8 Permanent Secretary, Ministry of Agriculture – Represented by Mary Kamau (Mrs.) – Alternate Director**

**1.1.9 Permanent Secretary, Ministry of Finance (Treasury) – Represented by Lucy Gitundu (Mrs.) – Alternate Director**

## **1.2 Management Team**

### **1.2.1 Alome.K. Achayo (Mrs.) - General Manager Business Development**

Mrs. Achayo is a career, management and marketing expert with over 17 years experience at both local and international level. She holds an MBA (Strategic Management & Marketing option) from The University of Nairobi and a Bachelor of Science –Business Administration from United States International University respectively. She also has a higher diploma in Microbiology and a diploma in Biology from the Kenya Polytechnic University College.

Mrs. Achayo has held various operational and senior management positions having started her career in the medical research, pharmaceutical industry, management consultancy and most recently the FMCGs sector.

### **1.2.2 Daniel O. Ogutu - General Manager human resources**

Mr. Daniel Omondi Ogutu is an experienced human resource generalist with a proven ability to provide the highest level of corporate services while consistently motivating staff to greater performance. His track record speaks for itself having worked as a human resource person for the last 10 years within the public sector.

Daniel holds an MBA (Specializing in Human Resource & Strategic Management) from The Eastern and Southern Africa Management Institute and Maastricht School of Management and a Bachelors of Education (B. Ed) Arts, from Kenyatta University.

### **1.2.3 Rose Ochanda (Mrs.): Corporation Secretary and Chief Manager Legal Services**

Mrs. Ochanda is a holder of an MBA (Strategic Management) and LLB (Hons) degrees from the University of Nairobi. She held various positions in reputable organizations 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 practice with a focus on litigation, commercial and conveyance law.

#### **1.2.4 Florence Obado (Mrs.) - Ag. General Manager Operations**

Mrs. Obado joined AFC in January 1982 as a loans officer and was posted to Kiambu Branch. She is currently the acting General Manager Operations. Mrs. Obado graduated from the University of Nairobi with Bsc. Agriculture in 1980 and her first posting was to Nakuru with Ministry of Cooperative Development as the Provincial Credit Coordinator – Rift Valley Province and Nakuru District as the District Credit Coordinator. After her brief stint at Cooperative Development, she moved on to join AFC in the capacity of loans officer.

She also worked as Snr. Credit officer in both Seasonal Crop Division and Farm Loans Division until 1999 when she was promoted to Principal Credit Officer, Ranch Division within the Operations Department.

In 2003, Mrs. Obado was transferred to AFC training institute in Karen as the Deputy Principal where she remained until her transfer to Thika Branch, before finally moving back to head office as Principal Credit Officer in 2005.

Mrs. Obado was posted to Retail Credit as the Relationship Manager, and deputy to the General Manager, Operations, in 2008 where she been stationed until most recently being appointed to the present post of Ag. General Manager, Operation.

#### **1.2.5 Thomas Nyaga Njuki Ag. General Manager Finance**

Mr. Thomas Nyaga Njuki is a career accountant with a wealth of experience having worked in various government ministries at different capacities, he is currently the acting General Manager Finance, a position he has held from 29th November 2010. Mr. Njuki joined AFC as Branch Accountant in 1985, a position he held until 1992

after which he was promoted to a loan accountant, a position he held from 1993 to 1999. He was promoted once again and this saw him take up the post of Regional accountant before he was finally appointed as the internal Auditor for AFC from 2001 to 2010.

As attested from above Mr. Njuki's excellent performance has seen him rise through the ranks to various placement within the organization.

Prior to joining AFC Mr. Njuki worked as an assistant co-operatives officer at the Ministry of Co-operatives between 1978 to 1984. After which he was engaged by the Ministry of Lands and Settlement as an assistant auditor between 1984 to 1985, before finally exiting to join AFC.

Mr. Njuki has been instrumental in setting up both accounting and auditing systems at AFC to ensure that the right processes are adhered to by both internal and external customers. His work majorly ensures that the organization cost is kept in check and profitability is maintained for organizational growth.

#### **1.2.6 Henry Shikokoti – Ag. Chief Internal Auditor**

Mr. Shikokoti is a career Auditor with wealth of experience in auditing spanning over 20 years. He holds a Bachelor of Commerce (Accounting option) from the University of Nairobi. He joined the Agricultural Finance Corporation in 1989 as an Internal Auditor.

He previously worked for Kenya Pipeline and Kenya National Audit Office from 1983 – 1986 before joining Agricultural Finance Corporation.

## 2. Chairman's Overview

I am delighted to announce that during the year 2010 - 2011, AFC recorded a profit before tax of KShs. 80.4 million, which is 24% higher than our performance during the same period last year. This improvement is no mean achievement.

As you will note our Total operating income increased by 16% whereas total operating expenses went up by 10% reflecting an increased investment in our information technology system, expansion in our infrastructure, rollout of new products and employee recruitment.

We feel that this is a good performance in view of the current global financial crisis which has affected many big businesses across the world. It shows the strength and resilience of our business in spite of hard economic times and a demonstration to investors that the future of the business is bright.

Going forward, we are taking a fresh look at our cost structure and working on new ways of enhancing efficiency to improve our performance over the coming months. The Board is satisfied that our growth strategies are yielding the desired results and that expansion into the rural agriculturally potential areas of the country has strengthened our brand and created a foundation for future growth and profitability.

What is critical now is that we must consolidate the existing businesses through branch expansion, new products and more customer recruitment while also undertaking modest expansion. With countrywide network we believe we are in a position to provide unmatched access to agricultural financing leverage by our wide range of products and services to enhance stakeholder value.

Indeed, the future looks very bright for AFC following the successful integration of our core banking system which puts our business on the desired one-branch financing platform. Following this welcome development we are now ready to roll out technology-driven products.

The new core banking system will also enhance our efficiency due to the increased automation of our operations, ensuring optimal revenue collection and management.

We shall continue to support communities in the various markets in which we operate through our CSR activities in order to empower them to improve the quality of their lives. Our investment in community development initiatives in the areas of health, education, environment, entrepreneurship and welfare have positioned AFC as a proactive partner for the communities and shall continue to be a part of our business strategy into the future.

I would like to conclude by saying that our business is strong and has the necessary control and risk management frameworks that would ensure sustainable performance into the future.

I wish to thank shareholders, customers, the media and all other stakeholders for their ongoing support as we work towards making AFC the preferred provider of agricultural financial solutions.

On behalf of the Board and Management, I would like assure you that all necessary measures are in place to ensure a sustainable performance and enable us to meet the targets we set for ourselves for 2011.

Thank you.



**Hezbon Mariwa**  
**Chairman – Board of Directors**

### 3. Managing Director's Overview

AFC's 2010-2011 financial result reflects a continuance of a growth path recorded in the recent past. During the financial year ended 30th June 2011, the Corporation registered pre-tax profit of Kshs 80.4 million up from Kshs 64.9 million posted the previous financial year. This translated to an impressive growth of 24%, occasioned by prudent cost transformation and risk management strategy implemented in the course of the year.

The Corporation's total assets grew by 5% to close at Kshs 6.67billion as at 30<sup>th</sup> June 2011 compared to Kshs 6.34billion at the beginning of the financial year. Gross loans and advances to customers grew by 10% from Kshs 6.3billion to Kshs 6.96 billion. Similarly, net loan portfolio closed at Kshs 4.2 billion from Kshs 3.9 billion, a 7% growth owing to growth in customer base.

The Corporation's net interest income rose by 9% from Kshs 422million to Kshs 462 million largely attributed to assets growth. Total operating income posted significant improvement rising from Kshs 583 million to Kshs 675 million, a 16% growth, driven by growth in customer numbers and enhanced products offering. Operating expenses increased by 10% from Kshs 537million to Kshs 594 million owing to high inflationary pressure and rise in global fuel prices resulting to increased cost of living and administrative expenses.

Gross provisions for bad and doubtful debts increased from Kshs 2.4 billion to Kshs 2.8 billion occasioned by prudent management decision to make adequate provision thus reporting fair and reliable profitability position.

As we hitherto promised, our business is farmers' development and we are committed to stand by that statement. In this regard, we will continue to add value for our stakeholders by increasing our products offering and new strategies that not only be customers' responsive and cost effective, but also meets customers needs and expectations.

In the coming financial year the Corporation has planned to unveil the following activities and products to improve our operations, geographical coverage and increase service delivery. These activities are;-

- 1) Embarked on VUNA roll out program to boost our customer base and also re-activate dormant accounts. The VUNA account will also improve loan disbursement turnaround time by 30%.
- 2) Create a Risk Unit in order to improve loan quality as well as mitigate against risk of default arising from poor lending methodology.
- 3) Improve our presence by opening 4 new branches across the country in order to take services closer to our niche markets. The planned new branches are Mpeketoni, Oyugis , Iten and Chogoria.
- 4) Endeavour to successfully complete the process of ISO 9001:2008 quality management system full certification.

May I take this opportunity to thank all members of the staff for their commitment and support in serving our esteemed clients.

I also wish to express my deep gratitude to our customers, partners and the government for their unwavering support during the financial year. We are looking forward for more enhanced customer service and continued partnership.

I sincerely thank the Chairman and entire Board of Directors for their oversight and guidance during the year. Their commitment and passion for the Corporation to transform in to a regional leader in Agricultural finance business is unparalleled. For this zealousness, I say a big thank you to all.

Thank you and may the Almighty God bless you all.

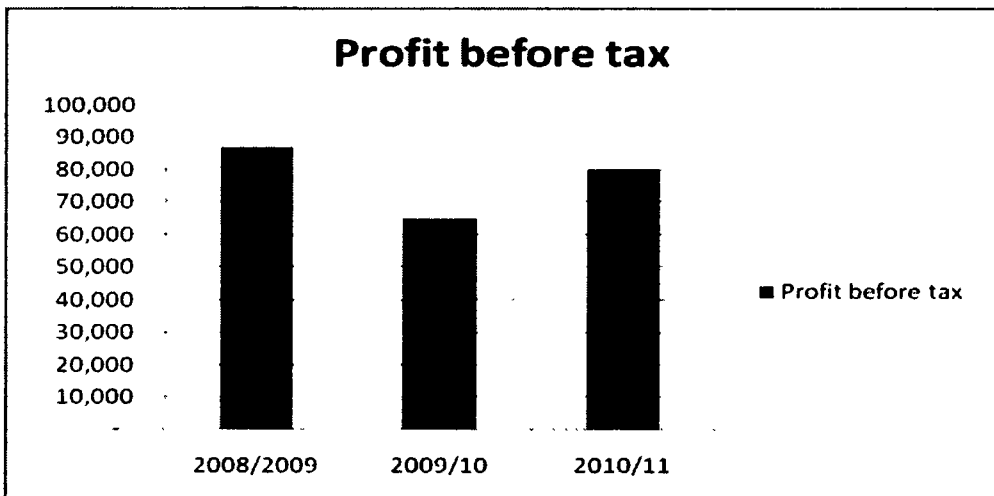
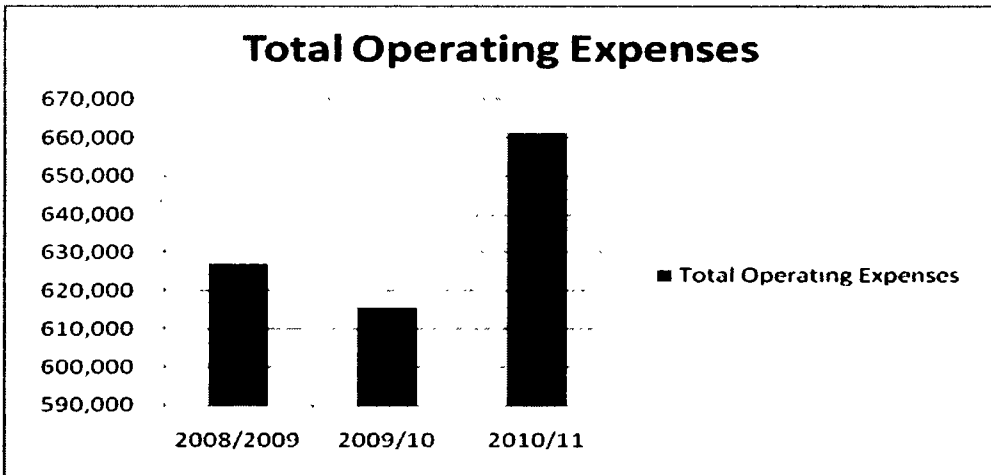
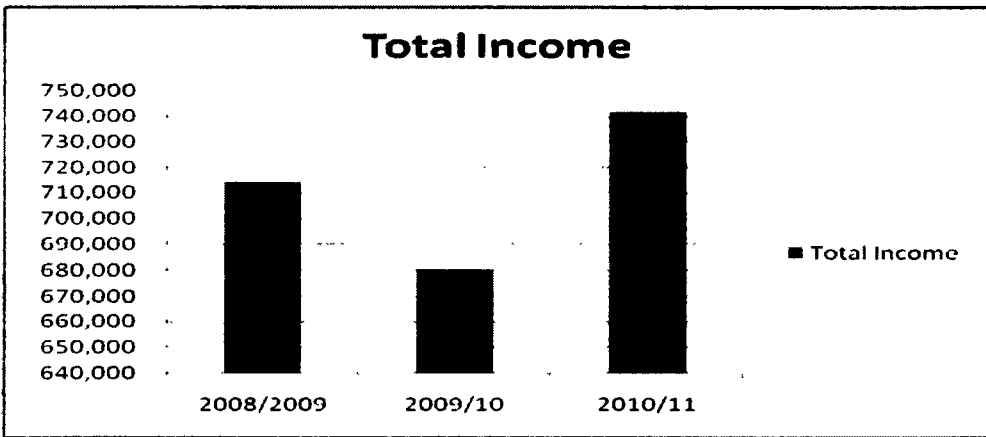


**Lucas Meso**  
**Managing Director**

#### 4. BUSINESS REVIEW

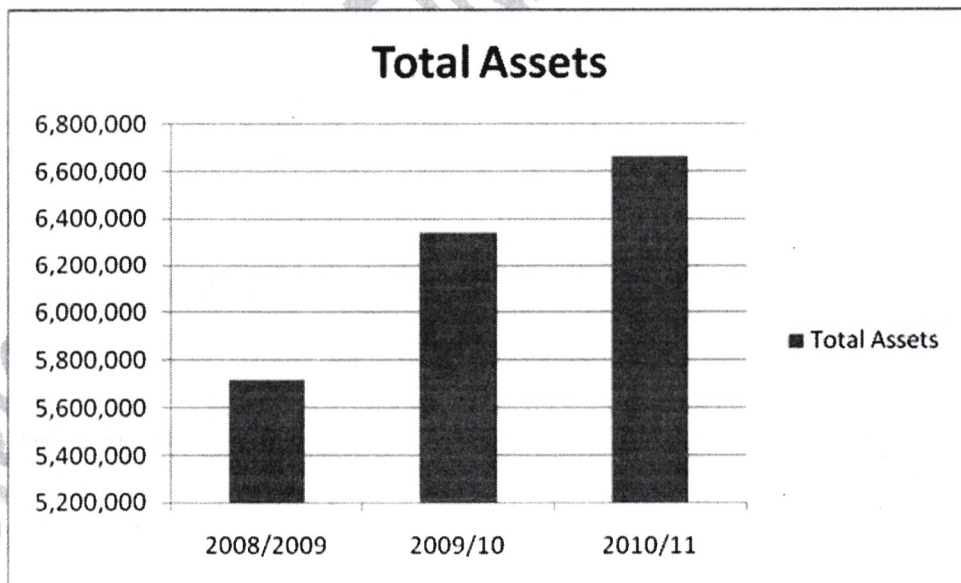
**TREND ANALYSIS OF THE FINANCIAL PERFORMANCE OF AFC  
STATEMENT OF COMPREHENSIVE INCOMES**

<b>Year</b>	<b>2008/2009</b>	<b>2009/10</b>	<b>2010/11</b>
<b>Income</b>			
Interest Income	505,379	465,486	504,934
Interest Expenditure	(43,108)	(43,034)	(42,757)
Net Interest Income	<b>462,271</b>	<b>422,452</b>	<b>462,177</b>
Income from Non-Performing Loans	112,156	97,583	66,365
Other Income	139,695	160,480	213,185
<b>Total Income</b>	<b>714,122</b>	<b>680,515</b>	<b>741,727</b>
<b>Operating Expenses</b>			
Staff Costs	364,635	384,520	394,268
General/ Administrative Expenses	141,852	136,932	185,864
Board Expenses	10,823	15,785	13,383
Provisions for Bad debts	55,911	11,295	3,638
Provision for Depreciation	53,725	67,014	64,151
<b>Total Operating Expenses</b>	<b>626,946</b>	<b>615,546</b>	<b>661,303</b>
Profit Before Extraordinary Items	87,176	64,969	80,423
Extraordinary items - Retrenchment Costs	-	-	-
<b>Profit before tax</b>	<b>87,176</b>	<b>64,969</b>	<b>80,423</b>



## STATEMENT OF FINANCIAL POSITION

	2008/09	2009/ 10	2010/11
<b>Non Current Assets</b>			
<b>Property &amp; Equipment</b>	476,572	728,273	702,713
<b>Repossessed Farm Properties</b>	65,137	85,834	79,949
<b>Deferred Tax</b>	903,893	870,590	829,249
<b>Loans</b>	3,907,757	1,052,309	2,305,639
<b>Current Assets</b>	<b>365,285</b>	<b>3,603,675</b>	<b>2,747,923</b>
<b>Total Assets</b>	<b>5,718,645</b>	<b>6,340,681</b>	<b>6,665,473</b>
<b>Equity &amp; Liabilities</b>			
<b>Grants</b>	1,000,826	1,190,826	1,596,476
<b>Government Equity</b>	2,687,766	2,687,766	2,687,766
<b>General Reserve</b>	66,330	53,744	92,824
<b>Revaluation Reserve</b>	175,363	488,480	488,480
<b>Non-Current Liabilities-</b>			
<b>Redeemable Loans</b>	1,118,988	1,027,986	1,060,267
<b>Current Liabilities</b>	669,372	891,879	739,660
<b>Total Equity &amp; Liabilities</b>	<b>5,718,645</b>	<b>6,340,681</b>	<b>6,665,473</b>



## 5. Sustainability Review

The Board and management are committed to transform AFC to a great financial institution in the Country. The key to achieving this transformation is in understanding the underlying hindrances to our success and together, pursuing the opportunities that will deliver AFC to that much desired state of prosperity and profitability.

To achieve this, several measures have been put in place as highlighted below:-

### Capital Restructuring

In an effort to revive AFC, the Government authorized a financial restructuring of the Corporation through Sessional Paper No. 1 of 2002. Through this initiative, the Government authorized the write off of Kshs 4.8 billion in loans owed to AFC by farmers and converted into equity loans due to Government (principal and accrued interest) of Kshs 1,387,765,881.

The Government further made equity injection of Kshs 1.3 billion and a grant of Kshs 769 million to facilitate the Corporation grow its loan book. Among the financial restructuring measures was the retention of loans due to Government amounting to Kshs. 468,537,975. However, the repayment of these loans together with the resultant interest accruing has been a challenge considering the low capital base of the Corporation. To this effect, the Corporation forwarded to the Ministry of Finance a restructuring proposal to convert the loans and interest to equity.

### Fundraising

The Corporation also commenced aggressive fundraising initiatives and as a result been able to secure funds from various Government institutions for on lending to various specific sectors as listed below.

	<b>Kshs.000</b>
Kenya Sugar Board	467,942
Coffee Development Fund	31,174

The Board and management are committed to continue with the mobilization of funds to ensure that the capital base of the Corporation is adequate to drive the business.

### **Service delivery and product innovation**

During the year, we continued to consolidate our presence with an additional 2 branches bringing our network to 39 branches across the country. The Corporation has a goal of being present in every county to bring its services closer to the customers.

In terms of new product innovation, in 2011 we began rolling out the new Vuna account which enabled customers to access their loan funds from AFC without going to other financial institutions and this impacted positively on our turnaround time.

## **6. Statement on Corporate Governance**

### **6.1 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. The single most important factor in creating such a culture is the quality of corporate leadership, especially the "tone at the top" set by the Board of Directors and senior management.

The Board of Directors and Management of the Corporation understand this responsibility and are committed to this responsibility. To this effect, Corporations resources are only to be used to conduct Corporation's business or for purposes authorized by management.

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

### **6.2 Board Responsibilities**

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

- **Fiduciary responsibility:** The Board of Directors has a fiduciary responsibility to care for the finances and legal requirements of the Corporation. They must act in good faith and with a reasonable degree of care, and they must not have any conflicts of interest. That is, the interests of the corporation must take precedence over personal interests of individual board members.
- **Mission and Vision of the Corporation:** the Board of Directors are responsible for setting the mission of the Corporation and ensuring that all actions are related to and adhere to that mission. The Board can change the mission, but only after careful deliberation.
- **Oversight:** The Board of Directors does not participate in day-to-day decision-making of the Corporation; instead, they set overall policy, based on the corporate mission and vision, and they exercise an oversight function, reviewing the actions of management. The Board puts in place appropriate policies, systems and structures for the successful implementation of policy;
- The Board of Directors establishes and maintains the bank'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;

### **6.3 Board meetings**

An annual plan of scheduled board meetings is prepared each year by the Corporation Secretary, including meetings for the subcommittees.

The full Board meets at least six 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.

#### **6.4 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 in the course of effective and efficient running of the Corporation on a day-to-day basis.

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

#### **6.5 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 AFC GOK Performance contract on the KPI of the respective Board members.

## **6.6 Directors' Remuneration**

The remuneration of all directors is subject to regular review to ensure that levels of emoluments and compensation are appropriate. This is after considering industry benchmarks and international practices. The directors are not eligible for pension scheme membership.

## **6.7 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.

## **6.8 Conflict of interest**

The Corporation's policy provides that directors, their immediate families and companies where directors 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.

## **6.9 Board Sub-committees**

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

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

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

## 7 Audited Financial Statements

### BOARD OF DIRECTORS

### APPOINTMENT DATE

The directors who held office during the year were as follows:-

Mr. Hezbon K. Mariwa	Chairman	20.06.2009
Mr. Joshua K. A. Choge	Vice Chairman	20.06.2009
Mr. Lucas Meso	Managing Director	11.04.2011
Mr John K. Chebii	Member	20.06.2009
Mr. Mutwiri Ikiao	Member	20.06.2009
Mr. Duncan G. Mwangi	Member	20.06.2009
Mr Joseph M. Mwashimba	Member	25.07.2009
Permanent Secretary	Ministry of Finance	20.06.2009
Permanent Secretary	Ministry of Agriculture	20.06.2009

### REGISTERED OFFICE

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

### MAIN BANKERS

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

### AUDITORS

The Corporation's auditors in accordance with the Public Audit Act, 2003 were:  
Auditor General,  
Kenya National Audit Office,  
P.O.BOX 30084, 00 1 00 GPO  
Nairobi, Kenya.

**AGRICULTURAL FINANCE CORPORATION  
FINANCIAL STATEMENTS AS AT 30<sup>TH</sup> JUNE 2011**

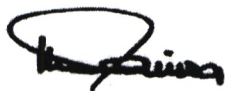
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

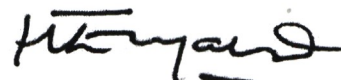
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Financial Reporting Standards and in the manner required by the Agricultural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

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

Approved by the Board of Directors on 22<sup>nd</sup> September, 2011 and signed on its behalf by:-



**HEZBON MARIWA  
CHAIRMAN**



**LUCAS MESO  
MANAGING DIRECTOR**



## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2011

I have audited the accompanying financial statements of Agricultural Finance Corporation set out on pages 3 to 16, which comprise the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of the audit.

#### **Management's Responsibility of the Financial Statements**

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

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

#### **Responsibility of the Auditor' General**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## Basis for Qualified Opinion

### 1. Land and Building

As disclosed in Note 2 to the financial statements, and as previously reported, the land and buildings balance of Kshs.635,034,000 includes 20 developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and 9 undeveloped plots measuring 1.5383 hectares worth Kshs.795,443,000 against which the respective ownership documents were not availed for audit review. In addition, the value of land and buildings as now reported, excludes parcels located in Nanyuki and Busia whose ownership is in dispute.

In absence of the documents, it has not been possible to confirm the accuracy and ownership of the land and buildings balance of Kshs.635,034,000 as at 30 June 2011.

### 2. Budgetary Control

During the year under review, the Corporation incurred expenditure totaling Kshs.12,066,000 over and above the budgetary provision for the period as shown below, contrary to Section 12 of the State Corporations Act, Cap 446.

	<b>Budgetary Provision Kshs.</b>	<b>Accrual Expenditure Kshs.</b>	<b>Variance Kshs</b>	<b>% Variance kshs</b>
Acting/Duty & Aggregation All.	2,867,000	5,453,000	2,586,000	90
Gen. Office Exp.	13,000,000	15,423,000	2,423,000	18
Legal Fees	2,500,000	3,531,000	1,031,000	41
Maintenance of Buildings	3,247,000	3,620,000	373,000	11
Main. of Furn. & Equipment	3,200,000	5,615,000	2,415,000	75
Subscriptions to Prof. Bodies	935,000	1,104,000	169,000	18
Gen. Hotel & Trav.	17,719,000	19,070,000	1,351,000	7
Vehicle Main.	5,471,000	7,189,000	1,718,000	31
			12,066,000	

Although as in the previous year the management has indicated that the over expenditure was approved by both the Ministry of Agriculture and the Treasury, no evidence to support this position was made available for audit verification.

### **3. Cash and Bank Balances**

#### **3.1 Loss of cash**

As previously reported, an examination of records for the period 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. According to information available, the cheques were cashed by an accountant in charge of cash office, who also doubled as the Corporation's bank agent. Initial investigation revealed that the fraud was perpetrated by recycling and falsifying documents for re-imbusement claims. Further information indicates that although the Corporation operated several bank accounts, the fraud was perpetrated mainly at the National Bank of Kenya Branch along Harambee Avenue, Nairobi.

#### **3.2 Current Accounts**

The cash and bank balance of Kshs.75, 201,000 includes current account balance of Kshs.11, 478,000, against which the relevant supporting documents were not provided for audit verification.

#### **3.3 NBK General Payments**

The bank reconciliation statement as at 30 June 2011 includes bankers orders of Kshs.1,255,441 relating to the previous financial year and which have remained un presented to date.

#### **3.4 NBK Investment Account**

The bank reconciliation statement reflects bankings not posted and cash book receipts outstanding of Kshs.50,998,458 and Kshs.38,236,624 respectively relating to the previous financial year. The two long outstanding figures had not been reconciled as at the time of audit.

In the circumstances, it has not been possible to confirm that the cash and bank balance of Kshs. 75,201,000 as at 30 June 2011 is fairly stated.

#### **4. Loans to Staff**

Included in the gross loans to staff balance of Kshs.128,866,000, and as disclosed in Note 7, is an amount of Kshs.22,036,000 owed by ex-staff which is composed of Kshs.16,469,000 in respect of house loans, Kshs.4,689,000 in relation to car loans and Kshs.878,000 for staff advances. Although the Corporation has made a provision of Kshs.24,197,000 for doubtful debts, it has not however been clarified why the amounts could not be offset against the final dues of the affected staff. Further, management did not avail supporting documents for outstanding loans totaling Kshs.8,128,437. In the circumstances, it has not been possible to confirm whether staff loans balance of Kshs.128,866,000 as at 30 June 2011 is fairly stated.

#### **6. Loans to Farmers**


As previously reported, the short term loans to customers balance of Kshs.1,976,231,000 as disclosed in Note 5 (b) includes an amount of Kshs.22,661,000 advanced to thirteen (13) farmers in Kapsabet. According to information available, the Corporation advanced the amount against various collaterals in form of title deeds which appeared to be fraudulent. In the circumstances, it has not been possible to ascertain the recoverability of the amount of Kshs.22,661,000 advanced to the farmers.

#### **5. Payables and Accruals**

As was the case in the previous year, the payables and accruals balance of Kshs.739,660,000 as disclosed in Notes 17 (a) and (b) includes a long outstanding negative balance of Kshs.12,179,000 which has not been supported with the relevant documents. In the circumstances, it has not been possible to confirm that the payables and accruals balance of Kshs.739,660,000 as at 30 June 2011 is fairly stated.

#### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements presents fairly, in all material respects, the financial position of the Corporation as at 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Agricultural Finance Corporation Act, Cap.323 of the Laws of Kenya.



Edward R. O. Ouko  
AUDITOR-GENERAL

Nairobi

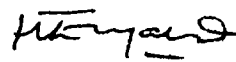
14<sup>th</sup> March 2012

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

ASSETS:		2011		2010
	NOTES	Kshs.'000		Kshs.'000
<b>Non-current assets</b>				
Property and equipment	2		702,713	728,273
Repossessed farm properties	3		79,949	85,834
Deferred tax asset	4		829,249	870,590
<b>Medium Term Loans</b>				
Loans to customers	5(a)	4,987,367		3,334,945
Prov for doubtful debts	6	(2,786,397)	2,200,970	(2,417,556)
				<b>917,389</b>
Loans to staff	7	128,866		159,118
Prov for doubtful debts	8	(24,197)	104,669	(24,198)
				<b>134,920</b>
			<b>3,917,590</b>	<b>2,737,006</b>
<b>Current assets</b>				
<b>Short term Loans</b>				
Loans to customers	5(b)		1,976,231	2,980,347
Cash and bank balances	9(a)		75,201	298,638
Short term deposits	10		596,444	242,618
Receivables and prepayments	11		98,503	80,172
Consumable stores	12		1,544	1,900
			<b>2,747,923</b>	<b>3,603,675</b>
Total assets			<b>6,665,473</b>	<b>6,340,681</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity and reserves</b>				
Grants	13		1,596,476	1,190,826
Government equity capital	14		2,687,766	2,687,766
General reserve	15(a)		92,824	53,744
Revaluation reserve	15(b)		488,480	488,480
			<b>4,865,546</b>	<b>4,420,816</b>
<b>Noncurrent liabilities</b>				
Redeemable loans & Interest payables	16		1,060,267	1,027,986
<b>Current liabilities</b>				
Payables	17(a)		593,876	487,805
Other Payables and accruals	17(b)		145,784	111,626
Current accounts	9(b)		-	292,448
			<b>739,660</b>	<b>891,879</b>
Total capital and liabilities			<b>6,665,473</b>	<b>6,340,681</b>



**HEZBON MARIWA**  
CHAIRMAN



**LUCAS MESO**  
MANAGING DIRECTOR

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011**

		<b>2011</b>	<b>2010</b>
<b>INCOME:</b>	<b>NOTES</b>	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>Interest income:</b>			
Interest on loans		480,255	434,906
Interest on short term deposits	<b>18</b>	24,679	30,580
		-----	-----
<b>Total interest income</b>		<b>504,934</b>	<b>465,486</b>
		-----	-----
<b>Less: Interest expenses</b>			
Interest on redeemable loans	<b>19</b>	40,388	40,557
Rebate interest	<b>20</b>	2,369	2,477
		-----	-----
		<b>42,757</b>	<b>43,034</b>
		-----	-----
<b>Net interest income</b>		<b>462,177</b>	<b>422,452</b>
<b>Non interest income</b>	<b>21</b>	213,185	160,480
		-----	-----
<b>Total operating income</b>		<b>675,362</b>	<b>582,932</b>
		-----	-----
<b>Extra-ordinary income</b>			
Income from doubtful debts	<b>22</b>	66,365	97,583
		-----	-----
<b>TOTAL INCOME</b>		<b>741,727</b>	<b>680,515</b>
<b>Operating expenses</b>	<b>23</b>	(593,515)	(537,237)
Depreciation	<b>2</b>	(64,151)	(67,014)
Charge for doubtful debts	<b>24</b>	(3,638)	(11,295)
		-----	-----
<b>Profit before taxation</b>		<b>80,423</b>	<b>64,969</b>
Tax for the year	<b>4</b>	(41,341)	(33,022)
		-----	-----
<b>Profit after taxation</b>		<b>39,082</b>	<b>31,947</b>
		=====	=====

		2011	2010
	NOTES	Kshs.'000	Kshs.'000
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Profit/(loss) before taxation		80,423	64,969
Adjustments for:			
Depreciation		64,151	67,014
Profit on disposal of assets	25 (c)	(3,401)	(945)
Profit on disposal of repossessed properties	25 (c)	(3,587)	(538)
(Decrease)/Increase to repossessed properties		5,885	(20,697)
(Increase)/Decrease in loans to farmers		(279,465)	(143,126)
(Decrease)/Increases in loans to staff		30,251	18,227
Decrease in consumable stores		356	312
(Decrease)/Increases in receivables		(18,331)	6,115
Increase in payables		140,229	(108,673)
		-----	-----
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>16,511</b>	<b>(117,342)</b>
		-----	-----
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Purchase of properties & equipment		(39,370)	(6,162)
Proceeds from disposal of properties & equipment		900	942
Proceeds from disposal of repossessed farm properties		9,472	18,677
		-----	-----
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(28,998)</b>	<b>13,457</b>
		-----	-----
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Coffee Development Fund repayment	16 (a)	(10,431)	(13,989)
GOK Livestock 2011		405,650	190,000
KSB repayments	16 (a)	(130,871)	(100,105)
GOK Loan Repayments		(10,000)	-
KSB receipts		180,976	-
		-----	-----
<b>NET CASHFLOW FROM FINANCING ACTIVITIES</b>		<b>435,324</b>	<b>75,906</b>
		-----	-----
<b>NET INCREASE IN CASH &amp; CASH EQUIVALENTS</b>		<b>422,837</b>	<b>(27,979)</b>
Cash and cash equivalent 1 July		248,808	276,787
		-----	-----
<b>Cash and cash equivalent 30 June ( Note 9 and 10 )</b>		<b>671,645</b>	<b>248,808</b>
		=====	=====

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Government equity capital Kshs.000	General reserve Kshs.000	Revaluation reserve Kshs.000	Grants Kshs.000	Totals Kshs.000
As at 1 July 2009	2,687,766	66,330	175,363	1,000,826	4,007,163
Revaluation			313,117		313,117
GOK Livestock 2009				190,000	190,000
Prior year adjustment		(44,533)			(44,533)
Profit for the year		31,947			54,472
<b>As at 30 June 2010</b>	<b>2,687,766</b>	<b>53,744</b>	<b>488,480</b>	<b>1,190,826</b>	<b>4,420,816</b>
As at 1 July 2010	2,687,766	53,744	488,480	1,190,826	4,420,816
Revaluation					-
GOK Livestock 2010				405,650	405,650
Prior year adjustment					-
Profit for the year		39,082			39,082
<b>As at 30 June 2011</b>	<b>2,687,766</b>	<b>92,826</b>	<b>488,480</b>	<b>1,596,476</b>	<b>4,865,548</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### 1. SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied unless otherwise stated.

#### (a) Basis of preparation

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

#### (b) Property, Equipment and Depreciation

Property and equipment are stated at cost or valuation less accumulated depreciation. Depreciation is calculated on the straight-line basis at annual rates estimated to write off the carrying values of the assets over the expected useful lives. The annual depreciation rates in 11 (c) are 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%	Show stands	10%
Furniture	12.5%	Computers and Software	33.3%
Fittings and Office equipment	20%	Office and Residential Buildings	2%

Most of Fixed Assets acquired in 1980's and 1990's which are still in use have been fully depreciated.

#### (c) Software

The computer software's have been considered to have a probable benefit to the Corporation exceeding the cost beyond one year and are recognized as an intangible asset. The computer software costs recognized as assets are stated at cost less amortization. Amortization is calculated on a straight line basis over the estimated useful life not exceeding a period of 3 years.

#### **(d) Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and that the revenue can be reliably measured. The following specific recognition criteria are applied for revenue recognition:

##### **(i) Interest**

Interest income & expenses are recognized on accrual basis.

##### **(ii) Income from doubtful debts**

Incomes from doubtful debts are recognized upon actual collections.

#### **(e) Provision for doubtful debts**

The Corporation adopted the Central Bank prudential guidelines with modifications to reflect the risks and uncertainties specific to the agricultural sector. To this effect loans have been classified into five categories as follows: Normal, Watch, Sub-Standard, Doubtful and Loss. The provisions for these categories are as outlined below;

Normal	-	Nil
Watch	-	1 %
Sub- Standard	-	5 %
Doubtful	-	Specific provision on loan amount less security value
Loss	-	Specific provision on loan amount less security value.

#### **(f) Retirement benefit obligations**

The Corporation previously contributed to a defined benefits retirement scheme which it funded and whose assets are held in a separate Trustees' administered fund. With effect from January 2008 the Corporation contributes to a defined contribution pension scheme following the closure of the defined benefits scheme in December 2007.

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

#### **(g) Cash and cash equivalents**

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

## (h) Contingent liabilities

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

## (i) Comparatives

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

## (j) Reporting currency

These financial statements are presented in Kenya shillings rounded to the nearest thousands (Shs.'000).

### 2. PROPERTY AND EQUIPMENT

	Land & Buildings	Motor Vehicles	Furniture & Equipment	Computer Hardware	Computer Software	Work in Progress	Totals
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs.'000
<b>COSTS:</b>							
As at 1 July 2010	806,894	99,716	176,107	112,959	51,138	779	1,247,593
Additions		13,977	9,540	7,181	2,352	5,541	38,591
Transfers	-	-	779	-	-	(779)	-
Disposals	(8,832)	(13,613)	-	-	-	-	(22,445)
	-----	-----	-----	-----	-----	-----	-----
As at 30 June 2011	798,062	100,080	186,426	120,140	53,490	5,541	1,263,739
	-----	-----	-----	-----	-----	-----	-----
<b>DEPRECIATION:</b>							
Charge for previous years	156,049	93,989	142,261	99,954	27,067	-	519,320
Charge for the year	15,811	7,364	13,366	10,837	16,773	-	64,151
Adjustment for disposals	(8,832)	(13,613)	-	-	-	-	(22,445)
	-----	-----	-----	-----	-----	-----	-----
As at 30 June 2011	163,028	87,740	155,627	110,791	43,840	-	561,026
	-----	-----	-----	-----	-----	-----	-----
<b>NET BOOK VALUE</b>							
As at 30 June 2011	635,034	12,340	30,799	9,349	9,650	5,541	702,713
	=====	=====	=====	=====	=====	=====	=====
As at 30 June 2010	650,845	5,727	33,846	13,005	24,071	779	728,273
	=====	=====	=====	=====	=====	=====	=====

Work in progress constitutes the on going work on 3rd and 7th floors

<b>3. REPOSSESSED FARM PROPERTIES:</b>	<b>2011</b>	<b>2010</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
Acquisition value as at 1st July	165,783	171,668
Less Accum. Provisions 1st July	(85,834)	(105,214)
Provisions write back	-	19,380
<b>Balance as at 30th June</b>	<b>79,949</b>	<b>85,834</b>

#### 4. DEFERRED TAX ASSET:

The net deferred tax asset is arrived at as follows:

Balance b/f as at 1st July	870,590	903,893
Prior year tax over/(under)provision	-	(281)
Tax for the year	(41,341)	(33,022)
<b>Balance as at 30th June</b>	<b>829,249</b>	<b>870,590</b>

#### 5. LOANS TO CUSTOMERS

	<b>2011</b>	<b>2010</b>
	<b>Kshs.'000</b>	<b>Kshs.'000</b>
<b>5. (a) Medium term loans</b>	<b>4,987,367</b>	<b>3,334,945</b>

These are loans whose maturity period are between twelve months and four years

<b>5. (b) Short term loans</b>	<b>1,976,231</b>	<b>2,980,347</b>
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These are loans whose maturity periods is up to 12 months and installments for medium term loans that will fall due within the next twelve months.

#### 6. ACCUMULATED PROVISIONS FOR DOUBTFUL DEBTS

The accumulated provisions are analyzed as below:

	<b>2011</b>	<b>2010</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>Specific provisions</b>		
Balance as at 1 July	2,347,314	2,946,135
Charge for the year	-	11,202
Adjustments	431,568	7,660
Write-offs	-	(539,480)
Writeback during the year	(66,365)	(78,203)
<b>Balance as at 30 June</b>	<b>2,712,517</b>	<b>2,347,314</b>

<b>General provisions</b>		
Balance as at 1st July	70,242	70,149
<b>Charge for the year</b>		
Watch		
Sub-standard		
Doubtful	3,638	
Loss		93
	-----	-----
<b>Balance as at 30 June</b>	<b>73,880</b>	<b>70,242</b>
	=====	=====
<b>Provisions summary</b>	<b>Kshs'000</b>	<b>Kshs'000</b>
Specific Provisions	2,712,517	2,347,314
Charge for the year		
Writeback during the year		
General Provisions	73,880	70,242
	-----	-----
<b>Balance as at 30 June</b>	<b>2,786,397</b>	<b>2,417,556</b>
	=====	=====

The Corporation adopted a new provisioning policy in line with prudential norms to have normal, substandard and doubtful categories. As a result 82 specific cases were provided for as doubtful.

7. LOANS TO STAFF	HOUSE LOANS	CAR LOANS	ADVANCES	TOTALS
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Balance as at 30.06.10	137,454	16,904	4,760	159,118
	-----	-----	-----	-----
Balance as at 30.06.11	112,380	10,818	5,668	128,866
	=====	=====	=====	=====

#### 8. PROVISIONS FOR DOUBTFUL DEBTS - STAFF LOANS

These relate to specific amounts owed by ex-staff whose recoveries are deemed doubtful.

9 (a). CASH AND BANK BALANCES	2011	2010
	Kshs.'000	Kshs.'000
Current accounts	11,478	192,055
Branch collection accounts	59,905	102,930
Branch imprest accounts	3,818	3,653
	-----	-----
<b>Balance as at 30th June</b>	<b>75,201</b>	<b>298,638</b>
	=====	=====
<b>9 (b). CASH AND BANK BALANCES</b>		
Current accounts	-	292,448
	-----	-----
	-	292,448
	=====	=====
	<b>2011</b>	<b>2010</b>

<b>10. SHORT TERM DEPOSITS</b>	<b>Kshs.'000</b>	<b>Kshs.'000</b>
Deposits	593,000	240,185
Interest receivable	3,444	2,433
<b>Balance as at 30th June</b>	<b>596,444</b>	<b>242,618</b>

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

<b>11. RECEIVABLES AND PREPAYMENTS</b>	<b>2011 Kshs.'000</b>	<b>2010 Kshs.'000</b>
Auction fees & advert. charges	56,972	89,555
Rent receivable- Other properties	17,930	15,977
Prepaid expenses	6,706	1,463
Accounts receivable- Others	15,019	3,895
Recoverable fees and charges	14,503	13,716
Suspense(wip & interbranch)	21,879	(9,928)
Less:Accum.prov. for doubtful debts	(34,506)	(34,506)
<b>Balance as at 30th June</b>	<b>98,503</b>	<b>80,172</b>

### 12. CONSUMABLE STORES

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

	<b>2011 Kshs.'000</b>	<b>2010 Kshs.'000</b>
Stationery & office supplies stock	1,544	1,900
	<b>1,544</b>	<b>1,900</b>

### 13. GRANTS

	<b>2011 Kshs.'000</b>	<b>2010 Kshs.'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 World Bank Credit 4	760	760

	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	
	-----	-----
<b>Balance as at 30th June</b>	<b>1,596,476</b>	<b>1,190,826</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 risks.

#### 14. 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.

15. RESERVES	2011	2010
(a).General reserve	Kshs'000	Kshs'000
Balance as at 1st July	53,744	66,330
Rounding adjustment	(2)	-
Prior year adjustment	-	(44,533)
Profit after taxation for the year	39,082	31,947
	-----	-----
<b>Balance as at 30th June</b>	<b>92,824</b>	<b>53,744</b>
	=====	=====

The General Reserve is the undistributed profit from the operations.

(b) Revaluation reserve	2011	2010
	Kshs'000	Kshs'000

Balance as at 1st July	488,480	175,363
Additions	-	313,117
<b>Balance as at 30th June</b>	<b>488,480</b>	<b>488,480</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.

**16. (a) REDEEMABLE LOANS AND INTEREST:**

	PRINCIPAL	ACCUM	ACCRUED	PRINCIPAL	INTEREST	PRINCIPAL	ACCUM	TOT.	
		INTEREST	INTEREST	REPAYMENTS	RECEIPTS	REPAYMENT	INTEREST		
		B/F					C/F		
	30.06.2010	30.06.2010	30.06.2011	30.06.2011	30.06.2011	30.06.2011	30.06.2011	30.06.2011	
	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	
IDA 105KE									
SMALL SCALE	4,546	40	73	(4,546)	-	(113)	-	-	
IDA 344KE									
SMALL SCALE	24,299	1,702	217	(3,423)	-	(1,918)	20,876	1	
IDA 1143KE									
CREDIT 4	9,841	5,513	787	-	-	-	9,841	6,300	
IBRD 1995 KE									
CREDIT 4	258,036	144,557	20,643	-	-	-	258,036	165,200	
RSDP1974 KE	182,748	97,260	13,889	-	-	-	182,748	111,149	
ADB LIVESTOCK									
(PIG)	79,650	33,466	4,779	-	-	-	79,650	38,245	
KENYA SUGAR									
BOARD	417,837	-	-	(130,871)	180,976	-	467,942	-	
COFFEE DEV									
FUND	40,029	-	-	(8,855)	-	-	31,174	-	
NIB- AHERO									
RICE REV FUND	10,000	-	-	-	-	-	10,000	-	
<b>TOTAL</b>	<b>1,026,986</b>	<b>282,538</b>	<b>40,388</b>	<b>(147,695)</b>	<b>180,976</b>	<b>(2,031)</b>	<b>1,060,267</b>	<b>320,895</b>	<b>1,381,16</b>

**16 (b) KSB LOAN REPAYMENT**

The total repayments are as shown below

Principal Repayment	130,871
Interest Repayment	-
	<u>130,871</u>

16 (c) CoDF DEV FUND

The total repayments are as shown below

Principal Repayment	8,855
Interest Repayment	1,576
	<u>10,431</u>

The figure for interest repayment was adjusted to reduce the amount due to KSB & Coffee Development Fund under payables

## 17. PAYABLES AND ACCRUALS

	2011 Kshs'000	2010 Kshs'000
<b>(a) Payables</b>		
Borrowers credit balances	233,464	253,465
Unprocessed Loan Receipts	18,401	6,092
Interest accrued on redeemable Loans	320,894	282,538
Loan drafts outstanding	(12,179)	(48,659)
Customers Loan deposits	33,296	(5,631)
	-----	-----
<b>Balances as at 30th June</b>	<b>593,876</b>	<b>487,805</b>
	=====	=====
<b>(b) Other payables and accruals</b>		
Sundry creditors general	31,444	30,498
Due to Agency	50,235	49,236
Cash security deposits	26,361	18,857
Insurance receipts	1,137	532
External audit fees	1,000	1,000
Gratuity	(781)	9,524
Accrued pension contributions	8,101	-
Employees other deductions	5,026	-
Other payables	23,261	1,979
	-----	-----
<b>Balance as at 30th June</b>	<b>145,784</b>	<b>111,626</b>

**18. Interest on short term deposits**

Details are as follows:-

	<b>2011</b>	<b>2010</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
Short term deposits	24,469	30,217
Bank accounts	210	363
<b>Balance as at 30th June</b>	<b>24,679</b>	<b>30,580</b>

**19. INTEREST ON REDEEMABLE LOANS**

The interest charge on redeemable loans outstanding as at 30th June 2011 were as follows:

	<b>2011</b>	<b>2010</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
IDA 105	73	216
IDA 344	217	243
IDA 1143 KE	787	787
RSDP & IBRD 1995 KE	34,532	34,532
A D B (PIGS)	4,779	4,779
<b>Balance as at 30th June</b>	<b>40,388</b>	<b>40,557</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>2011</b>	<b>2010</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>20. Rebates interest</b>	<b>2,369</b>	<b>2,477</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 installments fall due in compliance with AFC Act Cap 323.

**21. OTHER INCOMES**

	<b>2011</b>	<b>2010</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>
<b>Non interest incomes</b>		
Rent income - Note 25 a	33,638	27,001
Application, conveyance and inspection fees-Note 25 b	141,632	112,777
Profit on disposal of assets- Note 25 c	6,988	1,483

Agency commission	22,306	14,509
Sundries	8,621	4,710
	-----	-----
<b>As at 30th June</b>	<b>213,185</b>	<b>160,480</b>
	=====	=====

## 22. Income from doubtful debts

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

	2011	2010
	Kshs'000	Kshs'000
Recoveries from NPL's	66,365	78,203
Write back FPIP provisions	-	19,380
	-----	-----
<b>Total</b>	<b>66,365</b>	<b>97,583</b>
	=====	=====

	2011	2010
	Kshs'000	Kshs'000
<b>23. OPERATING EXPENSES</b>		
(a) Staff costs	394,268	384,520
(b) Board members' expenses	13,383	15,785
(c) Administration expenses	184,864	135,932
(d) Auditors fees	1,000	1,000
	-----	-----
<b>Total</b>	<b>593,515</b>	<b>537,237</b>
	=====	=====

## 24. PROVISIONS FOR DOUBTFUL DEBTS

The provision for bad and doubtful loans is arrived at by the policy in note 1(e). The charged amounts are classified as below.

### DOUBTFUL DEBTS CHARGES FOR THE YEAR:

	2011	2010
	Kshs'000	Kshs'000
<b>Loans to customers</b>		
Specific provision		11,202
<b>General provision</b>		
Watch		
Sub-standard		
Doubtful	NM	3,638

Loss	-----	93
<b>Total</b>	<b>3,638</b>	<b>11,295</b>
<b>Staff loans:</b>		
Specific provisions	-----	-----
<b>Total charge for the year</b>	<b>3,638</b>	<b>11,295</b>
	=====	=====

**Loss** - These are specific provision on some 5 loans amount less security value that have been fully provided for in accordance with the prudential guidelines.

**NOTE 25**

<b>(a) Rent income</b>	<b>2011</b>	<b>2010</b>
Details are as follows:-	<b>Kshs'000</b>	<b>Kshs'000</b>
Development house income/(loss)	16,000	11,000
Other properties net income	17,638	16,001
	-----	-----
<b>Balance as at 30th June</b>	<b>33,638</b>	<b>27,001</b>
	=====	=====

**(b) Application, Conveyance & Inspection fees**

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

<b>(c) Profit on disposal of assets</b>	<b>2011</b>	<b>2010</b>
The details are as follows:-	<b>Kshs'000</b>	<b>Kshs'000</b>
Motor vehicles	3,375	877
Gain on disposal of farm properties	3,587	538
Gain on disposal of other assets	26	68
	-----	-----
<b>Balance as at 30th June</b>	<b>6,988</b>	<b>1,483</b>
	=====	=====

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

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

**APPENDIX I**

<b>Staff costs</b>	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE</b>	<b>ACTUAL</b>
	<b>30.06.11</b>	<b>30.06.11</b>	<b>30.06.11</b>	<b>30.06.10</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>
Salaries	254,920	271,581	16,661	247,290
Overtime	2,516	3,115	599	2,747
House allowance	46,445	51,800	5,355	45,742
Transport allowance	16,768	17,683	915	20,067
Hardship allowance	3,062	3,159	97	3,026
Acting/Duty& Aggregation allowance	5,453	2,867	(2,586)	2,592
Leave allowance	1,940	3,766	1,826	2,228
Other emoluments	304	1,200	896	197
Staff appointments & transfers allowances	3,908	5,000	1,092	3,774
Inpatient medical expenses	1,883	10,000	8,117	251
Outpatient medical expenses	10,039	17,894	7,855	9,393
Pension contributions	21,059	25,723	4,664	20,485
Pension deficit contributions	20,000	20,000	-	20,000
NSSF employers contribution	795	1,107	312	1,191
Insurance	2,105	4,200	2,095	2,709
Gratuities	725	5,713	4,988	2,511
Welfare &Uniforms	2,346	5,000	2,654	317
<b>Total</b>	<b>394,268</b>	<b>449,808</b>	<b>38,879</b>	<b>384,520</b>
<b>Board members' allowances</b>	<b>13,383</b>	<b>14,830</b>	<b>1,447</b>	<b>15,785</b>

	<b>ACTUAL</b>	<b>BUDGET</b>	<b>VARIANCE</b>	<b>ACTUAL</b>
<b>Administrative expenses:</b>	<b>30,06.11</b>	<b>30,06.11</b>	<b>30,06.11</b>	<b>30,06.10</b>
	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>	<b>Kshs'000</b>
Bank charges	3,639	4,391	752	2,601
Corporate Comm & advertisement	4,602	8,000	3,398	1,370
Publicity/Shows Field days	3,128	3,500	372	3,582
Corporate social responsibility/Donations	52	1,000	948	238
General office expenses	15,423	13,000	(2,423)	12,168
Insurance of Corporation assets	2,874	4,000	1,126	3,871
Land rent & rates	1,443	2,175	732	1,507
Legal fees	3,531	2,500	(1,031)	2,252
Maintenance of buildings	3,620	3,247	(373)	7,009
Maintenance of furniture & equipment	5,615	3,200	(2,415)	3,297
Office rentals	7,108	7,509	401	5,840
Printing & stationery	7,424	9,132	1,708	8,459
Professional consultants	4,376	5,000	624	2,850
Subscriptions to professional bodies	1,104	935	(169)	1,038
Research & development	-	2,000	2,000	-
Security	11,010	11,000	(10)	10,914
Misappropriation	32,200		(32,200)	-
Taxes & licenses	707	1,000	293	916
Software licenses	7,683	8,426	743	10,591
Telephone, internet & postage	19,607	20,381	774	16,064
General hotel & travel	19,070	17,719	(1,351)	24,724
Training	10,184	11,000	816	-
Vehicle fuel & oil	8,392	13,192	4,800	6,603
Vehicle maintenance	7,189	5,471	(1,718)	5,573
Water, electricity & gas	4,883	6,645	1,762	4,465
	-----	-----	-----	-----
<b>Total</b>	<b>184,064</b>	<b>164,423</b>	<b>(20,441)</b>	<b>135,932</b>
	-----	-----	-----	-----
<b>Auditors fees</b>	<b>1,000</b>	<b>1,000</b>	<b>-</b>	<b>1,000</b>
	-----	-----	-----	-----
<b>Total</b>	<b>593,515</b>	<b>630,061</b>	<b>19,885</b>	<b>537,237</b>
	=====	=====	=====	=====

